



WHITE PAPER

# Decoding the Human

*Truly Understanding Clients in Wealth Management*

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WHITE PAPER

# Decoding the Human

*Truly Understanding Clients in Wealth Management*

In collaboration with



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## FOREWORD

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“Decoding the Human – Truly Understanding your Client” is a joint publication by BCG, BCG Gamma and BCG Digital Ventures. BCG Gamma, the data analytics arm of Boston Consulting Group, combines advanced skills in computer science and artificial intelligence with deep industry expertise. BCG Digital Ventures (BCG DV) invents, launches and scales disruptive new ventures and businesses with the world’s largest companies. In collaboration with BCG and Gamma, BCG DV has already founded over 80 ventures across a diverse range of sectors and geographies.

In this paper, we discuss the importance for private banks of developing a strong understanding of their customers’ needs, at a time where client-centricity has become fundamental for growth. Similarly, any lack of understanding can be a significant obstacle to growth or even entire business models. When we talk to banks about their views on how to optimize client experience, we typically hear one of the following: they may have plans for a new mobile app, or cross-platform onboarding, or improved active advisory or exploring new marketing channels. We also often hear the phrase: “we know what products our clients want”.

However, in an industry where client profiles and therefore needs are changing more rapidly than ever before, and when unprecedented changes are taking place in how clients collect and interact with information, we believe we are justified in questioning whether private banks do genuinely understand their clients.

The client base is undoubtedly changing in very significant ways. The new generation is typically more tech-savvy and has higher expectations when it comes to technological functionalities. Moreover, in the age of information, the current generation is more informed about different bank offerings and pricing, and is thus more selective in choosing their bank, as well as more open to switching banks later on. An improved user experience with higher levels of convenience is expected, and digital has become the new imperative in multi-channel interactions. Furthermore, digital disrupters across various consumer industries have shaped everyone’s expectations of what digital can and should deliver. In the past decade, a wide range of brand new companies have achieved massive valuations by completely re-inventing the user journey, for instance when hailing a cab or searching for accommodation for a family trip. These innovations greatly reduce costs while at the same time offering convenience.

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The competitive landscape is also evolving more quickly than ever before. New entrants add to the challenges faced by the sector. These players might be fintech startups and spin-offs offering a fresh approach on complex banking services, or established e-commerce and other tech companies making forays into basic but highly scalable services such as payments. Even the latter might soon set their sights on more complex financial products and services, leveraging the trust they enjoy with consumers and their access to tens, or even hundreds, of millions of users.

This paper outlines our perspective on how private banks and wealth managers can understand their clients better, a crucial ingredient in retaining their competitive advantage. We explore how a range of modern tools, from ethnographic research to advanced data analytics, can be put to use alongside more traditional methods in the journey towards client-centricity.

The paper reflects the findings of BCG, using interviews with banks and high-net-worth individuals (HNWIs) as well as our extensive project experience. These findings are supplemented by fresh insights from BCG Gamma and BCG Digital Ventures.

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## Introduction

Client experience is one of the most fashionable terms now used in private banking. Wealth managers like to tell people how well they understand their clients and how client-centric their whole business is, right through from offering to delivery.

They are certainly right to believe in the importance of a state-of-the-art client experience. It is a clear imperative for banks if they wish to retain clients and establish long-term relationships. This has never been more true than today, with younger customers more inclined than ever before to question their parents' choice of bank.

For many of this new generation, a lack of digital sophistication is reason enough to switch banks. To complicate matters further, client centricity will be judged differently as needs and expectations evolve. For example, clients used to be more than happy when their relationship managers offered a general overview of market trends once in a while. Now they expect real-time updates about how recent market events might affect their portfolio performance. They also expect multi-channel interactions that are more frequent, and more tailored to their specific and immediate needs. In particular, the new generation is demanding better content, delivered at the right time for them and through their preferred channels.

Developments in other industries have made this change in client expectations inevitable. In retail, people have moved from family grocery shopping to home delivery in record time. Transportation has been disrupted by ride-service hailing companies where customers can order a taxi directly from their phone in just a few clicks. The hospitality industry has faced a major shift with home-sharing platforms, reaching all the way up to the highly desirable properties of wealthy homeowners, offering a new alternative to conventional hotels through easy-to-use marketplaces.

Meanwhile, the knowledge available to clients and new entrants has expanded dramatically. Once upon a time, accessing and navigating information on financial markets was a major challenge. With low-cost but intuitive and easy-to-use tools, it's fairly easy now. Portfolio construction and risk-return management have become commoditized, with ever-increasing scrutiny through regulatory advances such as the second payment services directive (PSD2). This allows new players in the market to retrieve a wealth of data, aggregated and accessible at the touch of a finger.

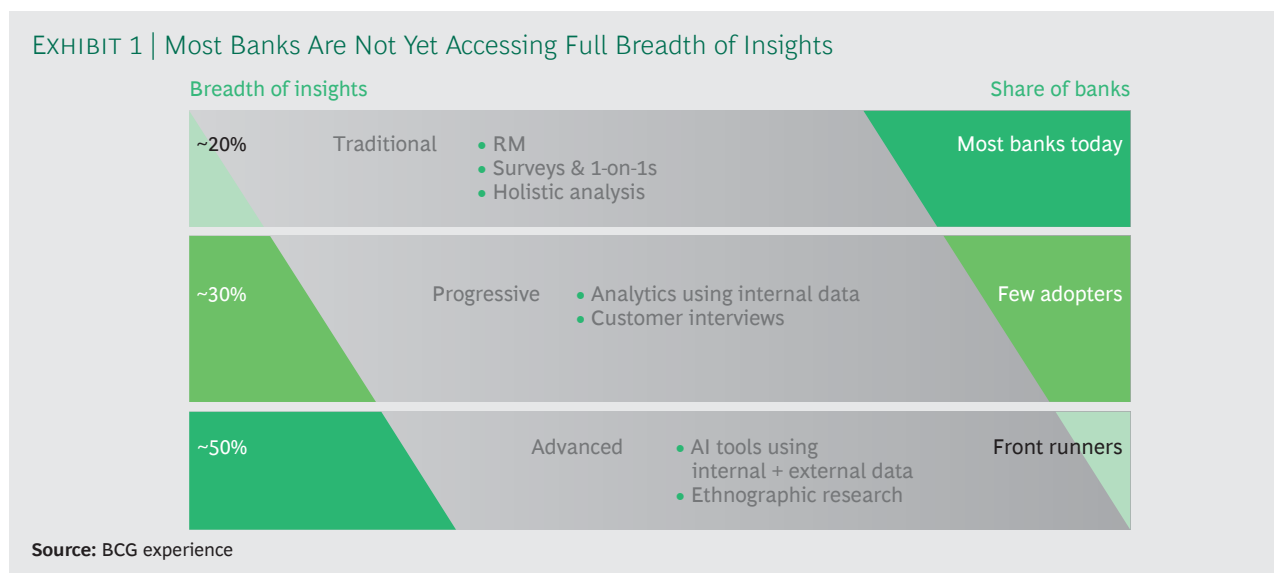
In summary, only a few private banks have as yet truly embraced customer centricity. To achieve it, they must learn to excel in three activities: using data and analytics to understand *who* their customers are on an individual rather than on a customer segment level; continuously observing their clients with ethnographic research to understand *what* they really want and *why*; and encouraging innovation and upgrading technology in relation to *how* new insights are delivered to improve the overall client experience.

## Intensifying Competition

In this new information age, competition in the finance space has increased dramatically, with new players entering the market and challenging the incumbents. Fintech startups, such as Wealthfront and Betterment, can offer vertical services without having to build them on top of legacy technology stacks. They have attracted a lot of attention in the retail arena, capturing progressively more market share as well as building increasingly sophisticated offerings for the HNWI market.

Tech and e-commerce players have also been looking to diversify further into the banking market, exploiting their access to a wealth of client data. (Examples include Alibaba bank, the brand new Apple Card in partnership with Goldman Sachs, and Amazon Pay). While these players may initially focus on plain-vanilla services such as payments, they may well in time move into the more complex wealth management industry.

Although the private banking industry has been gathering data from its clients for years, it is way behind consumer goods or internet companies when it comes to knowing its clients. Know-your-customer (KYC) information, as well as personal details on family, lifestyle, health conditions, personal activities and habits, are buried somewhere within the firms' systems, but have not been used in any coherent way. Wealth managers also tend to have detailed information on the investment behaviors of their clients through their transactions, payments and portfolios. Getting the most out of these data sources is essential if they want to achieve true client centricity.



## Where Private Banks Are Now

Extracting and organizing relevant data is just the start. Building services and digital experiences that fully reflect the insights generated by the data is a major challenge, and will require a more flexible, modular approach.

Most banks say they are gradually differentiating their service level for each specific individual. However, the reality is that they still mostly rely on old-fashioned personas or wealth bands that were designed using approaches, such as client surveys, that cover only certain client needs. As a result, they are still classifying clients in rather large clusters. They try to rectify any particular instances of where the client journey doesn't fit the category, but without any fundamental understanding of why it doesn't. Although there is an increasing focus on analytics, they are mostly one-off investments for specific challenges and not strategically integrated to cover the full life cycle of the client journey. Even if client data is analyzed systematically and regularly, private banks usually lack the technology and the tools to translate insights into a more tailored experience for each client – whether this concerns the communication channels or the way the portfolios are built and managed. After all, clients at the lower end of the HNWI spectrum are still mostly grouped in just a handful of model portfolios, as banks lack the tools to create bespoke portfolios in a cost-efficient way for clients that aren't at least in the upper HNWI range. A genuinely individual offering, in contrast, reflects personalization in any number of ways: communication channels, content, portfolio strategy, the level of client involvement in decision-making, setting of investment preferences and more transparency with regard to the sustainability impact of their investment choices.

Banks are some way from achieving these goals. They tend to underestimate the threat of new entrants by deriding their current AuM levels rather than appreciating their growth and their technical capabilities, overestimate the lure of their brand's cachet and how it will protect them from competitors, and lack a vision for how modern technology and methods could upgrade their whole offering. They also tend to make incremental rather than radical adjustments, due to a combination of risk aversion, a lack of a bold vision, political rather than rational decision-making, and concern about costs.

They need to understand that the real battle to retain and acquire clients will probably be less about portfolio management, investment advice or the image of a heritage brand than ever before. Instead, private banks will need to provide affluent clients with a holistic offering through digital means. This will mean improving their capabilities (such as tax planning, and accounting for real estate) to maximize wealth.

They will also need better digital tools to help with communication and transparency. Private banks will have to communicate with clients at exactly the right time with exactly the right message, using both digital signals and other data. To do so, private banks need an up-to-date and detailed profile of their clients, and understand what life events mean for the management of their wealth. They also need to offer clients more ways to engage with and shape their portfolios, while using technology and big data to appraise them of the implications of their preferences. After all, numerous studies have shown that a client's engagement in the decision-making increases the likelihood that they will stick to the selected strategy, and that careful coaching through difficult market periods can help improve returns by avoiding rash decisions which lead to panic-induced losses. Both these scenarios increase loyalty and, consequently, customer lifetime value.



## Missing the “WHY”

Private banks and wealth managers may collect a lot of data. However, they generally focus on what is happening, and not enough on the why, understanding what has caused a certain behavior or decision.

### Use Case – Leveraging Insights for a Better Client Experience

In today’s world, investment advice is far too often determined by available products rather than being tailored to client needs. Imagine a young couple in their early 30s, thinking about how to invest their wealth for the next decade.

In a meeting with their Relationship Manager (RM), the couple informs the RM about their intent to save and to invest over the long term. The RM proposes an investment strategy with a range of long-term investment products that reflect the bank’s house view and his or her own personal preference. After the meeting, the RM notes down the information from the meeting in the CRM system and sets a reminder for three months to discuss the performance of the couple’s portfolio with them. The RM sends weekly emails with the current weekly investment advice to the couple, whilst they can also view the performance on their online banking account. After a year, the couple decides to switch to another bank. The RM notes that in his opinion, the couple left the bank because they felt that the investment advice was not tailored to their specific needs – but no further follow-up or analysis is conducted.

In the world of the future, the focus will be entirely different - investment advice will be client-centric. The RM recognizes that the couple is asking for longer-term wealth planning advice because they want to start a family soon. The bank of tomorrow has conducted best practice ethnographic research (as described in this paper) and has, based on this, recognized that the couple is most likely to be looking for risk-averse investing.

Automated web-crawling using natural language processing techniques collect additional information about the couple’s careers and lifestyle. Instead of an RM selecting one of a few model portfolios as would happen today, an automatic portfolio is created according to the couple’s risk appetite, information about their tax situation (incl. other assets that might generate tax burdens), and other existing assets such as real estate and art. The resulting unique portfolio, optimizing risks while taking into account the total asset and tax situation (including tax-loss harvesting and using tax allowances), allows the RM to set up investment proposals and performance reporting in e-banking which demand little time commitment from the couple.

By analyzing large data sets such as the couple’s historical transactions, Google and Facebook data, it also becomes evident that the couple has a strong belief in sustainability that was not apparent in the initial conversation. By continuously analyzing

the client situation, the bank is able to pick up on new behavioural patterns and changing preferences. As a result, the RM includes ESG investment products in the investment advice.

What's more, the bank is able to identify potential trigger points for meetings. Using advanced analytics on the couple's transaction histories and by leveraging today's machine learning technologies, the bank is able to uncover significant changes in the couple's lifecycle (such as expecting a child), to forecast their future needs (for example, wanting to buy a new house) and to proactively offer customized solutions (such as proposing a mortgage). Moreover, picking up on an increasing number of logins might trigger proactive communication to ensure the couple isn't worried about their portfolio's behavior. With the use of advanced analytics, ethnographic research and state-of-the-art technologies, the RM can understand the couple's needs systematically and serve them accordingly. In this way, attrition risk is greatly reduced.

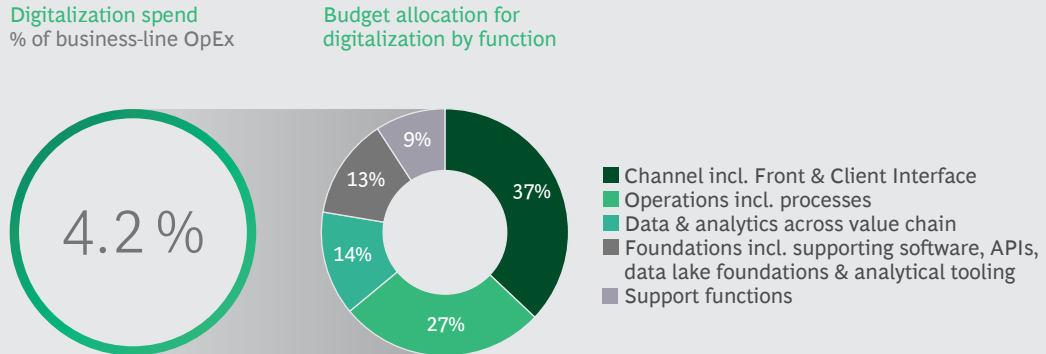
Because of this failure to dig deep into reasons why, specific problems are misunderstood or missed completely. Private banks and wealth managers assume they know why something is happening without the evidence to support their judgment.

This leads to various challenges. As it still heavily depends on wealth bands and unreliable behavioral profiles, client segmentation does not live up to its full potential. The subsequent offering either tends to be a one-size-fits-all approach, or is left to the discretion of the RM who is typically very familiar with some products but less so with others. Currently, therefore, it is rather common for all clients in a given RM's portfolio to have a very similar product mix. Alternatively, products are allotted by category of customer rather than individual. It is frequently presumed that specific products and services are demanded by an entire segment (for example, the young or the wealthy), or part of the population (such as women). Product-centric marketing is also common, with campaigns focused on promoting certain products or events rather than solving client problems. Communication may be timely, but is unlikely to fit with the preferences of the individual client.

There is often a failure to get to grips with why clients leave. At best, private banks ask the RMs, but almost never the client. What's more, if they don't identify the main pain points for clients (such as higher pricing relative to competition, long processes and exchanges back and forth for simple operations, cumbersome administrative procedures, or inaccurate reporting), they cannot be resolved.

One reason for private banks missing the 'why' is that digital tools, platforms or offerings are not being seamlessly integrated into the client journey. Most of the limited investment in digital is dedicated to standalone deliverables (such as developing a mobile client app), and too little to digitalizing the core (such as service-oriented architecture or a centralized data layer) that are a prerequisite for delivering a complete end-to-end digital experience. It is true that portfolio monitoring and interaction with RMs have both been brought into the digital fold. However, the overlap and potential synergies are often overlooked.

## EXHIBIT 2 | Digitalization Spending Still Low and Mainly Allocated to Channels and Operations

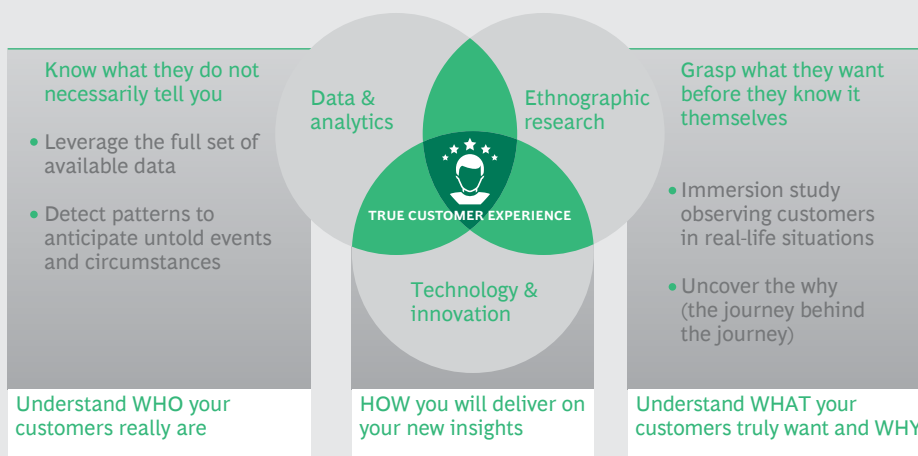


Source: Digital Banking Benchmark 2018

## How to Achieve True Client Understanding

Private banks and wealth managers can improve their client experience substantially by changing the way they gather information on client needs, and using data more effectively. Nowadays, properly understanding clients can be achieved by the right combination of behavioral science insights and psychological research tools (including ethnographic research), data analytics and its advanced applications (such as pattern detections) to complement existing approaches. Wealth managers can then use technology as well as innovative solutions and ways of working to create a holistic experience for the client.

## EXHIBIT 3 | How to Step Up on True Customer Experience and Why Clients Behave in a Certain Way



Source: BCG

## Clients Don't Always Know What They Want – Banks Need to Uncover Their Clients' Pain Points and Latent Needs

Behavioral science has suggested that people have difficulty identifying and describing their major life challenges, let alone figure out the most appropriate solution. Often, they become accustomed to cumbersome workarounds, without realizing that a much smoother experience is possible. Just think of the decades-long dominance of paper bag-based vacuum cleaners, before Dyson introduced bagless models that revolutionized the market. This poses an interesting dichotomy between satisfying behavioral and functional investment needs. The customer may not know that is how they behave, and if they did then they might make a different demand. Without this understanding, the client is unlikely to be able to hit the efficient frontier in investment. This also indicates that traditional methodologies such as client surveys and feedback forms are unable to grasp the full extent of client needs.

Ethnographic research, the study of human behavior in context, can be used as a complementary, qualitative methodology. In this method, researchers observe and/or interact with a study's participants in their real-life environment. The underlying principle is not to ask the client directly but to step into their shoes by observing them in the context of the situation. The ultimate goal is not to understand what or how someone does something, but most importantly, to understand why. In a banking context, this may involve observing a couple having a conversation about their financial plans for retirement, following a young professional performing a certain number of tasks at a branch, or studying a client meeting with an RM.

There are several benefits to ethnographic research. It allows researchers to focus on real behavior as it occurs, rather than intended behavior or socially desirable responses to survey questions. It enables them to identify recurring pain points in the client's journey which would not necessarily be shared out of context. For example, a couple might only disclose certain elements of their future plans in a meeting in which they are only asked a particular set of pre-defined questions, but would reveal more details in a free-flowing conversation in their own home.

Ethnographic research thus reduces the impact of existing biases and beliefs on why and how people behave by looking at the studied population in context of real-life situations and behavior, and accounting for those environmental factors.

Ethnographic research is generally used not as standalone methodology but as a complement to more traditional methodologies (such as market discovery and future visioning). The results of the observations have to be validated with quantitative research, and can be used to strengthen other creative processes, such as design-thinking or product definition sessions.

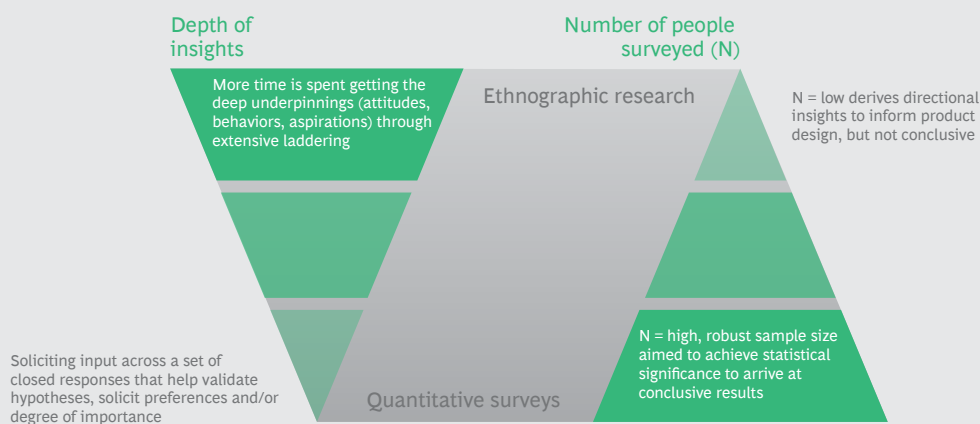
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“If I asked people what they wanted, they would have said faster horses”  
Henry Ford

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“It's not the customer's job to know what they want”  
Steve Jobs

EXHIBIT 4 | Depth of Insights Varies Across Research Methodologies  
*Balanced tradeoffs between interview numbers and level of depth of insights required.  
 Ethnographic research and quantitative surveys can be used complementary*



## Data Gives You a New Edge

Private banks now also have access to new quantitative approaches with the explosion of available data and the emergence of new disciplines such as data analytics and more complex human-to-machine interactions.

Data analytics, the science of analyzing large amounts of data in order to draw conclusions, is critical for banks in achieving a quality client experience.

First, data analytics gives banks another means of segmenting clients. Second, it paves the way for more sophisticated versions like machine learning and artificial intelligence (AI), which can be used to detect patterns in a large dataset, offering a more extensive perspective on clients. For example, detecting patterns in historical transactions and expenditure can shed light on which types of investment a client might be interested in. A client showing a tendency to buy ecological products may not be interested in investing in unsustainable energy sources but rather in more sustainable assets such as environmental, social and governance (ESG) investments.

RMs have limited time to keep up to speed with recent developments in their clients' lives as they are often on the move with back-to-back meetings. Using robotics to gather information on the client and focus on their most relevant life events will help RMs to improve salesforce effectiveness and client retention.

Automated web-crawling associated with NLP (natural language processing) techniques can automatically enter structured, up-to-date insights on a HNWI situation into the bank's CRM system, strengthening the relationship while greatly reducing the time and effort allocated.



Indeed, for ultra-high-net-worth (UHNW) individuals, it is not uncommon to find news about them in newsfeed aggregators, whether it's a new property acquisition, a child's wedding or a lawsuit with a former business partner. For example, a recent donation from an UHNWI client mentioned on the Internet can be automatically collected and integrated into the CRM tool, and may trigger an alert to the RM. Perhaps the client might be interested in obtaining trust services from the bank to set up his/her own charity foundation.

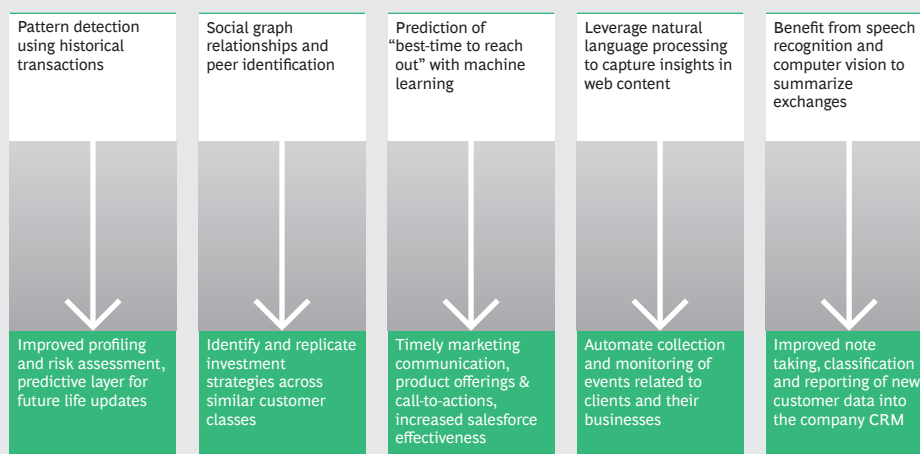
The same concept can be used for company as well as individual monitoring, capturing for example the latest events about a family-owned business, or changes in the board of the company a client is part of.

Peer identification among the client base (using digital DNA to measure the degree of similarity between two) can help to identify and replicate suitable investment strategies while also leveraging the ideation process of investment opportunities. As Warren Buffett said, "people don't invest in things they don't understand."

On a practical level, the note-taking-process can be made much more efficient: automated tagging and classification of ideas can lead to machine-generated summaries, sometimes supported by voice recognition (for calls) and computer vision technologies (for hand-written notes).

Finally, machine learning can help to identify situations where it might be beneficial for private banks to contact their clients. For example, machine learning may detect that a client is worried about his/her portfolio performance from an increased frequency of app login-ins and an analysis of click patterns in e-banking, allowing the RM to react to the client's concerns when needed.

#### EXHIBIT 5 | Data-Driven Techniques Can Significantly Improve Customer Knowledge and How RMs Interact With Customers



Source: BCG

The new era of data-powered insights does not only change the level and nature of client data available, but also the way we collect it and how it affects our relationship to them.

First, the data is objective and reduces bias. Insights made available from data analytics focus on all information available, lowering dependency on what the client is willing to share. Traditional ways to gather client preferences such as polls or surveys are extremely limiting as they come with pre-defined answers that do not cover the entire range of possibilities. How many people will answer “other” if they are offered the choice of yachting or a Formula One race as an event to attend, when really their big passion is cigar tasting?

Second, the data is also more timely and predictive. As data points for the individual change every day, the client profile and classification can be refined in a continuous way without having to wait for the next contact with the RM. Up-to-date personal information in close to real time makes it easier to anticipate future client needs, and to send marketing communication and product offerings at exactly the right time.

Gathering and computing data does not always require direct client input; data-driven approaches therefore permit more time to be spent on the interpersonal aspects of the relationship.

## Client Benefits

With new ways of interacting with clients and intelligent use of data analytics to better capture and understand their needs, private banks have a real opportunity to lead the way in delivering a high-end client experience. HNWIs should expect no less.

Client experience excellence creates a virtuous cycle in which fulfilling client needs in the most appropriate way possible will move the business forward. Indeed, clients will benefit in any number of ways. The tailored and actionable offers will match their real personal needs. They are more likely to receive communication and content at the right time. They will experience better and more purpose-driven exchanges with RMs who now know more about their financial and non-financial lives. Clients will have comprehensive and easy access to their financial information, with transparency on charges and potentially paying less for an improved service experience.

Banks at the forefront of this development will generate sustainable competitive advantage as a result. Their user base and assets under management (AuM) will grow by strengthening relationships with existing clients and attracting new ones through word of mouth. Cross-selling and share of wallet will become easier. Streamlined processes and tailored offerings will maximize the penetration of a bank's product mix.

## EXHIBIT 6 | It's a Win-Win Both for Customers and for Banks Themselves



### Better and more satisfied customer

Tailored and actionable offers that match true personal needs

Communication received at the right time, with the right content

Access to financial information in a comprehensive way, with little to no latency



### Sustainable competitive advantage for bank

Growth in user-base and AuM by strengthening relationships with existing clients and prospects

Increased share-of-wallet and revenues through tailored cross-selling efforts

Better decisions on where cost can be cut to re-invest savings into building modern capabilities

Source: BCG

The examples and applications discussed in this report offer a couple of illustrations of AI applications. Some wealth managers might think them worthwhile; some might be discarded by others due to the high marginal costs of implementation.

Such costs might go down in time, however. There are a couple of hundred advanced analytics applications available. Once a few of these applications have been implemented, the marginal costs for further applications will decrease. Therefore, if a wealth manager today chooses the first applications carefully, they will delight clients, create additional revenue and pave the way for further applications. More hesitant wealth managers will be playing catch-up when it comes to client expectation and revenue against early movers and top performers. They will have lost some of the brand cachet they are so proud of and which defines much of their business today.

## How To Get Started

The most important learning for any wealth manager aiming for true client centricity is that this exercise is a journey rather than a one-off task. The sooner the journey starts and the more preparation goes into it, the stronger the competitive advantage will be.

To foster their value proposition, the bank can start by tackling client problems with techniques such as Design Thinking, using the team's creativity and resolve. This involves building a profile and client, a description of the problem, followed by an enhanced value proposition, devising building blocks for the solution and agreeing to next steps.

To unlock the full potential of data and make it actionable, banks need to invest in data assets and teams to act as change champions and guardians of the new governance, establishing group-wide capabilities and avoiding siloes. They should have a clear vision of the business use cases to deploy. This is the first stage in determining how to collect and store data.

## How Real Champions Master Client Centricity

To really achieve client centricity and reap its benefits, nothing short of a cultural transformation is required. A proper change management program needs to be implemented in order to embed data into decision-making processes, business operations and the organizational mindset. Client-driven metrics need to be placed at the core of the bank's performance management and incentive structure. New ways of working should be established, including clear roles for leaders and support functions, with appropriate training and coaching put in place.

## About the Authors

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## For Further Reading

### **Global Wealth 2019: Reigniting Radical Growth**

*By Anna Zakrzewski, Tjun Tang, Galina Appell, Renaud Fages, Andrew Hardie, Nicole Hildebrandt, Michael Kahlich, Martin Mende, Federico Muxí, and André Xavier*  
June 2019

BCG's 19th annual analysis of the global wealth-management industry features a market sizing review encompassing 97 markets and drawing on data from more than 150 wealth managers on performance pressures and critical strategic areas for improvement. The report also includes insights on enlarging the customer base by targeting the expanding and highly competed for affluent segment, increasing scale and revenue by transforming client engagement models and achieving front-end excellence, and girding cyber defenses to protect client data and preserve client trust.



### **Global Wealth 2018: Seizing the Analytics Advantage**

*By Anna Zakrzewski, Brent Beardsley, Daniel Kessler, Martin Mende, Federico Muxí, Matthias Naumann, Jürgen Rogg, Tjun Tang, Tyler Woulfe, and André Xavier*  
June 2018

BCG's 18th annual analysis of the global wealth-management industry examines the evolution of personal financial wealth globally and regionally, the widening revenue gap and how institutions can narrow it, and the state of offshore business. The report also takes a comprehensive look at a critical initiative for staying competitive in the marketplace: unleashing the value of advanced analytics.



### **Global Digital Wealth Management Report 2018**

*By Boston Consulting Group in collaboration with Lufax*

The report, coproduced by BCG and Lufax Holding, examines key technological changes and their potential for radical transformation in digital wealth management as well as assessing the current state of China's wealth management market, providing guidance on winning strategies in these environments.



### **Solving the Pricing Puzzle in Wealth Management**

*By Anna Zakrzewski, Emanuelle Alm, Deepak Goyal, Lukasz Kowalczyk, Martin Mende, and Ian Wachters*

The report analyses how leading firms outperform their peers by providing products and services at a price — or under a pricing structure — that makes economic and commercial sense, enabling them to post stronger revenue growth: A view on successful pricing that is about more than price itself.



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