With margins declining, banks eye the affluent class to manage wealth

Bloomberg June 20 | Updated on June 20, 2019 Published on June 20, 2019

People with assets of $250,000 to $1 million are set to become a new battleground for the world's financial firms, as declining margins push them to seek out pockets of wealth further down the scale.

About 76 million people with $18 trillion sit in that range today and another 4 million are joining the group each year, according to a report by the Boston Consulting Group. Competition to serve them is heating up as banks, fintechs, asset managers, and online brokers jostle for position.

Wealth managers, including UBS Group, Morgan Stanley, and Bank of America Corp, have focussed their expansion on clients with fast-growing fortunes of tens of millions to billions of dollars. A big part of that, managing offshore wealth, has become more risky and less rewarding as authorities crack down on money laundering, tax evasion, and hidden wealth following a long series of high profile scandals.

"One of the largest areas for potential expansion is also one of the most overlooked: the affluent segment," according to the report. "This base of potential clients for wealth management services shows extraordinary promise"

The group of affluent people is set to grow at 6.2 per cent over the next five years. While that's still slower than the increase of billionaires, its higher than the increase in global wealth.

New technology is allowing lenders to service the segment in a more focussed and efficient way, according to Daniel Kessler, a managing partner at Boston Consulting in Switzerland. "It is a topic that every larger wealth manager should think through," he said.

Biggest contributors

Asia and the US will be the biggest contributors to the growth of affluent wealth over the next five years, Boston Consulting said. However, despite myriad offerings, most firms have not yet found the "sweet spot" for serving such individuals. Traditional private banks often over-serve their affluent customers at the beginning, assigning them a relationship manager. When client activity fails to live up to its potential, banks may be tempted to pull back on the level of engagement.

Published on June 20, 2019

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