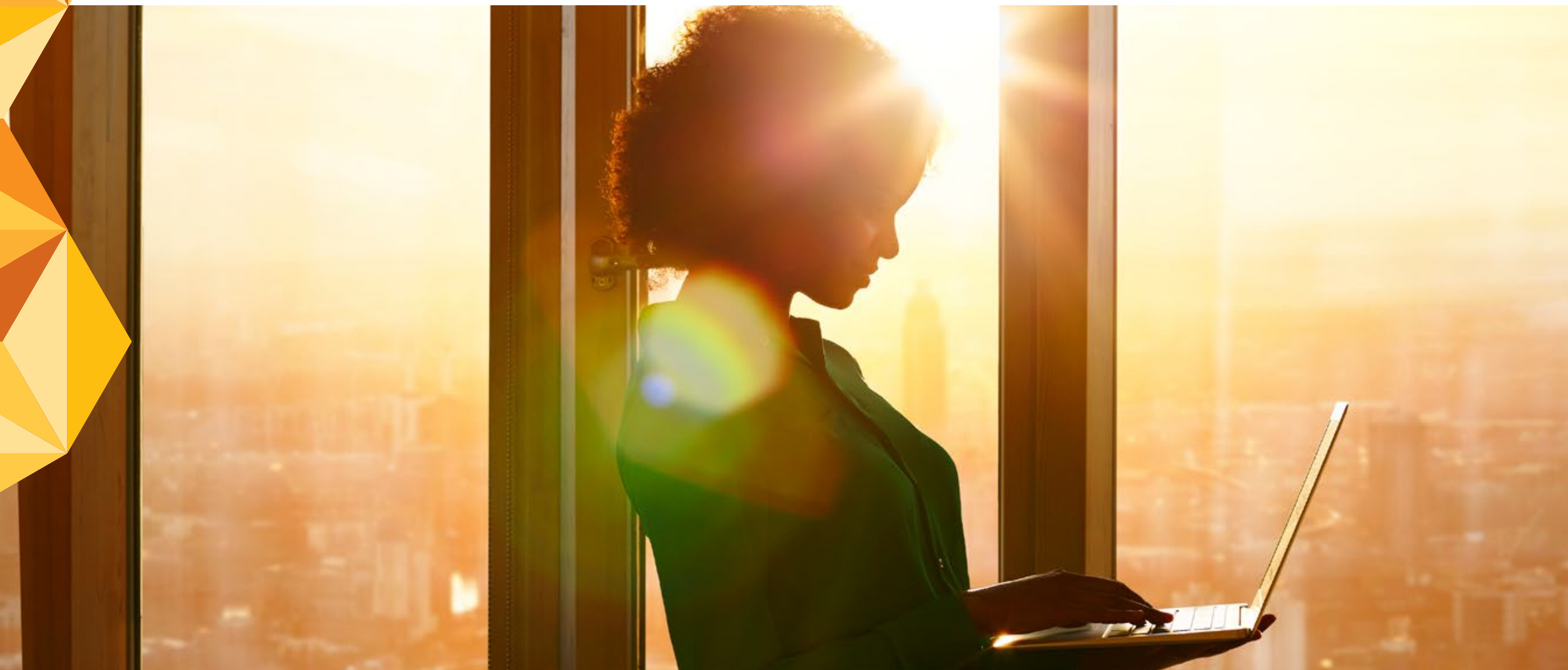
Enhanced dynamics and emerging opportunities

pwc

PwC's Wealth Management Insights 2023

www.pwc.ch/wealthmanagement-report

Content



Pioneering paths in the dynamic landscape of wealth management

The wealth management industry is undergoing substantial transformations, as highlighted by this year's report, 'Enhanced dynamics and emerging opportunities'. These changes mirror the turbulence in the banking sector, where high inflation succeeded by an interest rate shock has served as a catalyst for the acquisition of Credit Suisse by UBS. This merger will create a new global wealth management titan, boasting over CHF 5,000 billion in assets under management. This transaction, combined with technological advancements such as refined mobile-first strategies, AI-driven robo-advisors, and continued progress in digital identity and e-signature, presents considerable opportunities for the wealth management sector.

The report is organised into three sections. The first segment examines the results of a survey completed by over 100 subject matter experts (SMEs) in the global wealth management industry, addressing the current landscape, and essential trends and differentiators for future successes. Part two features two case studies of companies that have responded exceptionally well to some of these trends. We explore Sygnum Bank's potential offering in the crypto universe to clients and the wealth management industry. Subsequently, we delve into a novel financial tool, Bloomberg GPT, which heralds further disruption and new opportunities in wealth management.

The third and final part of the report concentrates on the opportunities available to wealth managers and professionals amid the prevailing macroeconomic conditions. The advent of digital technology has facilitated the development of online platforms and robo-advisors, rendering wealth management services more accessible, affordable and transparent regarding products and pricing.

Given the current dynamic and rapidly evolving financial industry landscape, marked by significant economic, political and technological upheavals, wealth managers must navigate these shifts to ensure their clients' portfolios remain aligned with their investment objectives. In this context, staying informed of the latest market and economic trends is essential for wealth managers. We trust you will enjoy and find value in reading the report.

Beresford Caloia, PwC Switzerland
Global Wealth Management Leader

Patrick Akiki, PwC Switzerland
Financial Services Markets Leader

Market insights

A fragmented landscape

Between February and April 2023, we conducted a survey involving over 100 subject matter experts (SMEs) within the global wealth management industry. These respondents shared their perspectives on the market and the industry as a whole. The survey results unveil a bifurcated landscape in terms of economic outlook and asset allocation, particularly concerning digital assets. SMEs identified uncertainty as the primary factor contributing to this division, which is exacerbated by a rapidly shifting geopolitical landscape, inflation and escalating interest rates.

Moreover, the respondents emphasised an increased demand for specialised wealth management services, which we will examine in greater detail in the following paragraphs.

Economic outlook: optimism amidst dynamic times

In terms of the economic outlook, only 56.9% of wealth managers maintain an optimistic perspective for the upcoming 12 months. High market volatility seems to be a relatively minor concern for most clients when making investment decisions, with only a small percentage identifying it as a driving factor.

The survey also indicates that portfolio management strategies have been restructured following the pandemic, equipping them to better absorb and adapt to the prevailing market conditions. As for service offerings, there has been a noticeable increase in demand for advisory, succession, tax planning and financial planning services among ultra-high-net-worth individuals (UHNWIs) over the past 12-18 months. This trend implies a focus on wealth preservation in the face of an increasingly dynamic environment.

> “Times of economic uncertainty are an excellent opportunity for investment advisors to bring added value to their clients and help them to weather the storm: uncertain times inevitably bring fresh insight and point to opportunities for growth. As the saying goes: ‘never let a good crisis go to waste’.”
>
> **Beresford Caloia,**
> Partner, Global WM Leader

Digital assets: a thawing crypto winter

Despite a decreasing demand around digital assets from nearly half of the UHNWIs, the crypto market is warming up again! SMEs are confident that digital assets will play a vital role as an asset class. Furthermore, another group of respondents highlighted that resilient use cases during market downturns have led to renewed investor interest.

Last year’s reduction in demand appears to have been driven not only by liquidity needs, but also by dwindling trust from investors due to low-utility cryptocurrencies and illegitimate projects. Consequently, a dedicated section of this insights report addresses the aspects of trust and security in the digital asset domain.

Following the recent crypto winter, wealth managers have observed varying shifts in their clients’ demand for digital assets, with nearly one in three SMEs noting an increase.

“Wealth managers maintain a positive interest in digital assets and have observed a strengthened attraction around the industry since beginning of the year. Emphasis is placed on adhering to compliance and regulatory standards, as these factors are essential in building investor trust.”

Patrick Akiki,
Partner, Financial Services Markets Leader

Private markets: sustained high interest in Private Equity

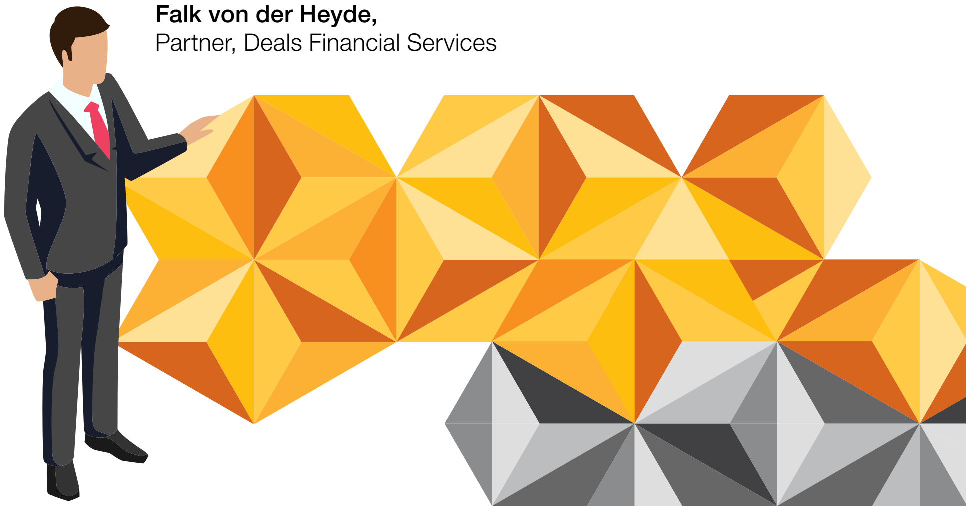
For the majority of wealth managers (55.6%), Private Equity continues to be one of the most sought-after asset classes among their clients. Additionally, 34.6% mentioned that UHNWIs are increasingly demanding private debt. Wealth managers should contemplate incorporating such offerings into their product portfolios if they have not done so already.

When asked about their motivations for investing in private markets, 42.3% of respondents indicated that their clients are primarily driven by the typically higher and more favourable returns compared to other asset classes. Conversely, only one in four clients seeks alternative investments for diversification purposes.

In terms of Private Equity offerings, our further discussions with SMEs revealed that only a quarter of respondents provide this product through their own resources. This underscores the high technical complexity and stringent requirements of this offering, suggesting the potential benefits of identifying partnerships or acquisitions to incorporate it into one's product portfolio.

"Despite a decline in 2022, this year we are witnessing a resurgence in demand for Private Equity and private debt offerings. This presents an opportune moment for wealth managers to consider adding these products to their portfolios."

Falk von der Heyde,
Partner, Deals Financial Services



Digital readiness: rising client demand for digital services

Finally, our respondents anticipate that asset valuation and tax reporting will likely be incorporated as digital offerings by wealth managers within their service portfolios over the next five years. This expectation aligns with the increasing demand for tax planning and succession planning among UHNWIs, as previously mentioned.

The survey indicates that, for younger investors, the most effective method to establish an accessible value proposition involves delivering platform-based solutions, which remains crucial when contemplating the industry's future. Moreover, in the context of digital offerings, one in three wealth managers is considering developing a comprehensive digital proposition in investment management, extending beyond robo-advisory.

As we will discuss in the upcoming section, wealth managers are crafting new digital investment tools with the aim of retaining existing clients, attracting new client segments and reactivating latent accounts.

"Wealth managers should prioritise the integration of digital platforms and enhanced dashboard reporting to cater to the growing demand for digital services from UHNWIs, particularly among younger investors."

Oliver Ripplinger,
Partner, Customer Centric Transformation

Success stories in wealth management

Sygnum Bank

Building security and trust in digital assets

In recent years, changing attitudes towards finance have led to a shift in client investment preferences towards alternative investments. Options such as real estate, Private Equity, hedge funds and crypto assets offer opportunities for diversification and potentially higher returns. Our survey uncovers a significant divide in beliefs surrounding digital assets, which we term 'binary behaviour'. According to our survey, 49% of participants believe digital assets will play an essential role in the future, while 35.3% hold the opposite view. Furthermore, the survey reveals that digital assets and cryptocurrencies have experienced a considerable decrease in asset allocation, as cited by 49% of respondents.

Thomas Eichenberger, Sygnum's Head of Business Units, remarks, "Binary behaviour may have emerged from the growing divide between digital asset advocates and sceptics. Sceptics' views may have been reinforced by recent events, such as defaults of major centralised crypto lenders, crypto exchange crashes and high market volatility. Advocates, on the other hand, may argue that such defaults and crashes were not failures of Distributed Ledger Technology (DLT) or crypto itself but rather the centralised institutions handling them, while the technology operated flawlessly and crypto prices stabilised at much higher levels than before the crisis. These arguments support the idea that crypto and DLT are here to stay and are more resilient than many anticipated. Nevertheless, both sceptics and advocates would likely agree that the crypto industry needs another infusion of trust to bridge this divide, making it crucial to collaborate with regulators to instil confidence in the sector and enhance security when dealing with crypto assets. One important element to underpin regulatory clarity and stability moving forward will be the EU's MiCA regulation, which passed the final vote in April 2023".

Sygnum, the world's first digital asset bank, understands how trust in digital assets is evolving. With its mission to empower investment in the digital asset economy with complete trust, Sygnum offers a range of regulated, secure digital asset banking services. Trust in digital assets hinges on highly secure custody, which Sygnum addresses with its institutional-grade multi-custody solution. Featuring a multi-layered security approach, it addresses hardware, software, processes and governance to maximise private key security, safeguard client data and prevent unauthorised access.

> **"Both sceptics and advocates would likely agree that the crypto industry needs another infusion of trust to bridge this divide, making it crucial to collaborate with regulators to instil confidence in the sector and enhance security when dealing with crypto assets."**
>
> **Thomas Eichenberger,**
> Sygnum Head of Business Units

Lending services let clients borrow fiat money against their digital assets, a familiar and valued feature that allows investors to access liquidity without selling their assets. This can be especially beneficial in volatile markets where asset prices fluctuate rapidly."

Thomas Eichenberger,
Sygnum Head of Business Units

Sygnum's digital asset banking services cater to wealthy private clients, institutions and professional customers, including banks and other financial institutions. Services include staking, trading, lending, tokenisation, asset management, as well as crypto compliance and B2B banking.

Sygnum's trading services provide 24/7 access to buy and sell crypto assets against various fiat currencies and to build crypto trading strategies with options, derivatives and customised investment products. These services are accessible via the Sygnum trading desk, online banking portal and industry-standard APIs for seamless integration.

As the crypto market evolves, the potential for tokenisation comes into focus. This process of converting real-world assets into digital tokens that can be exchanged on blockchain networks offers numerous advantages, such as fractional ownership, enhanced liquidity and easy ownership transfer. Sygnum provides tokenisation services to enable clients, both issuers and investors, to capitalise on these benefits.

Connecting with traditional banking is another critical aspect of digital asset development. Sygnum's B2B offering empowers traditional banks to provide their clients with seamless digital asset banking services without investing in a digital asset banking technology platform themselves. This digital asset banking offering is complemented by advisory services in crypto compliance, based on Sygnum's multi-year hands-on experience and expertise in the field. These services let other financial institutions and their clients invest in and manage digital assets securely and efficiently.

Asset management services are forging a professional connection with traditional financial markets. Relying on expert-led portfolio management and investment research, Sygnum grants clients access to a diverse array of investment products, and constructs diversified digital asset investment portfolios with tailored investment goals and risk profiles.

Digital assets also introduce innovative methods for generating yield on investor holdings through staking. Staking is a service for earning rewards by participating in the validation of blockchain transactions. Additionally, lending services let clients borrow fiat money against their digital assets, a familiar and valued feature that allows investors to access liquidity without selling their assets. This can be especially beneficial in volatile markets where asset prices fluctuate rapidly.

Sygnum is expanding the adoption of secure, regulated and efficient digital asset services by leveraging technology and digital innovation to create a user-friendly and easily accessible platform for clients.

Deep dive 1: tokenisation

As previously mentioned in **our PwC article**, tokenisation is an established solution that allows the rights and value of an asset to be represented by a token on the blockchain. This approach offers numerous advantages, such as trust, transparency and real-time transaction settlement.

Sygnum provides bank-grade tokenisation that facilitates the digital securitisation of assets on the blockchain, covering the entire life cycle of a security and granting investors access to new investment opportunities and includes:

- An issuance platform for asset tokenisation
- A trading facility for buying and selling tokenised assets in a secondary market

Sygnum recognises the immense potential of tokenisation to increase liquidity by fractionalising indivisible assets and to broaden reliable, timely and secure access to private markets, as well as art and collectibles of all types.

Deep dive 2: legal protection of client assets

Sygnum is a regulated bank under the supervision of the Swiss Financial Market Supervisory Authority (FINMA), ensuring adherence to strict banking regulations and compliance with risk diversification guidelines to minimise credit risk and overall exposure in its credit and lending capabilities, including Lombard loans. This allows Sygnum to instil confidence and peace of mind in clients when investing in digital assets.

Addressing the unique requirements of crypto assets, Sygnum ensures that clients' assets are segregated and held off the bank's balance sheet, thereby eliminating any counterparty risk for clients. Clients ultimately maintain ownership of their assets. During recent crypto market crashes and banking sector uncertainties, Sygnum demonstrated its commitment to robust governance, effective risk management, and appropriate risk limits and controls.

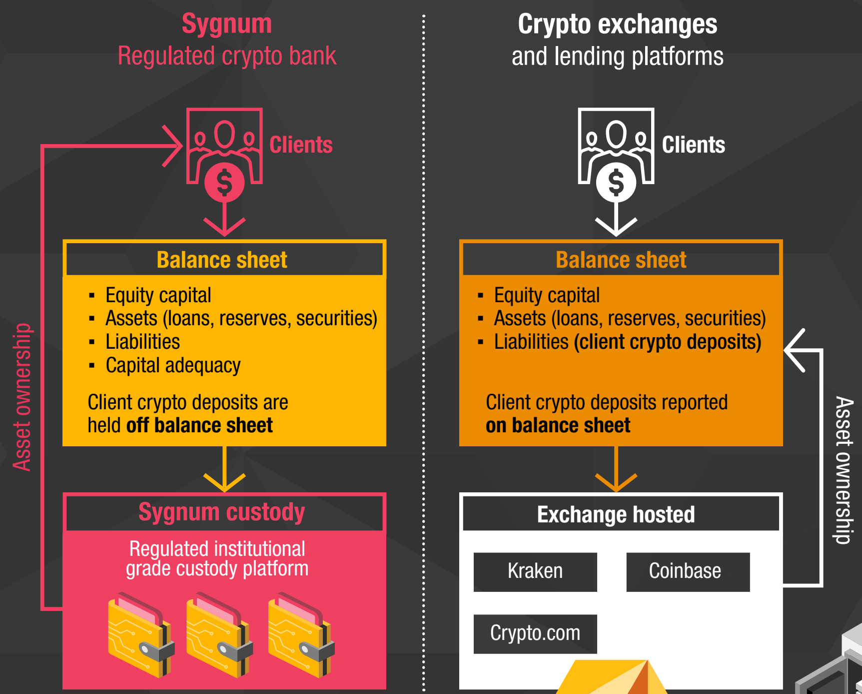


Illustration source: Sygnum

GPT

Disrupting wealth management

On 30 November 2022, the release of ChatGPT transformed the world with its extensive potential, giving rise to a plethora of opportunities across various sectors. From students using it to write essays to developers coding with it, the applications are nearly limitless.

Recognising the power of this technology, Bloomberg has been working to develop its own version of the Generic Parser and Transformer (GPT) specifically designed for the financial industry. On 6 April 2023, the company announced the successful development of BloombergGPT, a large-scale generative artificial intelligence (AI) model specifically trained on a wide range of financial data to support various natural language processing (NLP) tasks within the financial industry. The complexity and unique terminology of the financial domain necessitated a domain-specific model, and BloombergGPT represents the first step in developing and applying this technology to the financial industry.

BloombergGPT will aid Bloomberg in enhancing existing financial NLP tasks such as sentiment analysis, named entity recognition, news classification and question answering, among others. Moreover, BloombergGPT will unlock new opportunities to harness the vast amounts of data available on the Bloomberg Terminal, providing better support for the firm's customers and bringing the full potential of AI to the financial domain.

BloombergGPT can analyse company earnings reports and other financial statements to identify potential investment opportunities and risks. It can also examine news articles and social media posts to provide real-time sentiment analysis, enabling wealth managers to react quickly to market trends and changing investor sentiment. Additionally, the model can automate many tasks currently performed by relationship managers, such as answering client questions and responding to customer service inquiries.

This frees up wealth managers to focus on high-touch services, such as developing investment strategies and building relationships with clients.

As a result, BloombergGPT has the potential to disrupt the wealth management industry, an industry based on human interaction that provides tailored advice in the context of specific wealth ambitions. With its ability to analyse and interpret complex financial documents, BloombergGPT can provide insights and recommendations to wealth managers, helping them make more informed investment decisions for their clients.

BloombergGPT will revolutionise the wealth management industry. By leveraging GPT technology to analyse large volumes of data, wealth managers will gain unprecedented insights into financial markets, as well as individual client needs and preferences. This will enable wealth

The complexity and unique terminology of the financial domain necessitated a domain-specific model, and BloombergGPT represents the first step in developing and applying this technology to the wealth management industry.

Clients still value the personal touch and human interactions that comes with working with a relationship manager or advisor, particularly for more complex or emotional decisions related to their finances.”

Lisa Cornwell Webb,
Partner, Private Clients & Family Offices – International

managers to make more informed investment decisions, tailor their services to individual clients and ultimately improve their overall performance.

One application of this technology lies in robo-advisory services. With the ability to analyse vast amounts of financial data, BloombergGPT could create more sophisticated algorithms that provide clients with even more personalised investment advice, resulting in greater client satisfaction and higher returns for wealth managers.

Moreover, this new tool will help improve the efficiency of wealth management operations. By further automating and supporting certain tasks, such as client onboarding and portfolio management, wealth managers could reduce operational costs and pass these savings to clients in the form of lower fees.

Nevertheless, employing cutting-edge tools like BloombergGPT and other generative AI-driven financial databases in wealth management also ushers in crucial ethical and regulatory dilemmas. It becomes imperative for wealth managers to wield these technologies with utmost responsibility and transparency, safeguarding their clients’ data and preserving their privacy.

The final verdict on whether these advanced instruments will be integrated directly into the terminal or offered as standalone purchases is still in the balance. This tool will undoubtedly shape the landscape of wealth management technology, creating a new paradigm for data usage and client service.

Finally, it is essential to note that technologies like BloombergGPT and FinChat.io are not substitutes for human expertise and oversight. Clients still value the personal touch and human interactions that comes with working with a relationship manager or advisor, particularly for more complex or emotional decisions related to their finances. Therefore, firms that can strike the right balance between technology and human expertise may have the greatest competitive advantage in the market.

Preparing for the future of wealth management

Our recent survey conducted with wealth management experts indicates that the majority of respondents hold an optimistic view of their clients' economic outlook, while a significant proportion see it in a more pessimistic light, with uncertainty characterising the current economic landscape.

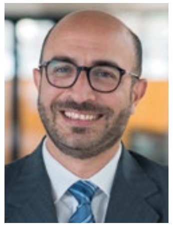
Technology and alternative investments are rapidly changing the wealth management landscape. On one hand, the rise of digital technology and online platforms is creating new opportunities to expand client bases, increase efficiency, reduce costs and enhance transparency. On the other hand, digital assets offer a way to diversify customers' portfolios with non-traditional financial (TradFi) assets.

Crypto and tokenised assets offer wealth managers numerous advantages, including increased liquidity, accessibility and transparency, as well as new investment opportunities. However, there are significant challenges to overcome, such as regulatory uncertainty and security concerns. To address these challenges, asset and wealth managers should advocate for clear and consistent regulatory frameworks that reduce uncertainty and facilitate broader adoption. Robust security measures, such as custody solutions and regulations will become even more crucial to building investor trust in these assets. As this insights report highlights, industry players, like Sygnum, are actively striving to create a trustworthy industry and unlock the full potential of blockchain use cases.

A significant advancement in this field is the emergence of digital wealth management, which involves integrating robo-advisors into wealth management services. This approach has numerous advantages for customers, such as receiving personalised investment advice based on their goals and risk tolerance while reducing costs associated with traditional wealth management services. With online platforms, transparency and accessibility are enhanced, driving wealth managers to become more competitive in their pricing and product offerings, ultimately benefiting clients. Digital technology enables wealth managers to streamline the wealth management process, automate tasks and provide more personalised investment advice, making investment products and services accessible to a wider range of clients, including those previously excluded due to high costs and minimum investment requirements. In addition, the integration of AI in wealth management has the potential to offer even more personalised investment advice than existing robo-advisors and digital platforms, while also reducing costs, improving the client experience, and providing 24/7 access and natural language interactions.

The digitisation of wealth management services undoubtedly presents several challenges that wealth managers must carefully consider. Nevertheless, with the right strategic approach, wealth managers that embrace the opportunities presented by digital technology and online platforms can position themselves for long-term success in an increasingly competitive and complex marketplace.

Author



Patrick Akiki
Financial Services Markets Leader
PwC Switzerland

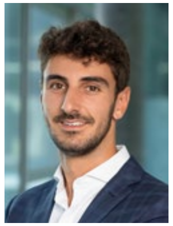
+41 79 708 11 07
akiki.patrick@pwc.ch

Survey research methodology

We conducted a survey of UHNWI advisors between February and April 2023 to discover how their clients' economic outlook and demand for investment products is changing. Consisting of 17 questions, the survey was sent to over 100 wealth advisors and investment advisors worldwide.

Co-authors

Andrea Colosio
Manager, Wealth Management Expert
PwC Switzerland
+41 79 587 30 35
andrea.colosio@pwc.ch



Alexandre Olikier
Manager, Financial Services Consulting
PwC Switzerland

+41 79 668 32 96
alexandre.o.olikier@pwc.ch

Monika Narel
Senior Associate, Wealth Management Advisory
PwC Switzerland

+41 76 573 51 94
monika.narel@pwc.ch

Lucia Lis
Associate, Wealth Management Advisory
PwC Switzerland

+41 78 258 54 34
lucia.lis@pwc.ch

www.pwc.ch/wealthmanagement-report