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THE WEALTH MARKET IN 2022: WHAT HAVE WE LEARNT?

A LOOK BACK AT SOME KEY TRENDS SHAPING THE FUTURE OF THE WEALTH MANAGEMENT MARKET

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As we start 2022 we've all been living under the shadow of a global pandemic for almost two years.

The wealth management market, like many other industry sectors, has faced significant disruption. This has prompted innovations, such as increased digitisation and improved private client access to data online, that will continue to be important over the longer-term.

But more importantly, the impact of the pandemic has resulted in major shifts in the perceptions, attitudes and behaviours of private clients. This may have permanently changed clients' lifestyle and financial planning objectives.

Arguably many of these changes would have occurred incrementally across the next few years, but the pandemic has accelerated the pace of change dramatically. This has major implications for those advising wealthy clients.

Some of the more notable impacts visible in 2021 can be grouped into four broad trends. Learning from these can help inform our approach in 2022.

CUSTOMER PROFILES ARE CHANGING

The pandemic has played a significant role in focusing the minds of wealthy individuals regarding what future plans they need to put in place to prepare for unforeseen life events, including the impact on their children. As a result of this, many forward-thinking advisers are becoming aware of the need to engage and build a closer rapport with their clients' adult children as well.

The percentage of wealth owned by women is rising. Women are increasingly becoming the main earners in the household and often have larger estates than men to pass on to the next generation.[1] This and statistics that show that women tend to outlive men by roughly four to five years[2] means they are now a growing part of the wealth advice market.

Market comment cites an expectation that spouses of USA male private clients will assume greater control of assets. The importance of this trend is supported by estimates that over the next decade, affluent women in the USA are expected to control an unprecedented amount of assets–potentially as much as $30 trillion.[3] European advisers may wish to consider that historically in the USA 70% of women change their financial adviser within one year of their spouse or partner passing, mostly because they weren't involved in the original financial planning and didn't feel connected to the adviser.[2]

FINANCIAL PLANNING HAS BECOME MUCH MORE COMPLEX

Traditionally, financial planning has focused heavily on a series of long-term conservative and incremental scenario projections based on a static view of a stable future. The pandemic has severely undermined this approach.

Research shows there are heightened private client concerns about the potential impacts of domestic government policy and wider geopolitics on their long-term wealth and their wealth transfer plans.[4] More immediately, nearly a quarter of UK-based private clients changed their investment strategy in 2021 in response to the impact of the pandemic in 2020.[4]

The challenge for advisers is to provide their clients with certainty and peace of mind across both short-term and long-term time horizons. Advisers have an important role to play in delivering concepts such as financial wellness and financial resilience, challenging clients and helping them to think through the unexpected events to plan for, including the previously unimaginable.

A SHIFT AWAY FROM TRADITIONAL ASSET CHOICES

During the pandemic many private clients have sought greater influence over their investments coupled with a sharper focus on the investment impact. A desire to protect their families and their wealth has, for instance, led to a boom in private clients investing in residential and commercial real estate.[4]

In 2022 we expect to see continued growth in the inclusion of alternative and non-traditional assets in private client portfolios as a means of diversifying investment risk.

The pandemic has also triggered further growth in ESG (Environmental, Social and Governance) investing.[5] The growth in ESG investing is in part a response to global challenges such as climate change and inequalities, as well as enabling investors to have a positive impact on society. Globally ESG assets are now on track to exceed $53 trillion by 2025, which will represent more than a third of projected total assets under management.[6]

WEALTH PRESERVATION'S IMPORTANCE IS EVER INCREASING

The pandemic has had a far-reaching impact on many aspects of people's lives and provided a clear reminder of how quickly market conditions can change in a crisis. This has caused many private clients to reassess their financial planning priorities and to reconsider what their lasting legacy should be.[7]

Against this background of changing priorities, in the UK alone over £300 billion will be passed down the generations over the next 10 years.[8] There is also the not inconsiderable matter of the £3 trillion windfall to UK homeowners from main residence house price growth in the past 20 years (one fifth of the country's total private wealth).[9] This "unequal, unearned and untaxed" windfall is expected to be a target for increased taxation in the future as the government wrestles with how to pay for the costs incurred dealing with the pandemic. This shows the scale of the opportunities and challenges facing advisers as they sharpen their focus on providing their clients with updated inheritance tax and inter-generational succession planning.

In parallel with this, the impact of the pandemic has also prompted wealth planners and advisers to reconsider how best to manage clients' wealth to deal with unexpected shocks within a flexible long-term and consistent strategy.[10] The legal structure and efficient tax compliance of a cross-border life insurance policy can provide a suitable wealth planning solution for many clients.

Such a policy can also provide flexibility over the client's lifetime and beyond as circumstances change.

New investments of £5.0 billion in the UK and €36.8 billion in the rest of Europe in 2020 confirmed the importance of cross-border life solutions. There is an expectation that this importance will be reaffirmed when 2021 data, which is forecast to show significant growth, is published.[11]

2022 may shape up to be another challenging year, but many of 2021's trends that the wealth management industry is already dealing with will provide some of the answers.

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