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5 WealthTech Trends

ADVISORS SHOULD CAPITALIZE ON RIGHT NOW

PreciseFP

Wait! Think about the decisions you're about to make… because it's very likely you're going to have to live with them for a while. Yes, future of wealthtech and wealth management firms as we know it will largely depend on the choices leaders make now. Between disruptive technologies and volatile markets, adjusting to client expectations and offering new solutions will be key in determining who will succeed and who will not.

The gap is only set to get larger between firms. **By 2027, PwC estimates 16% of existing asset and wealth management organizations will either fail or be absorbed into a bigger company — twice the historical turnover rate, wealth management is at a crossroads.**

No matter how you look at the industry, it's clear wealth management is at a crossroads.

Love it or hate it – fields of wealthtech technology have surrounded that crossroads and the sector is only expected to **keep growing**, demonstrating the importance of adopting technical solutions to emerging problems. By 2028, WealthTech is expected to reach a compounded annual growth rate (CAGR) of 25.23% and be worth $37,746.2 million.

In this Precise Special Report, we'll dive into five common trends in the wealthtech space for financial professionals that MUST be accounted for. And, we'll provide three relevant strategies for wealth management leaders to start applying today.

5 Revolutionary Trends in WealthTech

While the industry may have no Paul Revere riding through industry conference halls yelling "The Future is Coming! The Future is Coming!", any industry veteran will tell you that today feels different than yesterday, and tomorrow seems incompatible with tomorrow.

The harsh reality is, in a shifting world where technology advancements are fast-coming and complex challenges are ever-growing, advisors and wealth management firms need to consider how wealthtech will both power and disrupt the industry now and in the years to come. Let's examine five trends affecting the wealthtech space in 2023, breaking down their context, pros, cons, and applications.

Artificial Intelligence: An Inevitable Frontier

Cryptocurrency: Managing Risk & Confidence

Environmental, Social & Corporate Governance (ESG): Becoming a Focus

Inflation & Market Volatility

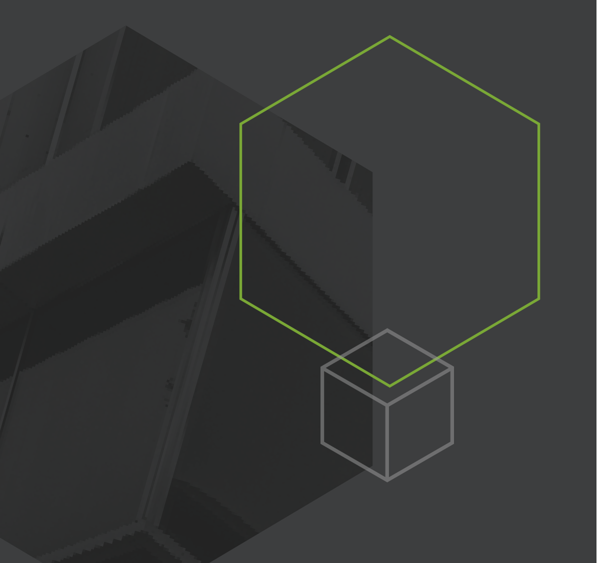
Digitization & Changing Investor Priorities

1

Artificial Intelligence: An Inevitable Frontier

No matter the industry, the emergence of viable, generative AI has come much sooner than anticipated, effectively moving from a nebulous “what if” hot-topic technology to a tangible “what now” seismic disruptor. AI’s disruptive potential for wealthtech is no exception.

Indeed, over 90% of asset managers say they already use disruptive tech like AI, big data, or blockchain to improve outcomes. The wealth management industry has long been impacted by disruptive technology – robo advisors managed $2.5 trillion in assets in 2022. That number is expected to more than double to $5.9 trillion by 2027, demonstrating the increasing reliance investors will have on technology to guide their investments.



POTENTIAL

The **potential use cases** for AI in wealth management are high and varied. From improving personalization to supporting retail investing to portfolio performance, generative AI has deep potential to accelerate outcomes. Evidence of AI’s potential already exists. For example, a fictional, ChatGPT-created fund **outperformed** the UK’s top 10 most popular funds by nearly 7%.

Another use case for AI is the potential to transform client experiences. For example, where low-end, lower-return services (such as retail investing) are typically given less personalization, AI could make up the difference and allow for completely customized, hyper-personalized offerings at every level.

“Rather than just high-touch, white-glove service, [wealth management firms] are turning to technology solutions for a blended service model and utilizing AI to create hyper-targeted and customized offerings,” said **Tamara Kostova**, CEO at WealthTech company Velexa. *“The implementation of a single, integrated wealth management platform enables significant levels of automation and business process improvements.”*

DRAWBACKS

Being so new, much of generative AI’s potential and associated risks are uncharted territory. Add this to the complexity of the regulatory requirements in the wealthtech space, and there is much still to be determined as far as how regulated AI tools will be in the future.

The European Parliament voted to approve an **AI Act** that will regulate and restrict the use of generative AI in many contexts. However you slice it, advisors need to proceed cautiously to ensure their AI implementation doesn’t expose their firm or investors to unnecessary risk.

APPLICATIONS

Despite the fact that **90% of institutional investors** believe the use of tools like AI will improve outcomes and returns, asset managers say it continues to be one of the most challenging areas to implement and manage. According to **Olwyn Alexander**, Global Asset and Wealth Management Leader at PwC Ireland, AI-enabled services must become a strength if advisors want to succeed in the new environment of economic uncertainty.

“The choice is simple — adapt to the new context or fail. Firms that effectively leverage technology such as generative AI and robo-advisors, build meaningful inroads to new and existing customers, diversify their recruitment, and deliver exceptional client experiences will be well-positioned to not only survive, but thrive,” Alexander said.

2

Cryptocurrency: Managing Risk & Confidence

After the cryptocurrency boom of the past 10 years, the fall of several crypto giants (the bankruptcy of FTX, for example) seemingly ushered in a "crypto winter" in 2022. Despite the poor market conditions of the past year, crypto investment has by and large remained stable in 2023. However, questions about risks, transparency, and regulations are emerging.

POTENTIAL

According to John Garvey, PwC U.S. Global Financial Services Leader, investment in crypto-assets **remains strong in 2023** despite the volatility in the market.

"Traditional hedge funds, committed to the market in the longer term, are not only increasing their crypto-assets under management, but also maintaining — if not increasing — the amount of capital deployed in the ecosystem," Garvey said.

DRAWBACKS

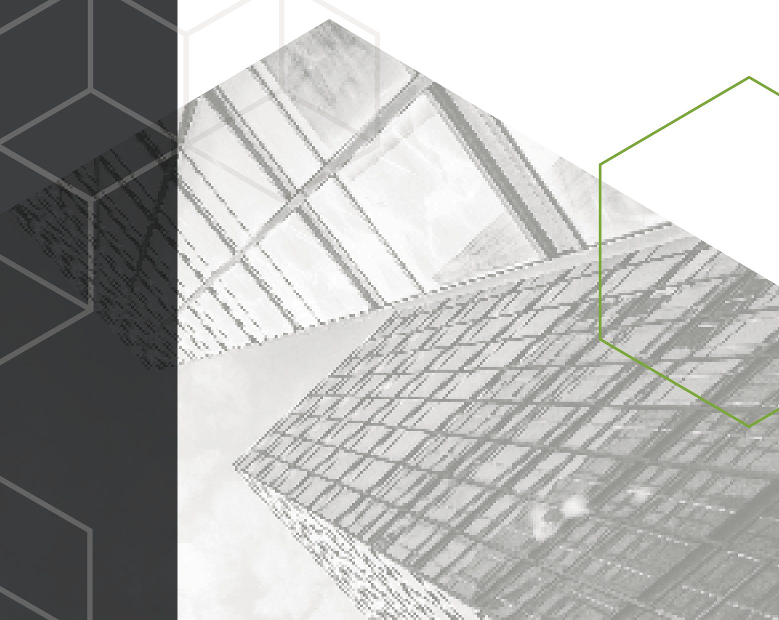
Unfortunately, some hedge funds aren't so optimistic about crypto's future. A **PwC survey** found that 57% of respondents said the collapse of crypto-asset service providers in the past year had a negative or strongly negative impact on their outlook for the space. Accordingly, the number of traditional hedge funds investing in crypto fell from 37% in 2022 to 29% in 2023.

When asked for their reasons for not investing in crypto-assets, the **top answers** were:

- Client reaction or reputation risk
- Lack of regulatory and tax clarity
- Insufficient or unreliable third-party data
- Outside the scope of their current investment mandate

APPLICATIONS

When it comes to crypto and WealthTech, the bad news is that market volatility and increasing regulations are affecting confidence in the space. The good news? Now that the hype has died down, investors are **being forced** to take a more measured and sensible approach to account for risk, which might help the market stabilize now and in the future.



3

Environmental, Social, & Corporate Governance (ESG) Becoming a Focus

ESG investing is picking up popularity and speed among businesses and individuals. As climate-related crises continue to expand around the world (wildfires in Canada; heatwaves in Europe), socially responsible investing is becoming an increasing priority.

POTENTIAL

Investors are more interested than ever in ESG goals, even at the expense of higher returns. A Betterment survey found **58% of investors** said they would be willing to sacrifice investment performance in order to achieve ESG goals. Another survey found U.S. investors under 41 would be willing to **lose between 6-10%** of their retirement savings to support ESG causes.

DRAWBACKS

While a growing contingent of employees (50%) are demanding ESG disclosures from their organizations, **only 37%** of employees report their employers are taking action around ESG areas like DEI (diversity, equity, and inclusion). Meanwhile, the “umbrella” of ESG investing has become a highly-charged political issue across the United States and around the world. With the current local, state, national and global political climate in an upheaval, it’s impossible to predict which headwinds or tailwinds will blow the strongest.

APPLICATIONS

The future of wealthtech will undoubtedly be different as wealth transfers from one generation to the next. However, increasing regulations and limitations pose a real challenge.

4

Inflation & Market Volatility

Despite record-high inflation in 2022 threatening to throw the U.S. into a recession, inflation rates are slowing at a higher rate than expected. The annual inflation rate in the U.S. lowered to 3% in June 2023 — the lowest point since March 2021. However, with ongoing geopolitical factors and economic concerns, it's difficult to know whether inflation will continue to drop.

POTENTIAL

The core inflation rate **dropped to 4.8%**, and most other areas seem to be dropping as well. For example, prices fell 36.6% for fuel oil, 26.5% for gasoline, and 1% for food. These price drops are good news for wealth managers, as investors will have more discretionary income to invest.

DRAWBACKS

The **collapse of Silicon Valley Bank** in March 2023 was the second-largest bank failure in U.S. history, setting off waves of uncertainty in the market for both investors and advisors alike. And although inflation continues to decrease, electricity prices have **increased by 5.4%**, showing that not every area is dropping in price. Additionally, import prices **may continue to rise** alongside services inflation.

APPLICATIONS

Now that inflation is at a two-year low (and below market expectations), there is more evidence to suggest that a recession is less likely. Despite ongoing factors such as supply chain constraints and political instability, wealth is likely to experience **resilient growth** in the coming years.

5

Digitization: Changing Investor Priorities

There's no denying the ongoing shift in how digital capabilities are shifting investor priorities, profiles, and expectations. For example, many investors want to see a holistic view of their financial situation, especially ones with complex assets. Open banking allows investors to do just that. Not to mention the rising importance of data-driven investment insights and transparent (and often shared) portfolio management between investor and advisor.

POTENTIAL

With new digital tools comes new potential for better offerings, keener insights, and improved customer experiences. Advisors who **embrace digitalization** will be well ahead of their competition.

DRAWBACKS

Digital products (such as AI and robo-advisors) enable investors to **independently manage** everything from market research and trade execution to portfolio management. With so much at their fingertips, advisors who don't pivot to take on a new role might become obsolete.

APPLICATIONS

An increased capability for a **digital core** where data-driven insights and analysis prove value is necessary for advisors to succeed in 2023 and beyond. Whether it's a digital infrastructure to manage back office activities or digital tools to improve the customer experience, improving both the client and advisor experience is key for success.

3 WAYS Advisors Should Capitalize on 2023 WealthTech Trends

With all this to consider, how can you stay on top of the latest wealthtech trends? Simply put, by prioritizing the right actions now to set your firm up for success later. Let's examine three takeaways for wealth managers in 2023.

1 PRIORITIZE A DIGITAL CORE

Many of your customers are already using ChatGPT. They're used to exceptional digital experiences from social media and other platforms. With a baseline set by Netflix and Amazon, **advisor relationships need to follow**, said Don McHenry, Senior Product Manager at Morningstar ByAllAccounts.

"This expectation is coupled with the fact that upwards of about $60 trillion is about to be transferred from the greatest generation and the boomers to the younger generations in the upcoming decade or so. As a result, it's important for wealth management firms to quickly adapt and adopt these technologies to serve these markets or be left behind," McHenry said.

In order to stay ahead, prioritizing a digital core to **bridge the gap** between their expectations and your automation capabilities is key. Advisors can prioritize digital by:

- Automating processes that appear back-office in nature to improve efficiency, thereby improving client engagement and satisfaction.
- Adopting a **digital-first mindset** by showcasing the value-add of digital solutions internally.
- **Strategizing operations** by proactively integrating emerging technologies (including training employees on how to use them).

2 EMBRACE THE SHIFTING ROLE OF THE ADVISOR

Investors no longer want an advisor to execute their financial plan; they want a life coach to validate and execute their life goals. Creating a **personalized, human experience** is key. Investors want a proactive, empathetic, and experienced advisor who steps in when needed, guiding the experience at every twist and turn.

3 FOCUS ON CORE COMPETENCIES

Lastly, it's key that advisors unlock their full potential by honing in their focus on what they do best: interacting with clients and building trust. Adopting new technologies is important, but it can't come at the expense of the client-advisor relationship. A great way to do this is by **outsourcing other tasks** (such as tech stack audit and implementation) so they can spend their energy elsewhere.

How to Get & Stay Ahead

In summary, the economic climate and emerging technologies are disrupting the wealthtech space. Without a focus on embracing change and pivoting where needed, wealth management firms are unlikely to succeed. A crucial element of success will be adopting the right tools and technologies to adapt and scale alongside firms.

PreciseFP can be one such partner for wealth management firms. Our digital engagement platform is a leading technology that empowers financial advisors to build client relationships effortlessly. It eradicates manual data entry and enhances the efficiency of day-to-day operations so that they can provide top-tier customer service easily.

PreciseFP adds tremendous value to any firm by **improving productivity** via:

- CRM Integration
- Robust Workflow Automation
- Streamlined Account Opening
- Simplified Client Onboarding
- Digital Data Gathering
- Scientifically-Validated Risk Tolerance Assessor
- Pre-packaged Custodial Forms

If your firm is interested in a solution that grows with you, organizes client data, automates compliance, and integrates with your other technology systems, look no further than PreciseFP. Explore our platform and contact us to **learn more**.

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