Whitepaper

Expectations of Younger Generations towards Wealth Management & the Great Wealth Transfer

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Driving the New Wealth Experience.

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Executive summary

- → Global wealth grew up to **1,540 trillion dollars in 2020** and will steadily grow further
- → Roughly **84 trillion dollars in total wealth is expected to be transferred by 2045**
- → Nearly **24 trillion dollars** will be inherited in the US over the next 15 years, **annual inheritance volume** in Germany will reach up to **400 billion euros** by 2027
- → 90 billion Swiss francs are inherited, representing about **12% of GDP** in Switzerland
- → Many younger people plan to use their inherited wealth to achieve long-term financial goals, but just 45% have taken any form of investment advice
- → A considerable proportion of the younger generations consider changing their wealth advisor in case of an inheritance
- → Fundemental to successful wealth management is understanding and adapting to the evolving needs and preferences of clients, which requires a renewed focus on technology, transparency, and client engagement

Introduction

"The Great Wealth Transfer"

Between 2000 and 2020, the global balance sheet and net worth more than tripled. Wealth grew from 440 trillion dollars in 2000 to **1,540 trillion dollars in 2020**, whereas net wealth jumped from **160 trillion to 510 trillion dollars**.[1]

With the ageing out of the Baby Boomers, the wealth of the Millennials is coming closer – a population group that makes up more than **27% of the population**. Besides the steady build-up of wealth, **gifts or inheritances, occasionally release considerable assets in a single stroke**, which have to be managed properly.[2] Roughly **84 trillion dollars in total wealth is expected to be transferred by 2045.**[3] Even though this massive upheaval in the wealth management industry has been well-known in recent years, and the forthcoming change has been frequently pointed out, the reactions to it have been somewhat sluggish so far.

The next generation of investors, commonly referred to as Gen X, Millennials or Gen Y and Gen Z have grown up in a rapidly changing world with unique expectations and priorities. As these individuals come of age and begin to accumulate wealth or inherit it from their parents, it is important for the wealth management industry to understand their perspectives and adapt to meet their needs. Little surprise that young investors hold different expectations towards their wealth management service providers as compared to their parents or previous generations. Nevertheless, quite a few financial providers continue to use the same strategies for different target groups. **In the long term, with a significant wealth transfer on the horizon, there is a "big shift" in the way advisors should target younger investors.**

In this whitepaper, we will explore the expectations of younger generations towards wealth management, including their attitudes toward risk, sustainability, and technology. We will also discuss the implications of these expectations for financial advisors and institutions and offer recommendations for how to serve this important demographic best. By understanding the preferences and priorities of younger investors, the wealth management industry can better position itself to meet the needs of the next generation of wealth holders.

According to McKinsey, "the world has never been wealthier".[4] Since wealth is growing steadily around the world (figure 1) and at the same time, society as a whole is ageing, this growth in wealth coincides with an increase in the potential volume of inheritance. Wealth management is, therefore, a crucial aspect of financial planning, particularly for younger heirs. But moving wealth to the younger generations poses substantial challenges for wealth managers. With advancements in technology and a rapidly changing economic landscape, the expectations of younger generations toward wealth management have evolved.

1 McKinsey & Company (2021): The rise and rise of the global balance sheet: How productively are we using our wealth?, https://www.mckinsey.com/industries/financial-services/our-insights/the-rise-and-rise-of-the-global-balance-sheet-how-productively-are-we-using-our-wealth
2 Au, K. (n.d.): Wealth management and Millennials: 6 tips for attracting the next-generation of clients, https://www.bill.com/blog/wealth-management-and-millennials-tips-attracting-next-generation-clients
3 Fechter, B. (2021): Can Advisors Keep Up with the Expectations of Younger Investors?, https://logicly.finance/can-advisors-keep-up-with-the-expectations-of-younger-investors/
4 McKinsey & Company (2021): The rise and rise of the global balance sheet: How productively are we using our wealth?, https://www.mckinsey.com/industries/financial-services/our-insights/the-rise-and-rise-of-the-global-balance-sheet-how-productively-are-we-using-our-wealth

Net worth at market prices relative to nominal GDP, 1970–2020

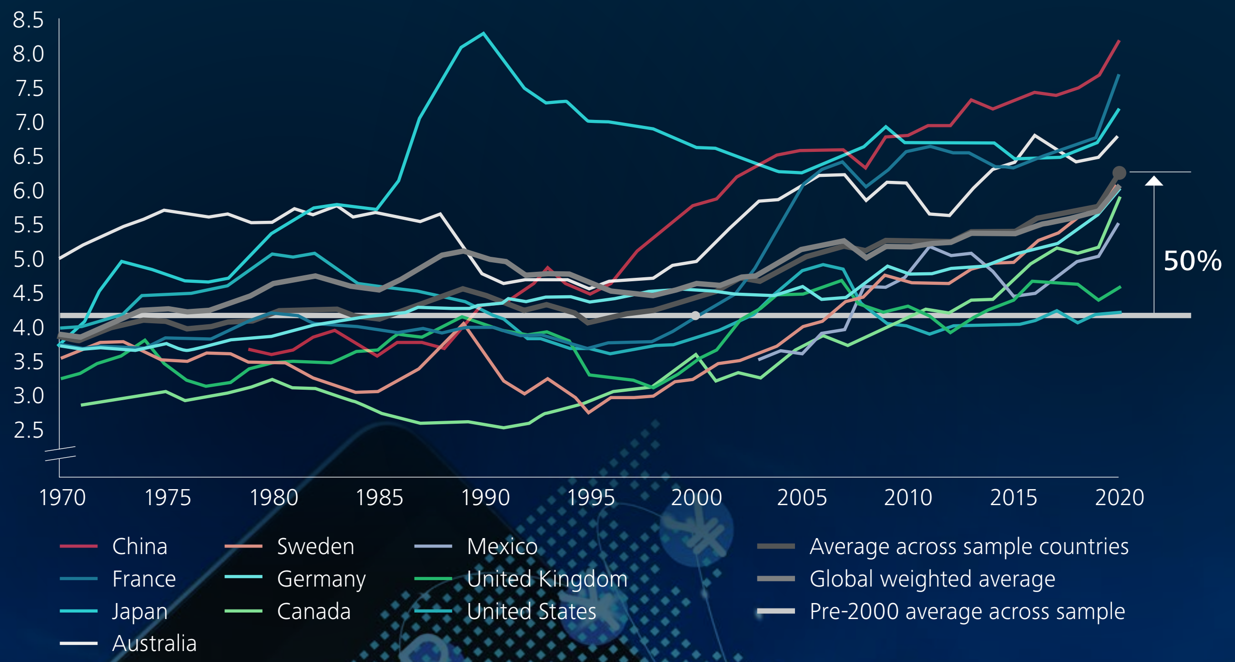


Figure 1: Note: The global average is an extrapolation from a weighted average of 10 countries based on GDP. Labels for values <1 not shown. Figures may not sum to 100%, because of rounding. Source: CEIC; Federal Reserve Board; national statistics offices; OECD; World Inequality Database; World Bank; McKinsey Global Institute analysis.

Chapter 1 – Generation of heirs with new demands

It is clearly evident, that the different generations have vastly distinct views and habits purely based on the world they were brought up in. While younger generations already faced economic crises and the rise of social media at a young age, being unable to imagine life without technological devices, older generations experienced a phase of great economic boom and spent a significant part of their lives with no technological backup. These everyday habits and environments are also reflected in people's financial behaviour and preferences. Therefore, financial firms will need a refined understanding of how this wealth will be distributed among different age cohorts to exploit these potential opportunities fully.

Who are the heirs? From B for Baby Boomers to Millennials up to Generation Z

Generations are groups of people who are born and come of age around the same time, and who therefore share specific cultural experiences and historical context. There are a few different ways to divide the generations, but one commonly used scheme is to separate them into several groups: **Baby Boomers, Generation X, Millennials (also known as Generation Y), Generation Z** and at least **Generation Alpha**. Each of these generations has its own unique characteristics and experiences that have shaped its worldview, the cultural and political landscape of their time as well as their mindset towards any financial issues.[5]

Therefore, the consideration of different age cohorts proves to be fruitful as different generations have other attitudes towards finance, with each generation viewing money and financial management in their own unique way.

1 Baby Boomer (1946 – 1964)

In the heart of the economic boom of the post-war period, the highest birth rates ever measured were recorded. The baby boom began, giving its name to this generation, which covered the years 1946 to 1964. Their era was marked by the peace and environmental movements, with only a few economic challenges. The **Baby Boomers** characterized themselves with great hope for a brighter future as falling unemployment rates gradually spread a new spirit of prosperity. For the first time, higher education was accessible to all social

[5] Cocca, Prof. Dr. T. (2014): neXtGEN – Wealth Management im Jahr 2030, https://www.jku.at/fileadmin/gruppen/103/Asset_Management/Sonstiges/Kolumnen__Beitraege_und_Artikel/neXtGENWealthManagementDeutsch.pdf

classes and women also had the opportunity to pursue a professional career. Baby Boomers strongly identified with their work. Willingness and commitment to work were highly placed and also expected by employers. The term "workaholic" originated at this time. Baby Boomers are known for their ambitious and competitive nature. They believe in working hard to achieve financial success and often prioritize career advancement over saving for retirement.

2 Generation X (1965 – 1979)

Descendants of the Baby Boomers are summarised as **Generation X**, "twentysomethings" or "slackers". Unlike the Baby Boomers, they are regarded as rather pessimistic and ambivalent, as they did not experience a lot of the economic boom and were, instead, confronted with rising unemployment rates, financial crises and increasing competitive economic pressure. Working was no longer as important as it had been for the Baby Boomers. Generation X placed a higher value on balancing work and private life. As the first generation to be in touch with new technologies and mass consum, they pushed new developments forward. Generation X is known for their pragmatism and self-reliance. They have seen the downsides of relying too heavily on credit and have adopted a more cautious approach to debt. They prioritize saving for retirement and building a financial safety net for their families.

3 Generation Y / Millennials (1980 – 1994)

Generation Y is the generation that came of age in the 2000s and 2010s. They were born between 1982 and 2004 and have grown up in an era of rapid technological change and increased interconnectedness. Since Generation Y has actively experienced the turn of the millennium, they have been given the synonym **Millennials**. People born in this generation are the first digital natives, and they have grown up in a multi-option society that is shaped by 9/11, high youth unemployment and great uncertainty. The first peculiarity of this generation is the use of digital devices, as they are tech-savvy at heart and use smartphones and co. 24/7, both in their free time and at work. Generally, this generation is highly mobile and flexible, making home offices more and more popular. In terms of financial awareness, Millennials experienced the global financial crisis in 2008, but they didn't suffer from World War II and its consequences, which shaped their parents' financial mindset. As a result, they view money and financial management in a more digital way, often using apps and online tools to manage their finances. They also tend to be more socially conscious, frequently prioritizing investing in socially responsible companies and causes.

4 Generation Z (1995 – 2010)

Generation Z has grown up with the internet and mobile devices such as tablets or smartphones and are also regarded as digital natives. Born in the 1990s, Generation Z increasingly crowds into the labour market. Unlike Generation Y, Generation Z demands a clear separation between work and free time. For Gen Z, personal fulfilment comes first, work second. The trend is moving from work-life balance to work-life separation. Due to their technical versatility, Generation Z is one step ahead of its previous generation when it comes to using modern devices. For them, the boundary between the real and virtual worlds is increasingly blurred as technology is embedded into their daily habits. As a result of the increasing information overload and negative news, Generation Z tends to be less optimistic than Millennials. Craving security and sustainability, they are willing to contribute.

Social networks are used without regard for one's own privacy. Their attitudes towards finance are still being shaped. However, they are known for their knowledge of technology and digital tools, which they are likely to use to manage their finances.

5 Generation Alpha (2011 –)

Generation Alpha includes people born after 2010. Since they are not old enough yet, they will not be covered in this paper, but will be mentioned for the sake of completeness. They will grow up totally immersed in the technologies of the 21st century. Their lives, their way of thinking and acting, will be even more digital than those of the digital natives. This generation will be shaped by further digitalisation, political instability and demographic change.

Each generation has its own unique characteristics, experiences, and worldview. Understanding the different generations and their perspectives can help financial advisors to understand better and appreciate the diversity of their clients which, in turn, will help in finding ways to address them all in how to manage their business successfully.[6]

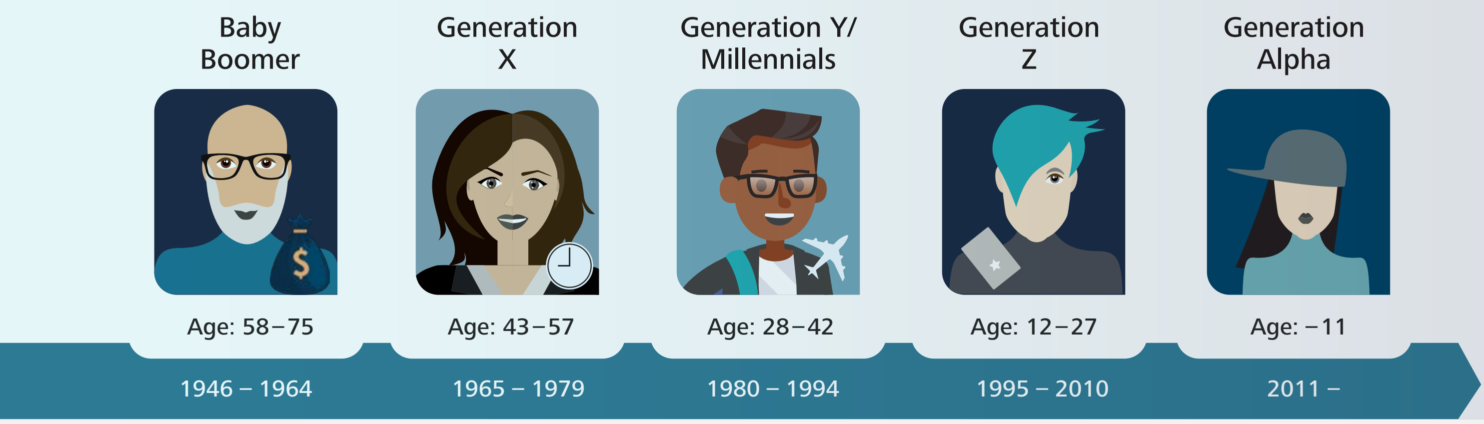


Figure 2: Source: Fechter, B. (2021): Can Advisors Keep Up with the Expectations of Younger Investors?, https://logicly.finance/can-advisors-keep-up-with-the-expectations-of-younger-investors/

How much wealth is inherited by which generation?

As often depicted, the wave of inheritance is slowly making its way into the population. Over the next few decades, large fortunes will be inherited by the Baby Boomers to their descendants of generations X and Y (Millennials). A wide variety of figures on the amount of inherited financial assets exist. However, not all households in which money is inherited are attractive for wealth managers. According to the consulting firm Deloitte, the Baby Boomer generation will be the wealthiest generation in the United States until at least 2030.

[6] adigiconsult GmbH (n.d.): Generation Silent, Baby Boomer, X, Y (Me, Millennials), Z oder Alpha, https://www.adigiconsult.ch/glossar/generation-silent-baby-boomer-x-y-me-millennials-z-alpha/

Their share of net household wealth will plateau by 2020 and drop off quickly after 2030 due to rising mortality rates. Generation X will record the highest increase in their share of total wealth during the forecast period. The Millennial generation, meantime, will see the fastest growth rate in net wealth.[7]

As already mentioned, growing wealth is accompanied by an increasing number of inheritances. Exact figures on estates are often problematic; for example surveys in Germany only cover taxable inheritances and gifts of more than 500,000 euros. A study of the German Institute for Old Age Provision (DAI), which is one of the most cited publications on the subject, showed that a total of **3,067 billion euros will be inherited in the ten years from 2015 to 2024**. More than 1,400 billion will be transferred as cash, bank deposits and securities, and around 1,300 billion as real estate. A smaller amount of approximately 340 billion is inherited in the form of tangible assets.[8] According to the German Institute for Economic Research (DIW), the **annual inheritance volume in Germany, including gifts, will reach up to 400 billion euros by 2027.**[9] The value of inheritances will double in the UK over the next 20 years[10]. Nearly **24 trillion dollars will be inherited in the US over the next 15 years**, both reflecting wealth transfers among married couples as well as between and within generations, according to Deloitte.[11] Enormous amounts of wealth are inherited in Switzerland. Over the past 30 years, the amount inherited has increased almost five times. At present, about **90 billion Swiss francs** are inherited, representing about **12% of the gross domestic product.**[12] As shown by the OECD, people tend to be older when they inherit. The figure below illustrates that among beneficiary households who have received an inheritance or gift, the average value of the wealth transfer rises with age.[13]

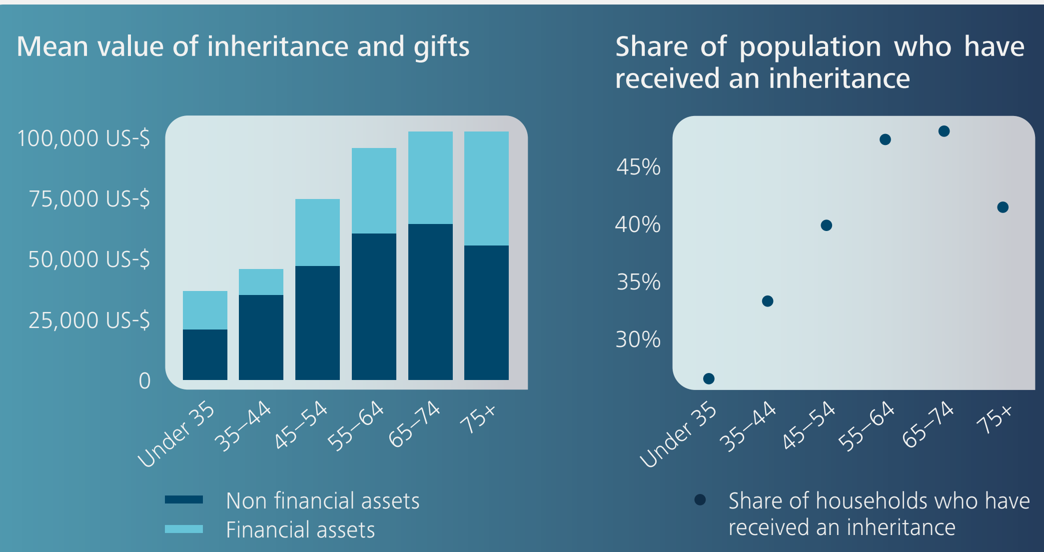


Figure 3: Source: OECD iLibrary (n.d.): Inheritance Taxation in OECD Countries, https://www.oecd-ilibrary.org/sites/0dee8dce-en/index.html?itemId=/content/component/0dee8dce-en#snotes-d7e6704

[7] Deloitte (2015): The future of wealth in the United States: Mapping trends in generational wealth, https://www2.deloitte.com/us/en/insights/industry/investment-management/us-generational-wealth-trends.html

[8] DIA (2015): Erben in Deutschland 2015-24: Volumen Verteilung und Verwendung, https://www.dia-vorsorge.de/wp-content/uploads/2015/09/DIA_Studie_Erben_in_Deutschland_LowRes.pdf

[9] HBS (2017): Erbschaften größer als bislang erwartet, https://www.boeckler.de/de/boeckler-impuls-erbschaften-groesser-als-bislang-erwartet-3761.htm#:~:text=Ergebnis%3A%20Im%20Zeitraum%20bis%202027,als%20in%20fr%C3%BCheren%20Analysen%20gesch%C3%A4tzt

[10] Resolution Foundation (2022): Fewer than one-in-three people expect to benefit from Britain's big inheritance windfall, https://www.resolutionfoundation.org/press-releases/fewer-than-one-in-three-people-expect-to-benefit-from-britains-big-inheritance-windfall/

[11] Deloitte (2015): The future of wealth in the United States: Mapping trends in generational wealth, https://www2.deloitte.com/us/en/insights/industry/investment-management/us-generational-wealth-trends.html

[12] SRF (2021): Im kommenden Jahr regnet es 90 Milliarden Franken, https://www.srf.ch/news/wirtschaft/erben-in-der-schweiz-im-kommenden-jahr-regnet-es-90-milliarden-franken#:~:text=Das%20%E2%80%93%20aussagekr%C3%A4ftigere%20%E2%80%93%20Median%2DErbe,%C3%BCbrigen%2090%20Prozent%20der%20Bev%C3%B6lkerung

[13] OECD iLibrary (n.d.): Inheritance Taxation in OECD Countries, https://www.oecd-ilibrary.org/sites/0dee8dce-en/index.html?itemId=/content/component/0dee8dce-en#snotes-d7e6704

By now, it is mainly the over-70s from the Baby Boomer generation who are inheriting. These "children of the economic miracle" enjoyed rising incomes throughout their lives, enabling them to acquire assets and real estate. This is also reflected in the number of inheritances for the next generation. At the same time, the generation X members are stepping into the most profitable, financial stage of their lives, representing the next substantial revenue potential for financial service providers. Moreover, Millennials will bolster their position as the new drivers of future consumer spending. Once having higher incomes, their share of assets will also rise. But the most decisive influence on financial services is likely to be their value-based habits and the way they buy products and services, which could lead to an upheaval of traditional business models.[14] However, it is not always the next generation that benefits. Married couples usually nominate each other as heirs. As a result, intergenerational inheritances account for just two-thirds of all legacies. Often, however, this amount for inheritance does not entirely end up in the hands of one person; the inheritance is rather distributed among several beneficiaries.

What does this mean for financial institutions?

Most heirs are investing their inheritance rather than spending it. According to the survey from DAI, most of them are seeking an investment opportunity or use the capital for retirement planning.[15] By inheriting a person's estate, it is also possible that several heirs receive a still substantial share of a very large amount of wealth. This leads to a possible increase in the number of clients who want to rely on appropriate

[14] Deloitte (2015): The future of wealth in the United States: Mapping trends in generational wealth, https://www2.deloitte.com/us/en/insights/industry/investment-management/us-generational-wealth-trends.html

[15] FAZ (2020): Jeder Fünfzigste vererbt mehr als eine Million, https://www.faz.net/aktuell/wirtschaft/schneller-schlau/jeder-fuenfzigste-deutsche-vererbt-mehr-als-eine-millionen-euro-17090096.html

asset management. The implication here is that a significantly larger number of clients need to be serviced by the same number of advisors. This can only be realised with the support of technology. As a result, both efficiency and attractiveness increase, also for the broader public. To date, shifting interest away from Boomers would certainly be premature. Deloitte's wealth forecasts clearly suggest that **Boomers will continue to be a very attractive segment for the US financial services industry well into 2030 and beyond**. But the pace at which Boomers will accumulate wealth over the next two decades will be significantly slower than that of younger generations. As more Boomers shift their attention from wealth accumulation to the use of wealth in retirement, financial services providers should be aware of the need to adjust their product portfolios and pricing models accordingly.

Generation X is moving into the most fruitful phases of life and the incomes and wealth of most Millennials are also rising. Moreover, within the next few years, they will be the heirs of the flourishing and large generation of Baby Boomers. For most financial companies, those generations will be the next big customer groups. Wealth management should therefore start in advance regarding investment advice and address the generation of future heirs or those who will build up capital. Especially **Generation X and Millennials** should be included to avoid missing opportunities and great chances to retain existing clients as well as to ensure success in the future.

This requires finding the proper communication and understanding the financial priorities and preferences of Generation X and Y, which are likely to be different from those of their parents and grandparents. Banks and wealth managers need to adapt their communication and approach to the lifestyle of younger clients.[16]

[16] Janssen, S. (2021): So können Wealth Manager den Vermögenstransfer nutzen, https://www.private-banking-magazin.de/so-koennen-wealth-manager-den-vermoegenstransfer-nutzen/

Chapter 2 – What do they want? The expectations of the growing digital native generation

As the population ages and new generations enter the workforce, wealth management strategies must adapt to meet the changing needs and preferences of clients. As global wealth is increasingly shifting to younger generations, financial institutions need to be aware of these changing requirements to be prepared for the future. A new study by Fidelity International shows that the UK's younger generations are increasingly counting on intergenerational wealth transfer to fund their financial goals.[17] Around a third (32%) of those who have already inherited or received a lifetime gift have used the money for their retirement savings or pension. One quarter have used it to pay off a mortgage, and more than onefifth (22%) have spent the money on buying property. According to Fidelity, **many people plan to use their inherited wealth to achieve long-term financial goals, but less than half (45%) have taken any form of investment advice.** A fifth (2%) have sought advice from another professional, 16% have researched online and 15% have consulted an independent financial adviser (IFA). Slightly more than one in 10 have consulted their bank.

This paper takes a cross-generational view, but younger generations, in particular, are the ones who may soon grow up to be new wealth management clients through inheritances or higher incomes. And these new client segments are more difficult to attract and retain.

Growing financial literacy & willingness to change

Younger generations are growing up with unprecedented access to financial information, from basic budgeting guides to more advanced investment strategies. This increased financial literacy is helping these clients understand the importance of financial planning and investment strategies, and how to put them into practice. Financial literacy enables people to understand and manage one's finances effectively. It includes knowledge of financial concepts, such as budgeting, saving, investing, and managing debt. Financial literacy is becoming increasingly important in today's world as the economy becomes more complex and the proliferation of financial education resources online. There is also a trend toward the growing importance of financial planning. As younger generations begin to accumulate wealth, they realise that they need to take a more proactive approach to managing their finances. This has led to a growing willingness among these clients to seek out professional advice and explore different investment options.

[17] Wealth Adviser (2021): UK's younger generation expecting to inherit to fund their future financial goals, https://www.wealthadviser.co/2021/08/02/304372/uks-younger-generation-expecting-inherit-fund-their-future-financial-goals

In addition, societal attitudes toward money are also changing. Younger generations are increasingly focused on financial independence and the importance of building a secure financial future. As these clients become more financially savvy, they are more likely to actively seek to achieve their financial goals. But this also constitutes new challenges for financial institutes, as growing financial literacy goes in line with more conscious customers as well as an **increasing willingness to change**.

Thanks to easy access to information, the growing variety of financial offerings and the growing awareness of clients, competing for financial services can be compared more easily, and the intensity of competition between the players in wealth management is rising. According to several studies, **a sizeable proportion of the younger generations consider changing their wealth advisor in case of an inheritance**. In addition, there are new providers entering the market offering robust digital services. Wealth managers should therefore think carefully about their positioning in order to retain and attract current and future heirs as clients.

As the findings of the German Wealth Management Research Report 2019 by consulting firm EY suggest, **33% of wealthy private clients in Germany are considering changing their wealth manager within the next three years.** This corresponds to a switching potential of around **1.5 trillion euros in assets under management (AuM)**. Based on the results of the study, low fees and price transparency are the main reasons for considering a change of provider.[18] Younger generations usually have higher expectations regarding digital offerings and services from their bank. If a bank fails to meet these requirements, clients might be more willing to switch to another bank.

[18] E-fundresearch (2019): Jeder dritte Kunde plant, seinen Wealth Manager zu wechseln, https://e-fundresearch.com/markets/artikel/36293-jeder-dritte-kunde-plant-seinen-wealth-manager-zu-wechseln

The figure below shows some of the main reasons why heirs choose to change their IFA[19]:

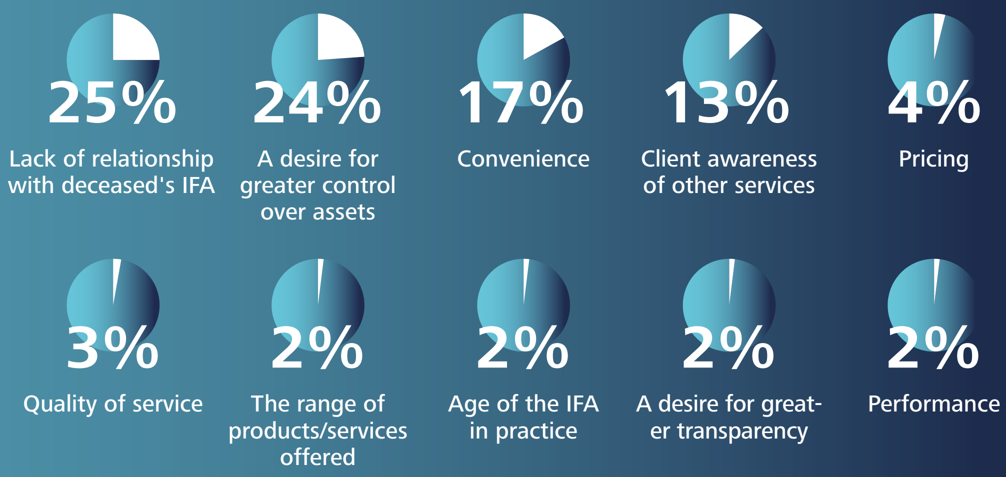


Figure 4: Note: "Don't know" and "Other reason" responses not shown above. IFAs were able to select multiple responses.
Source: Opinium, Cebr analysis.

But what are the main reasons for younger generations to choose a bank or an investment? Let's delve into the main needs of young affluent wealth management clients of the younger generations.

Accessibility and convenience

One major shift is the increasing importance of technology in managing and accessing financial information. Younger generations are more likely to use digital platforms and mobile apps to manage their finances, and wealth management firms must be able to provide these options in order to stay competitive. Today's new generation of high-net-worth individuals (HNWIs) are digitally savvy and accustomed to managing their lives online. Many of them rely on the offerings of big tech brands such as Google, Amazon, Meta and Apple, as well as FinTechs.[20] **Therefore, younger generations expect wealth management services to be easily accessible and convenient.** This means that they expect to be able to access their financial information and manage their investments through digital platforms, such as mobile apps and online portals. They also expect to be able to communicate with their wealth managers through digital channels, such as email and video conferencing. All financial activities ought to be consolidated in one place. According to a study, **89% of investors would prefer to use a mobile app,** while **49% of investors believe a simple, intuitive digital experience is one of the most important criteria when evaluating providers.**[21]

This creates new demands that asset managers must meet, such as continuous real-time market updates, analysis, background information and education with easy and immediate access. The use of digital devices is increasingly changing the way customers look at their financial services provider. Due to permanent accessibility and technical guidance, people's need to see their advisor in person is becoming more and more obsolete.

[19] Kings Court Trust (2017): Wealth Transfer in the UK: The continuing of the inheritance economy, https://app.hubspot.com/documents/2632673/view/15122287?accessId=e1731b
[20] Private Banker International (n.d.): Generation change needs new approaches in wealth management, https://www.privatebankerinternational.com/thought_leaders/generation-change-wealth-management/
[21] Publicis Sapient (2023): Wealth and Asset Management 4.0, https://www.publicissapient.com/industries/financial-services/digital-wealth#report

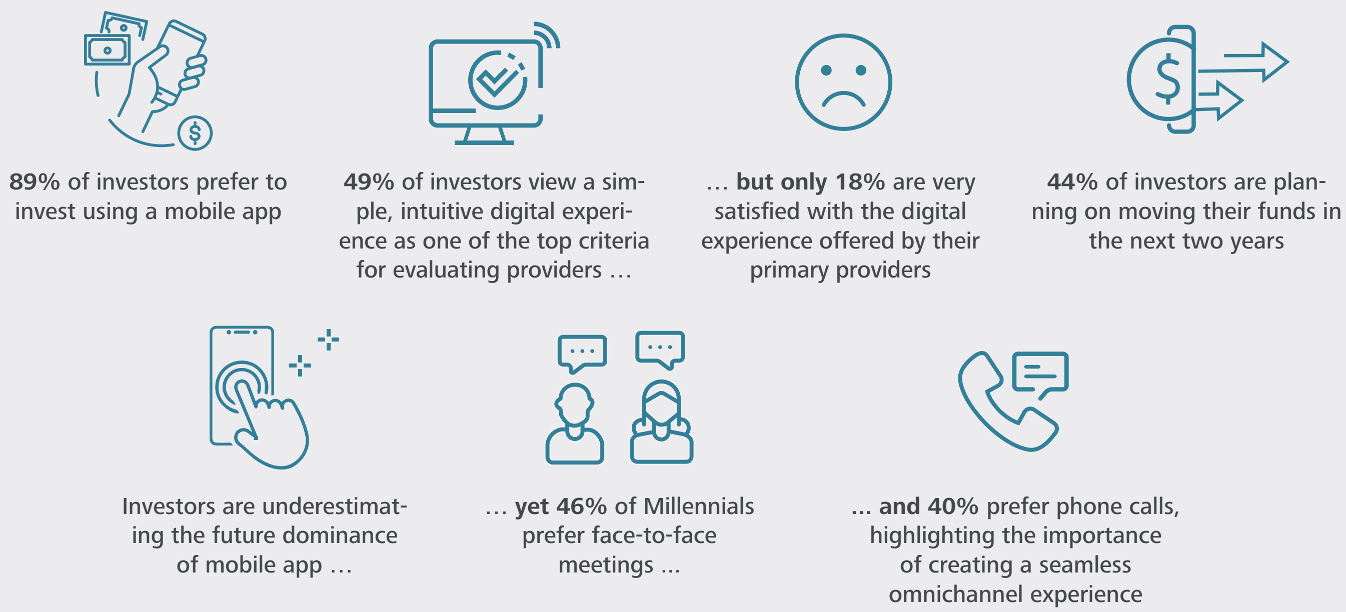


Figure 5: Source: Publicis Sapient (2023): Wealth and Asset Management 4.0, https://www.publicissapient.com/industries/financial-services/digital-wealth#report

Personalization and customization

As a second, younger generations expect **wealth management services to be tailored to their individual needs and goals**. Asset managers must ensure that they perfectly address different generations with different goals depending on their individual life situation. They expect their wealth managers to understand their specific financial situation and provide a **broad range of customized advice that aligns with their unique objectives**. They also expect to be able to **customize their investment portfolios based on their risk tolerance and preferences**.[22]

Integrity, transparency and communication

Younger customers tend to be more likely to **share their data in exchange for tailored and seamless experiences or services**. A further driver is therefore the "freemium" mentality of younger HNWIs. As such, they are less willing to pay for direct access, as they expect it for free in exchange for data.[23] In return, they surmise wealth management services to be transparent and straightforward. They expect to have clear and concise information about the fees and charges associated with their investments, and they expect to be provided with regular updates on their investment performance. Banks therefore need to offer services that offer genuine added value for the customer and that can be provided efficiently by the advisor using the right technology. A French consulting firm surveyed nearly 3,000 HNWIs, meaning individuals with investable assets of 1 million dollars or more. The result: **young generations building wealth are far more price-sensitive than the previous generation,** especially during a period of stock market weakness. They also expect to have

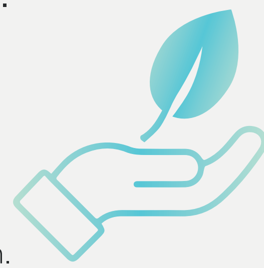
[22] RBC Wealth Management (n.d.): Millennials and money: How the next generation looks at wealth, https://www.rbcwealthmanagement.com/en-asia/insights/millennials-and-money-how-the-next-generation-looks-at-wealth

[23] Ap, T. (2022): What the next generation of millionaires want from their wealth management firm, https://qz.com/2178289/what-young-millionaires-want-from-their-wealth-management-firm

access to a wide range of investment options and to be able to understand the risks and potential returns of each option.

Banking institutions and asset managers must adapt to an informed and critical client segment. Whereas older generations rely traditionally more on their wealth managers and trust their services, these – mostly younger - financially sophisticated clients tend to be more critical in terms of services and products offered by banks. Growing up in a financial crisis that triggered the Great Recession, Millennials, therefore, show greater scepticism towards established norms and practices. The Makovsky Wall Street Reputation Study suggests that the **majority of Millennials have less trust in financial institutions.**[24] This could lead to an ambivalent development in terms of both communication and service: On the one hand, young customers with a high digital literacy often inform themselves online, whereas older generations tend to count on their financial advisors. Non-answered questions can quickly be googled. **There's a change in the current zeitgeist.** Generations are generally more critical of financial institutions, not least because of the sheer volume of information. Establishing trust and loyalty among younger clients is, therefore particularly, important for wealth managers. To ensure this, transparency and communication are essential. Although face-to-face is gradually becoming obsolete, digital tools and consolidated services in one place mean that clients expect their wealth managers to be available at all times.

Striking a proper balance between a digital approach and personal advice is key. Even though more than 50% of Millennials in Europe keep their accounts with a digital neo-bank, a majority is still surprisingly conservative in terms of wealth advice. **Fifty-eight percent of younger investors want to be advised in person rather than digitally.**[25]



Sustainable and responsible investing

A key factor to keep in mind here is the generation-specific mentality towards wealth.

For younger investors, it is not just about maximising profits. Instead, the real-world impact of their investments is at least as important as the payoff in the end. As more sophisticated investors with a leitmotif, they are often more conscious of the impact of their investments on the environment and society. They may choose banks and investment options that align with their values. **They are becoming increasingly interested in sustainable and responsible investing.** According to a survey of high-net-worth investors conducted in 2019 by the Morgan Stanley Institute for Sustainable Investing, **around 95% of Millennials are interested in sustainable investing.**[26] They expect their wealth managers to provide investment options that align with their environmental and social values, and they expect to be able to invest in companies and funds that are making a positive impact on society. Wealth management firms must be able to provide investment options that consider environmental, social, and governance (ESG) factors in order to meet the demands of this demographic.[27]

[24] Global Newswire (2015): Majority of Millennial's Lacking Trust in Financial Institutions, https://www.globenewswire.com/news-release/2015/06/16/745087/10138719/en/Majority-of-Millennial-s-Lacking-Trust-in-Financial-Institutions.html?parent=744995
[25] Janssen, S. (2021): So können Wealth Manager den Vermögenstransfer nutzen, https://www.private-banking-magazin.de/so-koennen-wealth-manager-den-vermoegenstransfer-nutzen/
[26] Morgan Stanley (2019): Sustainable Signals: Individual Investor Interest Driven by Impact, Conviction and Choice, https://www.morganstanley.com/content/dam/msdotcom/infographics/sustainable-investing/Sustainable_Signals_Individual_Investor_White_Paper_Final.pdf
[27] MSCI ESG Research LLC (2020): Swipe to invest: the story behind millennials and ESG investing, https://www.msci.com/documents/10199/07e7a7d3-59c3-4d0b-b0b5-029e8fd3974b

Chapter 3 – The future of wealth management as a hybrid model

According to Forbes, the next generation of wealth managers will be defined by three drivers of success: A client experience enhanced by digital services and personalisation, insights gained through AI and analytics, and new markets defined by mass customisation and alternative investments. Wealth managers are responding by integrating accounts, building more sophisticated mobile apps and using analytics and AI to more finely segment their clients. This looming market horizon positions technology as the great enabler of wealth management's most potent promise of value.[28]

Technology can help make wealth management fit for the future. However, the next generation of investors needs more than sophisticated banking technology and a state-of-the-art user interface. **Winning the trust of clients has never been more difficult for financial service providers operating in today's digital world, which will force firms to rethink their approach or offerings.**[29] Indeed, it is crucial to be prepared for the future and the requirements of the younger generations, but banking institutions have to manage the balancing act between all the **requirements of each customer segment and also meet the needs of the share of elderly clientele that still prevails today**.

[28]Forbes Insights (2019): The Next-Generation Wealth Manager: Advancing Services And Personalization With Technology, https://www.temenos.com/wp-content/uploads/2019/07/Forbes-report-19-Jun-19.pdf
[29]Froq (n.d.): The Future of Wealth Management is More Than Just Fin-Tech, https://www.frog.co/designmind/future-of-wealth-management-fin-tech

In parallel to innovation and design tools, engaging with people remains essential to reducing trust barriers in the digital space. Companies need to understand their customer experience, which encompasses all customer touchpoints within a company. Wealth management firms need to see their clients as human beings with complex and emotional, financial biographies and ambitions. Banking institutions need to be present at all times and across all platforms, devices and channels. Not without reason, 66% of investors still value personal contact with their asset manager.[30] The future of the industry, therefore, lies between the two worlds in the numerous **potentials of the hybrid service model.**[31] In addition, customers of all ages are increasingly using digital services. Deloitte speaks of a new investor type, the "Re-Wired Investor", one that is not limited to the younger generations who have inherited or will inherit. In fact, Boomers are also increasingly comfortable with technology and this investor type features new thought patterns and new client requirements.[32] For wealth managers, this represents great opportunities, but still many have not modernised their business processes. Wealth managers need to find ways to catch up quickly with the desires and demands of the digital natives who will inherit wealth in the future.

[30] Lucerne University of Applied Sciences and Arts (2020): Digitales Anlegen in der Schweiz – ein Markt mit Potenzial, https://hub.hslu.ch/retailbanking/wp-content/uploads/sites/7/2020/11/202011_Studie-Digitales-Anlegen_DE.pdf
[31] Private Banker International (n.d.): Generation change needs new approaches in wealth management, https://www.privatebankerinternational.com/thought_leaders/generation-change-wealth-management/
[32] Platjouw, N. (2022): Disruption im Wealth Management: 5 Gründe warum Vermögensverwalter Data Analytics einführen sollten, https://fintechnews.ch/roboadvisor_onlinewealth/disruption-im-wealth-management-wieso-vermogens-verwalter-data-analytics-einfuhren-sollten/52941/

A solid **wealth management banking platform** enables asset managers to quickly transition to a cutting-edge digital presence to meet the needs of younger and more tech-savvy investors. It also enables the efficient collection and analysis of data. The easiest access to digitalisation and automation of advisory services for financial institutions is the use of a cloud-based advisory platform. Such an advisory solution in wealth management should offer **modular extensibility and also operate independently of the core banking system.** Moreover, APIs provide the flexibility to connect required solutions and third-party services.[33] For this purpose, the **hybrid approach**, which has already been addressed in earlier aixigo white papers, **proves to be particularly beneficial**.

Hybrid advisory offers a unique approach to wealth management that makes this balancing act workable for financial institutions. It combines traditional asset management with advanced technology solutions. Using modern technology, standardised processes are efficiently handled with a high degree of automation while allowing both customisation and personalisation according to clients' needs. These features enable financial institutions to improve their service quality, reduce operating costs and expand their total client base. Developing hybrid advisory products, institutions should adopt a strategy to develop applications that meet their internal requirements while fulfilling the needs of their customers. As mentioned earlier, younger generations are often more cost-conscious and opt for banks and investment options with low or no fees. A modular design can save costs that do not need to be passed on to the client and reduce the willingness of customers to switch.

Embedded wealth management is another beneficial approach to meeting the needs of younger client segments. Embedding financial services into apps and websites provides non-financial firms with the ability to integrate seamless payment services as part of their clients' financial experience. Via APIs, embedded wealth technology enables wealth management firms to offer regulated wealth management services to non-financial firms. Embedded wealth technology makes investment products accessible to the broad public. Moreover, it encourages clients who are cautious about investing in unfamiliar financial institutions to join. Embedding wealth services into other channels, such as popular retail apps, offers enormous opportunities for traditional wealth management providers to increasingly reach out to younger customers.[34]

Find out more in the aixigo whitepaper on embedded wealth management.

aixigo offers a wealth management platform that enables financial institutions and service providers to design their own hybrid advisory products quickly and resource-efficiently. The modular infrastructure enables the creation of attractive and cost-efficient functions that can be tailored to all requirements. The aixigo: BLOXX Wealth Management Platform also features high-performance API technology, which makes it modular and flexible to combine. It has all the capabilities to meet the requirements of modern wealth management in the back and front office, pave the way for embedded finance and prepare the bank for tomorrow's clients.

[33] im Brahm, K. (2021): Wealth Management: Fünf Erfolgsfaktoren für die personalisierte Beratung, https://bankinghub.de/innovation-digital/wealth-management-personalisierung-beratung/
[34] Fintechly (2022): Embedded Wealth Management Is Coming, https://fintechly.com/technology/embedded-wealth-management-is-coming/

Conclusion

"The race to attract young wealthy people has begun."

Overall, each generation of heirs may have different demands and priorities when it comes to wealth management. It is important for wealth managers to understand these differences and tailor their strategies and advice to the unique needs and goals of each generation of heirs. **When managing a business, it's crucial that banks keep both short-term and long-term revenue in mind. While it's true that young investors are just beginning their careers and have fewer assets, it's also true that as they continue their careers, their assets will grow.**

Ultimately, the key to successful wealth management is understanding and adapting to the evolving needs and preferences of clients. This will require a renewed focus on technology, transparency, and client engagement. So, the wealth management firms have to be more open to new technology and innovative ways to serve the needs of their clients. Younger wealth management clients are becoming increasingly financially literate and willing to change their financial habits. This shift is being driven by a variety of factors, including increased access to information, the growing importance of financial planning and changing societal attitudes toward money.

Summary: how can advisors keep up with the expectations of younger investors?

1. **Be accessible:** Younger investors want to be able to reach their advisors or the services at any time.
2. **Embrace technology:** Younger investors are more likely to use online platforms and mobile apps for investment management. Advisors should be familiar with these tools and be able to provide them to their clients.
3. **Be transparent:** Younger investors value transparency and want to know exactly where their money is going. Advisors should be open and honest about their investment strategies and the performance of the funds they recommend.
4. **Be socially responsible:** Younger investors are more likely to be interested in socially responsible investing. Advisors should be knowledgeable about these types of investments and be able to provide options to clients who are interested in them.
5. **Keep learning:** Younger investors have different financial goals and needs than older generations. Advisors should continue to educate themselves on the latest investment trends and be prepared to adapt to their clients' changing needs. Ingrain a generational perspective into strategic thinking, product designs, and distribution strategies.

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In conclusion, the expectations of younger generations of heirs towards wealth management are changing rapidly. They are more engaged, informed, and socially conscious than ever before. They want to be more involved in the decision-making process, have a clear understanding of their wealth, and know that their investments align with their values. They also expect their wealth managers to be transparent, responsive, and accessible. Wealth managers must adapt to these changing expectations by providing more education, communication, and technology-driven solutions. By doing so, they can build trust and loyalty with the next generation of wealthy individuals and ensure long-term success for both their clients and their business. **aixigo's white paper "Modern Technology in Wealth Management"** offers helpful insights on how the right technology is essential to meet the expectations of future generations and, as a result, to ensure the future security of the bank and its employees.

Christian Neuenhaus
Director Marketing & Communications
LinkedIn Account Christian Neuenhaus
christian.neuenhaus@aixigo.com