Wealth Management Employment in the Coming Decade

By Associate Dean William H. Byrnes,
International Tax & Financial Services Programme,
Thomas Jefferson School of Law, San Diego, USA*

Emergence of the term

In the 1990s, wealth management originated as a term in the United States, and wealth manager as a professional title within broker dealers, banks, and insurance companies. In 2002 in its handbook "Asset Management", the US Comptroller of Currency described personal fiduciary services as "…part of a growing and competitive market frequently referred to as 'private wealth management,' 'private client services,' or 'private banking.'" The Comptroller described wealth management as "a broad range of financial services to affluent persons, their families, and their businesses." The American Academy of Wealth Management, classifies wealth management as an advanced type of investment management and financial planning that provides individuals and families with private banking, estate planning, personal fiduciary services, asset management, legal service resources, trust management, investment management, taxation advice, and portfolio management.

Expanding employment opportunities

In 2008, Cap Gemini reported that wealth management firms will sharply increase hiring because of the impending retirement, from 2010-2020, of "baby-boomer" wealth managers. New employment opportunities will also be created by expanding opportunities within the wealth management market.

Over the coming decade, wealth management firms will have substantially more client opportunities because the pool of high-net-worth individuals (HNWI) globally, and their assets, continue to grow steadily, and because half of HNWIs do not have a wealth manager.

The past decade

During the decade leading up to 2008, the international pool of those potentially served by wealth managers had more than doubled, to just over ten million, as had their assets, which increased from USD17.4 trillion to USD40 to USD50 trillion. By 2007, the average HNWI, excluding primary residences and collectibles, achieved an average of USD4 million of worth. The financial recession and the corresponding collapse of the US investment banking system temporarily decimated the available pool of high-net-worth clients, reducing it to just below nine million, holding USD33 trillion in assets. Because of their exposure to the US economy and financial markets, the US HNWI pool suffered the greatest impact, a loss of 18.5% of members and their asset values (the US is still responsible for nearly 29% of HNWIs.)

By January 2009, equity and real estate markets contracted by 50% of their value in many OECD countries, leaving HNWIs with decimated portfolios. Yet, balanced HNWI portfolios, managed by wealth managers were spread among other investments that did not experience such a sharp contraction. A reliable estimate in the decline of asset value for HNWIs managed by wealth managers during this period is 25% based upon the decline of assets under management in Switzerland which accounts for 28% of the market.

The coming decade

At the end of the second quarter of 2010 the HNWI pool has already rebounded to exceed 2007 levels as most equity, property, and bond markets have regained up to 85% of lost ground. HNWIs that leveraged wealth managers with BIC (Brazil, India, and China) exposure out-performed other HNWIs. In fact, Knight Frank reported that in 2009 some residential property markets experienced substantial price rebounds and even increases, including China, India and Brazil, with the top three residential property markets in China.

Over the next five years, industry reports are unanimous that HNWI asset growth will equal or exceed 8% annually. In just three years the industry expects to serve a 50% expanded pool of HNWI assets (over USD50 trillion) compared to 2009, and at least 12 million HNWIs. While the OECD continues to generate HNWIs steadily, the substantial jump client opportunity is in Asia (China and India) and to a lesser extent Latin America (Brazil) and the Middle East (GCC). Based on this shifting geo-wealth creation pool, wealth management firms are seeking employees with intra-cultural experience to bring in and maintain this emerging client base.

Half of HNWIs not receiving advice

According to Oliver Wyman, only 50% of HNWI assets are professionally managed. An unprecedented amount of retiring boomers who had not previously used a wealth manager now require one to transition their asset portfolios to income ones, plan succession, and balance potential medical care needs. Wealth management firms therefore have a pool of approximately five million (and expanding) new client opportunities.

Oliver Wyman reports that the new generation of HNWIs is predominantly (70%) self-generated wealth; through entrepreneurship or executive compensation. These HNWIs consider it normal business practice to seek outside expertise and are more likely to leverage wealth managers.

HNWIs seek trusted advisors

Cap Gemini reported that "While most HNWIs and ultra high-net-worth individuals (UHNWIs) have relationships with multiple wealth management firms, many clients seek long-term "trusted advisors" who can help them navigate complex topics and strategies." The trusted advisor must understand the HNWI "in the context of a larger relationship that encompasses personal and family finances as well as business partnerships or estate planning." These HNWIs are not seeking a one-stop-shop model to reduce fees but rather seek a holistically encompassed service and skills to produce better client-aligned outcomes. Moreover, an Oliver Wyman study reinforced what is already generally known in the wealth management industry: the lifetime contribution value of an average private client under the European onshore model (the holistic advisory model) is three to four times more than that earned from the US transactional broker/dealer model, while the European offshore holistic model delivers five times more earnings.

Wealth manager's new skills

The wealth manager must be able to source information and services using a team approach, assimilate the pieces, and communicate it in a collaborative, transparent manner. Wealth managers are required to employ a holistic and collaborative team approach including business, tax, estate, legal, accounting, intra-family governance, philanthropy compliance and lifestyle issues, and communicate operations and solutions to the HNWI.

A survey of HNWIs found that they want weekly email communication from their wealth manager. HNWIs also expect secure video conferencing to establish more efficient and effective face time with clients and better availability.

A polling by the American Academy of Financial Management (AAFM) of its membership found that while communication soft-skills are recognised by wealth managers and private clients as critical to attracting HNWIs, less than 20% of wealth managers receive any formal collaborative or soft skill communication training during their graduate education. By example of these skills, the trusted advisor may need to source compliance and due diligence skill sets from risk management, compliance, legal, and audit team members in order to analyse a multinational business that a HNWI is targeting, synthesise the different jurisdictional regulatory requirements, and effectively communicate the team's findings to the client via video conference. MindFrame Persuasion™, a neuro linguistic communication approach, is an example of advanced soft skill training to establish attraction and connection between trusted advisor and prospective HNWIs. Education in these skill sets is key to competing in today's wealth management industry and job market and these skills can prove decisive for HNWIs selecting a trusted advisor.

Senior staff salaries

The San Diego Business Journal reported in 2009 that wealth management salaries held steady in the midst of the crisis, ranging from USD150,000 to USD400,000. Even more exciting, Cap Gemini reported that "bidding wars among firms for top advisors are not uncommon" and packages will include "bonuses equaling two or three times the payouts from just a few years ago".

Professional designations

With the 1990s emergence of financial planner, financial analyst, investment advisor, and wealth manager as career titles, and wealth management as the industry's term for the HNWI services department, professional associations emerged to provide professional designations to help staff distinguish and align themselves for these titles. Jobs in the Money reported that credentialed professionals with certifications earn over 30% more.

The US Financial Industry Regulatory Authority (FINRA) Rule of Conduct 2210 prohibits registered members "from referencing non existent or self-conferred degrees or designations or referencing legitimate degrees or designations in a misleading manner". FINRA does not endorse or approve any designations, but has determined that some are appropriate for listing on the FINRA website. The three dominant designations listed are Chartered Financial Analyst, Certified Financial Planner, and Chartered Wealth Manager.

Professional competencies

Unemployment from financial crisis layoffs, led to many professionals returning to graduate degrees with curriculums specifically aligned to wealth management. The Chartered Wealth Manager (CWM) approach of the AAFM codified occupational competencies into twelve core areas: Asset Management; Portfolio Management; Investment Management; Taxation; Estate Planning; Retirement Law; Economics; Money and Banking; Business Entities & Organisations; Risk Management and Insurance; Relationship Management, Compliance and Ethics; and High-Net-Worth Consulting. The area of high-net-worth consulting codified project management in six steps: client interview; determination of client objectives; diagnosis and solutions formulation; development of wealth management plan; implementation of the plan; and periodic review, monitoring and continuous improvement. Using this approach, wealth managers may maintain a life-time HNWI relationship evolving and adapting the client's plan through fluctuating circumstances.

Firms expanding employment

Firstly, investment firms that create and manage internationally oriented transparent investment funds focusing on alternative investments such as emerging market strategies earned high accolades from HNWIs during the financial crisis because of balancing exposure to OECD markets. The World Economic Forum proposed that future alternative investment classes offering beta return to HNWI portfolios may include: infrastructure finance; intangible assets (eg. intellectual property); research and development exposure; mega-trends; frontier markets; distressed assets; and insurable risk. Internationally-enabled investment firms able to offer such investment classes will appeal to HNWI's directly via wealth managers and to the large institutions via collaborative arrangements. To obtain these positions, wealth managers must expand their knowledge base and ability to research in order to explain these types of alternative investment opportunities and future developing ones.

Secondly, family office firms employing holistic family business, tax management and lifestyle solutions in combination with investment management services are making great strides in attracting HNW families. 83 US based multi-family office firms managed USD334 billion, which, by the third quarter of 2008, represented just under 20% of total assets of the global hedge fund industry. Because of the 2009 disengagement from 'opaque' hedge funds by HNWIs, 'transparent' multi-family offices made substantial strides toward closing the assets under management gap. While remaining hedge funds are recovering their asset bases, HNWI clients are now just as likely to make such investments via a family office as directly. Family offices are employing more wealth managers to serve their expanding client base.

Thirdly, local and regional banks are successfully expanding HNWI client base against national brands and creating employment opportunities. JP Morgan reports that the global top ten wealth management firms manage less than 20% of HNWI assets. Cap Gemini estimated a 31% HNWI client growth for local/regional banks for 2009 over 2008. Its polling of HNWIs indicated that the risk of institutional and financial markets stability has led them to perceive local and regional banks as comparably safer.

"The future's so bright, I gotta wear shades"

Over the next decade, the wealth management industry and its employment opportunities will experience the highest growth amongst financial services. Wealth management firms must not only replace retiring wealth managers but must also employ new wealth managers to serve the growing pool of non-advised HNWIs. Highly compensated employment opportunities require a holistic and international skills approach to both attract new clients and to serve them. Designations such as the Chartered Wealth Manager will assist employers and clients in distinguishing competent professionals, while helping employees obtain the necessary collaborative and communicative soft skills. HNWIs will receive better lifetime advice, firms will earn higher lifetime contribution values, and wealth managers will thus receive higher compensation.

Prof. W.H. By