Wealth management & Wealth Techs: when they cooperate everybody wins

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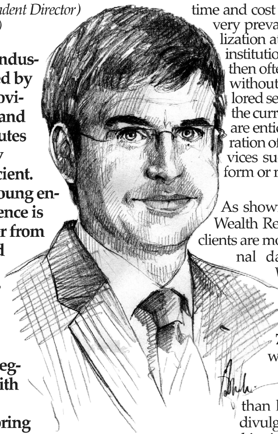

The wealth management industry is typically represented by traditional values and providing discrete financial services and structuring advice. These attributes remain important, but for many clients, they are no longer sufficient. New segments are emerging: young entrepreneurs, whose rising affluence is in part fueled by wealth transfer from their baby boomer parents. Add to this, the growing wealth among women, and a customer marketplace that now includes several generations with the latest generation being digitally savvy. Today's new investors' segments are clearly dissatisfied with a "one-size-fits-all" service model/strategy. Many are exploring investment products which were historically limited to richer clients.

In many sectors, and for a long time now, customized products and especially customized services drive consumer loyalty (e.g. travel-sector). As per recent customers' survey and efforts already deployed by many financial institutions, we notice that this trend is now also clearly moving forward towards the wealth management sector, with a significant growing amount of investors demanding highly personalized and individually tailored services from their financial advisors. However, in trying to consider each client as a "segment of one", time and cost effort constraints become very prevailing and hyper-personalization at scale is seen by financial institutions as insurmountable and then often set aside. Nevertheless, without an acceptable level of tailored services, a significant part of the current and Nextgen investors are enticed to move to new generation of wealth management services such as self-execution platform or robo-advisors.

As shown in the latest EY Global Wealth Research Report, European clients are more willing to share personal data with their primary Wealth Manager if this allows them to enhance customer experience. The study highlights that 72% of respondents were willing to open up about their financial goals and ambitions, and more than half were also happy to divulge their personal aims and objectives.

Following a 2022 Refinitiv research which surveyed more than 2,000 investors and 500 firms across the wealth industry, only 18% of investors said that they are satisfied with the digital experience offered by their primary providers, indicating that persistent gaps in digital offerings need urgent attention. Also, 42% of surveyed investors who switch to other providers mentioned that the primary reason was to get access to a broader range of products and services, better aligned with their own goals and preferences. This changing approach to meeting client needs moves thus away from the traditional assets under management (AuM) model or client categorization. While the AuM approach often incorporates an element of recognition of a client's life stages, existing and classic segmentation models largely ignore behavioral finance differences between clients, and provide little foundation for differentiated client engagement and truly discussing investing preferences.

Unfortunately, incorporating factors other than AuM into client segmentation requires access to data and analytics that are commonly not available or not of sufficient quality with the existing legacy systems of wealth managers.

To address this issue requires wealth managers/financial advisors to be equipped with innovative and flexible solutions in order to ease investing experience and help their clients to simplify their investment decision process taking into account the clients investment and ESG preferences. Following a 2022 recent Mc Kinsey survey, relationship managers have to spend 60 to 70 percent of their time on non-revenue-generating activities, amid rising regulatory and compliance obligations. One reason is that most still work with legacy IT systems or even spreadsheets.

We strongly believe that it's exactly in this space that Wealth Managers could easily work together with Wealth Tech players in a BtB cooperation/servicing model, resulting in more personalization for the end investor/customer. Digital initiatives have to be a core component of a Wealth Manager firm's culture and vision, affirming that it is not a "digital or personal" advisory but rather a hybrid approach. By collaborating with Wealth Tech providers that already made strong research and development on data & analytics' side and importing this new gained insight into the existing Wealth Management client offering, such cooperative approach makes a digital journey also achievable in the short to mid-term for the Wealth Manager rather than being "hijacked" by long-term IT roadmaps on general banking systems.

When implementing such cooperative model, the Wealth Manager, as the primary interaction point with the client, are able to co-mingle their among others 'basic' AUM proprietary data with the rich data insight offered through the WealthTech on for example investment and ESG preferences. While this may potentially cause some technological challenges the insights that emanate from this process can be ground-breaking and fundamentally change the client experience, resulting in a materially enhanced personalization for the end-customer at a reasonable cost.

For example gauging the ESG preferences of the client as required under MIFIDII from August 2022 is not a simple tick the box exercise, but such exercises are riddled with complexity. A number of WealthTech providers offer now mature solutions in this space allowing the Wealth managers to leap frog the digital and client investment preference journey.

Achieving strong cooperative technology models with Wealth tech will bring Wealth managers ultimately stronger investor-advisor relationships, as investors will notice their financial advisors to have a more and more detailed understanding of their financial situations, preferences and goals thanks to the insights gained by leveraging the WealthTech. Such cooperation can also enable financial advisors to help clients achieve investment goals based on all the assets they own and enhance the cross-sell. Wealth-managers that are equipped to address the full picture will have a more aligned relationship with their clients

What is the current impact on private equity?

By Sam DESIMPEL, Managing Partner Top Tier Access

We have heard that quite a lot of deals are on hold and multiples have gone down. With all the dry powder in the market however, the pace of deal flow should pick up again shortly. What the price multiples will be is as yet unpredictable.

Sam DESIMPEL, Managing Partner and Joel SANDHU, Investment Manager chez Top Tier Access

When it comes to direct impact, most of our private equity groups are not so involved in Russia and Ukraine. In the updates we have received from the funds in which we have invested, most will lose 0 to 1 or 2% in revenue. Most PE companies, and those we invest in with TTA, are typically not exposed to the energy or commodities markets and therefore are not directly drawn into these boom and bust cycles.

Preferred private equity sectors including business software, business services and healthcare are not really exposed to commodities inflation. Only payroll induced inflation can really hurt them and it is still too early to call the latter. What really matters is whether any company has pricing power. This pricing power may cause further inflation but the market power provides cover.

From a human resources point of view, quite a few of our portfolio software companies had outplaced services to the Ukraine (and to a lesser extent Russia) and are looking to find solutions for this now. Some have Ukrainian subsidiaries or development centers and are relocating staff and family as well as they can in neighboring countries.

Scandinavian funds are clearly not waiting for Sweden to join NATO to step up. They are donating large amounts of money to Ukraine and some have asked all their portfolio companies to phase out business in Russia including outsourcing services or provision of technology to Russian entities. This means no technology or advanced products being sold to Russia, but also no more contracts for Russian technology or manufacturing companies.

if more Western technology funds and companies follow suit, we could see a real brain drain from Russia. We have read reports that already 100,000 well educated Russians have fled to the West, with quite a few to Turkey where they don't need visas. It would be a very smart move from our governments to also invite and accept Russian engineers (and pilots) visa free to add value to our job market.)

Russians are also being frozen out of private equity. We received an interesting letter from a Canadian broker in secondary funds and there appears to be quite some forced selling. We also heard one general partner quite vehemently stating during a pitch that they had not one Russian investor ever and never will have! We can only imagine how painful a Know Your Customer procedure would be for a Russian national. Most funds will probably not even attempt to onboard Russian citizens any more.

On the receiving side, Western private equity owned companies using a lot of energy (such as data centers and manufacturers) are feeling the pain of increased energy costs but are typically able to pass these on to their customers. And we all know of course, that this is how inflation starts.

The increase in inflation makes an interest rate hike more likely, which is especially bad news for listed growth technology companies as you may have seen on the Nasdaq.

It is really too early to say anything about the fundraising pace of private equity. The less people want to invest in private equity however, the better it is for us but from our side we don't really see a slowdown. Our fundraising for the second buyout fund of fund is proceeding rather well actually…

Will the Ukraine crisis disrupt the three megatrends?

It is still very early days to make predictions. However, the invasion of Ukraine by Russia has already broken some long term trends. Germany, for instance, is breaking with decades of its "peace dividend" policy, where it underinvested in security and instead built up its economy, social security and the likes. The same can be said about most Western economies who have long made savings on their military capacity, even including the USA.

Getting back to megatrends, let's consider each one in turn:

Digitalisation in the "new cold war": If anything, the new cold war can only increase our drive to digitalisation. For instance, EQT have told us they have massively boosted their cybersecurity defenses at their portfolio companies in order to counter any potential Russian cyber initiatives.

Another consideration is a consequence of increased militarisation? Were we to rebuild large standing armies, we will see young people signing up and leaving the private workforce. This will only force companies to be more efficient, meaning more digitalisation. Germany is now investing an initial 100 billion EUR into military readiness, with almost unanimous political and popular support. This is a real game changer.

I repeat my argument that a lot of educated Russians will probably leave Russia for good as the regime becomes even more repressive and the sanctions cut off Russia from the tech and private equity sector. This brain drain would be good news for the West as Russia produces world class engineers and scientists who we would love to have over here.

Will inflation dent the valuation of software companies? We are not denying that software valuations are quite high. However, these companies combine growth, pricing power and recurring revenue models. There is still a lot of dry powder chasing this combination. Public market exit valuations are less lofty now, but that is more for unprofitable companies or companies that missed their growth targets. We are watching this space, but it is too early to tell. These are often very high quality firms with a lot of pricing power and in a secular trend.

Finally, increased military spending could correlate with important developments in new technology. Just look at how Israel's startup scene is populated by ex-Army people who have commercialized military technology.

Digitalisation should normally be a cost saver, which is even more attractive in times of inflation.

In conclusion, we think the digitalisation trend will only be reinforced.

Decarbonisation in the "new cold war'.

It is again too early to tell but allow us an educated bet. We expect a new "laissez faire" on carbon fuels for the short term, while the decarbonisation term goes further unabated. I think it is safe to say that Germany (and Belgium) have rudely awakened from a dream where they thought Russia to be a reliable energy partner allowing us to reduce our nuclear footprint while we are in an energy transition.

With very low energy prices, Joe Biden also felt quite comfortable putting the brakes on US carbon production. Nothing focuses the mind more than the sight of the guillotine. In Joe Biden's case, he has got midterm elections coming up next year. This is true for every government in the Western world (and even China and India): high fuel prices are bad news. This means that the incentives to, at least temporarily, reduce carbon energy production may be put on hold. However, long term, decarbonisation will be reinforced by this crisis, because the best way to assure energy independence is to consume less energy and build up renewable energy. We will however need to bridge a huge gap short term, especially if this conflict gets nastier. But in the long term, the case for renewables gets stronger.

This should be a long term deflationary trend, as renewables and energy efficiency technology should decrease the price of energy over time. I'm comfortably betting that corporations, governments and private citizens will double down on this trend over the medium to long term.

In conclusion, we think the decarbonisation trend will only be reinforced.

New consumers in the "new cold war"

This is one where I feel less confident to make predictions.

It does however sound logical to me that when faced with worries such as a hot war, even a nuclear one, and with Ukrainian refugees flooding this continent, we may be less focussed on "woke" subjects and may revert back to essentials.

I am not saying that a lot of the "woke" sustainable wishes are a luxury or a whim, just that a new austerity may return. I wouldn't be surprised if people become more penny conscious in these times of inflation.

The conflict could however increase the trend for local, secure food already started by Covid supply chain issues. After all, Ukraine is the breadbasket of Europe. French agricultural policy stating that France needs to be self-sustainable in agriculture sounds less and less absurd. We were present at a speech by Michel Barnier recently who hinted the EU will support massive investments in agrotechnology as we will have to produce more while polluting less.

We are continuously monitoring all private equity market evolutions at Top Tier Access. We remain convinced that a well diversified private equity portfolio is still one of your better options, even, or more especially in times of great volatility.