STATE OF THE WEALTH MANAGEMENT INDUSTRY

2023 Research Report

WIPFLI

As baby boomers retire and younger generations become primary wealth holders, wealth management firms are facing the challenge of retaining — and acquiring — clients.

To stay resilient, firms must work to embrace the full potential of both their skilled employees and newly available technologies to best serve their clients.

Wipfli surveyed 102 wealth management firms across 28 states to gain insights into their current challenges — and the ways they're positioning themselves for long-term market stability.

Table of contents

Executive summary

Be strategic. Perhaps more than any other directive, this goal may be the most critical for wealth management firms hoping to remain stable and resilient in this time of economic uncertainty.

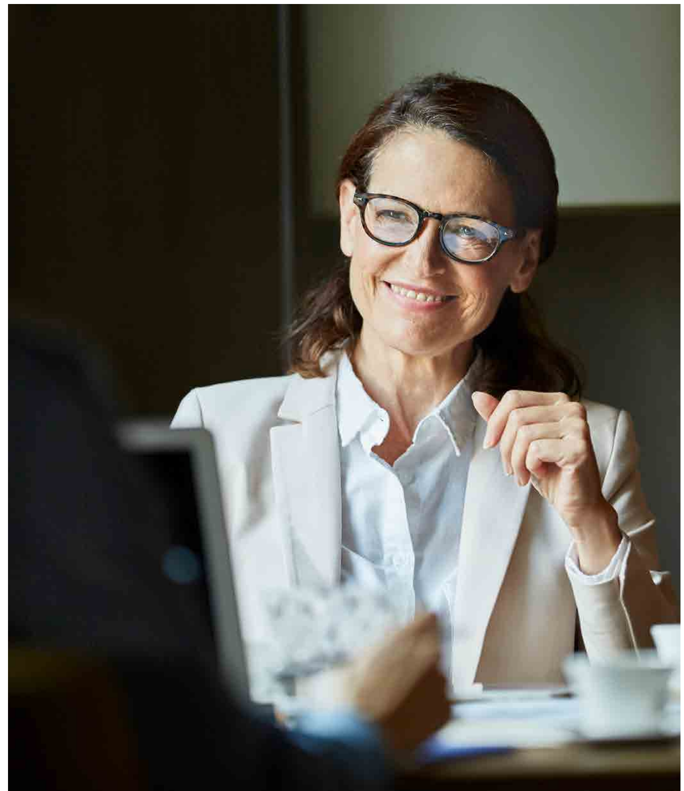
Given the market's recent volatility, firms must prioritize tactics that can help them leverage long-term stability and viability. What are these tactics? Wealth management firms should develop — or expand — targeted strategies to drive success in three key areas:

- Employee retention and recruitment
- Client cultivation
- Technology integration and optimization

Now is the time for firms to pause and assess what's working — and what's not — in their attitudes, procedures and policies surrounding employee and client relationships and overall technology adoption and optimization.

Our survey of 102 wealth management firms across 28 states offers insights into the current challenges facing the industry — and the ways firms are working to solve them.

This report outlines actionable steps wealth management firms can take today to target long-term resiliency. It draws on insights from the wealth management professionals across the country who participated in our study and the knowledge and experience of Wipfli's wealth and asset management industry professionals.



102 wealth management firms surveyed

Across **28** states

Freeing your firm from the status quo

There's a reason why processes can get mired in the status quo. People are busy. Day-to-day work has to be done. And patterns and routines are comfortable.

But without pausing now and again to take stock and reassess workplace strategies and policies, firms can veer off course from their stated priorities. To stay resilient, firms need to create time annually to conduct a strategy inventory.

Our survey responses suggest such self-assessment may uncover operational discrepancies, and even outright contradictions, that could be hampering firms' ability to grow, stay ahead of competition and better serve their clients.

For example, a majority of surveyed firms name the acquisition of new client demographics as a key priority. Yet they also report making no changes to their new client acquisition strategies. Many also assert that employee flexibility is key to addressing recruiting concerns. However, 64% of respondents expect employees to work in the office five days a week. And 53% of respondents said they have a strategic plan in place but haven't taken the time to review or update it annually.

In today's world of continual disruption, that means many strategic plans are outdated and not setting firms up for success or resilience.

Strengthening your strategy

Survey responses underscore firms' top-of-mind focus on staffing shortages, client acquisition and technology adoption, among other strategic priorities.

Responses also highlight clear areas of potential — including client recruitment strategies and change management processes — where forward-thinking wealth management firms can set themselves apart from competitors.

Firms have the power to successfully navigate the many demands facing their industry. But to do so, they must make well-informed, strategic choices in how they allocate their time, talent and technologies.

Top 3 concerns

66% Employee recruitment/ retention

65% Cybersecurity

64% Meeting client needs

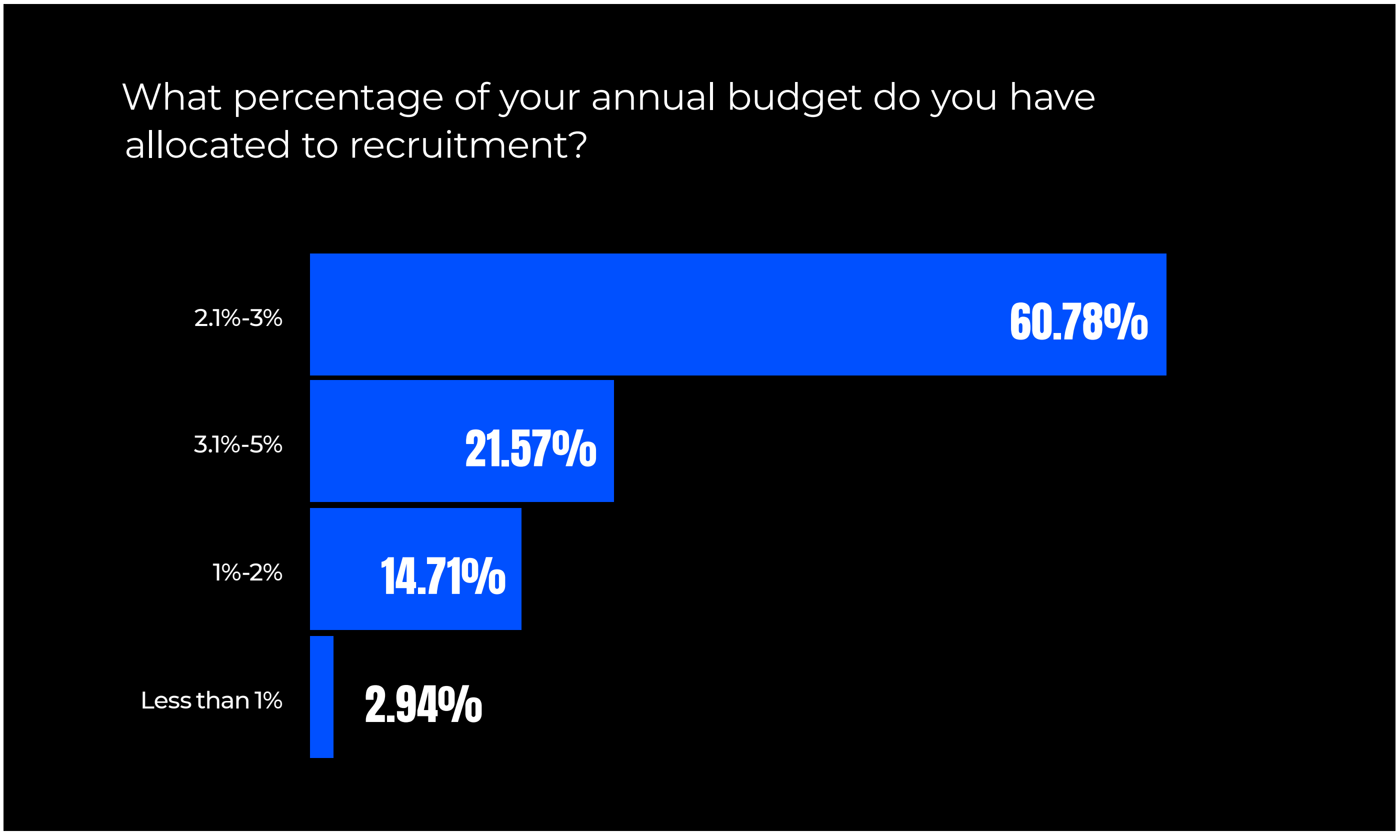
Priority 1: Employee retention and recruitment

The wealth management industry is facing the same crisis as nearly every other job sector: There are simply not enough qualified workers to go around. The Bureau of Labor Statistics reported a [record-high number of job openings] in 2022 — a trend that's continuing in 2023. Some reports suggest there are nearly twice as many job vacancies as there are available workers in the U.S.

In such a climate, retaining skilled employees — and attracting new ones — can be challenging. But it is critical.

Two-thirds of the wealth management firms we surveyed identified employee recruitment and retention as one of their top concerns for the coming year. It outranked cybersecurity, meeting client needs, retaining market share and investing in the right technology, among other key focus areas.

Finding adequate staffing in today's competitive job market has become such a critical issue for wealth management firms, in fact, that recruitment has become a significant budgetary line item. Among surveyed firms, 61% spend 2.1%-3% of their annual budget on employee recruitment. Almost a quarter of respondents allocate up to 5% of their annual budget to attract new employees.



Go beyond status quo

Respondents who listed employee recruitment and retention as a top concern are approaching their staffing challenges via three main strategies: technology implementation, workplace flexibility and better employee benefits.

Firms should be applauded for prioritizing employee recruitment and retention; however, survey responses suggest they could be doing more. Less than half of responding firms report offering workplace flexibility and increased perks — gym memberships and paid parental leave, for example — despite ample data suggesting millennial and Gen Z employees are hesitant to consider employment without them.

Which of the following methods are you using to address your employee recruitment/retention concerns?

54% Implementing technology to take over routine tasks

48% Providing flexibility in work location

40% Increasing benefits/perks

Furthermore, while 48% of firms report they're strategically prioritizing workplace flexibility, their day-to-day operational policies may be undercutting this goal, since 64% of firms say their employees are expected to work in the office five days a week.

Finally, leveraging technology to augment routine staff duties — as 54% of firms report doing — could help boost employees' overall job satisfaction. But it's an effective step only if it follows adequate planning and training to understand the tasks employees actually want to or should delegate to technology platforms.

Recognizing both the current and long-term obstacles posed by current employee shortages, most firms have gone all-in on staffing prioritization. Eight out of 10 firms already allocate ample funds to employee retention and recruitment.

To achieve true staffing success, though, firms must become even more forward thinking — and more consistent. They need to leverage human resource funds to develop organizational policies and career development strategies that promote true workplace flexibility while offering perks and benefits that a newer generation of workers has come to expect.

In addition to aiding in recruitment and retention, these efforts will also benefit the firm itself. Employees who feel supported in their jobs tend to be more productive workers and better teammates — and more committed to overall company success.

Priority 2: Client cultivation

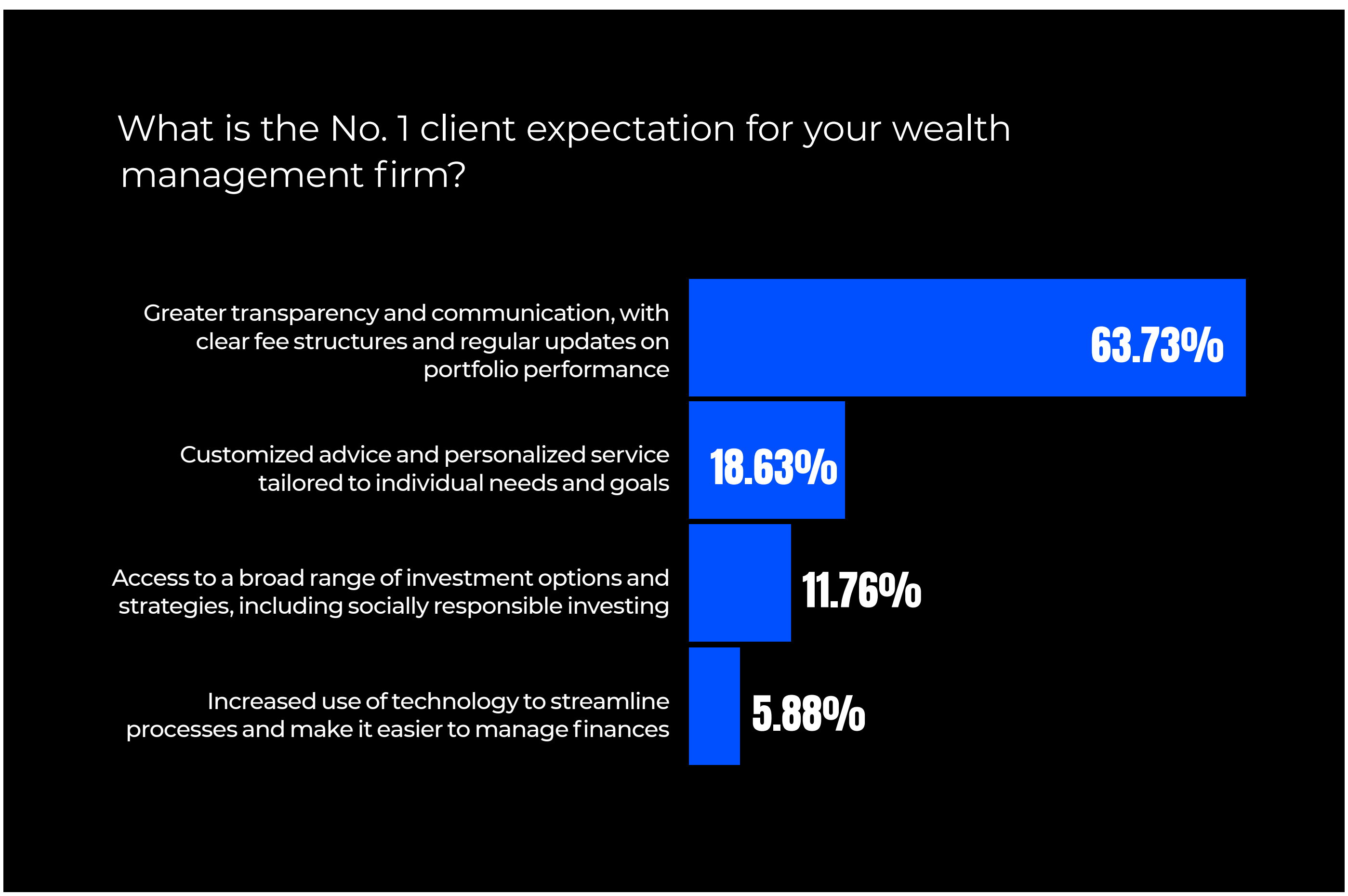
The U.S. will undergo one of the largest generational wealth transfers in its history in the next 5-10 years, as the youngest of the baby boomers retire and the oldest begin to move into their 80s. Meanwhile, Gen Z and millennials continue to come of age professionally and are moving into leadership positions alongside Gen Xers.

During this transition, wealth management firms face the challenge of catering to their existing clients who are at, or approaching, retirement age while also cultivating new relationships with clients from younger — and potentially more diverse — demographics.

Firms seem to realize the importance of serving both their long-term and new clients equally well, if they are to remain fiscally viable. Sixty-four percent of respondents name "meeting client needs" as one of their top three concerns.

Diving deeper, when asked to identify their clients' top service expectation, 64% of wealth management firms believe their clients most want transparent communication and clear fee structures. Significantly, just 6% of firms feel their clients' top expectation involves increased technology.

But this latter assertion may be one area where firms are selling their clients short. Millennials and Gen Z have grown up with technology and expect every aspect of their lives — including wealth management — to be technologically augmented, such as being accessible on demand and via mobile app. Moreover, many older investors are increasingly comfortable in using technology applications, a savviness wealth management firms frequently underestimate.



New approaches for new clients

Notably, 71% of wealth management firms say client acquisition has a “major effect” on their ability to achieve their goals. In fact, it was the top-named factor driving goal realization, above managing and implementing change (62%) and funding for technology investment (62%).

But if firms are serious about client acquisition, they must start delivering services — including access to technology, such as easy-to-use digital wealth management and financial health solutions — that younger demographics demand.

To remain resilient, firms must also strive to make wealth investment accessible and enticing to clients from all backgrounds.

Here, survey responses suggest there is much work to be done.

When asked about changes to the client demographics they are targeting, 64% of firms report no change. Of those who are marketing differently, 33% are targeting younger clients, 17% are targeting women and 4% are targeting minorities.

The results spotlight a clear opportunity for forward-thinking firms to set themselves apart from the crowd. By developing targeted outreach to attract new, more diverse populations of investors, wealth management teams can position themselves to successfully navigate the changing wealth landscape of the next decade and beyond.

Which statement most currently represents the changes in who your firm is targeting?

64%	No changes in who we are targeting
33%	We are targeting younger clients
17%	We are targeting women
4%	We are targeting minorities
1%	Other

Priority 3: Technology integration

To stay competitive in a market filled with low-fee and zero-commission trading apps and online investment platforms, most wealth management firms understand the importance of offering consumer-friendly and interactive technology dashboards. Today's clients want on-demand access to detailed information about their financial planning and investment performance.

In this climate, technology integration is not a fad — it's simply part of doing business.

While investments in technology integration and optimization should be applauded, firms need to seriously consider whether their technology budgets are being used in a prudent and effective manner.

Too often, firms want to jettison their existing technology — for example their Salesforce CRM — for something newer, cheaper or similar to use before taking steps to fully optimize and utilize their current technology stack. Many capabilities sit idle or staff aren't fully trained to use them.

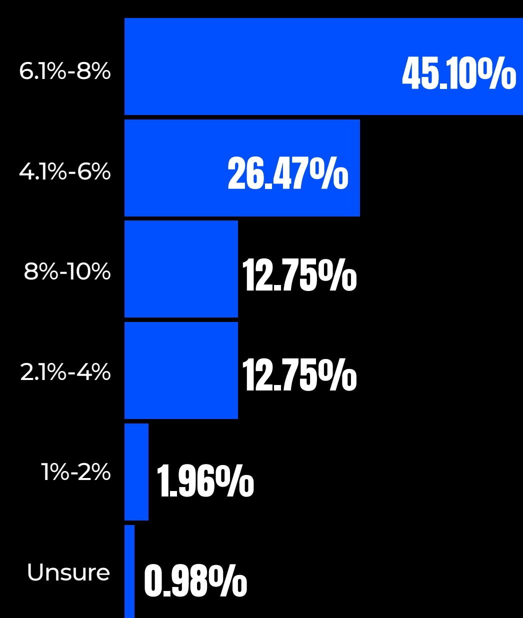
How are the following technology factors affecting the way you currently do business?

59% More efficient client onboarding and account management processes, with digital platforms and apps

58% Greater use of data analytics to inform investment decisions and identify trends

54% Enhanced cybersecurity and data privacy measures to protect client information

What percentage of your annual budget do you have allocated to technology?



According to our survey:

- 59% of firms are using technology, such as digital platforms and applications, to support more efficient client onboarding and account management processes.
- 58% have increased their use of data analytics to inform investment decisions.
- 45% are allocating between 6.1% and 8% of their operating budgets to technology integration.

To maximize the potential of their existing software systems, firms should implement clear, organizationwide policies regarding technology utilization and adoption. They also need to identify leadership teams to help train new employees on legacy systems. And they should consider working with a third party on how to fully integrate and optimize their existing technology and introduce any capabilities they may be missing.

Cybersecurity and data privacy

In 2022, U.S. companies experienced more than 1,800 data breaches. Reports suggest the average cost of a data breach in the U.S. is nearly $9.5 million. Firms of all sizes are at risk; each year, more than one in four victims of cybercrime are small businesses.

Alongside their financial costs, breaches also take a toll on a company's brand reputation and client loyalty. As a result, an estimated 60% of small firms go out of business within six months of suffering a data breach.

Given the importance of keeping client data secure, allocating budgetary investment toward cybersecurity, privacy and regulatory compliance is nearly always a sound investment.

Yet only slightly more than half (54%) of wealth management firms say technology is having a "major effect" on their business practices to enhance cybersecurity, data privacy and measures to protect client information. Again, this is an area where firms could be doing more.

As a strong selling point to their clients, wealth management firms should strive to go beyond minimum regulatory requirements. Technology that supports cybersecurity and data privacy protocols should be a firmwide priority.

Looking ahead

When asked about their most pressing strategic goals for 2023, firms identified six focus areas. All but one, mergers and acquisitions, are fundamentally linked to technology integration — again underscoring the degree to which technology is transforming how wealth management firms do business.

Most important strategies:

65.69%	Automating processes to extend geographic reach
64.36%	Improving digital client engagement
60.40%	Data analytics/AI
58.42%	Cloud adoption
57.84%	M&A
56.86%	Labor-replacing and/or staff-augmenting technologies

Rethinking mergers and acquisitions

M&A continues to be top of mind for wealth management firms. Nearly 60% say potential acquisitions are an "extremely important" factor in their strategic goals for 2023.

Many firms look to M&A to remedy their organic growth challenges, but in practice it can often actually amplify them if the acquiring firm is already struggling with its own organic growth problems.

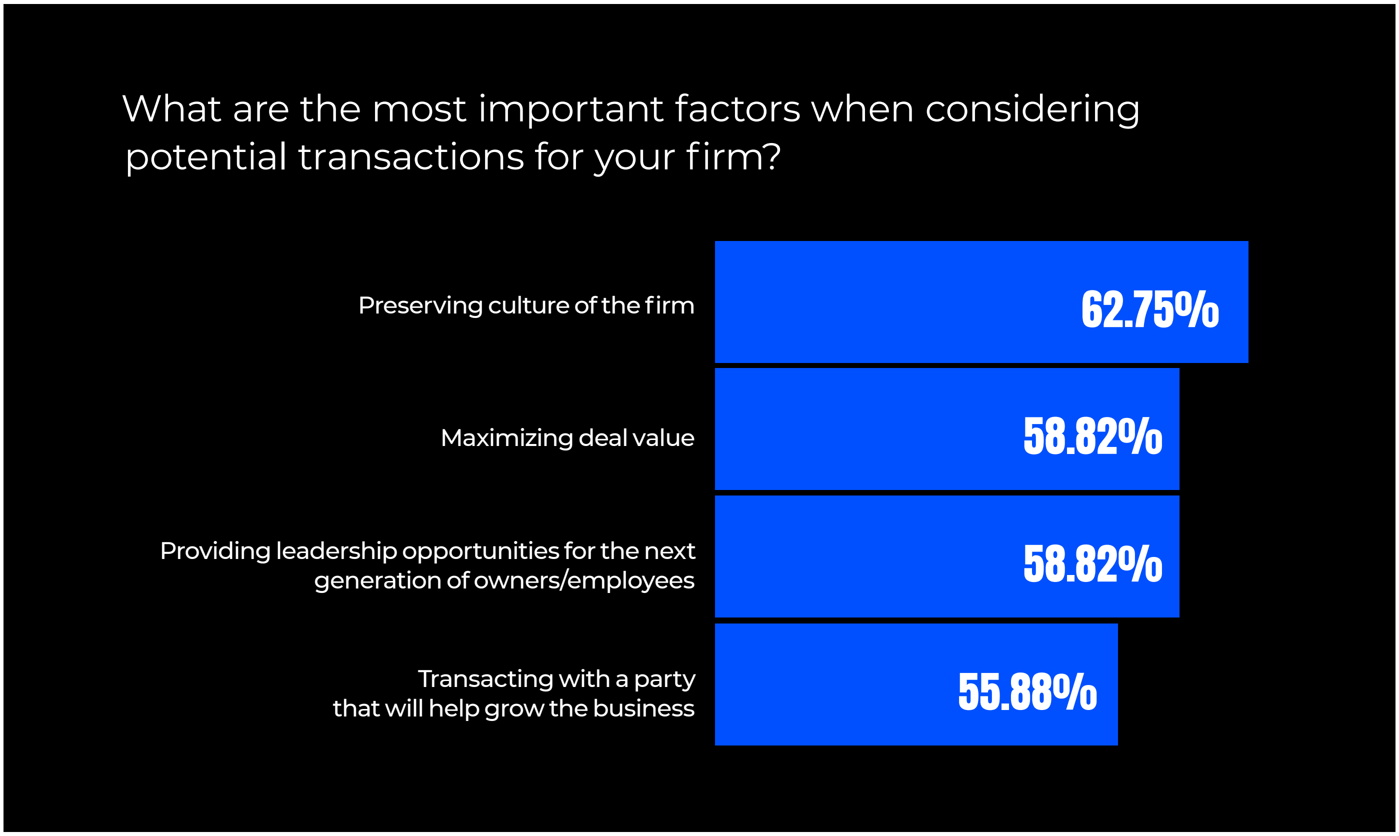
Successful M&A requires an intentional focus on what the firm will look like post-acquisition. This includes integration, leadership succession planning, employee journey mapping and strategies to retain or improve firm culture, as needed.

Too often, firms make succession planning and employee growth mapping an afterthought of M&A, when in fact they should be driving factors in the initial due diligence process. Without proper success planning, firms risk losing a positive sense of corporate culture following M&A and employees can be left without clear purpose or direction.

Interestingly, respondents ranked preserving the culture of the firm as the most important factor when considering potential M&A transactions, ahead of maximizing deal value and opportunities for new owners. This might stem from 20/20 hindsight among respondents who were involved in deals that didn't handle culture issues effectively.

M&A works best when everyone — from executives to frontline advisors — are aligned and in sync regarding the new firm's corporate and cultural goals, well before the deal is finalized.

Whether they pursue crypto or not, banks need new ways to bring in money. For a long time, interest rates squeezed margins. And now, inflation is shrinking revenue. They cannot count on "business as usual" to keep them afloat.



Thoughts on the future

As wealth management firms face continued, robust investment service competition from banks, fintechs, mobile applications and other online competitors, their resiliency depends on providing top-tier, individualized client service.

Yet, less than half (48%) of firms say their business is focused on personalized advice and holistic financial planning.

To stay viable, firms should go all-in on differentiating themselves from online and app-based investment competition. They need to sell the value of working one-on-one with a trusted and experienced wealth advisor so clients are less likely to attempt to manage their investments solely through autonomous investment platforms.

Firms that prioritize innovative, client-focused services — including user-friendly digital and mobile tech platforms, as 54% of firms in our study report doing — stand the best chance of staying resilient.

New asset classes

In pursuit of resiliency, firms must also be ready to break the mold when it comes to investment opportunities. While stable asset classes will aways be in demand, new generations of investors want opportunities to invest in nontraditional asset classes, including ESG offerings, private equity, blockchain and collectibles.

Right now, 43% of firms offer an ESG asset class while another 18% plan to do so in the future.

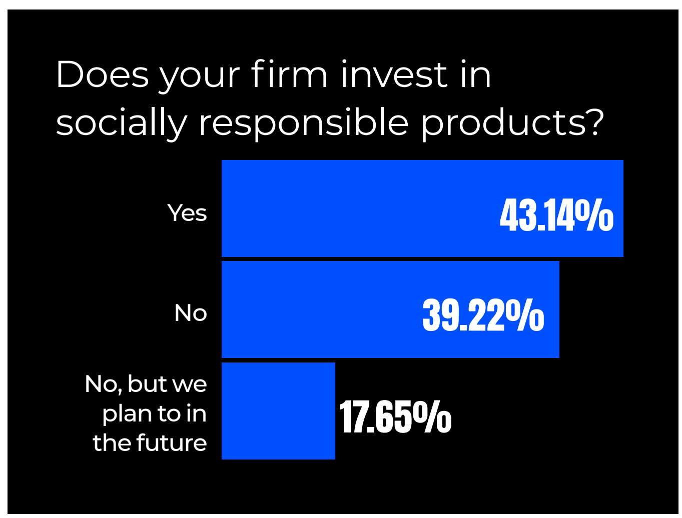
Firms that currently provide ESG opportunities primarily classify their offerings as "socially responsible" funds or MSAs, or funds with a percentage of assets devoted to ESG.

How has your firm been affected by the following wealth management trends?

54% Emphasis on digital and mobile technology, with more clients seeking to manage their finances online or through apps

51% Shift toward passive investing and lower fees, driven by increased availability of low-cost index funds and ETFs

48% Focus on personalized advice and holistic financial planning, with more firms offering comprehensive services beyond investment management



What ESG (environmental, social and corporate governance) structures do you currently invest in? (Only asked to those that answered yes in prior question.)

64% Socially responsible funds or MSAs (i.e., ESG-dedicated porfolio)

64% Funds that have some portion of their assets dedicated specifically to investing in addressing ESG issues

50% Carbon funds/investment in carbon credits

Staying focused

Firms should pause and take stock of their current operations to ensure they're supportive of their overall mission.

Significantly, 53% of firms have a strategic plan but do not review it or update it on a consistent basis. Only 38% of firms review their strategic plans annually to ensure they remain relevant.

Commitment to yearly strategic planning is vital. Without it, firms have no way of gauging whether their day-to-day policies and procedures are working to support their stated, key strategic priorities.

Specifically, wealth management firms should assess and strengthen their strategies to address three pillars of success:

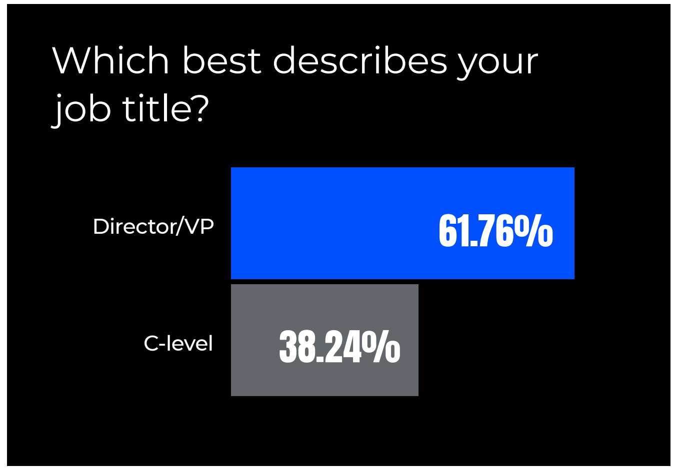
- Employee retention and recruitment
- Client cultivation
- Technology integration

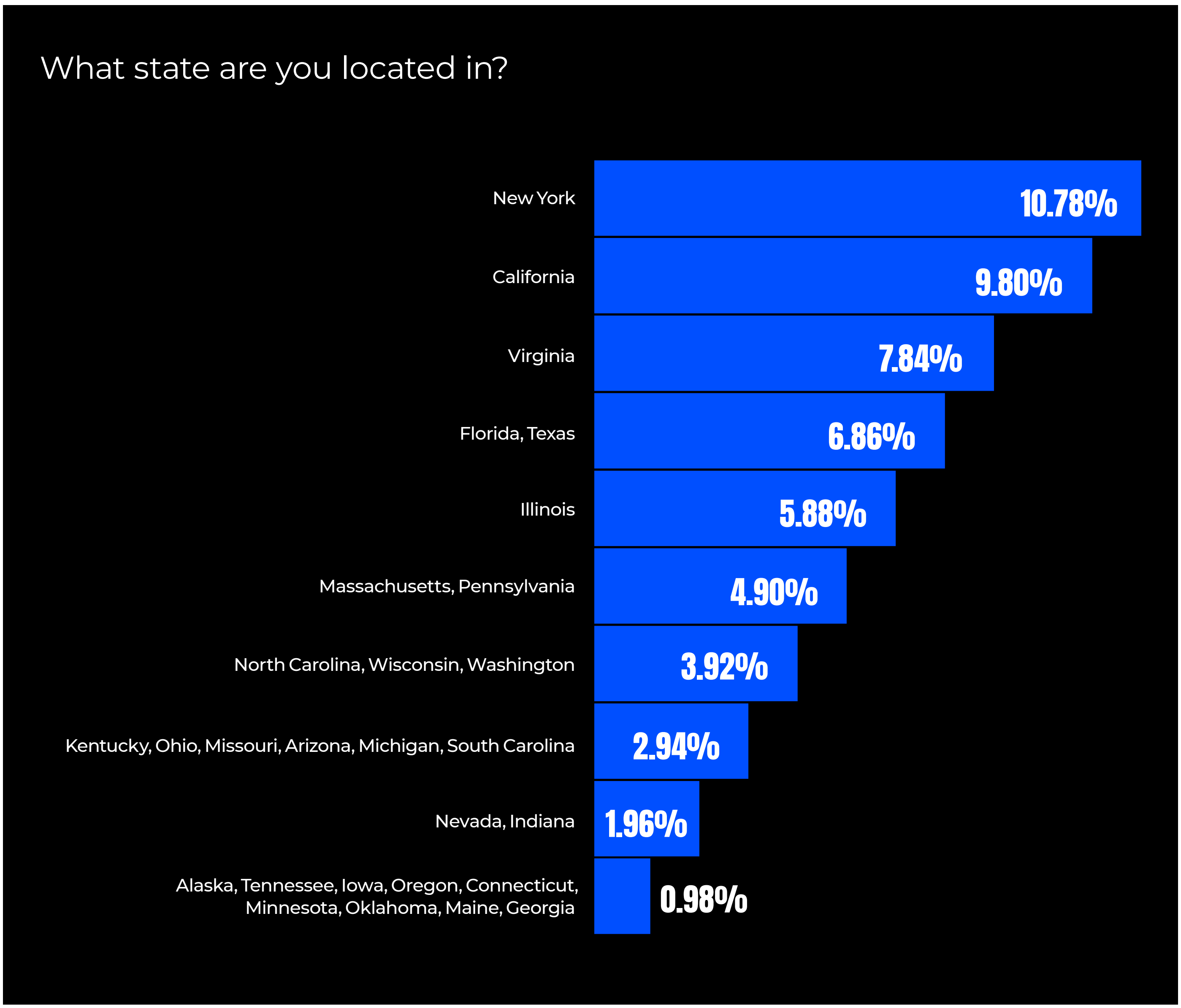
Our survey results make one overarching takeaway clear: By building solid employee, client and technology foundations, wealth management firms can stay on course to weather whatever volatility still lies ahead, from market uncertainty to the ongoing labor shortage.

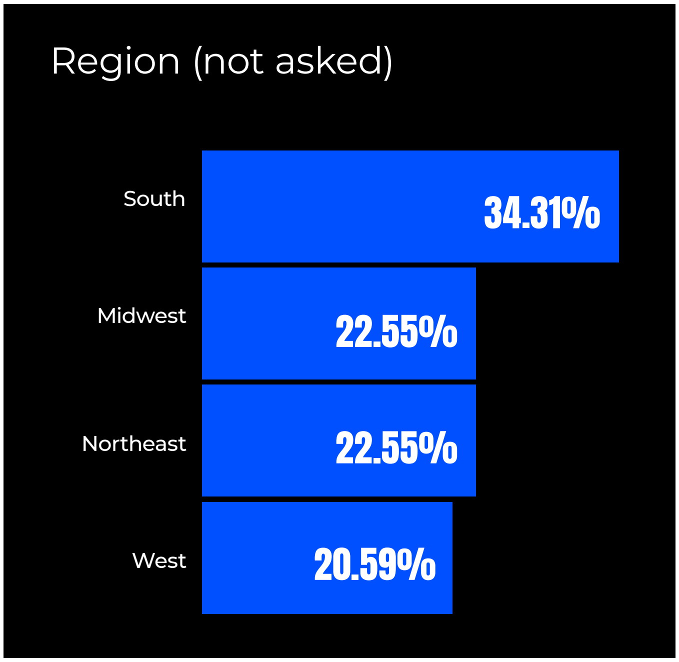
Appendix: The raw data

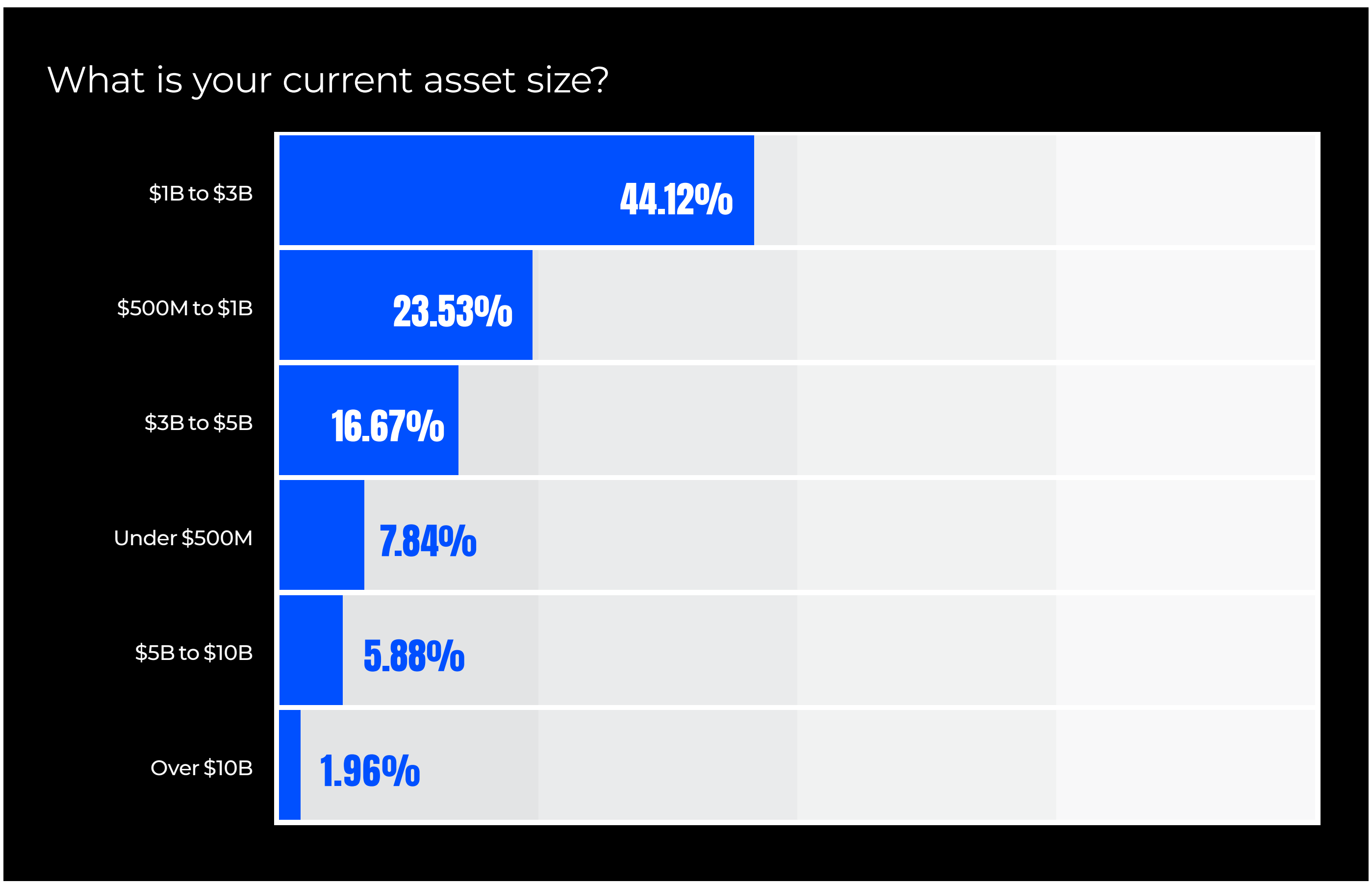
Wipfli received survey responses from 102 wealth management firms across 28 states.

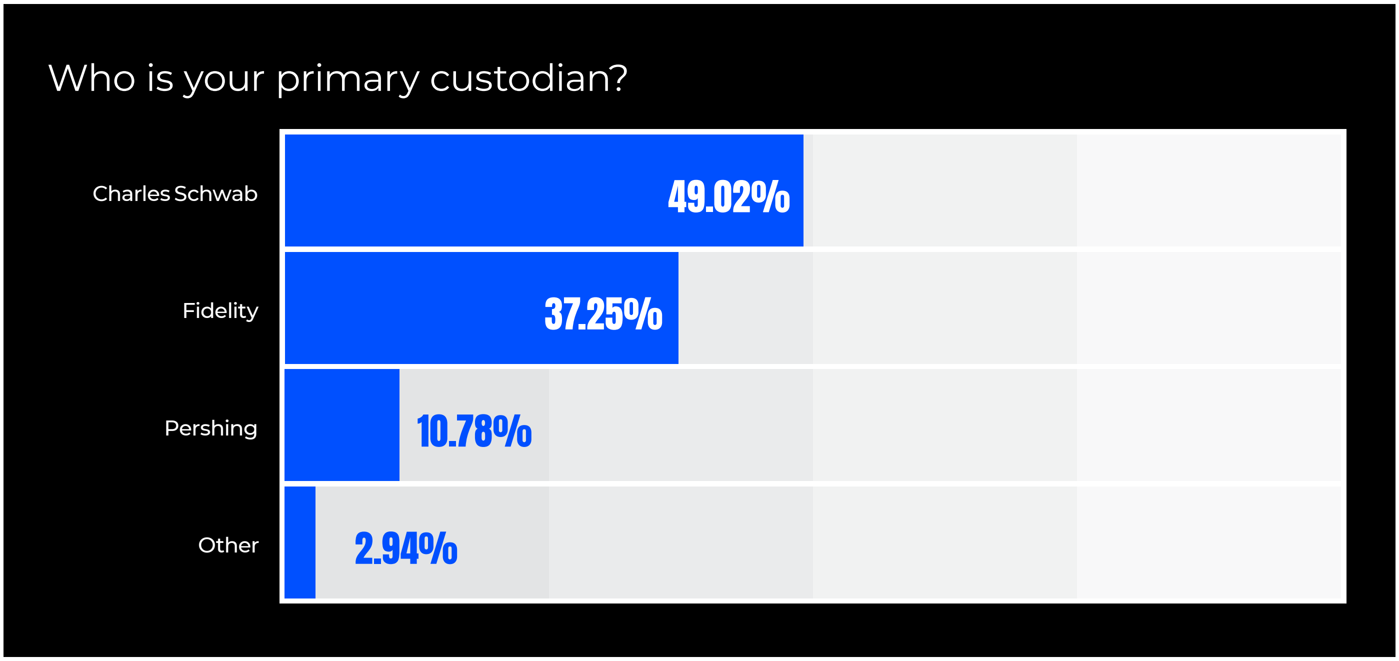
The survey was emailed and the answers were collected in May 2023. All responses were confidential and anonymous.

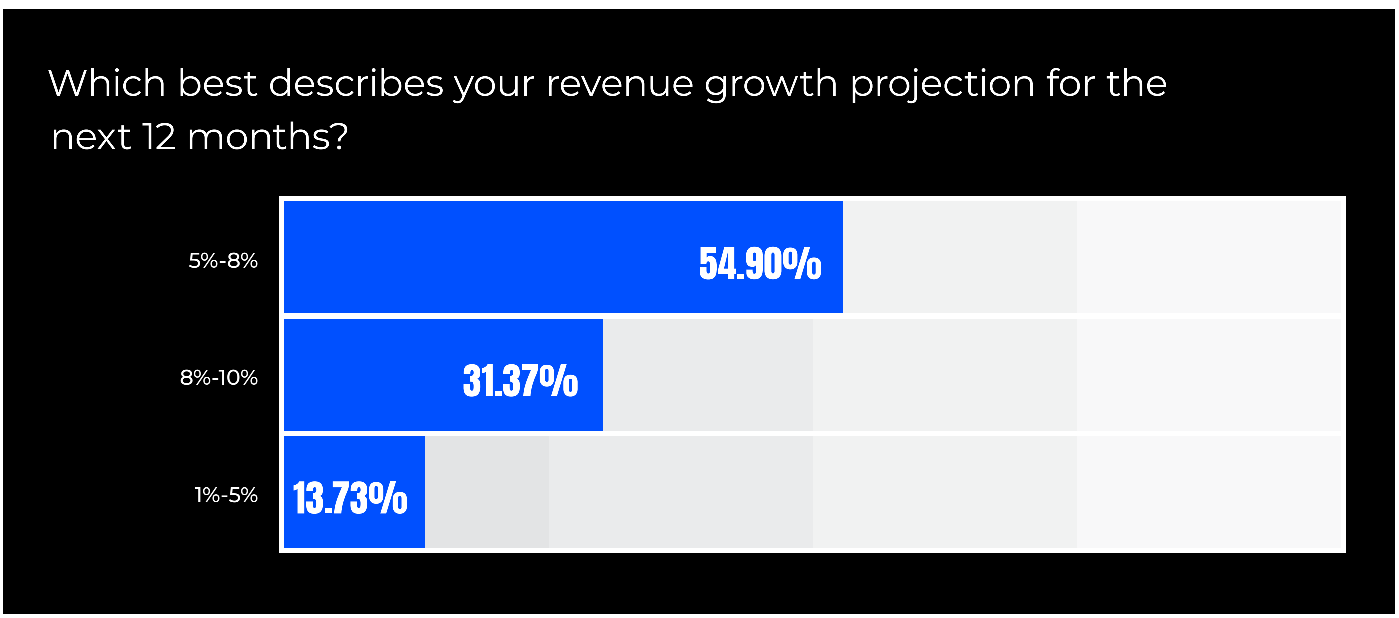





Region (not asked)
South
34.31%
Midwest
22.55%
Northeast
22.55%
West
20.59%

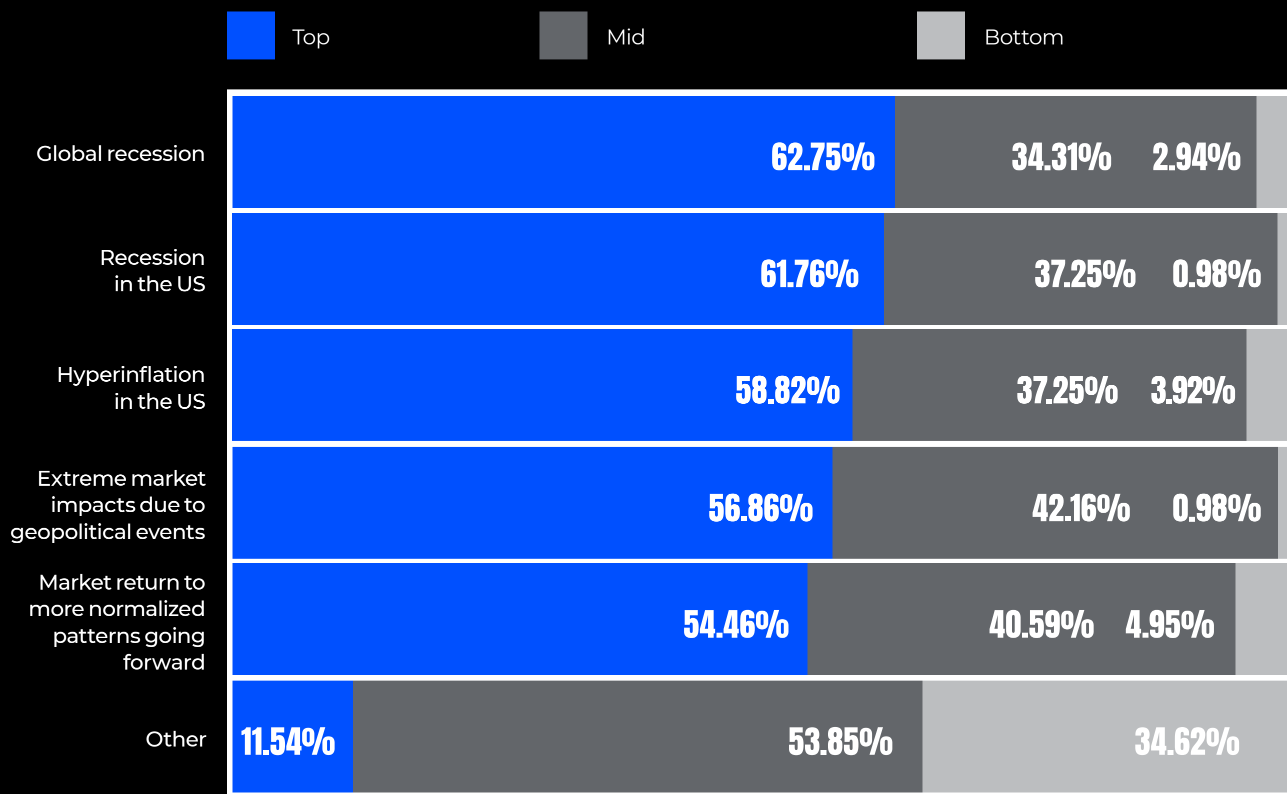

What is your current asset size?
$1B to $3B
44.12%
$500M to $1B
23.53%
$3B to $5B
16.67%
Under $500M
7.84%
$5B to $10B
5.88%
Over $10B
1.96%


Who is your primary custodian?
Charles Schwab
49.02%
Fidelity
37.25%
Pershing
10.78%
Other
2.94%

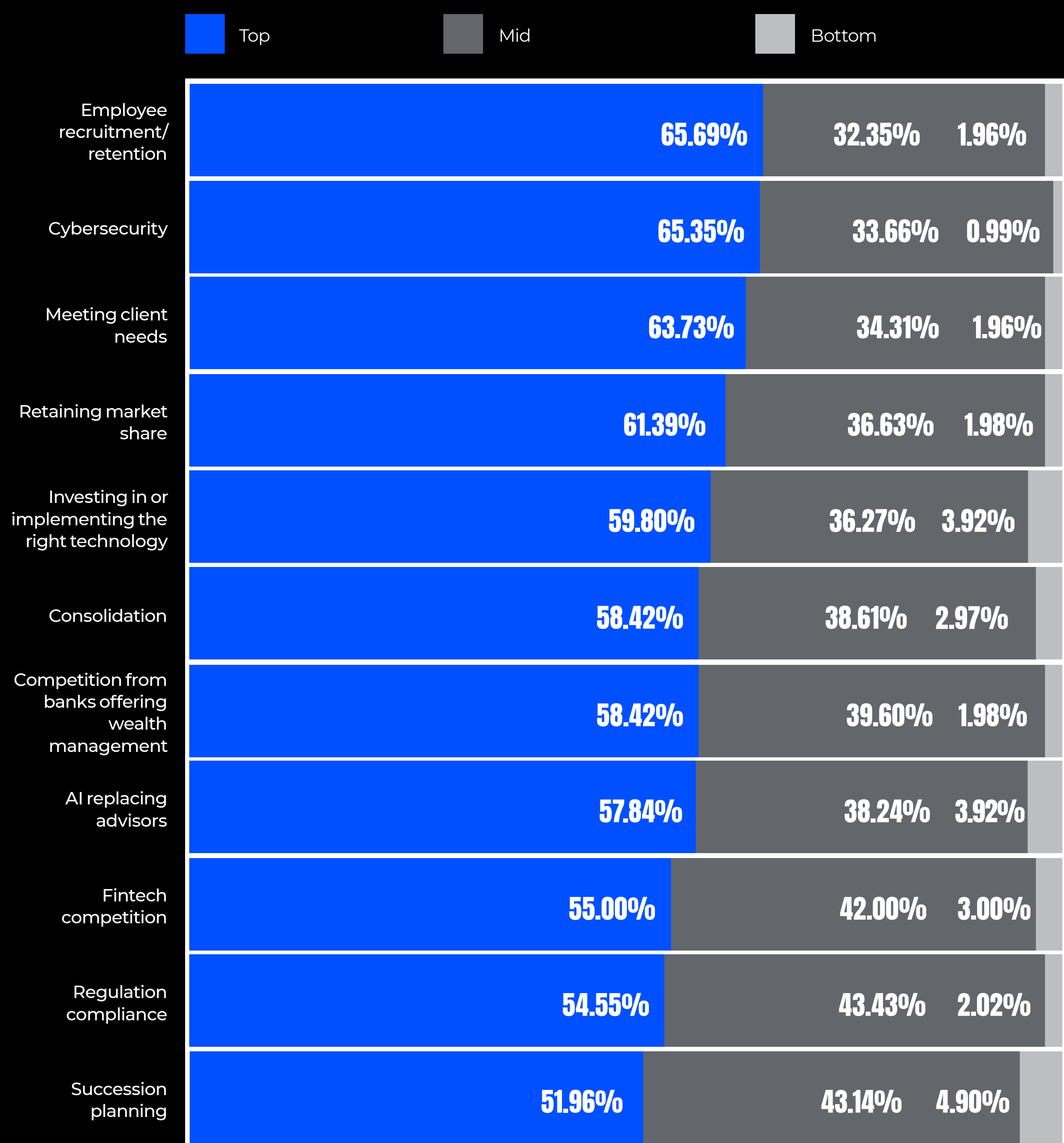

Which best describes your revenue growth projection for the next 12 months?
5%-8%
54.90%
8%-10%
31.37%
1%-5%
13.73%

The start of 2023 has been clouded by economic uncertainty and volatile markets. How likely do you anticipate seeing the following in the next 12 months?

Please rate on a scale of 1-7 with 1 being "Not likely at all" and 7 being "Extremely likely."

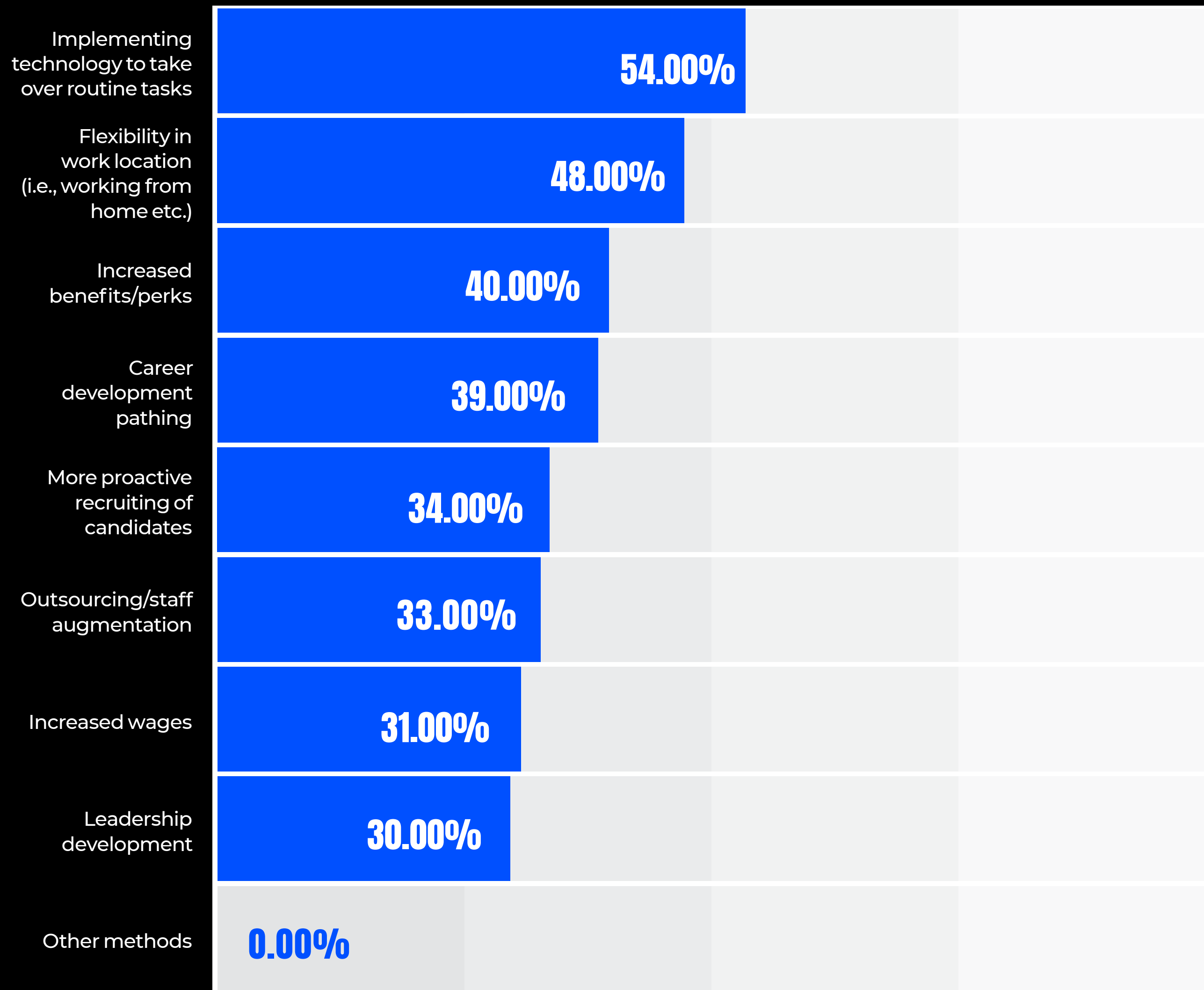


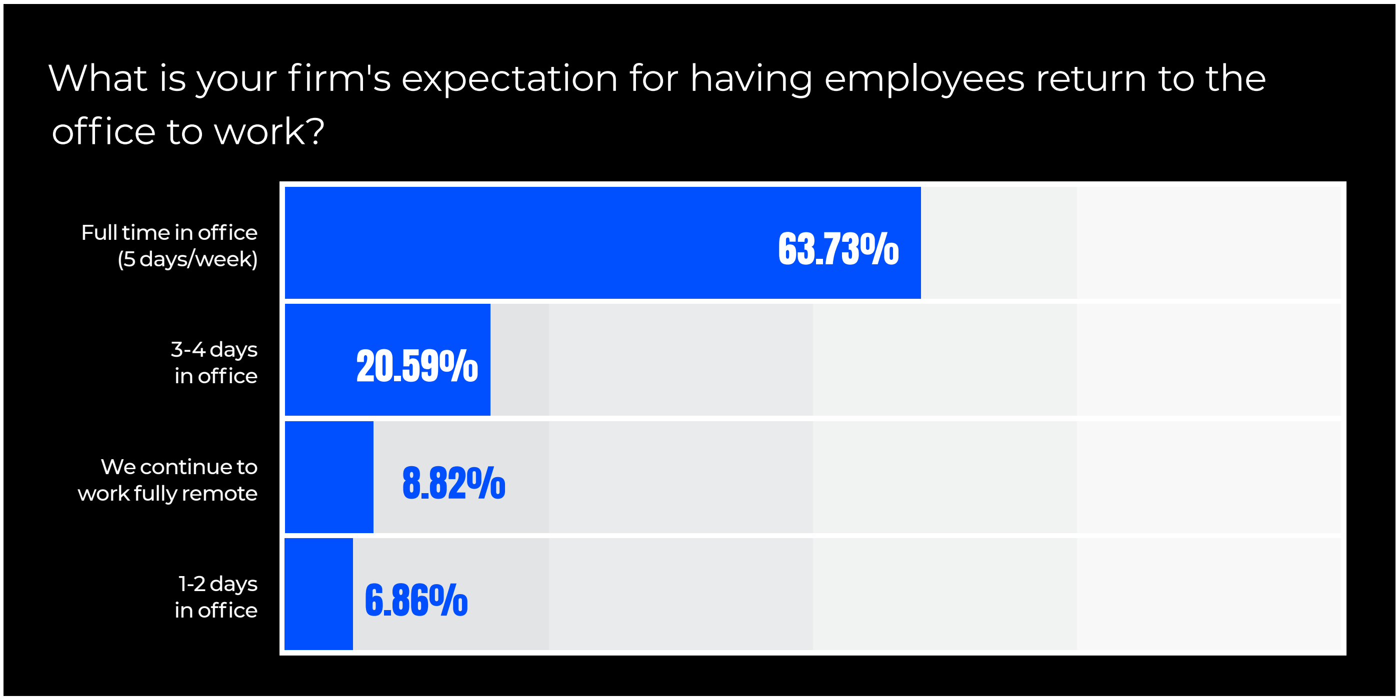
On a scale of 1-7, with 1 being "Not at all concerned" and 7 being "Extremely concerned," how concerned are you about the following?

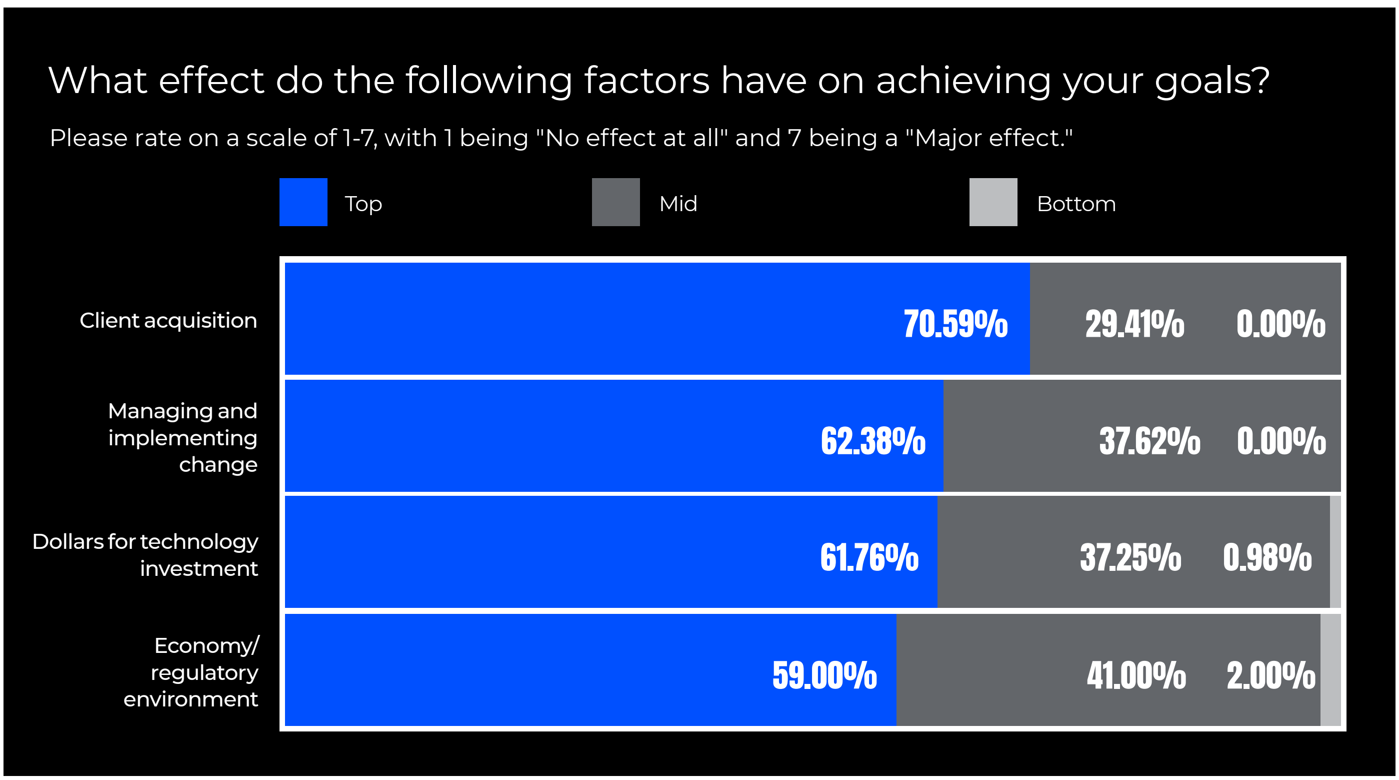


Which of the following methods are you using to address your employee recruitment/retention concerns?

(Select all that apply.) This was only asked of those 67 respondents who rated employee recruitment/retention a 6 or 7.

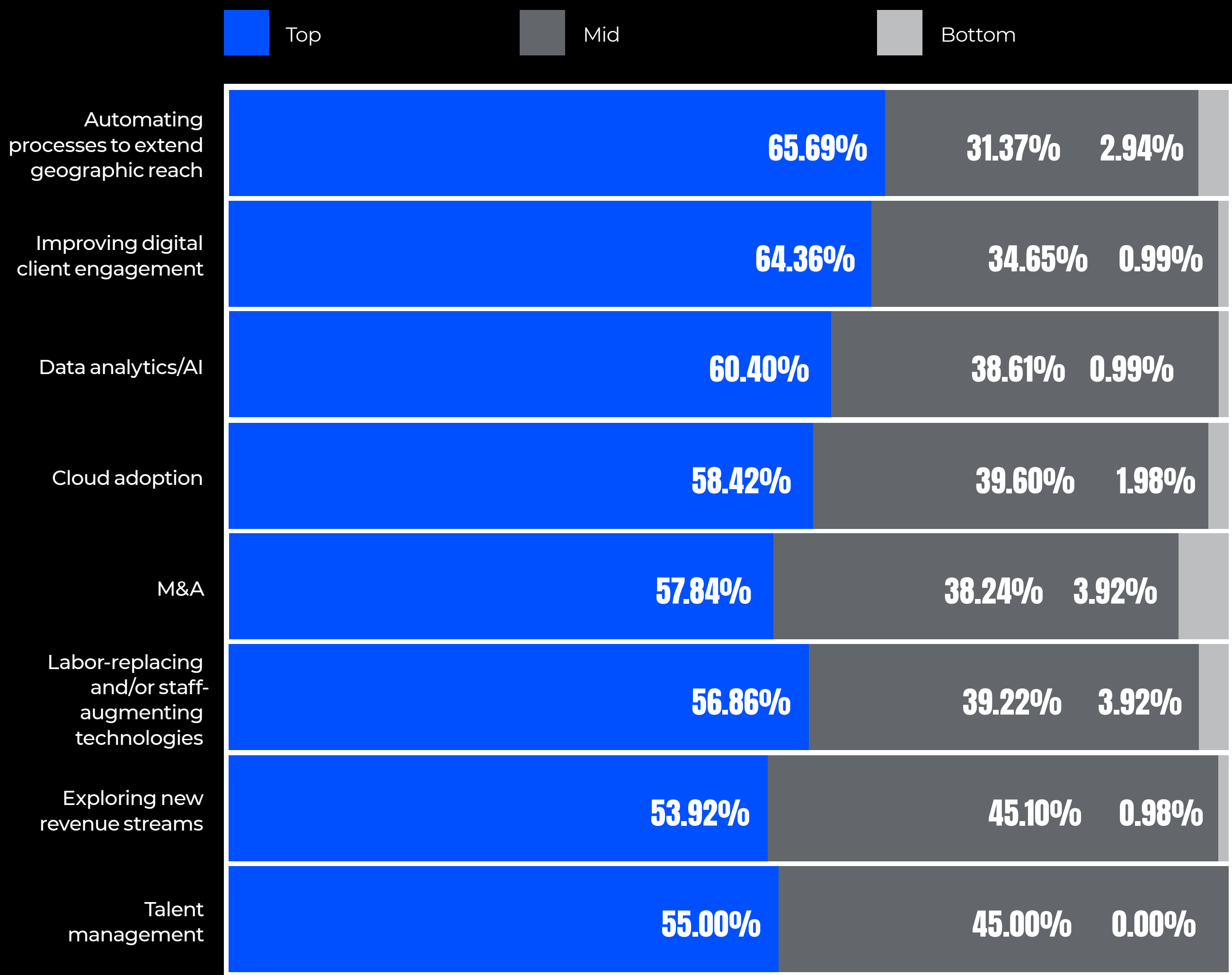



What is your firm's expectation for having employees return to the office to work?
Full time in office (5 days/week)
63.73%
3-4 days in office
20.59%
We continue to work fully remote
8.82%
1-2 days in office
6.86%


What effect do the following factors have on achieving your goals?
Please rate on a scale of 1-7, with 1 being "No effect at all" and 7 being a "Major effect."
Top
Mid
Bottom
Client acquisition
70.59%
29.41%
0.00%
Managing and implementing change
62.38%
37.62%
0.00%
Dollars for technology investment
61.76%
37.25%
0.98%
Economy/ regulatory environment
59.00%
41.00%
2.00%

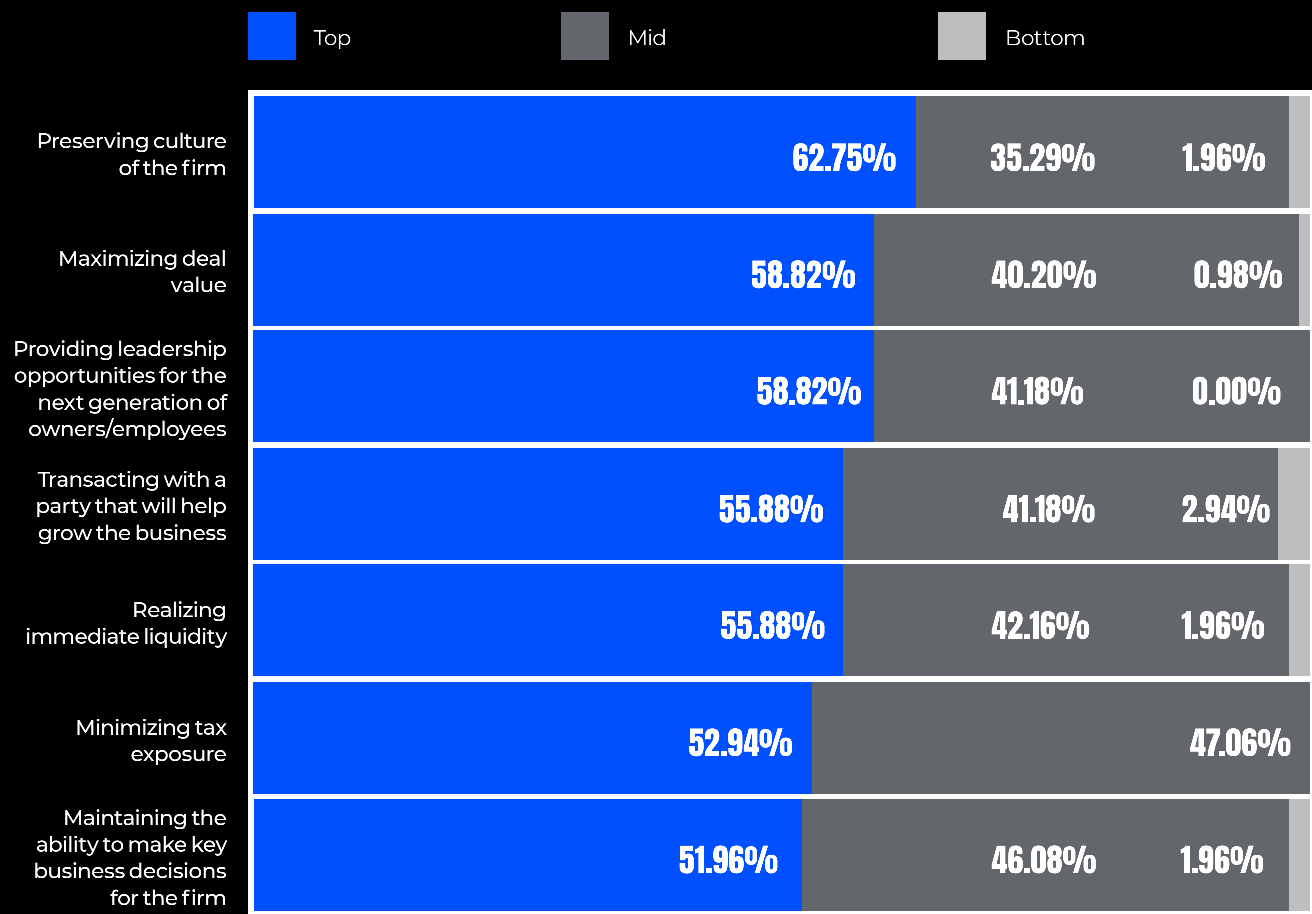
Of the following strategies, which are the most important for your firm in 2023?

Please rate on a scale of 1-7 with 1 being "Not important at all" and 7 being "Extremely important."

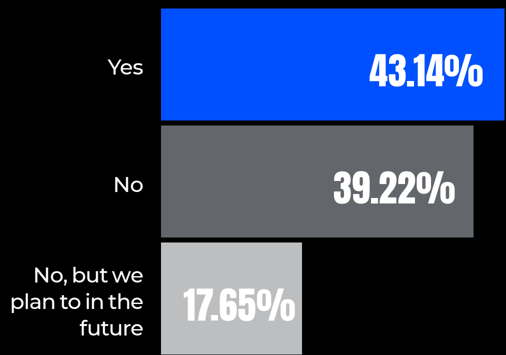


What are the most important factors when considering potential transactions for your firm?

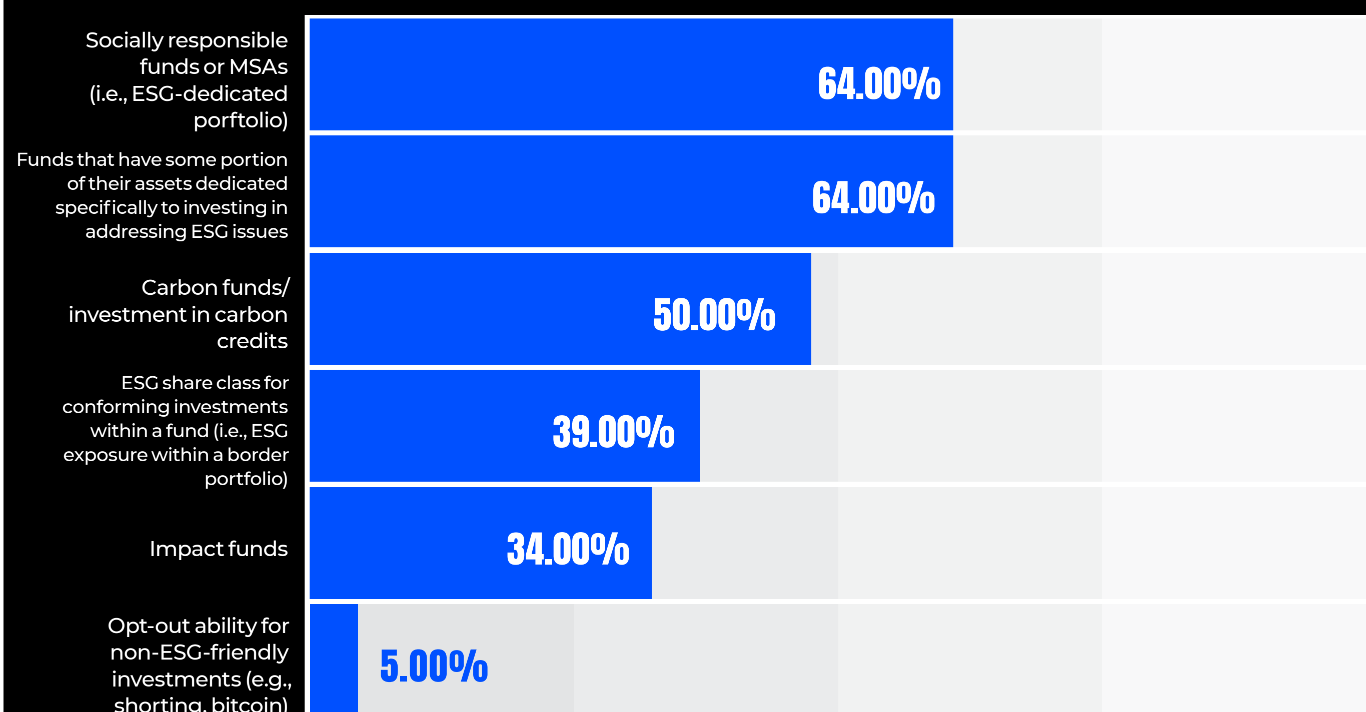
Please rate on a scale of 1-7, with 1 being "Not important at all" and 7 being "Extremely important."



Does your firm invest in socially responsible products? (Select one):

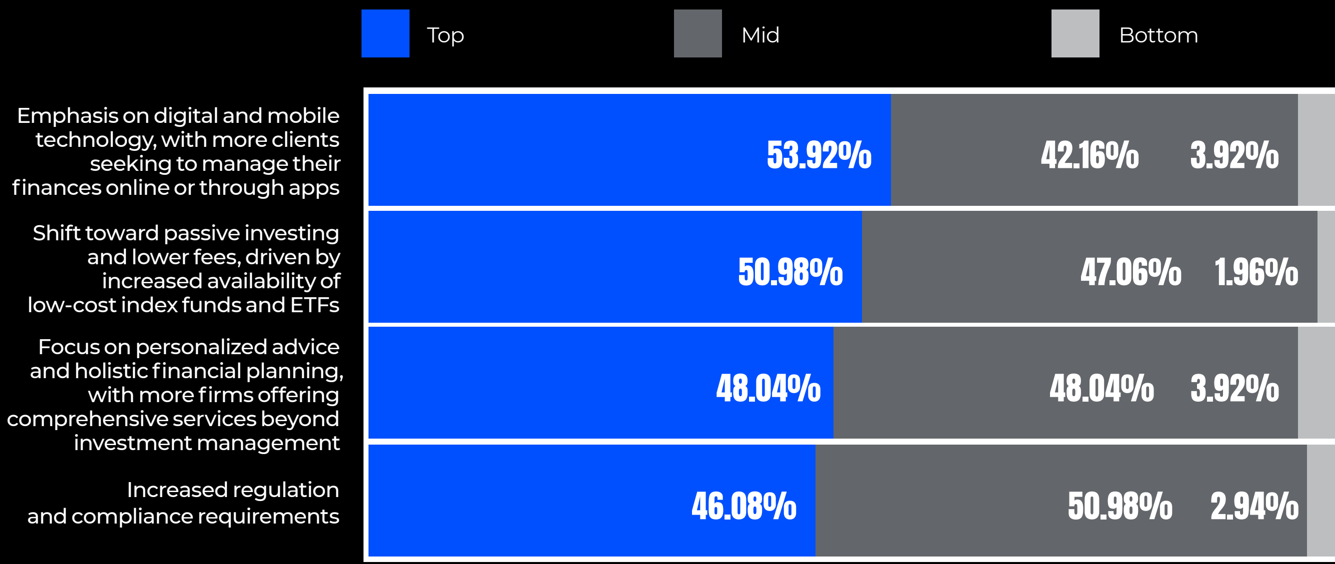


Investors are gaining exposure to socially responsible products via a variety of products and types of fund managers. What ESG (environmental, social and corporate governance) structures do you currently invest in? (This was only asked of the 43.14% that answered yes in the prior question.)

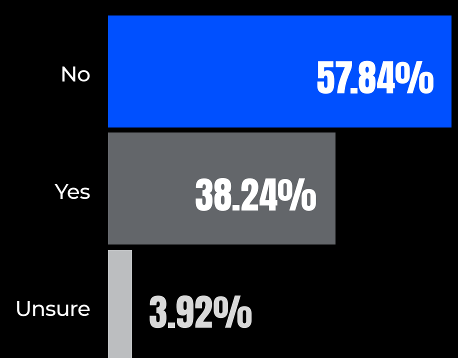


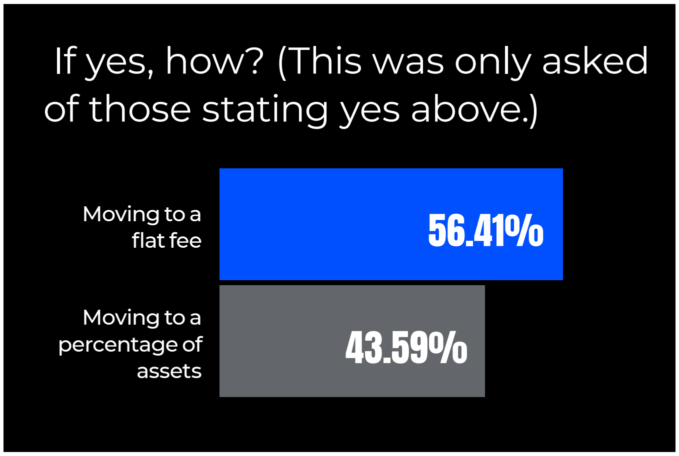
How has your firm been affected by the following wealth management trends?

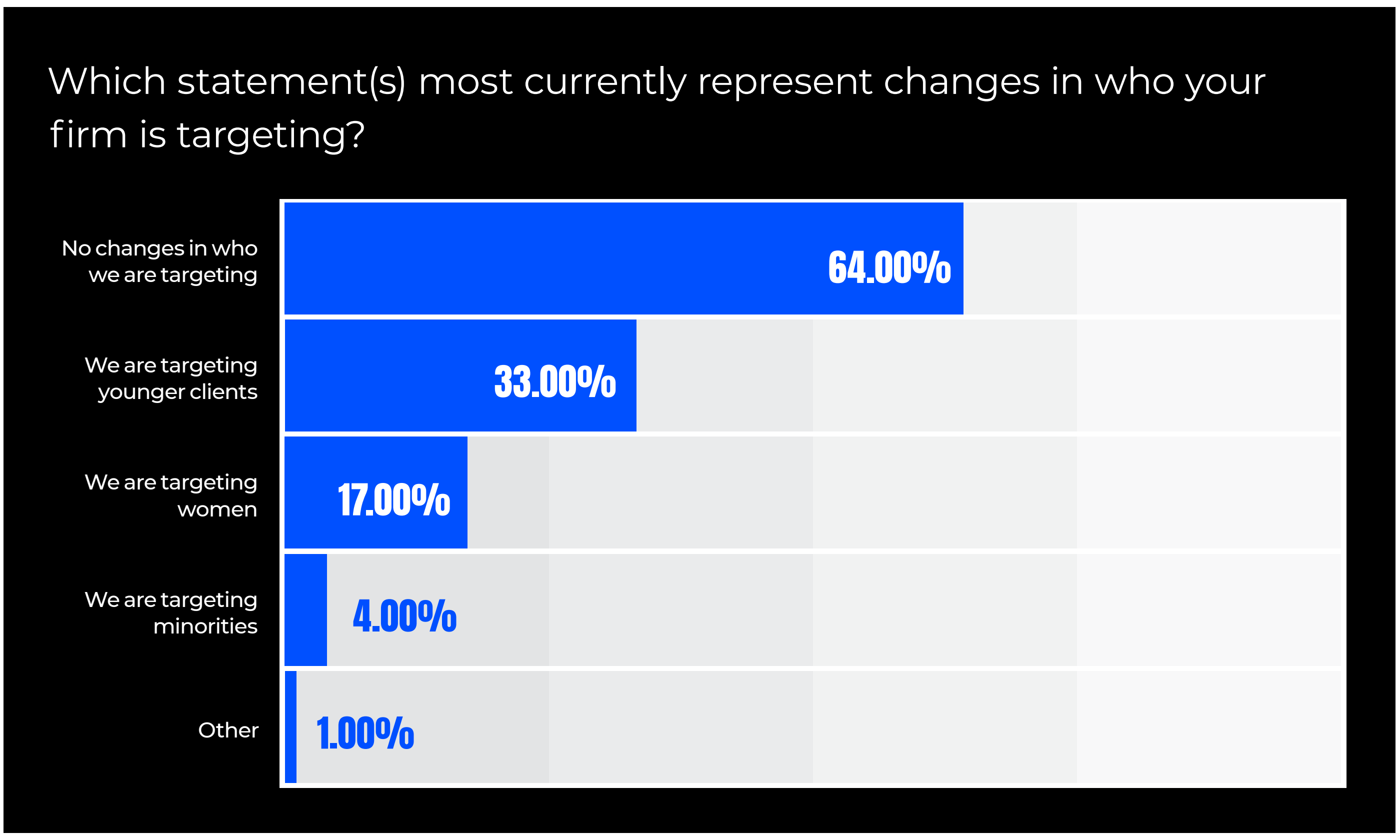
Please rate on a scale of 1-7, with 1 being "No effect at all" and 7 being a "Major effect."



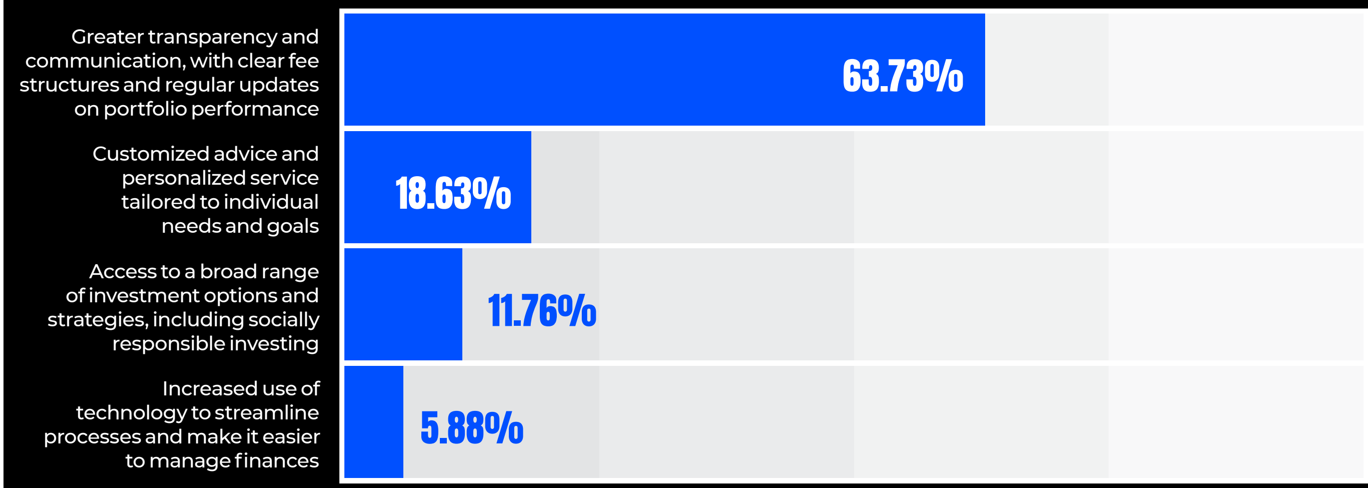
Does your firm plan to change its revenue structure in the next six months?




If yes, how? (This was only asked of those stating yes above.)
Moving to a flat fee
56.41%
Moving to a percentage of assets
43.59%

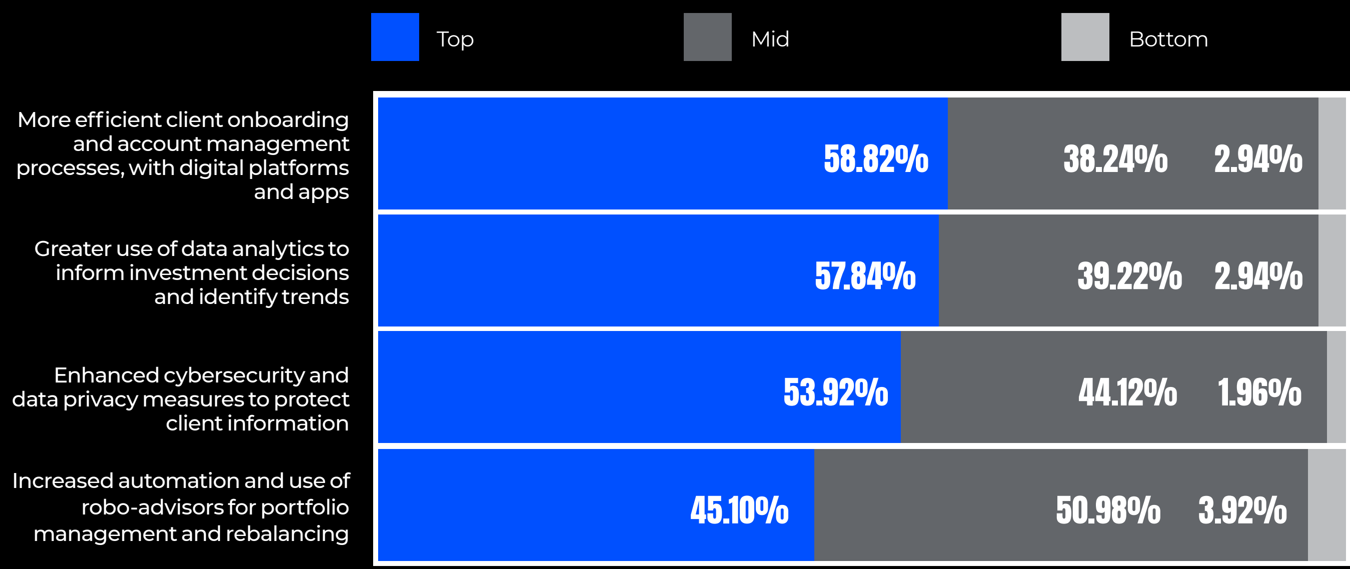

Which statement(s) most currently represent changes in who your firm is targeting?
No changes in who we are targeting
64.00%
We are targeting younger clients
33.00%
We are targeting women
17.00%
We are targeting minorities
4.00%
Other
1.00%

What is the No. 1 client expectation for your wealth management firm?

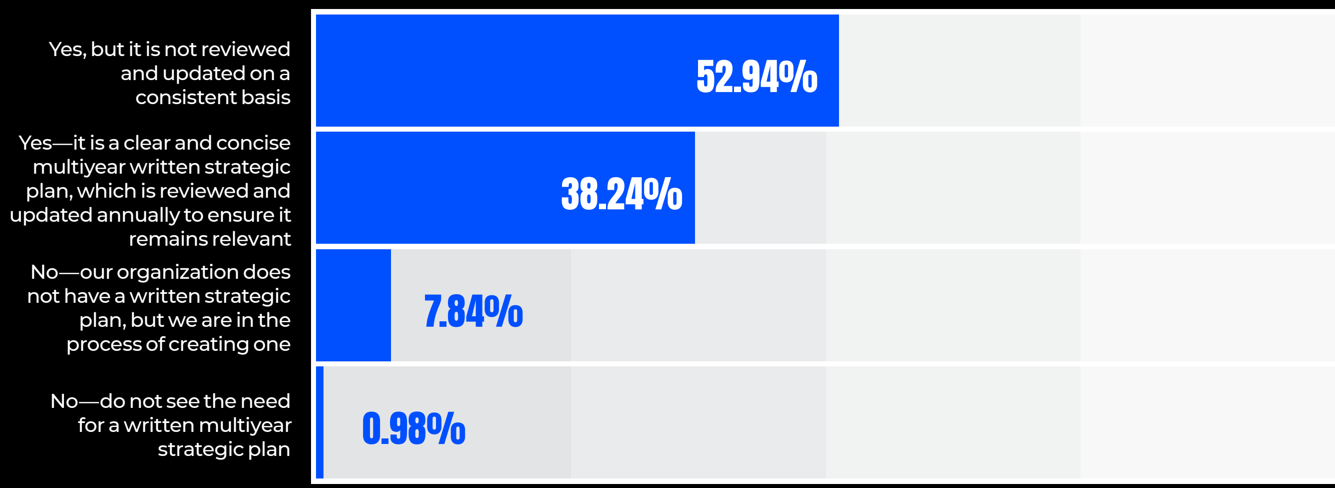


How are the following technology factors affecting the way you currently do business?

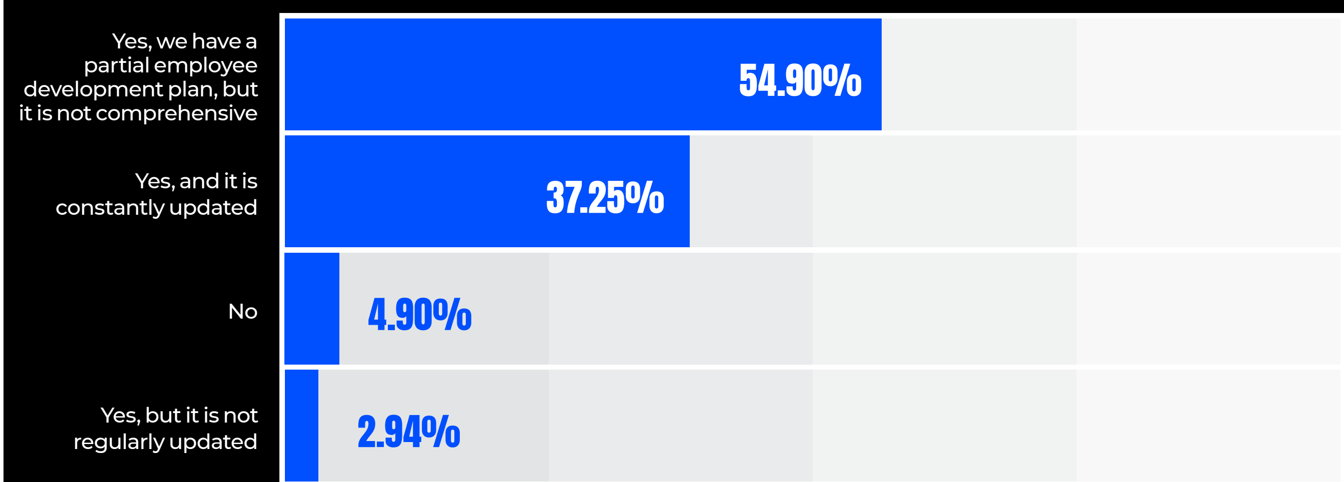
Please rate on a scale of 1-7, with 1 being "No effect at all" and 7 being a "Major effect."

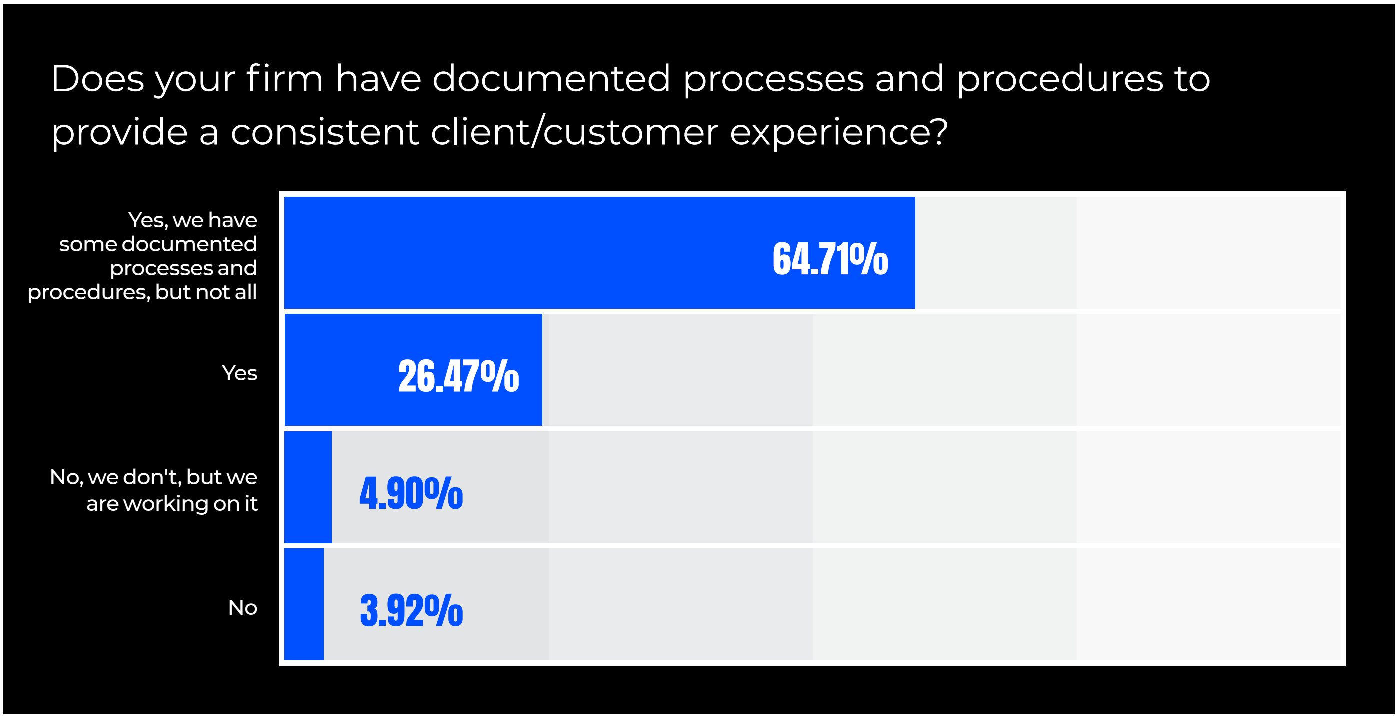


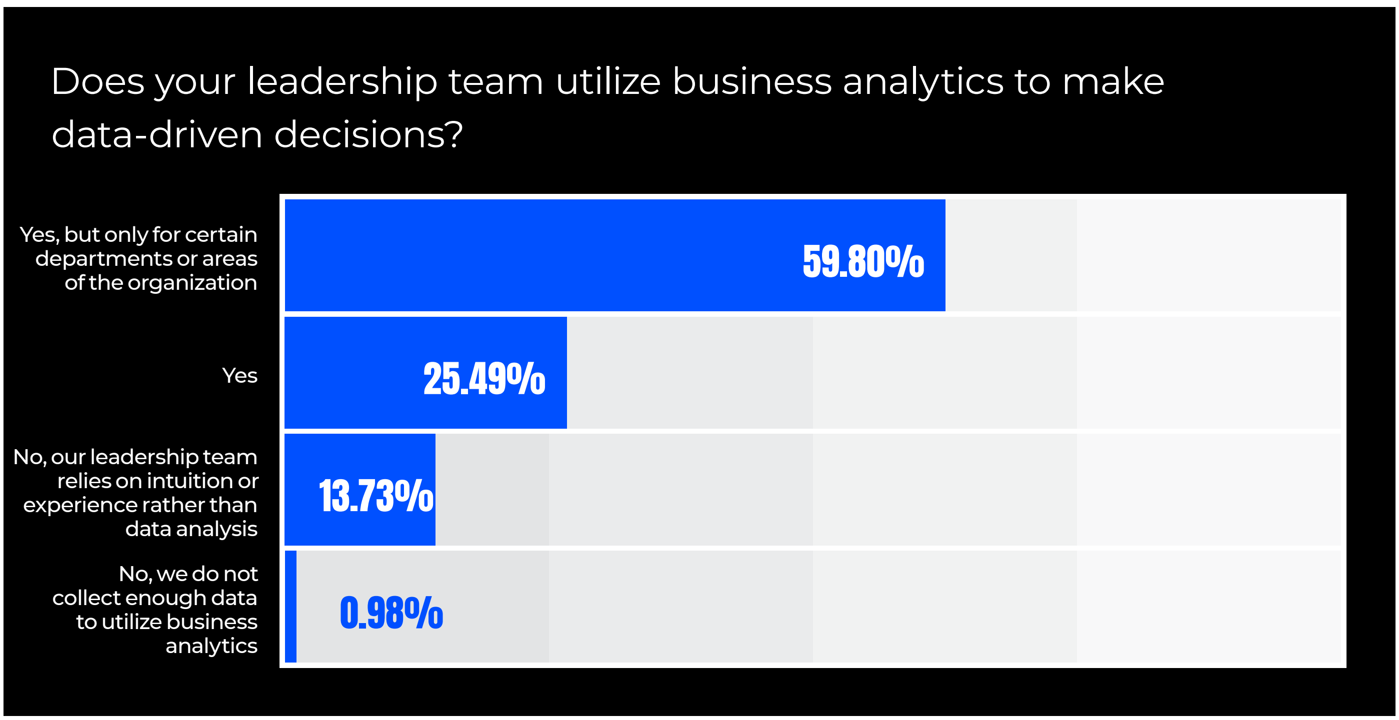
Does your firm have a documented strategic plan?



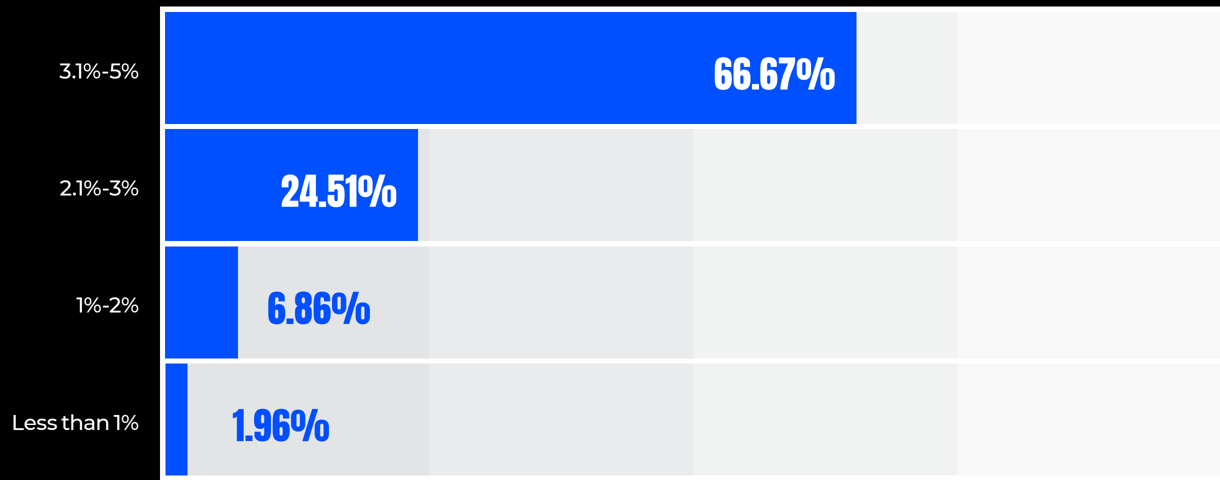
Does your firm have a documented employee development plan?



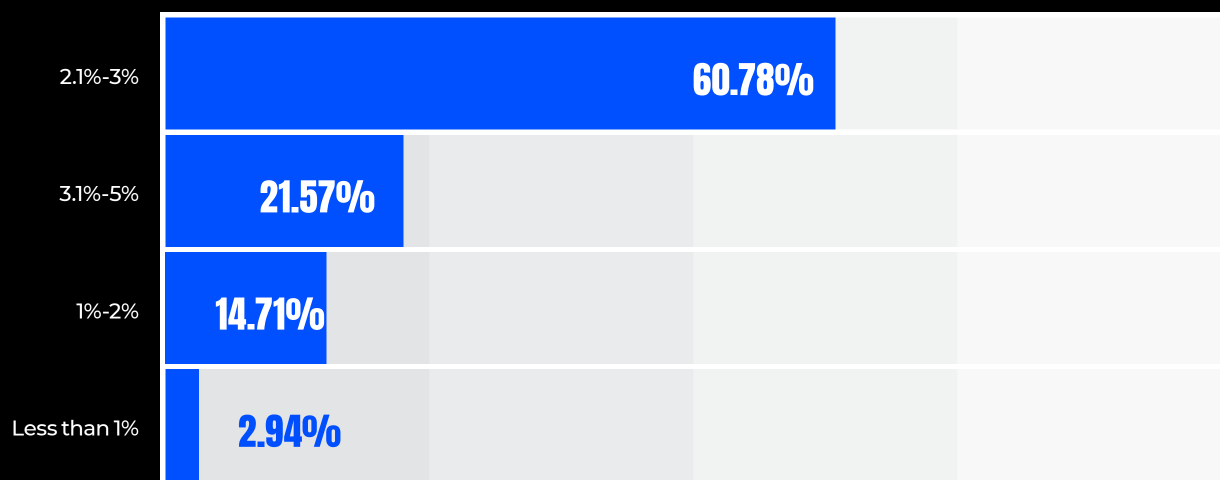

Does your firm have documented processes and procedures to provide a consistent client/customer experience?
Yes, we have some documented processes and procedures, but not all
64.71%
Yes
26.47%
No, we don't, but we are working on it
4.90%
No
3.92%


Does your leadership team utilize business analytics to make data-driven decisions?
Yes, but only for certain departments or areas of the organization
59.80%
Yes
25.49%
No, our leadership team relies on intuition or experience rather than data analysis
13.73%
No, we do not collect enough data to utilize business analytics
0.98%

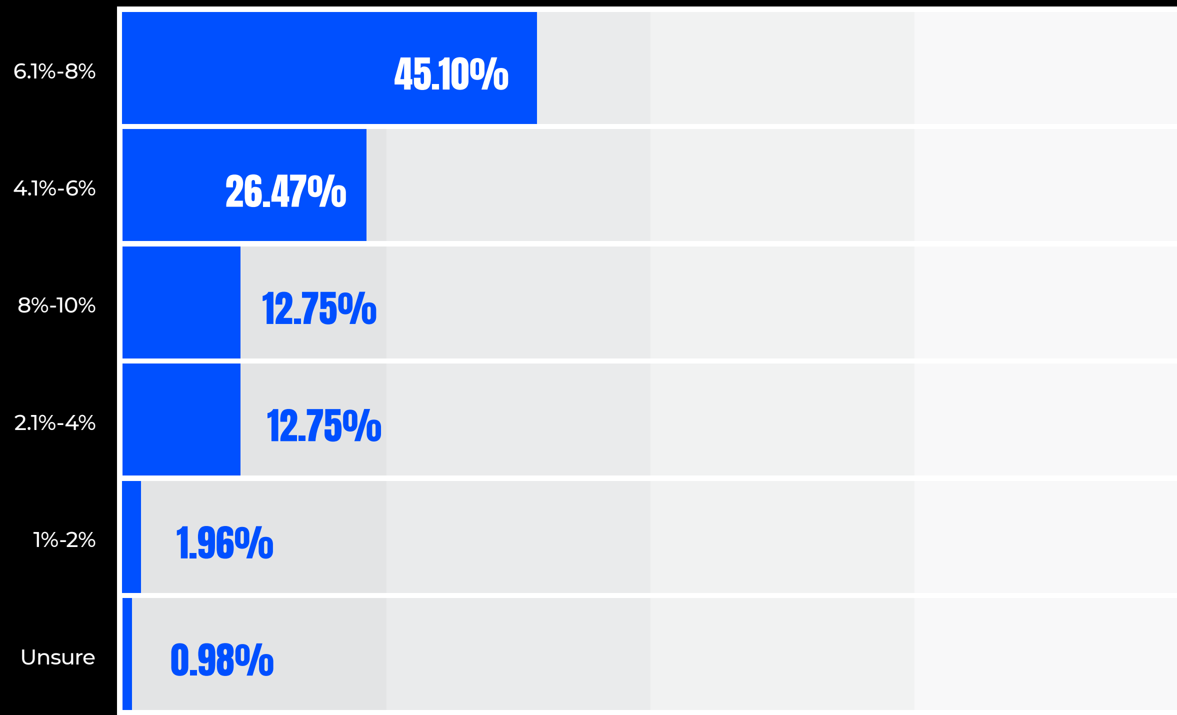
What percentage of your annual budget do you have allocated to marketing?



What percentage of your annual budget do you have allocated to recruitment?



What percentage of your annual budget do you have allocated to technology?



THE FUTURE OF WEALTH MANAGEMENT IS HERE. ARE YOU READY?