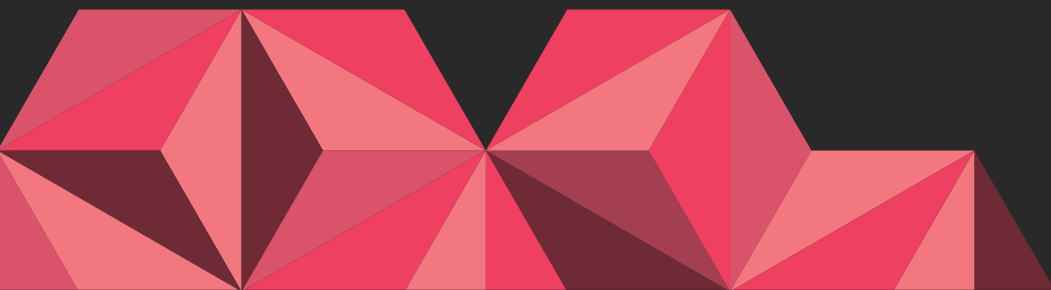


The wealth management puzzle:

Hybrid wealth management: blending digital and in-person



PwC's Wealth Management Insights 2023

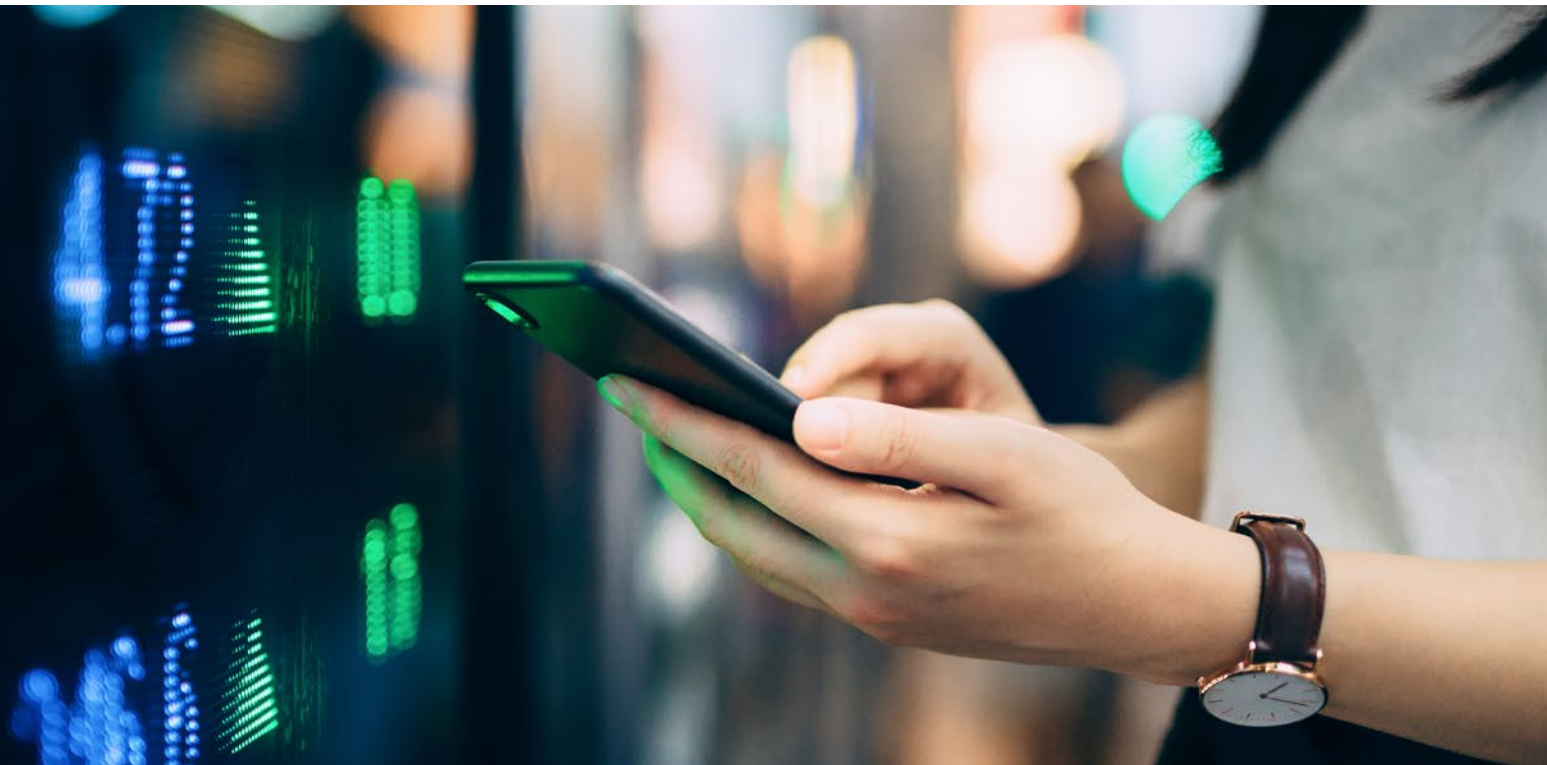
Deep Dive VI

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1 Introduction

Against the backdrop of technological advancements, geo-political and economic disruptions as well as an ageing population, the financial landscape is undergoing constant change, and wealth managers need to continuously evolve and adapt to changing client needs. Hybrid wealth management solutions have emerged as a response to these dynamics, and it seems that they're here to stay.

This whitepaper sheds light on the emergence of hybrid wealth management models, combining the best of both worlds – digital and in-person. Requirements, success factors and challenges when it comes to retaining and attracting clients are highlighted through the perspectives of affluent individuals and HENRYs (High Earners, Not Rich Yet). At PwC Switzerland, we're convinced that these client segments stand to gain significant benefits from hybrid wealth management.

Out of a broad range of solutions already on the market, two selected use cases demonstrate the huge potential but also the challenges that hybrid wealth management models entail in practice. Finding the right balance between digital and human interaction is key.

Embracing hybrid wealth management allows wealth managers to tap into the potential of added value with digital innovations and satisfy the demanding needs of affluent and HENRY client segments. This paves the way for a new value proposition beyond traditional wealth management.



2 Embracing a hybrid wealth management model

From traditional to hybrid wealth management

The evolution towards hybrid wealth management

The banking and wealth management sectors have experienced significant technological innovation, accelerated by the pandemic era. This has led to a distinct need for hybrid solutions, combining the traditional strengths of personalised advice with the convenience and accessibility of digital tools. This evolution is pertinent for all client segments. But in this whitepaper, we'll focus on two key client segments: the affluent and the HENRYs.

When describing the affluent client segment, PwC acknowledges that the segmentation effort may differ depending on the wealth manager, but typically their net worth falls between CHF 1 and 5 million. These clients are distinct from high-net-worth individuals (HNWIs) with whom they share a need for high-touch services and tend to aspire to attain the same level of wealth.

The term HENRY was coined by Shawn Tully's¹ article in 2008, characterising individuals with high earnings but who aren't considered wealthy because of their chosen lifestyle or financial obligations. This demographic segment is composed of the professional and entrepreneurial class who aren't necessarily young. They're families with more than one child and a combined total annual income of USD 250,000 to 500,000.

At PwC Switzerland, we recognise that these segments have great potential from a hybrid solution perspective.

A new era: hybrid wealth management

While merging traditional adviser support with digital accessibility may seem straightforward, creating a successful hybrid model involves multiple considerations. A crucial component is a user-friendly, secure and comprehensive digital platform that integrates seamlessly with existing infrastructure. This allows clients to effortlessly access investment accounts, monitor performance, select

investment strategies and access pertinent information from a central interface. It not only enhances their overall experience but also enables smooth transitions between the digital platform and client advisers, who should have access to the same data and insights that are available on the platform.

What's more, a transparent fee structure is essential, making sure that clients' interests are prioritised and that wealth managers operate ethically and transparently. Additionally, the investment products available on the platform should be diversified, scalable and aligned with the clients' risk profiles. This adaptability allows clients with varying investment preferences and financial goals to find suitable options while streamlining processes for wealth managers, ultimately reducing costs and stabilising recurring income streams.

As the financial landscape is continually evolving, the hybrid model must continue to adapt to changing client needs and preferences. Regular updates to the digital platform, incorporating new features, enhance the client experience and ensure competitiveness for wealth managers.



A crucial component is a user-friendly, secure and comprehensive digital platform that integrates seamlessly with existing infrastructure.

¹ Shawn Tully (2019). The HENRYs – High Earners, Not Rich Yet – May Finally Be Having Their Moment. Fortune magazine. Retrieved from <https://fortune.com/2019/10/24/henrys-high-earning-not-rich-millennials/>.



Regular updates, performance reports and market insights keep clients engaged and informed.

Maintaining a human touch in a hybrid model

Maintaining a human touch in a hybrid model remains a significant challenge. Client advisers must be highly qualified and capable of providing personalised advice tailored to each client's financial goals, risk tolerance and unique circumstances. They should act as trusted guides, offering expertise and insights beyond what the digital platform can provide. Otherwise, clients may not see any additional value besides the digital platform.

Although an effective hybrid wealth management model should offer educational resources to empower clients to make informed decisions, the support team, including client advisers, must be readily available to assist clients with queries and concerns. Open and effective communication between clients and their advisers is crucial. Regular updates, performance reports and market insights keep clients engaged and informed about their investments, enhancing the feeling of being advised by humans and not just a tool solution.

With digital access to sensitive financial information, robust security measures and compliance with financial regulations are extremely important. Maintaining high compliance and ethical standards is vital for any wealth management service, allowing clients to trust that their data and investments are well protected.

Client segmentation as a prerequisite

The affluent and HENRY segments exhibit distinct demands for wealth managers. Although HENRY clients earn a significant income, it's mostly allocated to cover high living costs. As a result, their wealth may not be on par with affluent clients, but they possess significant potential for wealth accumulation over time.

A commonality between both segments is their demanding schedules, often

leaving weekends or holidays for investment decisions. In fact, the Head of Credit Shared Services from a major Swiss wealth manager agrees and argues about 'the importance of having the ability to engage with the bank and manage investments on demand, rather than being confined by rigid banking hours'. He underlines how 'numerous other essential services like hospitality and transportation industries are already more or less available seamlessly on a 24/7 basis today', highlighting the need for traditional banking and personal advisers to adapt and provide similar accessibility.

Traditionally, wealth management focused on personal interactions between client advisers and clients. But the affluent and HENRY segments increasingly seek involvement in investment decisions and demand access to their investments through digital channels outside of office hours. Despite this, they still appreciate having a client adviser as a subject-matter expert and collaborator in investment decisions. This has led to a preference for a hybrid wealth management model, blending client adviser support with 24/7 digital accessibility.



Client retention and engagement in hybrid wealth management

Technological innovation boosted by the pandemic era has reinforced the need for hybrid solutions in banking and wealth management. The introduction of a hybrid wealth management platform, which combines traditional adviser support with digital accessibility, offers a compelling value proposition to clients, thus playing a crucial role in both client retention and engagement.

Using hybrid solutions for client retention

As mentioned previously, understanding the existing client base is essential when implementing any new service or product. Existing clients may also be segmented in a client book analysis exercise, while client surveys on satisfaction with the current service model, performance and fees may provide valuable insights. This data allows the identification and specification of target groups that may be better served with a hybrid wealth management model.

Openly communicating the benefits of the hybrid model to existing clients is highly important. Emphasising how it complements traditional portfolio management by providing additional options, digital tools and personalised advice can demonstrate how it better serves clients' needs. We'll provide further insights on this topic in the sub-chapter about distribution channels 'Using hybrid solutions for client engagement'.

With insights gained from the current client book, strategic campaigns can be defined based on client characteristics, needs and potential pain points.

Key metrics like client retention rates, asset growth and feedback scores provide valuable insights and allow the early identification of areas for improvement, preventing the new offering from failing to meet clients' demands.

It's worth noting that clients need to be reassured that the introduction of digital tools won't compromise the personalised advisory approach they're accustomed to. Rather, the hybrid model aims to enhance the overall client experience by offering lower fees, greater flexibility, including access outside of office hours, and intelligent digital tools.

Using hybrid solutions for client engagement

How should we effectively engage with affluent individuals and HENRYs? These clients often have limited time available on work days, are cost- and performance-sensitive, require tailored advice and are familiar with digital interaction channels. So, when determining the most suitable distribution channels, it's imperative that their unique preferences and needs are strategically addressed. We've gained invaluable perspectives on navigating this landscape by using PwC's wealth management deep-dive report: [Are your distribution channels capable of giving the HNWIs of the future what they need?](#)

Implementing a hybrid wealth management model strategy that integrates both traditional avenues and digital platforms is key. This model is very important for meeting the different and changing needs of affluent and HENRY demographic groups. At PwC Switzerland, we understand that these groups are more and more interested in a model that blends independent digital platforms with human interaction. This shows a desire for a different approach to wealth management. We'll discuss this more in chapter 3 'Hybrid wealth management today'.

Affluent clients, who tend to have complex financial portfolios, need a mix of top-notch digital experiences and expert advice to make complex financial decisions and find alpha in a tailored solution. On the other hand, HENRYs, who are usually more comfortable with technology, prefer platforms that are easy to use and understand. They also value personalised advisory services as they work to grow their wealth. Balancing the needs of these different client groups is a big challenge, especially if the segmentation process isn't done thoroughly.



Are your distribution channels capable of giving the HNWIs of the future what they need?

Today's wealth managers need to identify ways to provide clients with digital yet tailored solutions. In chapter 3, we'll address two of these. While e-signatures support the front activities, financial planning tools for example may be the next level of personalisation required. Especially in today's AI-modelled environment, wealthy client segments expect to be served with simulations beyond simple portfolio performance.

The industry is changing, in particular with the development of tailored digital platforms. These platforms offer a combined experience that includes portfolio management, financial forecasting and market insights as well as non-financial services. These address the various financial needs of these client groups.

In this sense, it's evident that financial services are increasingly evolving into a commodity, with products and strategies becoming more standardised and widely accessible. This highlights the importance of non-financial services as the true differentiator for wealth managers. Non-financial services serve as a vital means for wealth managers to diversify their approach and gain competitive advantage with their clients. A comprehensive approach like this encompasses aspects beyond conventional financial strategies. But it isn't enough to merely offer these services; the channels through which they're delivered are a further differentiating factor.

For this reason, wealth managers should use a personalised multi-channel communication strategy. This strategy combines the best of both worlds: On the one hand, digital methods with traditional communication channels like phone calls, emails and face-to-face meetings. On the other hand, wealth managers need to place a strong emphasis on personalisation, tailoring communication and services to the individual client's needs and preferences. These ensure consistent communication and help in understanding individual needs, life stages and risk levels. Ultimately this allows financial and non-financial offerings to not only be comprehensive and tailored but also easily accessible and convenient for clients.

The careful choice and management of these distribution channels are decisive for aligning service delivery with client preferences, making services more accessible and reinforcing the client-adviser relationship.

To sum up, the strategic blending of advanced digital features with thoughtful, client-centred advisory elements is fundamental for meeting the varied needs and expectations of the affluent and HENRY segments. When developing your hybrid solution strategy, the distribution channels are an element that clearly needs to be precisely defined.



3 Hybrid wealth management today

As highlighted, in the ever-changing and dynamic landscape of wealth management, clients' needs are constantly evolving. With technology progressing rapidly, an important question arises: how and where can wealth managers step in?



The complexity of this landscape is further shaped by shifting demographics, notably the ageing of advisers and 'baby boomer' clients. The emergence of a new generation of investors has introduced fresh norms shaped by technology and has ultimately redefined how advice and investment products are delivered in the industry.

In fact, some players have acknowledged these changes in the industry and successfully used the hybrid model to cater for affluent clients and the HENRY segment: UBS with its My Way platform and Vanguard's Personal Advisor service.

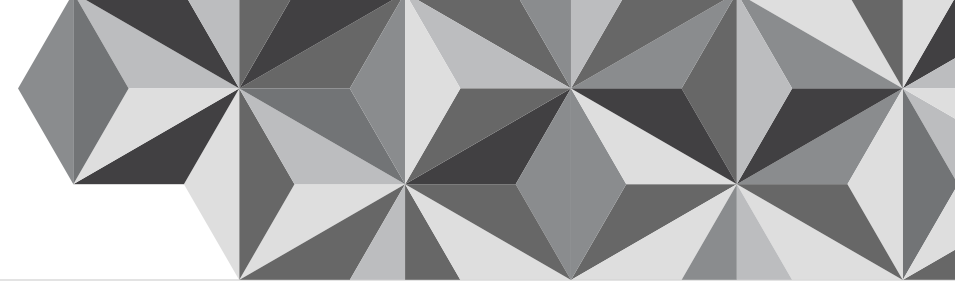
These two cases highlight the effective implementation of a hybrid approach, addressing the evolving needs of clients

by harnessing the power of rapidly advancing technology in a swiftly changing industry.

This analysis aims to provide wealth managers with valuable insights into the compelling reasons behind the adoption of a hybrid model, shedding light on its potential positive impact. At the same time, it seeks to clarify the key success factors and the value-added components that enhance the client experience.

While our intention isn't to endorse any specific solution, we aim to outline two use cases that exhibit notable competitive advantages and have possibly encountered noteworthy challenges during implementation.

UBS My Way (Switzerland)



UBS My Way is strategically designed to attract a younger clientele with digitally driven needs. Its purpose is to provide customised solutions to help clients achieve their financial goals and monitor their performance more conveniently through discretionary mandates. Nevertheless, clients still have the final say in all of their investment decisions. The platform provides timely, seamless, relevant and actionable investment portfolio management for its clients.

MyWay has strategically addressed client requirements while simultaneously reaping the benefits, positioning itself as one of the pioneering hybrid wealth managers in Switzerland, having already attracted over USD 7 billion in investments on their platform.



UBS's competitive edge

- **UBS MyWay effectively addresses current and emerging market needs by attracting a younger clientele segment with digitally driven needs.** This enables UBS to diversify its customer base, which differs significantly from traditional wealth management. In fact, the 2023 PwC Insights Survey confirmed that 49% of wealth managers believe integrating a platform provider is the most efficient way to attract and create a more approachable value proposition for younger global investors. This is particularly relevant as we enter 'the greatest wealth transfer in history' – as stated by Forbes², with USD 84 trillion expected to pass down to younger generations in the US alone.
- **More appealing to sell UBS Funds (in-house funds):** Charging management fees on their funds directly contributes to revenue and profit growth as assets under management (AUM) increase. Unlike third-party funds, UBS retains all management fees, which not only maximises profitability but also allows for the realisation of economies of scale. With greater AUM, costs per unit decrease, further enhancing overall profitability.
- **'Pick and choose' fund offering:** The Swiss bank offers personalised solutions to its clients. These customised funds can command higher fees, which is highly beneficial for wealth managers looking to bolster their revenue streams while delivering a distinctive service. These tailored strategies represent a valuable edge for wealth managers. Clients are willing to invest more in these customised approaches, emphasising the level of expertise and trust they have in their adviser.

- **Optimisation of resources:** UBS MyWay exemplifies how wealth managers can use and optimise their resources. The Swiss digital solution utilises UBS's CIO research and insights to develop their investment-themed block offering, eliminating large investment duplications. Also, aligned with resource optimisation, UBS was already offering discretionary mandates to their clients on the traditional banking side. But with their high-end platform, they're better positioned to attract affluents and HENRYs.

Potential challenges:



While delivering on its competitive edge, UBS might have experienced some of the following challenges.

- **Integration and data security:** When integrating the new technology into the existing systems, UBS required a meticulous planning and execution strategy that ensures data is migrated securely, minimising the risk of breaches or data losses while integrating the new technology into existing systems.
- **Training and transition:** Careful planning and execution required for training staff and advisers for efficient use of the platform and ensuring a seamless transition for clients.
- **Client scepticism and education:** Addressing scepticism and resistance from clients accustomed to traditional methods and investing in educating them about the benefits of the new platform.
- **Personalisation vs efficiency:** Designing the platform to allow customisation and personalisation while also using automation and algorithms to optimise portfolios efficiently.

² Mike Sha (2023). The Great Wealth Transfer Will Radically Change Financial Services. Forbes. Retrieved from <https://www.forbes.com/sites/forbesfinancecouncil/2023/03/09/the-great-wealth-transfer-will-radically-change-financial-services/?sh=27e4107d5339>.

Vanguard Personal Advisor (international)

Taking a more international stance, Vanguard Personal Advisor, by American Asset Manager Vanguard, offers an intuitive digital wealth management platform.

Vanguard Personal Advisor is designed to offer an intuitive digital wealth management platform for American affluent and HENRY clients who seek a personalised, professionally managed investment solution that's convenient, cost-effective and aligned with their unique financial goals and objectives.

Vanguard has strategically positioned itself as an attractive option for American affluent and HENRY clients by combining the expertise of its advisers with the convenience of digital technology. This approach provides a personalised, professionally managed investment solution that's both cost-effective and aligned with the clients' unique financial goals and objectives.

Vanguard's competitive edge

- **Personalised and cost-effective:** Vanguard Personal Advisor provides a cost-effective and personalised investment solution designed to align with the unique financial goals and objectives of American affluent and HENRY clients. This personalised approach helps clients feel more connected and understood, increasing their confidence in the platform and their overall satisfaction with the service.
- **Professionally managed:** Clients receive a professionally managed investment solution, combining the expertise of Vanguard's advisers with the convenience of digital technology. This hybrid approach utilises the best of both worlds: the human touch and expertise of professional advisers and the efficiency and accessibility of digital technology.
- **Convenience:** The platform offers an intuitive and convenient digital experience for clients who prefer to manage their investments online. Clients can easily access their accounts, view their portfolios and communicate with their advisers whenever and wherever it's most convenient for them.

Potential challenges:



While delivering on its competitive edge, Vanguard might experience some of the following challenges.

- **Trust and credibility:** Building trust and credibility with clients who may be sceptical of digital wealth management solutions or who may have had negative experiences with other digital platforms. Vanguard needs to demonstrate that its platform is secure, reliable and capable of delivering positive results for its clients.
- **Customisation and scalability:** Balancing the need to offer personalised investment solutions with the need to scale the platform to serve a large and diverse client base. Vanguard must make sure that the platform can handle a high number of clients without compromising the quality of the personalised service.
- **Educating clients:** Educating clients about the benefits of the platform and how it differs from other digital wealth management solutions available on the market. Vanguard must develop effective communication and marketing strategies to make sure that clients understand the value proposition of Vanguard Personal Advisor.
- **Competition:** Differentiating Vanguard Personal Advisor from other digital wealth management solutions available on the market and maintaining a competitive edge in terms of cost, convenience and service quality. Vanguard must continuously innovate and improve its platform to stay ahead of competitors and meet the evolving needs of its clients.



A brief comparison:

	UBS MyWay	Vanguard Personal Advisor
Minimum investment	CHF 250,000 (or equivalent)	USD 50,000
Management fees	Depending on investment size	0.30%
Diversified investment portfolios	<ul style="list-style-type: none"> • UBS ETFs • UBS instruments • External providers' instruments • Investment funds 	<ul style="list-style-type: none"> • Vanguard ETFs • Investment funds
Personalised financial planning³	Interests and risk-based planning	Goals and risk-based planning
Access to a team of specialist advisers	Unlimited access to personal client adviser	Unlimited access to team of advisers following fiduciary standards ⁴
Regular updates on portfolios	<ul style="list-style-type: none"> • Regular reporting • Portfolio updates and reviews 	<ul style="list-style-type: none"> • Automatic portfolio rebalancing • Goal tracking analysis
24/7 access to their digital portfolios	✓	✓
Complementary services	Not applicable, no complementary services	<ul style="list-style-type: none"> • Tax advisory • Debt management • Assistance in non-investment-related decisions
Educational resources	Financial guidance and support	Investment coaching available

³ Interest-driven financial planning stems from the idea that investments can be personalised based on desired portfolio structure (equity allocation) and preferences (investment areas and building blocks). By contrast, goal-driven financial planning refers to long-term financial goals and general financial health.

⁴ Advisers are required to always act in the clients best interests and won't receive commissions.



4 | How can PwC support you?

In a world where change is the only constant, the financial landscape is no exception. The shift towards hybrid wealth management is a testament to this evolution. At PwC Switzerland, not only are we witnesses to this change, we're also active participants and enablers. Our Wealth Management Advisory practice, deeply rooted in the Swiss banking ecosystem and supported by our global network, is committed to navigating the complexities of this transformation.

Our journey in this space has been marked by collaborations with various institutions, contributing to a repository of experience and credentials that we're continually expanding. Embracing change and harnessing opportunities will be the cornerstone of the future of wealth management.

PwC Switzerland is equipped with all the tools to support you on the journey embracing the shift towards digital hybrid wealth management solutions. When developing these solutions, we make sure that the challenges faced by wealth managers are properly dealt with.

In addition, our approach at PwC Switzerland goes beyond conventional advisory services. We understand that the digital shift requires a comprehensive strategy that encompasses technology integration, regulatory compliance and client-centric innovation.

Our team of experts is equipped with in-depth knowledge of wealth management, cutting-edge technologies and a keen awareness of the ever-evolving regulatory landscape. This allows us to guide you through the process of adopting and integrating digital solutions seamlessly, ensuring compliance and data security every step of the way. Choosing the right balance between digital and in-person will eventually make your hybrid wealth management model a success.

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