Industry Segments, Business Models, Strategies

The Wealth Management Industry Today

Wealth management is a comprehensive set of services, including investment advice, accounting, tax services, legal advice, and estate planning. The wealth management industry has become increasingly global since WW2, particularly as demand has increased for offshore financial centers. In developed markets such as the US and UK, the private wealth industry is fragmented and non-uniform, with many institutions of varying sizes offering different ranges of services. By contrast, in some western European countries, the industry is oligopolistic with a handful of large universal banks holding dominant positions.

Services and Product Range

The diverse range of services provided by the wealth management industry can be categorized as shown in the table below.

Service Category	Examples
Core	- Deposit management - Payments - Client reporting - Account administration
Lending	- Mortgages - Credit cards - Lombard loans (secured by investments) - Specialized loans for aircrafts, artwork, etc.
Brokerage	Trade execution for: - Securities - Currencies - Investment fund - Structured products

Service Category	Examples
Asset management	- Portfolio management - Discretionary and advisory mandates - Asset allocation/selection advice - Investment products (in-house or third party)
Wealth planning	- Wealth structuring - Legal/tax advice - Estate/financial planning - Retirement/pension optimization - Philanthropy advice
Wealth preservation	- Life insurance - Trusts - Fiduciary services

Private Client Segmentation

Within the private wealth management industry, clients are typically organized into the following segments:

- **Retail** clients have up to USD 250,000 in investable assets and require relatively few services beyond basic savings accounts and low-cost passive investment vehicles (e.g., ETFs).
- **Affluent** investors with portfolios of up to USD 1 million generally hold standardized financial assets. However, they often require additional services, such as financial planning and tax advice.
- **High net worth individuals (HNWIs)** have the financial resources (up to USD 30 million) and longer time horizons needed to access a more exclusive set of investment vehicles. Clients in this category require highly customized services, such as estate planning.

- **Ultra-high-net-worth (UHN)** clients with more than USD 30 million in net investable assets are served personally by the most senior managers within a wealth management firm. External advisors are often needed to address their unique investment objectives and constraints.

This wealth-based classification system is used by many wealth management firms because of its simplicity. However, it fails to account for the complexity of clients' individual circumstances. Additionally, clients may not provide comprehensive information about their financial situation.

Wealth Management Participants

The wealth management industry's key participants include the following institutions

- Universal banks operate on a global scale, providing a range of services (including wealth management) to a large client base.
- Local banks and trust departments offer wealth management services in addition to their basic deposit-taking and lending functions.
- Private banks and trusts manage wealth and provide other services, such as tax advice and estate planning, for HNW clients.
- Digital and direct banks focus on the retail segment of the market. With little or no physical footprint, they offer digital platforms and automated investment advice (e.g., robo-advisors).
- Investment banks are not traditional wealth managers, but they can raise capital needed by UHN clients to fund large acquisitions.
- Brokerage firms facilitate trades by acting as intermediaries between buyers and sellers. Larger brokerages may offer investment management services, with a low-fee structure that is similar to the revenue model used by digital and direct banks.
- Asset/fund managers have a more narrowly-defined focus than wealth managers, offering specialized investment strategies and products.

- Financial advisors, also known as external asset managers, typically operate independently, providing a range of services, including financial planning, portfolio management. If they are employees of a specific firm, advisors may make greater use of proprietary funds, but they tend to maintain a degree of autonomy in order to better serve their clients.
- Family offices, including multi-family offices, provide bespoke financial services for HNW members of the same family. They often go beyond traditional financial services with offerings such as philanthropy coordination, lifestyle management, and personal security.

Offshore versus onshore

The term onshore refers to an investor’s home country, while offshore financial services are provided in a different jurisdiction where an investor may be considered a resident for tax purposes. Unlike a *cross-border financial center*, which caters to both domestic and international investors, an offshore center almost exclusively serves foreign clients. For example, the US wealth management industry only relies on foreign investors for 1.5% of its business, while the equivalent figure for the Isle of Man is greater than 90%.

For investors, the advantages of offshore financial centers include political stability, commitment to the rule of law, tax incentives, and the ability to access investment opportunities that are not available domestically. Various locations have developed areas of specialization, such as Islamic finance for Bahrain, hedge funds for the Cayman Islands, and trusts for Jersey. Offshore centers also vary in terms of their commitment to information sharing and transparency. The OECD’s rankings range from “Compliant” (e.g., Singapore) to “Non-Compliant” (e.g., Panama).