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## Wealth Tech Impact on Wealth Management Sector

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**Abstract:**

**Purpose:** The goal of the research paper is to familiarize reader with both Wealth Tech concept and key trends regarding global wealth management sector.

**Design/Methodology/Approach:** For the purpose of the paper, the following methods have been applied: critical analysis of literature including research papers, and comparative analysis of presented data. The goal of the research paper is to familiarize reader with both Wealth Tech concept and key trends regarding the global wealth management sector.

**Findings:** Because of such rapid digital transformation, Wealth Tech was able to emerge as significant part of wealth management. With funding in billions of USD on new Wealth Tech companies, strong reliance on major technologies such as artificial intelligence, robo-advisory, big data or blockchain, it can be concluded that Wealth Tech role in wealth management will be more significant and it could attract more clients, which are both younger as well as less affluent.

**Practical Implications:** Digital transformation is one of the key trends in wealth management industry, that was further fastened by COVID-19 outbreak.

**Originality/value:** Rapid digital transformation in wealth management sector will enable Wealth Tech to have stronger impact on overall wealth management.

**Keywords:** Wealth Tech, Asset Management, Wealth Management.

**JEL classification:** D31, G51, P46.

**Paper Type:** Research article.

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## **1. Introduction**

Global wealth has been increasing significantly over the last 20 years from 80 trillion USD to 220 trillion USD, despite several global setbacks (dot-com bubble, subprime crisis, COVID-19 pandemic). Wealth management industry that contributed towards maintaining such pace of global wealth increase during this time period, has been under significant pressure. However, it seems to be facing even more challenges than in the past. Not only industry trends, such as rapid digitization, significant pressure on cost management, ongoing generation wealth transfer, rapidly changing customer profile, Big Tech entry threats, but also external factors such as political stability, natural events (such as pandemic) or threat of economic downturn, all play an important role in shaping the wealth management industry. As a result, Wealth Tech has been on the rise and seems to address several of the key challenges in whole Wealth Management industry.

## **2. Research Methodology, Process and Research Hypotheses**

The research paper aims to test two hypotheses, which are as follows:

- Digital transformation becomes one of the key trends in wealth management sector globally.
- Wealth Tech impact on wealth management sector globally is increasing.

For the purpose of the paper, the following methods have been applied: critical analysis of literature including research papers, comparative analysis of presented data. The goal of the research paper is to familiarize reader with both Wealth Tech concept and key trends regarding the global wealth management sector.

## **3. Wealth Management Definition and Specification**

Wealth Management can be defined as conducting tailor-made strategy in managing assets (both liquid and non-liquid) for the client, within the previously agreed financial plan, as well as strategy execution with different degree of involvement from the client. Key services in wealth management include the following: financial and legal advisory, asset management, tax planning, offshore services, retirement planning etc., (Ślązak, 2018).

Wealth management providers, such as multinational banks, specialized banks or investment banks, often offer private banking services. These services, apart from offering financial services, also provides art banking, wine banking or investments in luxury goods, commodities, real estate, gems, numismatics or even condohotels. These non-financials offering is tailor-made, subjected to negotiations with particular client and usually involving higher cost and higher degree of risk (Dziawgo, 2013; Kozińska, 2019). While considering risk, wealth management/private banking providers need to take into account five main categories of risk:

macroeconomic risk (influence of macroeconomic factors), business risk (internal factors in particular bank), reputation risk (image of particular bank), model risk (implementation of wrong financial models) and non-compliance risk (Niedziółka, 2018). Wealth management and private banking services are offered primarily for affluent clients (Koleśnik, 2018), which are divided for two main categories: High Net Worth Individuals (HNWI) or Ultra High Net Worth Individuals (UHNWI). HNWI are households with financial assets valued at least 1 million USD, while UHNWI are households with financial assets valued at least 100 million USD (Global Wealth Management Report, 2020; Ślęzak, 2018).

#### 4. Key Trends in Wealth Management

Global personal wealth has been constantly increasing. During last 20 years, global wealth nearly tripled from 80 trillion USD in 1999 to 226 trillion USD in 2019, while in 2020 it is projected to amount at 220 trillion USD. Despite several setbacks in impacting global wealth, such as subprime crisis in 2008 and COVID-19 pandemic, global personal wealth has been growing steadily (Global Wealth 2020 Report, 2020). Global personal wealth growth is presented in Figure 1.

**Figure 1.** Global personal wealth growth from 1999 to 2020 (USD trillion).



**Note:** \*Projected value

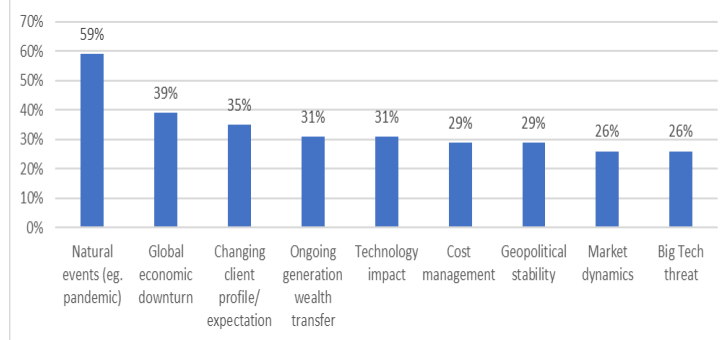
**Source:** *Global Wealth 2020: The Future of Wealth Management—A CEO Agenda*, Boston Consulting Group, 2020, *Allianz Global Wealth Report 2020*, Allianz, 2020.

In spite of steady growth of overall global wealth, wealth management industry is under significant pressure of numerous trends and factors. In Figure 2, most important challenges are presented. Several of depicted challenges were analysed below the Figure.

One of the key trends in Wealth Management is rapid digital transformation. According to Oliver Wyman, digital engagement is expected to increase 7-10x, due to increased usage of client communication interaction channels, such as: webinars, video, web collaboration, chat conversation at the expense of channels such as: face-to-face meetings as well as email, which will be on the decrease (Global Wealth

Management Report, 2020; Roubini ThoughtLab, 2017). Due to COVID-19 pandemic, 40% managers in Europe prioritized accelerating digital transformation over other initiatives as well (BlackRock, 2020). One of the key digital challenges in digital transformation is robo advisory that is explained in detail, later in the article.

**Figure 2.** Most important challenges in global Wealth Management industry (2020).



*Source: World Wealth Report, 2020, Capgemini, 2020.*

Another main trend is increased focus on cost management. Due to COVID-19, revenue growth and profitability is expected to decrease in short and medium term across the industry. Apart from short term cost cuts, regarding for instance headcount and real estate, the transformation of operating model with particular focus on developing IT infrastructure is expected to have the largest impact on cost optimization (Global Wealth Management Report, 2020; Financial Technology Partners Fintech industry research, 2017).

In spite of steady growth in assets under management, lower margin is one of the key issues in the industry. Due to low interest rates, high spend on technology and employees as well as current and potential new regulations, are causing lower margins to occur (Avery, 2020; Euromoney, 2020). Such macroeconomic conditions may also imply increased demand for alternative, personalized investments in order to maintain returns (BNP Paribas, 2018; Deloitte, 2020).

Moreover, wealth management sector is expected to undergo through increased market consolidation, due to growing regulatory requirements and high client acquisition cost. In 2019, value of mergers & acquisitions (M&A) deals increased from 2018 by 30%, making it the record year in terms of M&A deals in wealth management (CB Insights, 2020).

What is more, Big Tech companies entry into wealth management is expected as well. Big Tech can be defined as technology giants benefiting from obtaining and analysing vast consumer data, thus entering additional, non-core business lines. Most important Big Tech players are USA-based companies referred to as “GAFA” (Google, Amazon, Facebook, Apple) as well as China-based companies: Alibaba and Tencent. Several Big Tech companies are already offering several financial

services. Their strengths regarding: high customer awareness, ease of use, fast service, personalized products and appealing features, cause increasingly more young customers to switch to Big Tech from traditional financial services providers (Dziawgo, 2021).

Another key trend to consider in wealth management is aging client base. Between 2017 and 2060, 50 trillion USD worth of assets are expected to be transferred to next generations, making it the largest wealth transfer in history (CB Insights, 2020). Next generations of HNWI and UHNWI will differ from current wealthy clients in terms of, for instance, financial education, overall pace of life, rate of wealth accumulation and perception towards sustainability. Therefore, wealth management providers will need to refocus to attract and maintain future generations of HNWI and UHNWI not only by providing extensive range of financial and non-financial services, but also by developing close relationship with client and tailor services exactly to client's most sophisticated needs (Global Wealth 2020 Report, 2020; Xtiva, 2020).

Because of trends mentioned above (large degree of digitization, decreasing profitability), wealth managers begin to serve another client group that was previously not in their primary focus – Mass Affluent. These clients refer to households with financial assets valued below 1 million USD and seem to be particularly attractive, since assets of Mass Affluent consist mostly of cash (50%) that is ready to be invested. What is more, big data analytics could decrease operational cost by as much as 40% and client service cost by as much as 20%, which helped to develop target Mass Affluent easier and enabled development of Wealth Tech (Global-Digital-Wealth-Management-Report-2019-2020, 2020).

In spite of COVID-19 pandemic, the global wealth among HNWI and UHNWI is expected to significantly increase in upcoming years, which is presented in Table 1.

**Table 1.** Global wealth of HNWI and UHNWI (2019 and expected in 2024)

	2019	2024	CAGR* (19'-24')
HNWI	79 trillion USD	101 trillion USD	5%
UHNWI	16 trillion USD	24 trillion USD	8%

*Note:* \*Compound Annual Growth Rate

*Source:* Global Wealth Management Report 2020, Oliver Wyman, 2020; CAGR – Compound Annual Growth Rate.

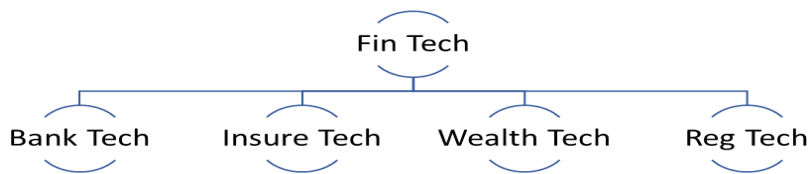
## 5. Wealth Tech in Wealth Management

Due to heavy digital transformation in global financial market, Fin Tech sector has been on the rise. Fin Tech (Financial Technology) refers to business entities using advanced technology for providing digital solutions on the financial market. The key of Fin Tech is developing products and services that are more automated and customer friendly than existing offering. Fin Tech experienced boom post sub-prime

crisis due to following reasons: damaged reputation of global financial system, layoffs of experienced financial professionals as well as potential synergy with largest banks. Moreover issues with banking system in particular country may often lead to public finance collapse (Koleśnik, 2021). There is also Fin Tech companies also have strong impact on the improvement of the financial inclusion in innovative countries (Folwarski, 2021). Fin Tech companies focus mainly on the following sectors: investment services, risk management, payment services, data privacy management and digital client servicing platforms (Kondraciuk and Zaleska, 2019; Ślęzak, 2018).

Wealth Tech can be defined as sub-sector of Fin Tech, which is focused on investment and client portfolio management using digital technologies as well as tailor-made products and services. Fin Tech sector breakdown on key sub-sectors is presented in Figure 3.

**Chart 3.** *Wealth Tech as a part of Fintech sector*



**Source:** Gawron O., *Otoczenie regulacyjne sektora FinTech na przykładzie dyrektywy PSD2 i wybranych ustaw krajowych*, (eng: *Regulatory environment in FinTech sector with the example of PSD2 directive and selected local legal acts*) [in:] I. D. Czechowska (red.) *Finanse i Prawo Finansowe* (eng. *Finance and Financial Law*), UŁ WE-S, Łódź, 2019, p. 52.

BBVA defines Wealth Tech as “Financial technology companies creating digital solutions to transform the investment and asset management industry” (BBVA, 2020). Another definition of Wealth Tech is: “Technological developments and services created to transform existing investing solutions (wealth management, trading) across all asset classes.” (Chishti and Puschmann, 2018).

Wealth Tech has been on the rise lately, since Wealth Tech companies raised over 3.5 billion USD in 2020; 30% more than in 2019 (CB Insights, 2020; CB Insights, 2020). Financing of Wealth Tech companies during 2016-2020 is presented in Chart 4. In spite of the COVID-19 pandemic, 2020 has been the most successful year for Wealth Tech sector, in terms of overall funding amount.

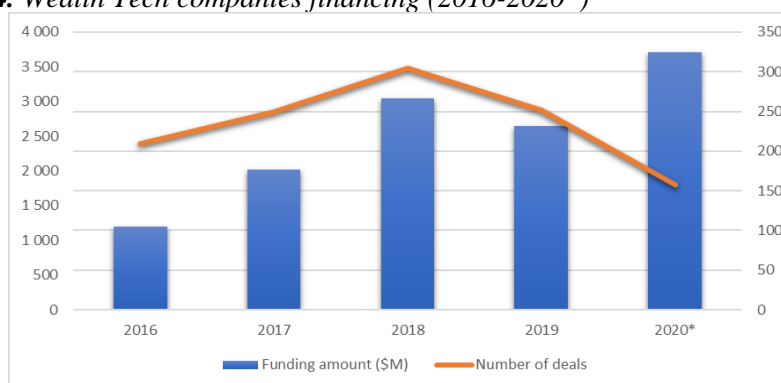
Several services of Wealth Tech are as follows:

- Robo-advisory - providing extensive offering to particular client without physical presence of advisor. Considering several key advantages of robo-advisory, such as: lower cost (2-3 times lower fees compared to advisor),

higher accuracy, speed, objectivity (complex algorithms being able to analyse particular financial instruments more efficiently without any emotional component related to stress) and convenience (no need in meeting financial advisor in person and possibility of monitoring portfolio 24/7). Up to 10% of total global assets under management is to be managed by automated financial advisors by 2020, with significant potential increase in following 2-3 years.

- Robo-retirement – providing management of savings plans towards retirement.
- Digital brokerage – providing access for retail investors as well as businesses to stock market and other investment opportunities.
- Micro investment – allowing users investing small amounts of money without significant commission.
- Algorithmic trading – providing user with automatic trading actions performed in real time.
- B2B Software – providing digital solutions for enterprises (Cheung, 2019; Electronic Identification, 2020).

**Figure 4.** Wealth Tech companies financing (2016-2020\*)

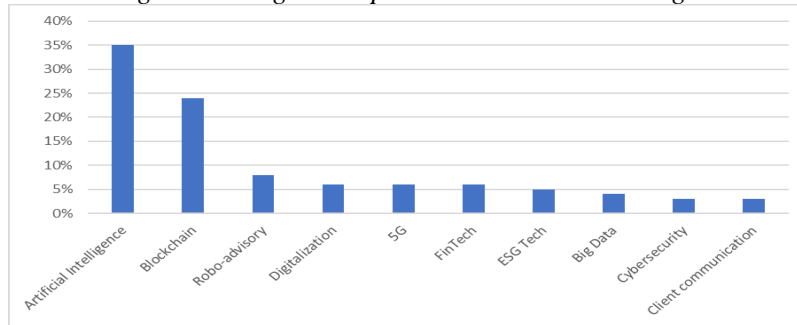


**Note:** \*2020 data available for 10 months (until October 2020)

**Source:** *Wealth Tech Funding Is Having A Record-Breaking Year*, CB Insights, 2020. *Wealth Tech Market Map: 110+ Companies Building The Next Generation Of Wealth Management Tools*, CB Insights, 2020.

Rapid digitization in wealth management is one of the key global industry trends. Figure 5 presents most important technologies according to wealth managers/ private bankers globally. Since Wealth Tech companies operate using artificial intelligence, blockchain, Big data, robo-advisory, it can be conclude that Wealth Tech will continue to be on the rise in the future.

Below, several major Wealth Tech companies are presented and analyzed. They were chosen based on total funding amount, overall recognition and scale of operations.

**Figure 5. Technologies with highest importance in Wealth Management**

**Source:** Avery H., *Private Banking and Wealth Management Survey 2020: How to win in wealth over the next decade*, Euromoney, 2020.

- 1) Avaloq – although the company was founded in 1985 in Zurich, its’ core capabilities include wealth management technology and digital banking solutions. Company provides cloud-based solutions, for banks and wealth managers across Europe, Asia and Americas. With 4.5 trillion CHF in Assets Under Management (AUM) and 150 banks served, it is one of global leaders in Wealth Tech (wealthtech100.com).
- 2) Addepar – founded in 2009, Addepar provides wealth management platform enabling analytics, performance reporting and data aggregation. Addepar raised 117 million USD in November 2020, making it one of the highest Wealth Tech deals that year. In 2021, it manages 2.5 trillion USD in over 25 countries (addepar.com; PR Newswire, 2020).
- 3) Wealthfront – founded in 2011, Wealthfront provides low-cost investment management platform aiming at portfolio optimization. It raised 205 million USD and serves 450 thousand clients worldwide (crunchbase.com; wealthfront.com).
- 4) eToro – trading platform providing zero-commission trading, which also allows investors to share and copy their bets; founded in 2007, it has 20 million users globally and plans to go public via merger with FinTech Acquisition Corp. Transaction is valued 10 billion USD and is the highest Wealth Tech related transaction in 1H 2021 (Bloomberg News, 2021; Financial Technology Partners, 2021).
- 5) Robinhood – one of the largest online trading platform globally; achieved 5.6 billion USD in funding (crunchbase.com; robinhood.com).
- 6) Blockchain.com – founded in 2011, one of the largest crypto currency platforms globally with 30 million users, 500 million USD total funding and 800 billion USD worth of transactions made (blockchain.com).



7) Apex Clearing – founded in 2012, it specializes in portfolio management, rebalancing, clearing, custody, reporting, as well as risk and compliance (apexclearing.com).

8) Dataminr – company providing platform powered by artificial intelligence for risk detection and real time events; company acquired 1.1 billion USD in funding (crunchbase.com; dataminr.com).

9) InvestCloud – founded in 2010, it provides wealth management cloud-based platforms for wealth managers/ private bankers, with over 300 apps tailor-made to the client. In 2021 it has 2 trillion USD in Assets Under Management and the company itself passed 1 billion USD in valuation (Finextra, 2021; investcloud.com).

## **6. Future Outcomes and Conclusions**

The research paper aims to test the following hypotheses:

- Digital transformation becomes one of the key trends in wealth management sector globally.
- Wealth Tech impact on wealth management sector globally is increasing.

After using the following methods, critical analysis of literature including research papers, comparative analysis of presented data, both hypotheses can be proven positively. Due to the fact that wealth management industry is experiencing generational wealth transfer towards Millennials/Generation Z, it has to adapt to new upcoming client base. One of the key adjustments needed to be made is extensive use of digital channel to operate and communicate with the client. COVID-19 only strengthened this trend, since significant part of managers prioritize digital transformation post pandemic.

Because of such rapid digital transformation, Wealth Tech was able to emerge as significant part of wealth management. With funding in billions of USD on new Wealth Tech companies, strong reliance on major technologies such as artificial intelligence, robo-advisory, Big data or blockchain, it can be concluded that Wealth Tech role in wealth management will be more significant and it could attract more clients, which are both younger as well as less affluent.

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