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## The digital wealth manager of today

**A perspective on the current state of end-to-end digital transformation of wealth management businesses and platforms and the path ahead**

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# Introduction and summary

We have been writing about the digital wealth manager of the future for several years.1 The vision that we outlined of a digitally enabled, hyper-personalized, scalable model has largely been confirmed as the end-to-end (E2E) digital transformation of wealth platforms called for by this perspective appears to be well underway at many wealth management firms and businesses in the United States.

However, not all wealth managers have made the same progress toward executing on the vision: On the one hand, most wirehouses, together with dominant asset managers with extensive retail distributions, have heavily invested across their front-, middle-, and back-office functions in an effort to provide new, digital client and adviser experiences. Regional broker-dealers, on the other hand, have often played catch-up. While the larger retail banks, with embedded consumer wealth businesses, have charged ahead and developed compelling, hybrid advice solutions, smaller banks often appear to have fallen behind for lack of investment or entered into new partnerships with wealth specialist firms. Likewise, private and trust banks that rely on multidisciplinary teams to service their more affluent clients have often been slower to digitize their services.

But is it just a case of larger firms outspending smaller firms? To some extent, it is. But it is even more a story of investing smartly, architecting the transformation in the right way, investing surgically in the right capabilities, and keeping the momentum of the transformation going. For instance, the more successful firms have been careful to sequence the capabilities, which they selected for digitization and feature upgrades, in a way that delivers positive impact on clients and adviser teams early in the transformation, thereby strengthening the business case for the transformation and keeping key stakeholders on board. Furthermore, leading firms have chosen to leverage an ecosystem of vendors to access industry-leading capabilities faster and thereby helping to optimize their mix of capital expenditures (capex) and operating expenditures (opex) over time and neutralize the competitive advantage of larger firms. Indeed, several midsize wealth managers with disadvantaged technology platforms and below-market-average growth five or six years ago appear to have been able to accelerate the digital transformation of their technology platforms to leapfrog the competition and get back on a higher growth path.
In the past five years, a number of leadership teams at wealth managers emphasized the digitization of the front-office functions. This approach realized that both investors and financial advisers (FAs) expected new, compelling digital experiences. Initial transformation efforts targeted capabilities that were closest to the end users. This resulted in a lot of progress being made across the industry with new digital tools designed to engage with clients directly, automated advice engines to personalize advice at scale, and new and modern adviser workstations. However, the transformation of the front office is not complete, and much remains to be done to personalize experiences, products, and services at scale.

Wealth management executives also understood early on that better data was a source of competitive advantage and a requirement to deliver these new digital user experiences. They, therefore, prioritized the modernization of the underlying data infrastructure as part of the first phase of transformation. Significant efforts have thus gone into reorienting account-centric architectures to client-centric architectures; cleaning up customer, account, and product data; and making that data more broadly accessible across the wealth value chain, thereby paving the way for data-based insights for investors, advisers, and field management. This foundational and necessary modernization of the data layer will now help make it possible to harness the power of artificial intelligence (AI) and Generative AI (Gen AI) and drive gains both in personalization of experiences, products, and services and in efficiencies across the value chain.

Middle- and back-office functions often took a back seat in the transformation, with heads of operations focusing on incremental improvements rather than transformative moves. But this is now changing with wealth chief information officers (CIOs) increasingly shifting their attention to core business operations. There are two main reasons for this shift: First, wealth leaders realized that they could not provide the desired adviser and client experiences without addressing pain points that are rooted in decentralized and nonstandard middle- and back-office functions that support multiple products, account types, and seemingly constant regulatory change. Second, wealth leaders realized that the transformation of core operations would need to be largely technology-led, with the replatforming of trading, custody, and other product platforms. In turn, there are two main objectives to this replatforming of core technology platforms: to create more flexible platforms to assist in allowing for fast release of new digital experiences and new product features; and to help lower production and maintenance costs in the long run, thereby lowering a firm's unit costs in response to continued market pressures on pricing and operating margins.

In this paper, we offer our perspectives on some of the most important aspects of the continued E2E digital transformation of wealth platforms going forward. In particular, we will:

- Survey experience and product concepts that have been brought to market by leading wealth managers as they designed and delivered innovative digital experiences for investors and advisers.

- Comment on alternative paths that wealth management businesses have followed in an effort to modernize their adviser workstations.

- Describe the current state of data management in the wealth management industry and what to expect next from AI.

- Describe a range of strategic options available to chief technology officers (CTOs) and heads of operations to help in modernizing their core wealth operations.

While our focus will be on the US market, we hope that our analysis will have relevance for other markets as well.

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# New experience and product concepts for compelling, digital experiences

The past few years have seen considerable innovation in wealth management with new digital experiences designed for retail investors and their FAs. New concepts have thus become a reality across the investor journey (figure 1) that were designed to help clients: connect with the right adviser and co-create a plan, continue to test and iterate on it as part of the ongoing relationship, and execute against this plan. While some of these concepts were relatively new five years ago (for instance, the idea of a prospect zone to start exchanging value between a potential client and a wealth management firm, or a play zone to run through multiple scenarios and learn by doing or tracking progress against a plan and its embedded goals), they now have become more ubiquitous.

That said, even among early adopters, there is still considerable room to improve. For instance, new capabilities were sometimes built within organizational silos and lacked interoperability. The next step is to integrate them (via application programming interfaces [APIs] and messaging) so as to help reduce dual entry or "swivel chair."

**Figure 1: New digital concepts for investor experience**

Wealth managers are building new concepts and capabilities to meet investor expectations
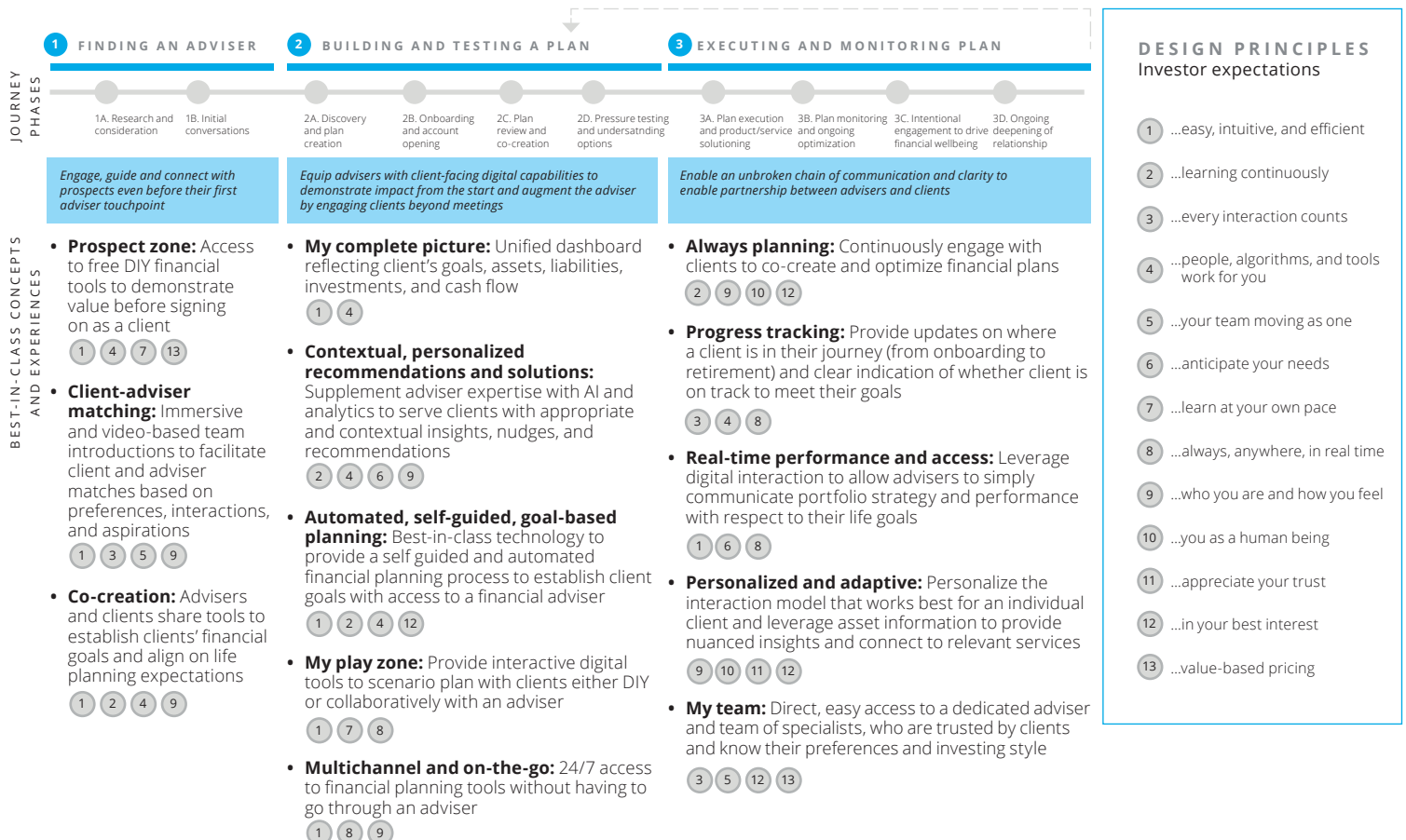
Similarly, many new concepts were developed and implemented that were designed to provide compelling digital experiences to FAs and their teams (figure 2) and thereby help enable the desired client experience. But there is room to improve on these ideas and product features. For instance, the rise of AI is expected to lead to significant progress in generating contextualized recommendations for adviser teams. While large firms have released new, modern adviser workstations in recent years, making these adviser platforms truly adaptive and flexible to meet adviser preferences will require continued focus and effort. The ability to leverage the workstation to make client discovery and planning a continuous process, for instance, with the use of client and adviser nudges embedded through core journeys and workflows, will likely require continued innovation. As previously

mentioned, the adviser experience does not end at post-discovery and planning. Enhanced automation around trading, rebalancing, and investment compliance is necessary so that advisers can focus on client service, manual steps can be eliminated, and operational support reduced. Interoperability is critical to providing a seamless experience for advisers and their teams and lowering the need for operations personnel intervention. And there is much to be done about enabling collaborating across adviser teams more broadly to allow, for instance, expertise that may reside in a particular team to be shared with others.

**Figure 2: New digital concepts for adviser experience**

Wealth managers are building new concepts and capabilities to deliver on adviser expectations
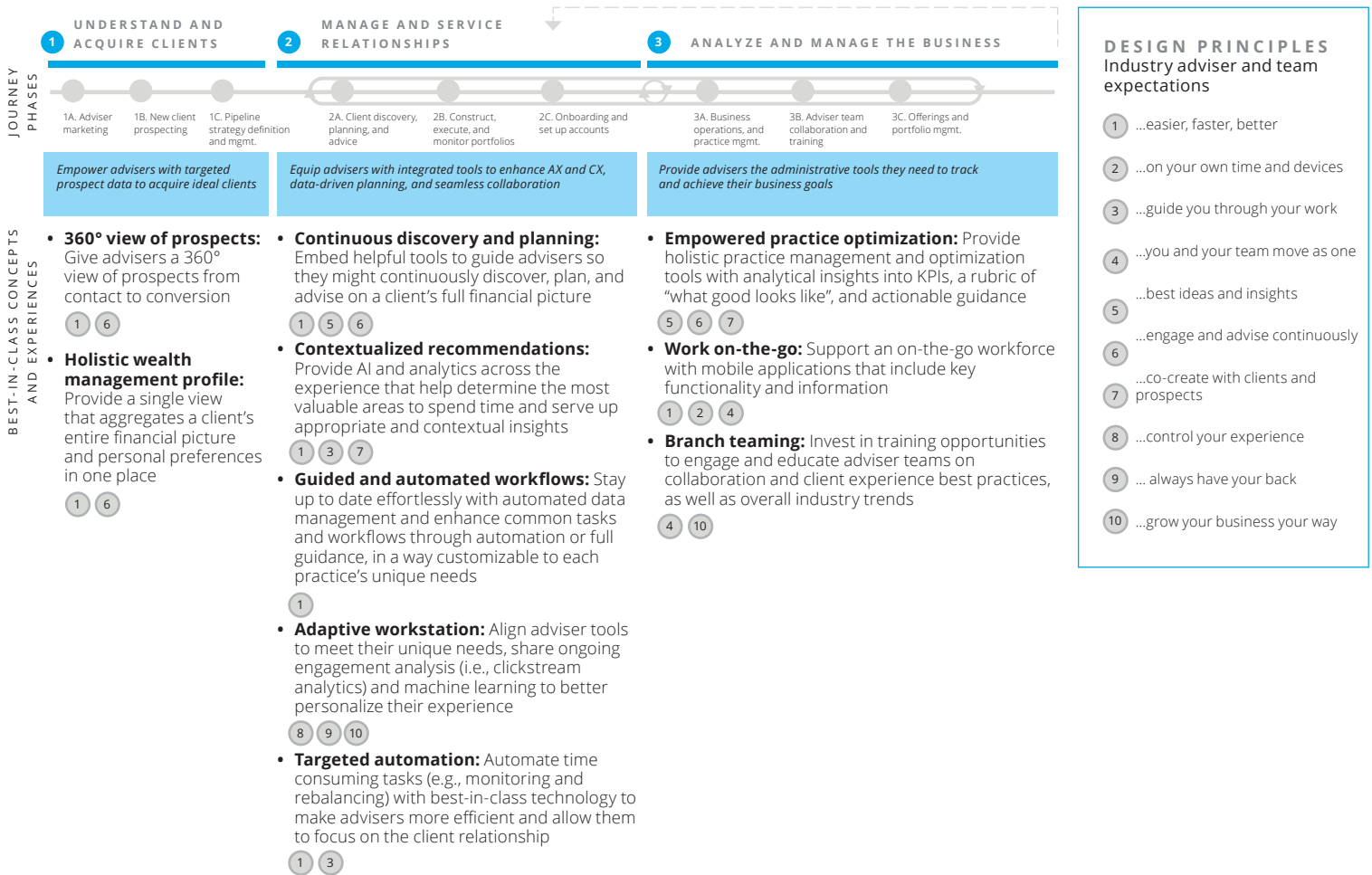


The product features and concepts presented in this section are not meant as an exhaustive list. Furthermore, they may be more relevant to serving a particular client segment with a particular business model than to others. As a result, large, diversified wealth management businesses that serve a collection of distinct client

segments through various channels and with different adviser team models have generally opted for building a single adviser workstation and a single client portal with the ability to turn on and off various capabilities and features and thereby assist in enabling tailored client and adviser experiences.

# Alternative paths to modernize adviser workstations

The development of new, modern adviser workstations has been critical to delivering new digital experiences to FAs and their teams. Over the past five years, the industry has seen a wave of significant upgrades to adviser workstations, including Morgan Stanley's launch of its new WealthDesk adviser platform in 2019 and Merrill Lynch's rollout of its client engagement workstation platform in 2020.

These new platforms seemingly have been well received by FAs. They typically combine a modern user interface (UI); more intuitive and automated workflows with more analytics and AI embedded in these workflows; and compelling mobile functionality designed to allow for work on-the-go or from home in a post-pandemic world. They incorporate client functionality (e.g., onboarding, digital planning tools, client and adviser team communications) that is intended to allow advisers and their clients to share the same tools and co-create together. They support multiple account types (e.g., taxable, nontaxable, trust, retirement) and allow for consolidation of different investment programs (e.g., separately managed account, unified managed account, rep as portfolio manager) to help make it easier for FAs to act as overlay managers looking across client portfolios. They operate one single, shared data layer so that client, account, and product data is current and, therefore, limits the need to capture data several times.

In designing these modern adviser workstations, management teams typically embrace a short list of six design choices:

1. **Shared platform/tools between advisers and clients.** Different access rules; facilitates co-creation and integrated DIY and advisor-assisted journeys

2. **Consistent across touchpoints.** Advisers can smoothly transition between mobile/tablet and a desktop experience—with similar experience and consistent data

3. **Modular, web-like designs.** Apple-like experience for advisers and their teams with intuitive navigation, customizable layouts, quick links, and toolkits. Increasingly, modern consumer-grade and enterprise experiences focused on app ecosystems are preferred over monolithic experiences (e.g., with reskinning of multiple apps to achieve common look and feel)

4. **Unique source of truth.** Centralized data repository and single client profile feeding all applications

5. **Analytics and AI embedded throughout,** including virtual voice assistants and next best actions, etc.

6. **Supervision and compliance built into the design,** for instance, with rebalance monitoring and compliance alerts embedded in daily tasks

In building their new workstations, wealth management firms have typically followed one of three archetypes:

**1. Build your own, largely proprietary workstation.** This approach is predominantly seen among the largest wealth managers, including the wirehouses and wealth units within universal banks. In effect, the wealth manager owns the E2E container with its data layer. All applications work off the same chassis, thus leading to a more consistent user experience. External vendors may still be part of the overall ecosystem, but they are contained within well-defined functions (e.g., customer relationship management [CRM] or portfolio rebalancing).

This archetype is not for every company. It requires enough scale to justify the technology investment to build and maintain the overall container with its data layer and all the functionalities. Technology development must be a company's core competency. But if you can pull it off, you end up with a proprietary, potentially differentiated adviser workstation and a source of competitive advantage in two ways: the modern workstation helps FAs and their teams to provide superior client experiences; and the proprietary workstation is an effective recruiting tool for new FA teams.

**2. Leverage E2E third-party container to integrate all applications and functionalities through front, middle, and back offices.** The third-party container can be provided by a turnkey asset management platform (TAMP) (e.g., Envestnet, InvestCloud, SEI, Broadridge) or a custodian (e.g., Schwab Advisor Center, Fidelity Wealthscape, Pershing NetX360+ and Wove, FNZ One).

Wealth vendors with industry-leading books and records and trade execution capabilities have been developing E2E containers with a shared, common data scheme, allowing to plug in front-office functions (CRM, planning). Several leading wealth managers have explored deepening their partnerships with such broad-based vendors to assist in modernizing their adviser workstations. The advantage of this approach is that an external vendor is relied on for much of the integration work and the maintenance of the platform over time. Conversely, the firm becomes dependent on an external vendor's product schedule and ability to continue to deliver platform enhancements over time.

**3. Leverage external vendor to create a digital front door for advisers and associates to start their day and access other applications within an integrated experience.** Several leading wealth managers have chosen to upgrade their CRM capabilities with Salesforce and modernize their adviser desktop at the same time, with Salesforce playing the role of a digital front door to access core capabilities (e.g., CRM, marketing) directly and connect to other applications (figure 3).

This archetype is consistent with modern consumer-grade and enterprise experiences being increasingly focused on app ecosystems over monolithic experiences. It has allowed wealth managers to upgrade their adviser desktops relatively efficiently and turn technology into a competitive advantage while avoiding significant capex outlays. However, it requires careful integration (and continued maintenance) of distinct technology and data platforms to create an integrated experience. Furthermore, like in the case of Archetype 2, the wealth manager must be comfortable losing some degree of autonomy and becoming more

dependent on an external vendor and its product schedule. This approach requires the wealth manager to manage the platform and ecosystem as opposed to just being concerned with vendor management. Wealth managers become selectors, integrators, and users of systems chosen specifically based on their priorities.

**Figure 3: Leveraging digital front door to modern adviser desktop**
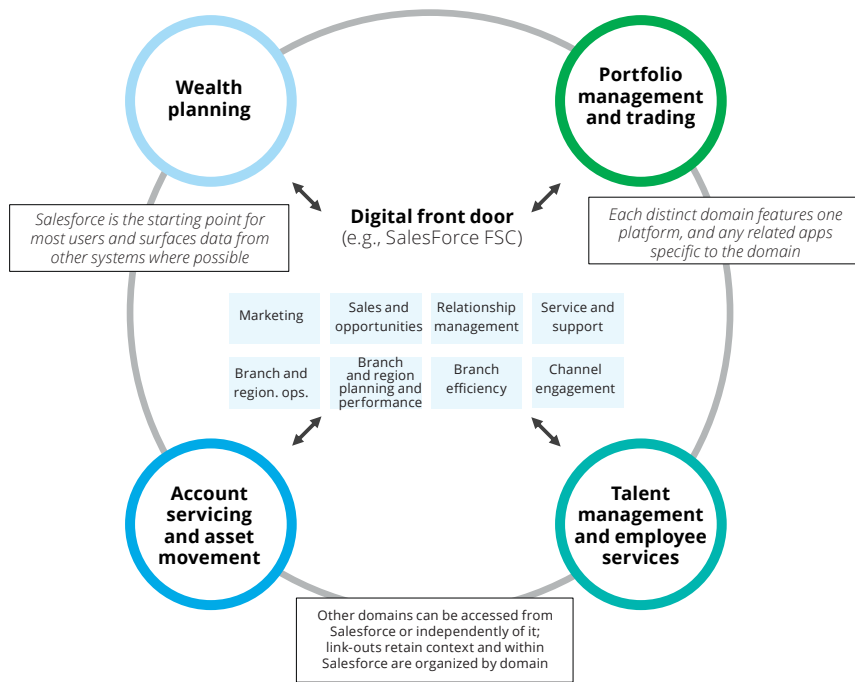


**Defining an interconnected experience**

In an interconnected experience, the engagement layer is divided into distinct platforms.

Each serves a domain, a particular set of use cases, and provides seamless in-context navigation between platforms with single sign-on.

A user may enter through a central "hub" platform or through any other platform depending on the tasks they seek to accomplish.

A good interconnected experience provides clear, task-based navigation and UIs tailored to be fit-for-purpose across the experience ecosystem.

This model is foundational to modern, cloud-first app design.

# Harnessing the power of data and AI

Over the past five to 10 years, leading wealth management businesses have invested massively in shoring up their data infrastructures, be it in response to regulatory pressures or based on the growing realization that data was fast becoming a source of competitive advantage (or disadvantage) in the industry. Today, wealth management CIOs continue to deal with the ever-increasing demands for quality and relevant data from FAs that want to build deeper relationships with clients who are demanding a better overall experience with hyper-personalization.

To meet new and enhanced requirements, including scalability and redundancy, leading wealth management firms have been migrating to the cloud to take advantage of the services provided by the hyperscalers (e.g., Amazon Web Services, Google Cloud, Microsoft Azure). As part of this digital transformation, firms have had the opportunity to rethink how they want to leverage data going forward. For instance, legacy systems that were largely account-centric are being reoriented to a client-centric design in order to meet Customer 360 demands. Logical data models that dealt with structured data now need to accommodate an enormous amount of data in structured, semi-structured, and unstructured formats.

Data integration is essential to assist in enabling modern adviser workstations. FAs are no longer content with dual entry or "swivel chair" solutions. A desktop that provides clean, consistent, and trusted data available to the functions across the wealth management value chain, from client engagement and CRM tools in the front office to an advice engine in the middle office to client, regulatory, and management reporting in the back office. Without integrated, quality data, the benefits of a digital transformation will likely not meet its full potential. An integration strategy is an important first step of wealth management platform modernization. Adhering to open standards and designing services at the right level will help promote reuse and consistency.

To stay ahead of their competitors, wealth organizations must have a data and analytics platform that provides the insights necessary for data-driven decisions. This platform must be a "governed data platform" that covers the data life cycle from acquisition to curation to storage and finally consumption. It must have clear governance, data lineage, and security to understand the standards and policies of the data, the provenance of the data, and the fine-grained entitlements of who can access the data (figure 4).

**Figure 4: A governed data platform to enable data analytics and AI**
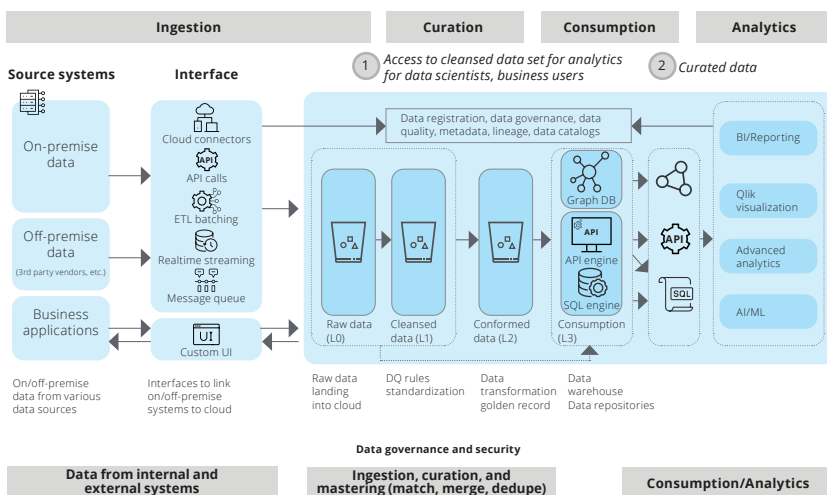


Multilayer architecture that **enables users to access raw, clean, and curated datasets** rapidly for analysis and reporting.

**Curated data** builds a single source of truth to intelligently organize data domains.

**Governed Data Platform** with Data Quality, Lineage and Stewardship embedded as part of the data lifecycle.

**Data Security and Privacy** as fundamental building blocks.

**Leveraging of business use cases** to inform what data to bring in.

**Shared Data Catalog** to discover and provision data, accelerating self service.

**Analytics Sandboxes and Democratized AI/ML capabilities** empowering citizen data scientists, fostering innovation and faster use case delivery.

Emerging **ML/AI-based technology** for MDM, DQ, Data Linking, Data Clustering, etc.

After investing in modernizing its data infrastructure, the wealth management industry is ready to embrace AI. AI refers to a range of technologies from advanced analytics to machine learning, conversational AI, and now Gen AI. Most industry observers and technologists have high expectations for AI in the industry, believing it to be not only incremental but transformative, with potential productivity and efficiency gains across the industry of as much as 30% over time. However, we are reminded of this old wisdom: When it comes to innovation, human beings tend to overestimate the pace of change and underestimate the depth of the transformation.

Today Gen AI is part of many management team agendas in the industry. Leadership teams have been prioritizing potential use cases and looking to convert ideas into real capabilities that will need to be embedded in new adviser workstations or client self-service digital tools. These use cases speak to how wealth managers can leverage AI to further personalize the experiences as well as products and services that wealth managers deliver to their clients; become more sentient and better anticipate client needs and emotions; manufacture and deliver better advice; and, drive more efficiency through their front-office processes and core operations (see figure 5 for example of AI use cases). Another application of AI, which is not specific to wealth management but is expected to prove instrumental in replatforming the back end of wealth management platforms, is related to writing code and refactoring various applications by translating existing codes from old mainframe language into Java.

## Figure 5: Popular wealth AI use cases

| Personalizing experiences, products, and services | Sensing customer/adviser preferences and emotions and markets | Manufacturing better advice |
|---|---|---|
| **Connect at a personal level:** Leverage nationwide data bases to augment client profiles and search for ways for advisers to connect more personally and emotionally with their clients based on a list of shared interests (e.g., preferred charities, preferred sport franchise), shared values (e.g., social causes), overlapping networks of institutions (e.g., schools attended by children), etc. | **Analyze client sentiment:** Use language recognition tools to infer true client sentiment from customer conversations, emails, chats, and weblogs. This sentiment analysis complements traditional, annual customer surveys and feeds into attrition models and next-best-action algorithms. | **Define next-best-offer:** Use Gen AI to screen adviser books for clients who may need additional financial leverage (e.g., based on "life stages", "clients like me," financial information from aggregators, etc.), suggest specific loan solution ideas, and nudge adviser teams to connect with the right clients about their lending needs as part of a next-best-action tool and CRM system. |
| **Direct inbound calls:** Use conversational AI to better understand the purpose of direct inbound calls and connect callers directly with the right specialists, thereby increasing client satisfaction and reducing servicing costs. In essence, they have enabled customers to have natural language conversations with a virtual or digital agent in the channel of their choice. | **Intuit client true risk preferences:** Use language recognition and gamification to understand how investors evaluate risk in different circumstances and capture their true risk preferences at a more granular level. True risk preferences then feed into tailored client investment strategies and next-best-offer algorithms. | **Create real-time advice:** Use Gen AI to share knowledge and experiences across network of FAs and assist individual FAs in providing relevant advice in specific situations. Use Gen AI to create investment and trading ideas tailored to a particular client profile (preferences, psychology, investment history, existing portfolios) based on market circumstances. |
| **Draft personalized client communications:** Leverage Gen AI engine to draft emails and text messages or script conversations for advisers and their teams, in the personal style of the potential sender. Adviser teams can review/edit drafts before they send. As a result, advisers can connect with their clients in almost real time as news hits the markets or life events take place. | **Detect potential sales misconduct:** Design AI-enabled monitoring using natural language processing, including large language models (LLMs), to identify previously unknown instances of potential employee misconduct across customer complaints, client analyst notes, and call transcripts. | **Generate tailored market research to support personal investing:** The rise of personalized investment portfolios allowed clients to reflect their beliefs in their investment decisions. AI tools can help advisers to prepare research reports focused on the individual priorities of each client. |

| | Driving efficiencies | |
|---|---|---|
| **Set up virtual call center:** Enable customers to have natural language conversations with a virtual agent in the channel of their choice. | **Enhance surveillance and supervision:** Use AI and machine learning engine to analyze mobile or WebApp unstructured data generated by FA communications with their clients and flag suspicious behaviors based on predefined threat vectors. | **Increase client financial literacy:** Leverage Gen AI to answer clients' questions about planning topics and product solutions more effectively and efficiently than product brochures and/or tailored training modules. |
| **Translate adviser notes into actions:** Leverage intelligent document processing and Gen AI to scan notes written by FA teams and translate these notes into a set of action steps that can be assigned to various team members and tracked over time. | **Interpret client documents:** Leverage intelligent document processing and Gen AI to scan lengthy, complicated trust documents to extract legal requirements and incorporate appropriate action steps into trust administration processes. | **Tailor training/education to FA teams:** Leverage Gen AI to train FAs and their teams on new topics and expand the range of advice they can give to their clients. |

At the same time, wealth managers who are developing use cases and building real AI applications are wrestling with data quality, governance, controls, risk management, and ethics. So trustworthy AI is a big topic everywhere. To avoid reputational and regulatory risk, wealth firms will typically start with non-client-facing use cases and use cases where humans have a chance to check on the outcomes from the Gen AI engine. They will also want to collaborate with external vendors on use cases supported by the vendors' platforms to help accelerate time to market and maximize impact.

Regulators are also very interested in AI. In fact, they have urged caution, especially when it comes to client-facing AI applications. In late 2021, the Bank for International Settlements (BIS) published a seminal paper on potential regulatory approaches to AI. Among the paper's primary conclusions was the need for a "human in the loop." This principle serves as the foundation for various regulatory approaches under consideration, including the Securities and Exchange Commission's (SEC) predictive data analytics proposal issued last August. The proposal focused on regulatory expectations with respect to instances where a firm's use of AI may result in a conflict of interest, which it defines very broadly. Under the proposal, firms would need to evaluate and have policies in place to address conflicts that may arise from use "or potential use" of "covered technologies" in investor interactions. Under the proposed rule, and as discussed by the BIS, firms would not be able to employ "black box" approaches to AI in investor interactions. The implications of the proposal and its application are far-reaching. While a final rule would likely be refined and potentially less far-reaching, this basic principle that firms must understand their models and what they are doing is expected to remain.

# Transforming core wealth operations

Core wealth operations include a broad range of capabilities that span client service, onboarding and account management, trading services, asset servicing and fund movement, cash management and lending, trust administration, 401(k) administration, performance calculation, billing, custody and clearing, know your client (KYC), compliance, and client and regulatory reporting. In many respects, wealth operations serve as the heart of a wealth management firm: This is where wealth is actually being managed with securities being bought or sold, loans being underwritten and serviced, and trust accounts being administered.

Over the past several years, wealth leaders realized that the modernization of front-office functions was not going to be sufficient to deliver the desired adviser and client experiences. This is because too many client and adviser processes are either integrated across front-, middle-, and back-office functions or they are dependent on operations and the often-decentralized applications and processes that support the number of products

and services required to support a wealth management business. As a result, improvements to the front office only pointed to the need to modernize core operations as well. For instance:

- After the client onboarding and account opening processes had been digitized, often with the help of an external vendor, the need to integrate with connected activities within operations such as client service enrollments, maintenance, and service requests became only more obvious.

- The first versions of adviser next-best-action modules naturally pointed to high-volume maintenance and service events (e.g., changes in beneficiaries, authorized third parties, powers of attorney, account names), many of which required formal requests, paperwork, and client signatures; however, they were all manual and paper-based processes that begged to be digitized.

- The use of more sophisticated wealth management applications, such as goals-based financial planning, have led to the realization that surrounding processes also needed upgrades. For example, once the client has input their goal-based financials, they reasonably expect to see performance reporting aligned with their goals; however, customized integration with a centralized performance reporting system generally represents a steep challenge.

- Heads of operations have spent years seeking to optimize their operations and driving efficiencies through process redesign and automation (RPA) efforts and focused technology enhancements (e.g., with vendor point solutions). While these efforts are worthwhile and have resulted in steady, incremental efficiency gains, there is a growing sense among wealth management leaders that this approach is no longer sufficient.

Firms are planning to build out operations delivery programs that are designed to effectively provide better ways of working, similar to the client and adviser experience programs of recent years. For core operations, such as client services, trades processing, portfolio management, securities lending/borrowing, asset services, and corporate actions, there are broader efforts to normalize processes and consolidate the number of applications in use. In addition, there are broad efforts to minimize paper-based client service processes and uses of desktop computing tools. The ability to process transactions, address open items and fails, and identify aging items or large-dollar exposures across common activities and client services are priority. The ability to do this in-house or get more from custody platforms is again coming to the forefront of operations strategy now that technologies present opportunities to do more via modern methods.

First, many operations processes continue to be labor-intensive and prone to mistakes because of the manual workarounds required to execute functions, such as managing securities data and pricing, the production of statements and performance reports, income and principal payments, invoicing, etc. Spreadsheet macros are often employed and save time in the short term, but then become sources of operational and key person risk as their creators move on or retire.

Second, the constant need to incorporate regulatory changes (e.g., cost basis, Foreign Account Tax Compliance Act, Reg BI, move to T+1, SECURE 2.0), along with the continuing innovation of products and services across brokerage, trust, and investment advisory platforms, has only increased maintenance costs and operational risk. There is a growing sense that tinkering with existing legacy platforms and their web of integrated applications and data stores must be executed so carefully and entails such a lengthy testing timeline that issues simply cannot be addressed in a timely manner without fundamental change.

Finally, the legacy mainframe-based technology platforms that support wealth management's core operations infrastructure are efficient and reliable for their tasks, but changing them is a very slow, difficult, and risky process. When compared to more modern technologies like cloud-based continuous integration/continuous delivery (CI/CD), for example, the pace of improvement possible in legacy applications seems to stand completely still. This is not conducive to the timely release of new experiences and product features to clients and advisers in a highly regulated environment. There is also a growing sense in the industry that markets are moving too fast and require a new level of operational and technical agility. Leading wealth managers have identified six principal levers to drive the transformation of middle- and back-office functions going forward:

**1. Productization of operations.** Forward-looking firms are reorganizing themselves to manage end-to-end functionalities vertically, rather than the current practice of having client-facing functions sit on top of horizontally managed operations and technology support areas. Product ownership seeks to give autonomy and control to individuals who are invested in the success of a function from a business perspective, so that they can independently prioritize and push forward with changes to their own supporting processes and technology. Any loss of efficiency from doing away with pooled operational and technical resources is more than made up for through technology automation and the ability to release rapid business improvements.

For instance, client onboarding is managed end to end as one integrated process with a single product owner, responsible from initial client engagement to successful account establishment regardless of account type (e.g., brokerage, trust, investment advisory). The product team has control over each step in the process either directly—account opening, paperwork completion, signatures, acknowledgments, disclosures, and activation of online and mobile services—or via integration with parallel vertical teams for competencies like anti-money laundering (AML)/KYC, funding, and transfers. Because both the application and the business function share the same ownership structure, the technology becomes fully responsive to the needs of the prospective client. Other examples of integrated processes include:

- The creation and implementation of investment proposals and financial plans, including client/adviser discussions, portfolio allocations, first trades, rebalancing, and integration with performance reporting.

- Trade life cycle management activities, including order entry, investment compliance, execution, settlement, reconciliations, and controls.

- The production of client statements, client billing, and performance reports with delivery (through electronic and physical media) and access (via mobile, online, and physical mailing delivery services) through multiple channels.

- The production and filing of regulatory reports, including the monitoring of business activities, the identification of exceptions events, periodic reporting with internal and external stakeholders, filing, and remediation support processes.

**2. Offshoring (and nearshoring) of operations teams.** This lever is designed to realize cost arbitrage between geographies, tap into new sources of talent, and create opportunities for higher speed of delivery with round-the-clock services. It requires setting up the necessary infrastructure, supervisory processes, and licensing to source and manage talent in distant locations. This also requires a deliberate effort to manage change, with teams having to learn to operate across multiple time zones and cultures. Wealth managers that are new to offshoring may want to take small steps and offshore discrete, well-contained functions first before they tackle bigger capabilities and more complicated processes. Examples include:

- A wirehouse moved a substantial portion of its KYC and compliance staff to India and used the transition to redesign and automate some of its AML processes.

- A large wealth manager created an offshore service center to perform and approve first-level triage and issue resolution (1,000+ people including Series 24s).

- A mid-tier wealth manager trained a mixed onshore/offshore team in technology configuration in support of its client onboarding and account maintenance services. Efforts are underway to move part of its trading support, reconciliations, corporate actions, and client reporting services.

As operations teams become more comfortable with offshoring and nearshoring, the scope of processes and teams that can be moved to cheaper locations, at a minimum, will likely grow.

**3. Outsourcing business functions.** This lever is about transferring the responsibility of operating a particular function to a  third party, which may or may not include offshoring. It often includes asking the third party to transform the function, operate for a while, and potentially return it later to management and typically includes self-contained, manually intensive, or higher-volume administrative functions that need to be modernized. This is typically about self-contained, manually intensive, or higher-volume administrative functions that need to be modernized.

An example of a focused business process outsourcing (BPO) includes:

- Several high-net-worth wealth managers have outsourced tax services to specialized firms. For instance, one of the wirehouses has outsourced some of its compliance, transfer agency, and trade reconciliation operations.

Large BPO examples include:

• A leading wealth and retirement firm outsourced its 401(k) operations to a BPO specialist with a large presence in India and another leading retirement firm is about to go down the same path.

• Several wealth management organizations have outsourced their custody and clearing to third parties.

**4. Shifting from in-house, proprietary to large third-party technology platforms, with or without a BPO overlay.** This lever is about leveraging third-party vendor platforms across large swathes of operations capabilities. By transferring capex to opex, wealth management firms are betting on third-party vendors' ability to maintain and improve on existing technology platforms, manage integration between point solutions, and pool innovation across the portfolio of a wealth management firm's clients. This is especially attractive to second-tier firms that cannot attract the technology talent or generate the level of technology spend required to compete with market leaders. This approach forces wealth management firms to narrow their ownership of technology platforms to those few capability areas that are essential for competitive advantage and, more broadly, to seek differentiation through industry-leading configuration and integration of third-party vendor platforms within their ecosystem rather than ownership of proprietary platforms. For example, many self-clearing wealth managers are rethinking whether they should outsource their custody and clearing services to outside, specialized, scaled custodians. This is all the more interesting as large custodians (Fidelity, Schwab, Pershing, LPL) have expanded their services to include investor services, wealth technologies (e.g., CRM, portfolio construction, financial planning), and banking, thereby providing an option for their wealth clients to outsource more of their noncore technologies.

Over the past five to 10 years, a number of wealth vendors have built broad technology platforms, often through acquisitions. This includes TAMP, like Envestnet, Vestmark; investment and trust platforms, like FIS, SEI, or Broadridge; and the large custodians mentioned above. While these vendors have made significant progress toward broadening and integrating their suite of capabilities, few, if any, are truly comprehensive, mature, all-in-one solutions that can scale up with and handle the complexities of large wealth management firm operations. That said, we expect the firms mentioned previously to continue to integrate new capabilities to their platforms. Furthermore, new entrants into the US market may create more options for wealth managers. For instance, a new European entrant to the North American BPO market, FNZ, has offered to support all wealth customers of a wealth organization across all legal entities, using common processes and data for trust, advisory, and brokerage. It remains to be seen if FNZ will deliver on this offer before it is offered by the "local competition." In addition, while smaller firms are typically happy to take full advantage of a third-party vendor's full range of capabilities, larger wealth managers are generally still more comfortable buying select capabilities, thereby forgoing the benefits of integrations already developed by the third-party vendor.

**5. Replatforming of in-house, proprietary technology platforms.** This lever focuses on modernizing large capability areas, like trade services, by carefully redesigning core processes and then migrating them to the cloud. This approach is attractive to large wealth managers that are unwilling to outsource large technology platforms to third-party vendors for fear of losing their competitive advantage and being beholden to an external vendor's product road map and pricing scheme. The firms, therefore, choose to replatform their core systems themselves rather than rent a third-party platform. This requires a high level of technology competency as well as significant levels of technology spend over multiyear horizons.Some examples include:

• A large retail wealth manager has been redesigning its core business and operations processes, one capability area at a time (e.g., transaction history, trading services, client data management) as cloud-native applications supported by discrete microservices. Each product microservice can interact with the others, so, for example, asset holdings data is updated with new trade activity and then combined with up-to-date market pricing to deliver real-time balances on demand. This replicates the integrated nature of a monolithic mainframe while maintaining discrete products (each service can be improved separately, as needed), thus revolutionizing business agility.

• A leading private bank has started to whittle down its legacy COBOL-based, highly customized mainframe trust administration platform and leverage its broker-dealer's platform in key areas such as the adviser/associate workspace, client onboarding, client data hub, trade and transaction support, and product integrations. The sprawling mainframe platform will be trimmed back as each function is removed until the more manageable core application is left, which can then be more easily maintained or replatformed in the future.

**6. Partnering with other wealth firms or financial services companies.** This lever entails a wealth management firm partnering with another financial services firm that has a complementary product competency, rather than renting and building a new product platform by itself. This is consistent with the strategy of many leading wealth management firms to offer holistic financial advice to clients. These firms, therefore, need access to cash management, lending, and insurance products in addition to investment products.Some examples include:

• Edward Jones (EDJ) and Citi recently announced a partnership to offer new lending products to EDJ's wealth clients through EDJ's 19,000 branches.

• Many wealth management firms distribute annuities and insurance products from insurers.

• A variant on this approach is to access product capabilities through an industry exchange, such as Envestnet's banking and insurance exchanges.

## Figure 6: Transforming core wealth operations

**Key transformational levers**
(Highest priorities)

- 2. The offshoring (and near-shoring) of operations teams
- 3. The outsourcing business functions (BPO)
- 4. The shifting from in-house, proprietary to third-party technology platforms
- 5. The re-platforming of in-house, proprietary technology platforms

Transformational levers 1 (Productizing) and 6 (Partnering) might apply to any of these based on willingness to collaborate and commercial alternatives.

| Operations | | | | | | Compliance | | Reporting |
|---|---|---|---|---|---|---|---|---|
| Client support | Trade operations | Brokerage custody | Trust administration | Securities lending | Reconciliation | Employee compliance | Supervision | Regulatory reporting |
| Account setup/onboarding | Clearing and settlement | Equities, funds, FI | Formation and funding | Stock borrow | Custody stock record recon. and system balancing | Licensing and registration | Best execution | FOCUS and SSOI filings |
| Account management | Trade reconciliation and reporting | Structured, private, derivatives, fx | Funded trust account maint. | Stock loan | Mutual fund, money fund reconciliation | Outside business activity | Reporting oversight | Annual report |
| Asset/account transfer | Cancels/rebills | Treasury and agency securities | Special asset account maint. | Cash management | Compensation and billing | Gifts and entertainment | Books and records oversight | Compliance report/ICOC |
| Practice support | Fails/buy-in processing | Physical securities | Asset monitoring | Checks/ACH/wires | Fees and commissions | Continuing education | Written supervisory procedures | CAT reporting |
| Trade order mgmt. | Security setup and mgmt. | Safekeeping | 3rd-party management | Client contributions/withdrawals | Account billing | Surveillance | Surveillance | Fed Reserve filing (monthly SLT) |
| Order entry and routing | Asset servicing | Books and records | Income treatment (principal and income) | Daily cash balancing | Liquidity management | Correspondence and communication | Branch inspections | Short position reporting |
| Order and exchange execution | Proxy processing | Margin | Tax oversight and planning services | Sweep management | Credit line | Trade surveillance | Complaints management | TRACE and MSRB |
| Block trades | Class actions/legal settlements fund | Margin account management | Financial statement preparation | | Liquidity monitoring | Personal account dealing | Market access controls | Regulation T |
| Trade balance/match | Client account allocations | Credit/margin hypothecation | Participant reporting | | Tax operations | | Product approval | 605/606 reporting |
| | Reorganizations | Margin extension | | | Tax accounting | | Vendor oversight | Form custody |
| | Interest payments and dividends | | | | Tax reporting | | Other reg requirements | SIPC Filings |
| | Inventory management | | | | Tax filing | | BSA/AML/KYC | Client reporting |
| | Corporate actions | | | | Tax reclaims | | Regulatory responses | Statements/confirms /1099s |
| | Asset pricing | | | | Wash sales | | | Performance reporting |
| | Cost basis | | | | | | | Proxy/prospectus |
| | | | | | | | | Disclosures |

By applying these six transformational levers, wealth management firms are better positioned to modernize their capabilities across most of their operations (figure 6). Each firm, however, will need to find the right combination of levers, given different starting points (current state of legacy systems, partnerships, competencies). A common thread to all these transformations is that they will likely be technology-led and part of a broader firm agenda to modernize the entire tech stack. An implication is that CTOs and heads of operations must partner closely together. In some cases, we may even see operations and technology being combined under the leadership of a single change agent. Another implication is that the architecture design principles that have guided the modernization of wealth tech stacks will also apply to the transformation of operations (figure 7). For instance, wealth firms will likely want to leverage broad vendor platforms when possible and transition applications to the cloud as part of the transformation.

## Figure 7: Architecture design choices for E2E modernization of wealth tech stack

- Is more vendor based than internally owned/proprietary built
- Prefers cloud-enabled approach, where practical
- Uses out-of-box solutions where possible
- Relies on robust APIs to promote choice and resilience
- More vendor based to allow for different ways of working, like outsourcing of functions for efficiency
- Selects few best, broad vendor platforms rather than be best-of-breed point solutions
- Allows for scalability and strategic flexibility (e.g., segmentation)
- "Innovated-on-the-edge" and migrates from old to new
- Incorporates both master data and analytical data layers
- Transforms capex into opex and lowers fixed costs where possible

# Conclusion

Digital transformation of the wealth management industry is well underway, but we believe it will take at least another five years of sustained levels of technology investment across the following six key domains: digital client experience, digital adviser experience, advanced advice engines, streamlined operations, flexible cloud-based technologies, and data (figure 8) to bring it to near completion.

While many wealth management CEOs, CTOs, and heads of operations feel like they have already driven considerable change through their organizations, we believe they are not in a position to take their "foot off the gas." Rather, if the industry transformation is to be sustained and ultimately delivered to retail investors, advisers, and shareholders, technology management and change readiness, as well as adoption, will need to continue to be a company's core competencies.

**Figure 8: Six areas of investment to bring about the digital wealth manager of the future**
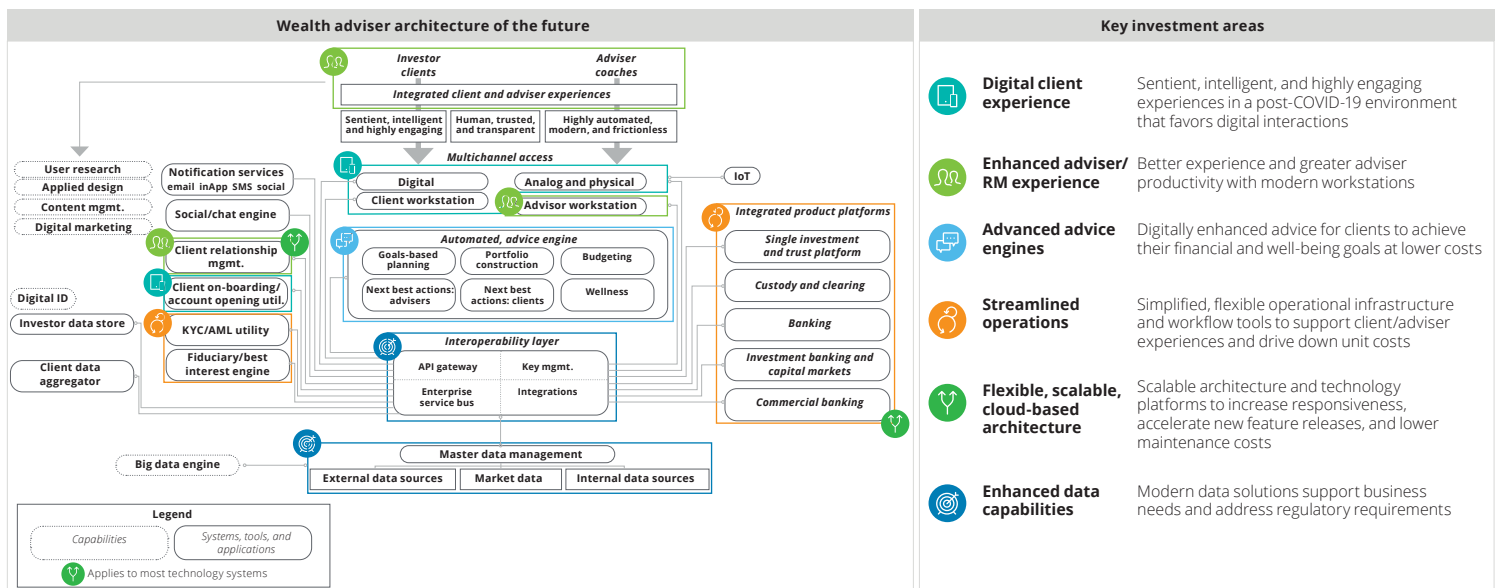
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# Endnotes

1. Gauthier Vincent et al., *The digital wealth manager of the future*, Deloitte, 2017; Gauthier Vincent et al., *The future of wealth management revisited*, Deloitte, 2020.

2. Deloitte, *Trustworthy AI™*, accessed December 20, 2023.

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