Module W1.1: Business Models of Private Wealth Management Service Providers

Question 1

Which of the following statements regarding client types is *most accurate*?

A) A retail client normally has assets between USD 250,000 and USD 500,000 and prefers passive investment vehicles.

B) **A UHNW individual is likely to have assets of more than USD 30 million and will probably need additional specialized advisers. ✓**

C) An HNW client will mostly prefer ETFs and other standard investment options to keep the fees low.

Explanation

Assets of over USD 30 million are the correct wealth band for UHNW. The wealth level for retail clients is typically below USD 250,000, and HNW clients are likely to be more focused on customized investments to meet their personal needs. (LOS W1.a)

Question 2

A new employee at an investment firm makes the following statements regarding the competitive nature of the industry:

Statement 1: Both buyer and supplier power are high when dealing with retail clients, which puts pressure on margins.

Statement 2: Robo-advisers present an increasing threat of substitutes, putting pressure on margins.

How many of these statements are correct?

A) None.

B) **One. ✓**

C) Two.

Explanation

Statement 1 is incorrect because the supplier power (advisers, professional, fund providers) is not high for retail client services. Retail clients require standard services and products rather than specialized professionals. Statement 2 is correct in that the increasing use of robo-advisers provides an alternative route to investment advice for clients, particularly retail clients. Hence, it presents a threat of substitutes in the wealth management space. (LOS W1.a)