PRIVATE BANKING AND WEALTH MANAGEMENT BETWEEN OPPORTUNITIES AND THREATS

Head Assist. Prof. Plamen Lyubomirov DZHAPAROV, PhD
University of Economics, Varna
E-mail: pl.djaparov@ue-varna.bg

Abstract: *Opportunities for banks in the sphere of private banking & wealth management have been continuously multiplying under the influence of the rapid accumulation and concentration of capital on a global scale and the predicted colossal transfer of wealth between generations. Yet, in order to consolidate their leading position in the industry in today's complex, dynamic and turbulent environment, banks need to adopt totally different solutions and overcome a number of barriers.*
Their response to the challenges posed by the 'invasion' of new players on the market and to the urgent need to change the profile of financial advisors is of paramount importance.

Keywords: *private banking, wealth management, banks, financial advisors, FinTech firms.*

JEL: G21

Introduction

The business field of Private Wealth Management (PWM) has always had a privileged status among banks' clientele. Its special magnetism is due to the decades of confidential relationships between the private banker, on the one hand, and the customer and his/her family, on the other; the high quality, personalized and intensive consulting; the guaranteed privacy and confidentiality of parties and signed deals; the wide range of products and services that often go beyond the framework of the conventional notion of what a bank does, the high return on investment managed by the banker, etc. Over the last years, however, the industry has been put under pressure from various other sectors, and in result the original values and undisputed advantages associated with private banks are no longer sufficient to guarantee their long-term sustainable development. The evolving needs, attitudes and expectations of affluent customers, the mistrust towards banking institutions after the financial crisis, the projected future scarcity of financial consultants and the higher requirements to existing ones, the emergence of new competition, stricter regulations and monitoring measures to protect the interests of investors and the digital transformation of banking are only some of the challenges which private banks are facing today.

The object of this research is the business field of private banking and wealth management, while the scope of the research is the leading trends that render it necessary to have the business reassessed by large credit institutions. The aim of this study is to outline (from the perspective of contemporary market prospects) the specifics of the 'invasion' of technological companies in the PWM sector and to emphasize the need to redefine the role of bank wealth managers. To accomplish this, we set the following tasks to our research:

1. To identify those market trends that 'promise' more opportunities and higher income to the global banks that service affluent customers;
2. To determine the position of FinTech and BigTech enterprises in the competitive landscape of the PWM sector;
3. To outline current and future challenges faced by financial consultants (wealth managers).

The main constraint to the research is that it is practically impossible to relate it to the situation, problems and perspectives of banking in Bulgaria, due to the limited scope and range of private banking in Bulgaria.

1. Market Realities

There are a number of reasons why wealth management is particularly attractive to banks. In the first place, private banking is a business to which growth is 'inherent' due to socio-demographic factors, the boom of entrepreneurship and the growing concentration of wealth worldwide. Furthermore, an analysis of the consequences of the global financial crisis indicates that the sector continued to generate profit even during hard times (PwC, 2010, pp. 6-13). In addition, the business of wealth management is characterized by better growth opportunities, lower equity requirements, higher return on equity (ROE) (in contrast to Retail Banking) and synergy with rest of the banking fields. All this is of particular importance at times when growth is difficult to achieve, equity – expensive, and profitability – close to its price (Deloitte, 2015, p. 2). Above all, wealth management provides a constant and reliable source of income from fees which are of key importance due to the stagnating interest margins over the last years.

In the second place, there are a number of prerequisites for the predicted increasing boom of the wealth management industry in the near future. The baby boom generation (people born in the period from 1946 to 1965) has generated huge amounts of investment assets and other savings.

Upon reaching retirement age, those customers start wondering how to transfer that wealth to their heirs, thus 'paving the way' for wealth transfer of historical magnitudes. According to a research conducted by Accenture, those who belong to the baby boom generation have already started to transfer their savings to their heirs and this process will continue over the next several decades. When it is complete, around 30 trillion US dollars will be transferred to another generation (Accenture, 2016, p. 2). 'At the same time, the market repercussions in the years after the world financial crisis prevented many owners of medium enterprises from selling their business. Thus, the demand is now materialized, and the resulting processes of mergers and acquisitions create significant events concerning the wealth of the owners of enterprises and their families' (Greenwich associates, 2017, p. 3).

Thirdly, due to the depth and complexity of the relationships between banks and customers, the rates of customer migration are relatively low. As a matter of fact, banks perceive the shift of a retail customer to a private one as an effective means to prolong their relationship with that customer, to increase their loyalty or at least to create barriers for having their preferences oriented to another service center (Greenwich associates, 2017, p. 3).

Fourthly, banks that offer wealth management services promote a positive image as a rule. By taking their services to a higher level of banking, they send clear signals to customers and the general public about their capacity to provide complete and competent services in a number of specific and sophisticated areas, which are not provided by all competitors. Another fact that should not be underestimated is that affluent customers who are satisfied with the high-quality and complex services they are offered tend to share their positive experiences with other 'counterparts', which contributes to expanding the customer base of banks without any additional effort or cost.

Within this context, the market prospects currently faced by banks seem more than promising. According to an analysis made by Ernst&Young, the market of net investable assets, NIA[1] as of 2016 exceeded 55 trillion US dollars and for the next five years it is expected to expand by a quarter, to reach nearly 70 trillion US dollars in 2021 (Ernst&Young, 2018, p. 7). On the other hand, calculations made by Credit Suisse point out that in 2017, the wealthiest people in the world (less than 1% of the world's population) owned a greater share of the world's wealth compared to the results during the financial crisis of 2008, when they owned 42.5% of all funds, while 9 years later, their wealth amounted to 50.1% of the world's wealth, since 2.3 million new millionaires appeared within a year (Credit Suisse Research Institute, 2017, pp. 16-23)! This trend is also confirmed by another report, according to which the number of high net

---

[1] Net investable assets are defined as financial assets, collectors' valuables and precious metals owned by the HNWI+ (high net worth individuals) segment (individuals owning over 1 million US dollars), as the sum of financial liabilities, the worth of the main home and the long-term goods and consumables is deducted from them.

worth individuals – HNWI worldwide increased by 7.5% in 2017, while the wealth in the segment increased by 8.2% (Capgemini, 2017, p. 7).

While other fields of finance are fragmented and specialize in wealth management, it seems that bigger truly means better. This is confirmed by the fact that the Swiss bank UBS remained the world's most trusted wealth manager, while large global brands continue to own the 'lion's share' in the industry (Avery, 2018). By the end of 2017 the assets under management – AuM owned by the 25 largest industries in the PWM field, amounted to 16.2 trillion US dollars with an annual increase of 17%. This ranking is topped by UBS, Morgan Stanley, Bank of America, Wells Fargo and Royal Bank of Canada. Asia reported the largest growth – 15.2%, followed by the Americas – 13.8% and Europe – 7.5%. It is also important to note that the costs of the top 25 institutions increased by 8.1% annually, but their income increased at a faster rate – 13.9%. In result, income increased by 25%, while the Cost/Income ratio dropped to under 70% for the first time after 2007 (Scorpio Partnership, 2018). The expectations for the future development of the market are positive, too. Research by PwC shows that 87% of the CEOs of global asset and wealth managers are more or less convinced that the income of their institutions will continue to grow in the medium term (PwC, 2018, p. 6).

Among the key factors to the success of the big wealth management banks are (Roland Berger, 2016, p. 9):

- strategic consistency – clear group/corporate strategy with a strong emphasis on wealth management as the main activity;
- balanced market portfolios – well thought solutions in service of the national (regional) target markets, critical mass in the developed markets and ability to invest in the developing markets;
- strong organic growth – hiring consultants with solid skills: 'clever' positioning among potential talents: specialized and professional HR departments; attractive office locations; strong product portfolios; customer-centered sales management;
- successful acquisitions – clear strategies for mergers and takeovers, financial power, own skills and capacity for successful accomplishment of 'technical' acquisition and integration of the 'target';
- constant optimization of the business model – continuous investments in its updating and development;
- long-term financial perspective – balance between long-term investments and short-term optimization of incomes and costs.

For others, the main advantages refer to: customers' trust supported by governments and central banks; security resulting from strict regulation; lower vulnerability to systematic risks; advantages in pricing (since big players participate effectively in 'making the market'); wide product ranges; reaction marketing ('by word of mouth'); long-term and sustainable market presence (Caproasia, 2016).

A key factor for the success of large banks is undoubtedly their critical mass. In this respect, UBS, for instance, claim that: 'Economies of scale are our clear competitive advantage… A bank like ours is capable of making large sales of assets, mergers and acquisitions, IPO (initial public offering), as well as other activities for increasing the customers' worth. This is of crucial importance, as most of our Asian PWM customers, for instance, are owners of enterprises which are interested in corporate activities for their business, and so they search for banks that are capable of signing corporate deals'. The critical mass provides the opportunity for generating other benefits, according to UBS: 'our scale and commitment have allowed us to build one of the largest and of highest-quality multi-lingual wealth management teams in the region' (Wealth in Asia, 2017). In this respect, it does not come as a surprise that while searching for higher efficiency, in January 2018, the Swiss bank proposes a merger of its private banking units, which up to then are divided into American and international.[2]

The picture we have outlined clearly inidcates more opportunities and higher incomes for the large banks that service affluent customers. In order to take advantage of them, though, they need to overcome multiple difficulties – economic, demographic, regulatory, technological, etc. Logically, we will cover in more details two of them – the new competitors in the sector and the changing role of financial consultants.

2. FinTech's Position on the Competitive Landscape

A number of research studies indicate low customer satisfaction with their banks or wealth managers. Only a third of affluent individuals worldwide claim that they are perfectly satisfied with the services of the banking institution they have trusted, whereas among the customers with assets of over 10 million US dollars, the percentage falls to 22%. Only 39% of customers would recommend their financial adviser to other customers, while the percentage of wealthiest customers who would do so is significantly lower – 23% (PwC, 2016a, p. 23). These findings are also confirmed in other analyses. Even though the return on the professionally managed investments remained above 20% for the second consecutive year, customer satisfaction did not increase at the same rate (Capgemini, 2018, p. 20). In addition, the loyalty and the barriers to 'switching' between different financial institutions have fallen drastically – 73% of private customers have a relationship with a small number of wealth managers, while 4 out of 10 of them are 'open' to changing their servicing financial center (Ernst&Young, 2016b, p. 19).

Such attitudes expressed by affluent individuals undoubtedly create opportunities for increasing competition between large banks – both traditional, involving private banking boutiques, family offices, independent financial

[2] One of the most popular reasons for this solution is that 'the scale is a big advantage in the industry of wealth management' (Avery, 2018).

consultancy firms, law firms, credit associations, etc., and non-traditional, represented mostly by the newly established FinTech companies. As in any other field of financial business, in wealth management, one of the hottest and most debated issues over the last years is their establishment, development and rapid spread. A number of newly established enterprises enter daily the wealth management market to respond to customer demand for high income and access to investment solutions of the highest class. Some of those enterprises allow investors to diversify their portfolios in exotic classes of assets, while others provide them with access to improved trade strategies, yet a third group enable them to do their own empirical research and test their own hypotheses (Deloitte, 2014, pp. 11-12).

Until recently, large banking institutions did not pay serious attention to those starting enterprises and the opportunities they actively create, but the situation has gradually changed. The interest in them is fully justified due to their growing number. Thus, for instance, in Europe, the number of such enterprises tripled between 2015 and 2017, while the number of private banks decreased steadily (Deloitte, 2017, p. 10). From 2006 to 2016, for instance, the number of private banks in Switzerland – the country that is the symbol of banking – shrunk to nearly a third – from 186 to 130 (BankingHub, 2017, p. 14).[3] In the meantime, in the USA in 2017, FinTechs moved up to the group of the top five companies based on costs for research and development, expending a total of 76 billion US dollars (Molla, 2018). In response to the threatening potential of those new market players, 60% of the respondents in a survey conducted by PwC in 2017, identified wealth management as one of the sectors that would be most threatened by them during the next five years (PwC, 2017, p. 10). It is important to note that this opinion is not shared unanimously – some of the traditional players in the sector still believe that they are 'immunized' against the potential threats of new players. In comparison to the other fields of financial business, the highest share of asset and wealth managers (17%) believe that FinTechs do not pose any risk to their industry (PwC, 2016c, p. 4).

Being digital in nature, those enterprises realize 'invasions' throughout the lifecycle[4] of wealth management servicing, including financial consultancies – the cornerstone of the industry (Capgemini, 2016, p. 36). 'Conceived' in the

---

[3] The leading reasons is obvious – the fight of regulatory organs with the banking secret: 'Until ten years ago, customers from around the world would come to Switzerland to find a discrete home for the money they wanted to hide from tax authorities...Thanks to the USA's global fight against tax evasion, however, the days of prosperity of Swiss bankers who could help their affluent customers hide funds have long gone' (Financial Times, 2017).

[4] Generally, the lifecycle of the customers in the wealth management field is divided into five major stages: profiling their needs; developing strategies of wealth management; investing and consulting; relationships and portfolio management; reporting the results and corrections (Capgemini, 2017, p. 28).

high-tech age, FinTechs offer less expensive customer-centered wealth management services based on more efficient and flexible platforms. Besides, many of those innovative enterprises focus their effort on specific areas of the value chain, which increases their specialization and guarantees high quality customer service. Such enterprises not only 'steal' from the market share of traditional players, but also put pressure on margins (Ernst&Young, 2016b, p. 24). According to an analysis made by Deloitte, those fast-developing enterprises have a threatening effect on the industry, mostly by streamlining the access to specialized consultancies and non-traditional investments. It is also claimed that while established players in the wealth management field traditionally focus their attention on the needs of their most profitable (most demanding) customers, digital start-up enterprises mainly target a wide range of clientele of the lower 'floors' of wealth, which helps them in three major directions (Deloitte, 2014, pp. 7-12):[5]

First, the established relation is interpreted from two points of view. On the one hand, consumers need to have multiple banking, investment and retirement accounts 'connected' (coordinated, aggregated) – often by several financial providers – in order to gain overall awareness about their wealth and to manage more easily their financial resources in various classes of assets and enterprises. On the other hand, investors need to communicate with each other, so that they could be aware of what their 'peers' plan and how they invest.[6] They also need to be connected to consultants who fully meet their requirements of competence, sympathy and price. Thus, for instance, with the help of advanced matching technology, customers can now select their relationship manager among all relationship managers in an institution (BCG, 2017, p. 22). By offering their customers such opportunities, FinTech companies help them avoid the so called 'silo' investment, thanks to the integration that goes beyond traditional limitations.

Second, the nature of consulting has changed. Investors who are representatives of the mass affluent clientele often seek advice from trusted sources tailored to their individual needs and circumstances. Customers no longer want to be treated as part of a specific segment; rather, they prefer to be treated as unique individuals 'Just me' with their specific goals and preferences. Furthermore, they would prefer to control their financial life – to understand and grasp the recommendations that they receive and make any important decisions by themselves (Deloitte, 2015, p. 4). In the past, the access to

[5] We should account for the fact that 'due to rapidly developing' technologies, in the future, those enterprises will probably be able to improve and expand their offers to a larger public, without 'sacrificing' the economic advantages which enable them to make profit in the lowest segment of wealth management' (Deloitte, 2014, p. 13).

[6] The new type of investors is more sceptic to those who hold the power than the previous generations. They believe in the knowledge of their 'counterparts' and, in result, they will probably seek opinions from various sources simultaneously, often starting with friends and colleagues (Deloitte, 2015, p. 4).

particular, strictly individual solutions was restricted to affluent investors due to the high cost of personalization. Nowadays, start-ups democratize the provision of financial advice through algorithmic means, which provide the mass affluent clientele with access to 'tailored' investment planning and portfolio allocation. Furthermore, all these developments are 'accompanied' by lower and more transparent fees compared to those charged by banks. This can be the biggest advantage of FinTech enterprises, bearing in mind the fact that according to a survey, the most important trust 'engine' for affluent customers is the transparency of portfolio results, fees and commissions, outweighing the institution's reputation and consultants' objectivity (Ernst&Young, 2016a, p. 14).

Third, we rank investment. Some of the smaller investors are ready to examine the opportunities provided by non-traditional investments or try to imitate certain professional and institutional investment strategies. In response to those trends, the digital start-ups in wealth management have begun to grant access to alternative financial products, which in the near past were 'a reserved territory' for investors of extremely high net value. Thus, traditional assets like shares, bonds or investments on the monetary market are gradually replaced by alternative ones. Besides, investments in hedge funds or private equity funds add to direct investments in real estate, infrastructure, agriculture, etc. Another trend, though less pronounced, is the increased demand for 'passion-based' investments such as investments in automobiles, works of art, wines, coins or ethically motivated investments in sustainable practices and social entrepreneurship (Ernst&Young, 2018, p. 13).

Banks see serious threat not only in start-up innovative enterprises, but also in large technological enterprises (BigTechs) and their apprehension is rather reasonable. According to research conducted by Capgemini, 56.2% of the surveyed 2,500 affluent persons would consider the opportunity to work with one of the four large technological enterprises Google, Apple, Facebook or Amazon if they offered wealth management services. This favorable attitude is gaining popularity among young people as well as among representatives of the Asian and Pacific Ocean region. For instance, over 81% of millionaires, aged up to 40, confirm they are likely to trust their wealth to the Big Four in technologies. That attitude is shared by 72.5% of the respondents in developing markets.

Nevertheless, it is important to note that currently, only several BigTech enterprises such as Alibaba and Amazon have entered or have demonstrated their intention to enter the business of wealth management (Capgemini, 2017, pp. 22-23). Some of the major barriers to a more definite interest on behalf of technological giants in the business are: customers' worries about data security and confidentiality; potential obstacles to providing full service; the lack of financial expertise; the regulatory environment; the desire for 'human touch'; possible reputation issues, etc. Nevertheless, according to some analyses, their entering this financial segment is only a matter of time: BigTechs can be recognized by a number of characteristics which make them a serious threat to the current players in the sector – technological capacity (including data, analyses and speed); efficiency and flexibility; currently existing wide customer coverage; knowledge about customers; relatively low costs of the main services. Their investment equity and their capacity to make more speculative investments can also be identified as competitive advantages, especially compared to the players in the PWM industry that make lower profits (Capgemini, 2018, pp. 36-38).

The managers of the established participants on the wealth management market are divided in their attitudes towards the threats posed by BigTechs. Research from 2017 classified them into four groups as 'believers' (43.5%), 'open-minded' (34.8%), 'skeptics' (13%) and 'resistors' (8.7%) (Table 1).

Table 1
Groups of banks according to their attitudes towards BigTechs

'Believers'	They are convinced that the invasion of those enterprises in the sector is inevitable, bearing in mind the large customer base, the 'fine' business models and the high degree of trust, which affluent people under 40 demonstrate towards them. They expect that the harmonization of the regulations in all countries will facilitate the participation of BigTechs in the financial servicing of affluent customers. Instead of being worried by their 'penetration' in the market, they are rather excited as they perceive them as an incentive for all players in the field to optimize their activity.
'Open-minded'	They think that BigTech enterprises will have limited influence on the sector. They expect a bigger breakthrough only on the market of basic services directed to the lower 'floors' of wealth. They perceive regulations as a potential barrier for entering, as they approach them as complications which large technological enterprises might choose to avoid, especially in the context of lower profits at the 'bottom 'of the market.
'Skeptics'	They think that BigTechs are likely to completely ignore the market because 'wealth management is not worth the effort'. They forecast that the large technological enterprises will not have significant influence on the main activities in the wealth industry but will only have an insignificant impact on less affluent segments.
'Resistors'	They do not approach BigTechs as a threat, largely because they focus on highly specialized market segments, for instance, ultra-affluent customers.

Source: Capgemini, 2017, p. 24.

Bearing in mind what has been said so far, we can conclude that technological enterprises accelerate the change in the traditional business model and the digital transformation of wealth management, but they are yet to transform the business fundamentally (Deloitte, 2017, p. 23). Nevertheless, cooperating with them is of paramount importance and will be the only way for established private banks to provide technological solutions at the expected market rate. Collaborating with the growing ecosystem of FinTech providers, creates tangible opportunities for traditional players to improve their conventional offers, to decrease costs, to 'respond' more flexibly to strict regulations, and eventually, to provide better services to their customers. In order to achieve those goals, however, traditional players on the wealth management market must find a way to 'open' structurally and make a commitment to cooperate with newly established enterprises.[7] In this respect, it is possible to identify three types of cooperation that aim at achieving competitive advantages: acquiring FinTech enterprises, entering into partnership agreements with them, or setting up one's own FinTech companies (Ernst&Young, 2017, p. 10).

3. On the Future of Financial Consultants

The job of a financial consultant (wealth manager and relationship manager) who serves customers in the field of private banking and wealth management involves serious challenges. A 2014 analysis points out that the average age of consultants in the USA is 50.9 years, 43% of them are over 55 years old, and only 11% are under 35. Others define the profile of a typical relationship manager as: 'Middle-aged, having been with the institution for a long time (therefore with long experience), not necessarily having formal education in the field of finance' (BCG, 2017, p. 20). On the basis of the predicted number of consultants who will retire, the rates of new ones entering the business and the increasing demand for financial consultancies, the industry is expected to experience a shortage of more than 200,000 consultants by the year 2022 (Osterland, 2014). At the same time, the share of graduates from specialised universities who join the sector of financial services decreased by half between 2007 and 2016 reaching as low as 25% (Oliver Wyman, 2018, p. 13). As for newly hired wealth managers, the majority of them come from the competition (72% in 2016), while the share of those hired directly from

[7] Some of the established players agree that cooperation with FinTechs provides serious opportunities, the most important ones being reduced costs, differentiation from competitors and additional revenue. At the same time, more than one third of asset and wealth managers do not cooperate with FinTechs at all, while 20% are rarely engaged in partnerships with them, and 10% are not willing to enter in such agreements at all (PwC, 2016c, p. 8).

universities or other schools remains much lower – only 2% (BCG, 2017, p. 20).[8]

The ‘puzzle’ becomes even more difficult to solve bearing in mind the fact that nearly 60% of the ‘major players’ in the sector have announced their intention to increase the number of their financial consultants (Euromoney, 2018). In addition to the ‘gap’ that is opening between the demand and supply on the market of relationship managers, the ageing of the current generation creates a number of further problems. In the first place, the increasing difference between the age of consultants and the younger affluent persons hinders communication between them, which results in dissatisfaction with the interaction.[9] Furthermore, due to their advanced age some consultants are slower in learning how to employ innovative tools and the digital channels which are now an inseparable part of the clientele’s ‘agenda’ (Deloitte, 2015, p. 12).

Hence, a number of steps need to be implemented:

- Banks need to focus on more creative practices for attracting consultants – for instance, through active ‘penetration’ in some unconventional recruitment channels (LinkedIn, professional groups in the social media, specially created forums, etc.). In addition, instead of relying mainly on ‘stealing’ talents from the competition, they need to switch to attracting specialists straight from universities, from other spheres of banking or from ‘external’ industries oriented to servicing customers (BCG, 2017, p. 23).
- Banks need to invest in increasing the attractiveness of their own brand. This is necessary because talented employees want to be associated with both profitable and socially-responsible institutions, but due to recent reputation issues, the perception of the industry is rather negative;
- There must be efficient financial and non-financial incentives for wealth managers that should be commensurate to the attractive opportunities offered by newly established competitors and high-tech enterprises;
- Newly appointed consultants should be offered on-site training and career-growth opportunities;
- Improved change management programs need to be implemented as they will give consultants the opportunity to adopt more easily new tools and methodologies (Deloitte, 2015).

On balance, even if those tasks were completed successfully, during the next decade, banks, most probably, would end up with ‘dual’ workforce comprising relationship managers with new thinking patterns and

---

[8] It is claimed that the reason for this is the fact that few institutions have developed in-house training programs which exceed the regulatory and product trainings (BCG, 2017, p. 20).

[9] Thus, for instance, over a half of the relationship managers who have taken part in a survey dedicated to the inheritance of wealth claim that the transfer of property between generations requires the support of a consultant at nearly the same age as the heir’s (Accenture, 2016, p. 2).

behavior and veterans who are not able to or do not want to change their manner of work. Undoubtedly, wealth managers (who often establish close relationships with their customers) still give a solid advantage to the institutions and will continue to cater their customer base. However, if wealth management enterprises are to respond to changing expectations, they need to ensure that the next generation of customers will be 'introduced' to the PWM business by a new generation of financial consultants (BCG, 2017, p. 24).

Another equally significant issue is that of the profile of the future successful relationship manager. In order to determine that profile, we need to interpret carefully the numerous trends which have been identified in the sector. Since wealth management evolved from the focus on transactions aiming at the achievement of primary return towards an approach based on purposefulness, the modern concept in the sector is related to the 'health of your wealth' (PwC, 2016b, p. 6). Generally, it focuses on how customers accumulate and use their assets and how they accomplish their personal and professional objectives. This transformation is essential to the functions performed by wealth managers and the degree of competence and creativity which they demonstrate.

Rather than an advisor who merely collects data from customers, the financial consultant of the future will need to provide much more active consultancy to guarantee to their customers more satisfying customer experiences. In this respect, the differentiation and the success of relationship managers are more and more dependent on their transformation into an efficient 'behavioral coach' who guides affluent citizens towards fulfilling their plans (ibid, p. 6). According to other forecasts, future financial consultants will resemble financial therapists. They will spend more time to reassure customers within a 'turbulent' market situation, help them decrease their spending on 'bad habits' and increase their savings, cooperate in coping with various trouble (for instance, a divorce) and offer them tools for the achievement of their personal and financial objectives (Ernst&Young, 2016a, p. 24).

The main problem is that few customers have clearly defined goals. They 'usually express concern about a number of topics, including their income upon retirement, funding education, premature death or permanent disability, taxation, etc. Customers, however, tend to present an unclear list of concerns, which suggests worry and dissatisfaction, rather than a solution.' The key role of the financial consultant is to help them turn these feelings into achievable goals (The American College Press, 2012, pp. 37-38). It is equally important to assist customers in prioritizing their intentions and aspirations which may often be in conflict. The list of challenges faced by financial consultants also involves certain demographic trends which reflect the goals and demands of affluent persons such as the ageing population in most countries, marrying at an older age, giving birth to children and retirement, the increasing share of divorces, etc. In this respect, a wealth manager must simultaneously show common sense, intuition and non-standard thinking in those volatile and 'turbulent' times.

A typical example of changing customer goals and demands that have an impact on the role of consultants is the so-called 'art banking' – a specific and less explored field of wealth management in which bank consultants carry out competent identification and complex research of the opportunities for customers to acquire, maintain and enrich their collections of objects of art and at the same time diversify their investment portfolios. The ‘stir’ in the arts market in recent years (determined by the constantly increasing prices of exhibits and the increasing number of customers who acquire valuable objects and paintings for investment purposes) encourages large banks to hire more specialized and highly skilled experts who could take art services to a higher level (Talati, 2016). This results in a race for finding specialists who are equipped with deep knowledge about arts and substantial banking expertise. Since most affluent persons who benefit from this complex service are usually both passionate collectors, connoisseurs and patrons and sensible investors, banking art consultants need to balance extremely skillfully between their priorities, steering in a complicated market environment about which most customers have little knowledge and to which they can barely obtain individual access. Another challenge faced by consultants is preventing their clientele from making costly errors due to the speculative prices of art objects, the lack of regulation and the non-transparency of the market.

Digital technologies also have a significant ‘impact’ on the future functions of wealth managers. As their expectations are influenced by the continuous interactions with non-financial digital enterprises (Google, Facebook, Amazon, etc.), as well as by the active use of smartphones and other digital devices, affluent people nowadays want to have access to consultancy services anytime and anywhere through the numerous platforms as part of an enriched digital experience. They require from their relationship managers to respond to their ‘24 hours online’ way of life. In this respect, financial consultants need to offer a servicing model which can meet the preferences of individual customer to specific means of interaction – personal meetings, phone calls, paper reports, video conferences, Skype conversations, social media, online platforms. What is more, relationship managers need to integrate customer data through various channels in order to create a smooth and synchronized service. In addition, ‘those experts need to facilitate and coordinate the digital contact between the customer and their colleagues in other fields, for instance, specialists in real estate, fund managers, retirement plans consultants, etc.’ (Vachkov, 2016, p. 70).

It is a fact, too, that in the foreseeable future, financial consultants will encounter more serious competition by … robots. Virtual or robotized advisers (robo-advisers) have already become part of the practice of leading PWM banks. According to research conducted by Morgan Stanley in 2017, 70% of the banks in Europe and the USA already have a robo-platform designed or plan to have one designed within twelve months (Agini, 2017). Logically, a considerable share of wealth managers perceives such developments as a threat, bearing in mind the ability of ‘machines’ to analyze large amounts of data, to perform routine tasks and to generate solutions within short period of time. Besides, their major advantage over people is that they are ‘immune’ to prejudice and other instances of conflict of interests. Robots can make impartial and unemotional choices which may attract a large customer base, especially when taking into account the 'moral deficit' which was identified in a large number of bankers in the years after the financial crisis. Other advantages of robo-advisers include low operating costs and respectively more attractive fees for customers; the possibility of constantly rebalancing the portfolio; lower minimum thresholds for participation; higher transparency, etc. (Ernst&Young, 2016b, pp. 45-46).

Nevertheless, it seems rational to predict that automated consultancy will not fully replace the human factor in the industry or put an end to financial consultancy as a business for two main reasons, at least. The first one is the lack of compassion in 'machines' and their limited abilities in terms of tax, retirement and real estate planning. We could therefore expect a 'cohabitation' of robo-advisers and wealth managers, which will allow the latter to leave some routine operations in the past and to spend more time for interaction and providing precious advice to customers.

Diverse analytical tools that are based on the so-called Big Data also enable financial consultants to allocate more time to performing some key activities. The algorithm of the wealth management process focuses on conducting a comprehensive analysis of a customer status, including, their current financial situation, their risk tolerance and appetite, their need of liquid assets, their financial and investment literacy, their preferences for fund allocation, family dynamics, standard of living, health status, etc. Furthermore, it is essential that customers do not withhold any information from their consultant, even when it is strictly confidential or embarrassing (for instance, negative attitude from/towards other members of the family or trying to deal with some addiction that requires substantial expenses). Nowadays, the complicated process of collecting data about customers is significantly facilitated by the availability of advanced digital tools for extracting, sorting and analyzing various structured and unstructured data. The active implementation of BigData actually enables financial consultants not only to have a comprehensive idea about the current needs of their customers, but also to predict their future ones which even customers themselves may not be aware of at this stage.

On the basis of all those transformations, the consultancy company Boston Consulting Group predicts that the future of the customers of the lower 'floors' of wealth (between 250,000 and 1 million dollars) will not be trusted to the current relationship managers, but to account managers or virtual relationship managers that provide mostly technical and administrative maintenance services of high-standard and digitalized solutions. For the remaining HNW customers, the consultancy company foresees three types of relationship managers (Table 2).

Table 2
New types of relationship managers

Orchestrator	The consultant of this type will service demanding affluent and ultra-affluent customers who do not tolerate failure. Their role will be to provide a trusted contact unit and a 'fierce guardian' of sensitive customer data. Instead of trying to be an expert in every field, the 'orchestrator' will select specialists who can best meet the specific requirements of each customer.
Enabler	This type of manager will service a great number of 'complex, self-managing customers of all levels of wealth'. They require access to contemporary analytical tools for assessing markets and their portfolios, fast and smooth completion of transactions and technical support of the digital infrastructure. Due to the fact that those customers can be nearly fully independent, they will by rule take less of the time of financial consultants who will thus be able to service a large number of customers.
Guardian	This type of relationship manager will service affluent customers who do not feel comfortable with financial markets, are not interested in the latest digital tools and prefer to concentrate on their own personal interests, rather than the investments. The customers in this segment 'seek a trusted man who could guide them in the process in the most agreeable way'.

Source: BCG, 2017, pp. 22-23.

On balance, it becomes clear that the winning consultancy models of the future will most probably combine the elements of automated approaches and advice based on the human factor. The balance between the two types of consultancies will vary in the different segments of wealth management, as this divergence will be based on the customers' ability to pay for financial advice, the complexity of customer needs, their confidence, financial background, etc. Furthermore, affluent individuals will probably continue to seek personal advice on the needs that exceed the investments (for example in planning real estate purchases) or concern emotional problems (for instance, providing health care to old parents) (Deloitte, 2015, p. 5).

Conclusion

The wealth management business has always been particularly attractive to banking institutions, at least due to the generated substantial and stable income, 'its genetic predisposition' to growth and the image advantages that have been accumulated for centuries. However, the combination between the massive penetration of technologies in banking, the strengthened emphasis on sustainable practices and social entrepreneurship, the fresh memory of the global financial crisis and the different mentality of the new generation of affluent investors, questions the long-term prosperity of the existing business models. The proof for this is the gradually decreasing number of private banks at the expense of new market players.

Even though it is clear that the ‘human touch’ will continue to be a factor for the success of private wealth management, although it may look as though this industry is not the leading priority for the newly established FinTechs and the already established BigTechs, their influence on the sector is unquestionable. This is expressed in: higher customer expectations of speed, continuity and transparency of service; their claims for the paid fees; the democratization of the access to traditional and alternative investments; the increasing significance of virtual platforms and robotized advisers.

Some of the wise steps which banks need to take in this turbulent and dynamic situation involve: benefiting as fully as possible from their strategic advantages (the large critical mass, the experience they have gained during their long presence on the market, the diverse and balanced product portfolio, etc.); active cooperation with FinTechs; studying and ‘monetizing’ the possibilities of BigData; following the customer along the whole life cycle and constantly adding to their customer experience. The latter is within the competence of financial consultants who need to rapidly adapt to their new role, by focusing on the development of qualities and skills which outweigh the abilities of technologies (understanding the motives, fears and ‘painful spots’ of the customers, expressing a feeling of empathy, etc.), as well as expanding their knowledge in highly specialized fields of private banking (inheritance planning, art banking, philanthropic servicing, etc.).

References

Accenture (2016). Wealth transfer: Is your firm’s share walking out the door? Retrieved from: https://www.accenture.com/t20160914T005711Z__w__/us-en/_acnmedia/PDF-30/Accenture-Wealth-Transfer.pdf.

Agini, S. (2017). Banks on the ‘offensive and defensive’ with robo investments. Retrieved from: https://www.fnlondon.com/articles/banks-on-the-offensive-and-defensive-with-robo-investments-20170209.

Avery, H. (2018). Private Banking and Wealth Management Survey 2018: Big beasts dominate. Retrieved from: https://www.euromoney.com/article/ b16rkpphv8wpz6/private-banking-and-wealth-management-survey-2018-big-beasts-dominate.

BankingHub (2017). Zeb private banking study: Swiss private banking – a sector undergoing radical change. Retrieved from: https://bankinghub.de/wp-content/uploads/2017/12/Private-Banking-Study-Switzerlalnd_EN.pdf.
BCG (2017). Global Wealth 2017: Transforming the client experience. Retrieved from: http://image-src.bcg.com/Images/BCG-Transforming-the-Client-Experience-June-2017_2_tcm9-161685.pdf.
Capgemini (2016). World Wealth Report 2016. Retrieved from: http://www.covenantgroup.com/Content/PDF/2016%20World%20 Wealth%20Report.pdf.
Capgemini (2017). World Wealth Report 2017. Retrieved from: https://www.capgemini.com/wp-content/uploads/2017/09/ worldwealthreport_2017_ final.pdf.
Capgemini (2018). World Wealth Report 2018. Retrieved from: https://www.capgemini.com/wp-content/uploads/2018/06/ Capgemini-World-Wealth-Report.pdf.
Caproasia (2016). 7 Reasons why Large Financial Institutions and Banks have a Natural Advantage in Wealth Management Business. Retrieved from: https://www.caproasia.com/2016/04/12/why-large-financial-institutions-and-banks-have-a-natural-advantage-in-wealth-management-business/.
Credit Suisse Research Institute (2017). Global Wealth Report. Retrieved from: http://publications.credit-suisse.com/tasks/render/ file/index.cfm?fileid=12DFFD63-07D1-EC63-A3D5F67356880EF3.
Deloitte (2014). Digital disruption in Wealth Management Why established firms should pay attention to emerging digital business models for retail investors. Retrieved from: https://www2.deloitte.com/content/dam/Deloitte/global/Documents / Financial-Services/dttl-fsi-us-consulting-digital-disruption-in-wm-2014-06.pdf.
Deloitte (2015). 10 Disruptive trends in wealth management. Retrieved from: https://www2.deloitte.com/content/dam/Deloitte/us/Documents/strategy/us-cons-disruptors-in-wealth-mgmt-final.pdf.
Deloitte (2017). Innovation in Private Banking & Wealth Management: Embracing the Business Model Change. Retrieved from: https://www2.deloitte.com/ content/dam/Deloitte/ch/Documents/financial-services/ch-fs-en-innovation-in-private-banking-and-wealth-management.pdf.
Ernst&Young (2016a). Could your clients' needs be your competitive advantage? Retrieved from: https://www.ey.com/Publication/

vwLUAssets/EY-could-your-client-needs-be-your-competitive-advantage/$FILE/EY-could-your-client-needs-be-your-competitive-advantage.pdf.
Ernst&Young (2016b). Winds of change: Wealth management reimagined. Retrieved from: https://www.ey.com/Publication/ vwLUAssets/Winds_of_change: _Wealth_management_reimagined/$FILE/EY-winds-of-change-wealth-management-reimagined.pdf.
Ernst&Young (2017). Digital Disruption in Wealth Management: Are you supporting tomorrow's wealth management with yesterday's technology? Retrieved from: https://www.ey.com/Publication/ vwLUAssets/ey-digital-disruption-in-wealth-management.pdf/ $File/ey-digital-disruption-in-wealth-management.pdf.
Ernst&Young (2018). Wealth management outlook: Anticipating and seizing global growth potential in a challenging environment. Retrieved from:
https://www.ey.com/Publication/vwLUAssets/ey-wealth-management-outlook-2018/$file/ey-wealth-management-outlook-2018.pdf.
Euromoney (2018). Euromoney's Private Banking and Wealth Management Survey 2018: Press release. Retrieved from:
https://www.euromoney.com/article/b16st4jyzh0rbr/euromoneys-private-banking-and-wealth-management-survey-2018-press-release.
Financial Times (2017). The decline of Swiss private bank. Retrieved from: https://www.ft.com/content/01927da8-d451-11e7-a303-9060cb1e5f44.
Greenwich associates (2017). How Commercial Banks Win in Wealth Management. Retrieved from: https://www.greenwich.com/ file/43766/ download?token=RX6Wttih.
Molla, R. (2018). Amazon spent nearly $23 billion on R&D last year — more than any other U.S. company. Retrieved from: https://www.recode.net/2018/4/9/17204004/amazon-research-development-rd.
Oliver Wyman (2018). Dare to be different. Retrieved from:
http://www.oliverwyman.com/content/dam/oliver-wyman/v2/publications/2018/april/Global-Wealth-Managers-Dare-To-Be-Different.pdf.
Osterland, A. (2014). Advisors slow to train successors. Retrieved from:
https://www.cnbc.com/2014/05/01/financial-advisors-slow-to-train-successors.html.

PwC (2010). Private banking after the perfect storm. Retrieved from: https://www.strategyand.pwc.com/media/file/Private-banking-after-the-perfect-storm.pdf.
PwC (2016a). Sink or swim: Why wealth management can't afford to miss the digital wave. Retrieved from: https://www.pwc.com/sg/en/publications/assets/wealth-20-sink-or-swim-gx.pdf.
PwC (2016b). 2016 wealth management trends: A revolution both loud and quiet. Retrieved from: https://www.strategyand.pwc.com/media/file/2016-Wealth-Management-Trends.pdf.
PwC (2016c). Beyond automated advice How FinTech is shaping asset & wealth management. Retrieved from: https://www.pwc.com/gx/en/financial-services/pdf/fin-tech-asset-and-wealth-management.pdf.
PwC (2017). Redrawing the lines: FinTech's growing influence on Financial Services. Retrieved from: https://www.pwc.com/jg/en/publications/pwc-global-fintech-report-17.3.17-final.pdf.
PwC (2018). Optimistic CEOS and buoyant growth, yet disruption looms: Key findings from the Asset and Wealth Management industry. Retrieved from: https://www.pwc.com/gx/en/ceo-survey/2018/deep-dives/pwc-ceo-survey-awm-key-findings.pdf.
Roland Berger (2016). Quo vadis, Private Bank? Retrieved from: https://www.rolandberger.com/en/Publications/pub_quo_vadis_private_bank.html.
Scorpio partnership (2018). Global private banking benchmark. Retrieved from: http://www.scorpiopartnership.com/knowledge/report/2018-benchmark/.
Talati, S. (2016). Private Banks Boost Art Advisory Units. Retrieved from: https://www.barrons.com/articles/private-banks-boost-art-advisory-units-1456947865.
The American College Press (2012). Foundations of financial planning: an overview. Retrieved from: http://www2.theamericancollege.edu/assets/pdfs/fa262-class1.pdf.
Vachkov, St. (2016). Digitalizatsia na bankiraneto – realnost bez alternativa. in: Vachkov, St. et al. (2016) Finansovata nauka – mezhdu dogmite i realnostta. Varna: Nauka i ikonomika.
Wealth in Asia (2017). Is Bigger Better? Why You Should Care About The Size Of Your Private Bank. Retrieved from: https://wealthinasia.com/wisdom/bigger-better-care-size-private-bank/.

D. A. Tsenov Academy of Economics, Svishtov
University of National and World Economy, Sofia
University of Economics, Varna
Sofia University St. Kliment Ohridski
New Bulgarian University, Sofia

ECONOMICS 21

An inter-university scientific journal
Volume IX, Issue 1, 2019

TABLE OF CONTENTS

ECONOMICS 21
AN INTER-UNIVERSITY SCIENTIFIC JOURNAL

Submitted to publisher 19.04.2019, Printed in 11.06.2019, Print format 70x100/16, Printed copies 70.

ISSN 1314-3123 (Print)
ISSN 2534-9457 (Online)

ISSN 2534-9457 (Online)
ISSN 1314-3123 (Print)

ECONOMICS 21

Year IX, Book 1, 2019

- The 10 Don'ts to Manager's Efficiency
- Infrastructure Charges Levied in Air Transportation – Current Issues and Perspectives
- Protection against Fraud in Electronic Trade Payments

INTERUNIVERSITY JOURNAL

Икономика 21
Година IX, книга 1 2019
Year IX, Book 1, 2019
Economics 21

TO THE READERS AND AUTHORS OF ECONOMICS 21

Economics 21 publishes **research studies, articles and methodological papers**.

1. Volume

Studies: min. - 26 pages; max. - 40 pages;
Articles: min. - 12 pages; max. - 25 pages;
Methodological papers - up to 40 pages.

2. Submission of materials

- On paper and electronically (on CD and/or by e-mail).

3. Technical characteristics

- Written in Word 2003 (at least);
- Page size - A4, 29-31 lines / 60-65 characters per line;
- Line spacing - Single;
- Font - Times New Roman 12 pt;
- Margins - Top - 2.54 cm; Bottom - 2.54 cm; Left - 3.17 cm; Right - 3.17 cm;
- Page numbers - bottom right;
- Footnotes - size 10 pt;
- Charts and graphs - Word 2003 or Power Point.

4. Layout

- Name of article, name of author, scientific degree, scientific title - font Times New Roman, 12 pt, capital letters Bold - justified;
- Employer and address of the place of employment; contact telephones and E-mail;
- Abstract in Bulgarian - up to 15 lines; keywords - from 3 to 5;
- **JEL** classification code for research papers in economics (http://ideas.repec.org/j/index.html);
- The main body of the paper;
- Tables, charts and graphs must be embedded in the text (allowing for language correction and translation);
- Formulae must be created with Equation Editor;
- References in alphabetical order – in Cyrillic and Latin script;
-Technical characteristics and layout:

Template: https://www.uni-svishtov.bg/samagazine/upload/Economics-21-Template_bg.doc

5. Citation guidelines

When citing sources authors should observe the requirements of **APA Style** at: http://www.apastyle.org/ or at http://owl.english.purdue.edu/owl/resource/560/01/ or at http://www.calstatela.edu/library/guides/3apa.pdf.

Each author bears responsibility for the ideas presented, the content and layout of his/her text.

6. Contacts

Editor-in-chief: tel.: (++359)631-66-338
Stylistic editor: tel.: (++359)631-66-335
E-mail: i.varbanov@uni-svishtov.bg, economics21@uni-svishtov.bg
Address: D. A. Tsenov Academy of Economics, 2 Em. Chakarov str., Svishtov, Bulgaria