

Global Banking & Securities

US wealth management: A growth agenda for the coming decade

Mounting hopes of postpandemic recovery signal an imperative to prepare for the changes in technology, consumer needs, and society that will shape the future of the wealth management ecosystem.

by Pooneh Baghai, Alex D'Amico, Vlad Golyk, Agostina Salvo, and Jill Zucker



Wealth management is a growth industry, but it is experiencing a set of accelerating disruptions. While the pandemic challenged the performance of the US wealth management industry for much of 2020, the last 12 months have given rise to optimism that the conditions for a significant wave of innovation and experimentation across the wealth management ecosystem are in place. The conditions include rapid technological advancements, fast-evolving consumer needs and behaviors (accelerated by the pandemic), and an environment of economic stimulus.

To thrive in this dynamic environment, firms must prioritize growth, adopt an innovation mindset, and be prepared to reallocate resources rapidly in response to the changing context. Finally, to free resources for strategic investment and prepare for any potential market downturn, firms can rethink their cost structures and improve the industry's spotty record on cost management.

To guide these efforts, this paper offers a brief overview of the US wealth management industry's present conditions and then presents four themes

that define the new growth narrative we foresee. We recommend agenda items for wealth managers to address as they plan how to flourish in the changing ecosystem. Finally, we offer questions for organizational self-assessment.

Coming out of the crisis: Resilient but not unscathed

At face value, the US wealth management industry entered 2021 from a position of strength—record-high client assets, record growth in the number of self-directed and advised clients, and healthy pretax margins (Exhibit 1). However, beneath these strong headline numbers, the story was mixed, with the worst two-year revenue growth since 2010, as well as negative operating leverage. The depressed margins and profit pools that resulted were caused primarily by rock-bottom interest rates and uneven cost discipline (Exhibit 2).

Consequently, while the industry is now benefiting from vigorous market performance, it faces significant crosscurrents: equity-market and

Exhibit 1

US wealth management entered 2021 from a position of relative strength.

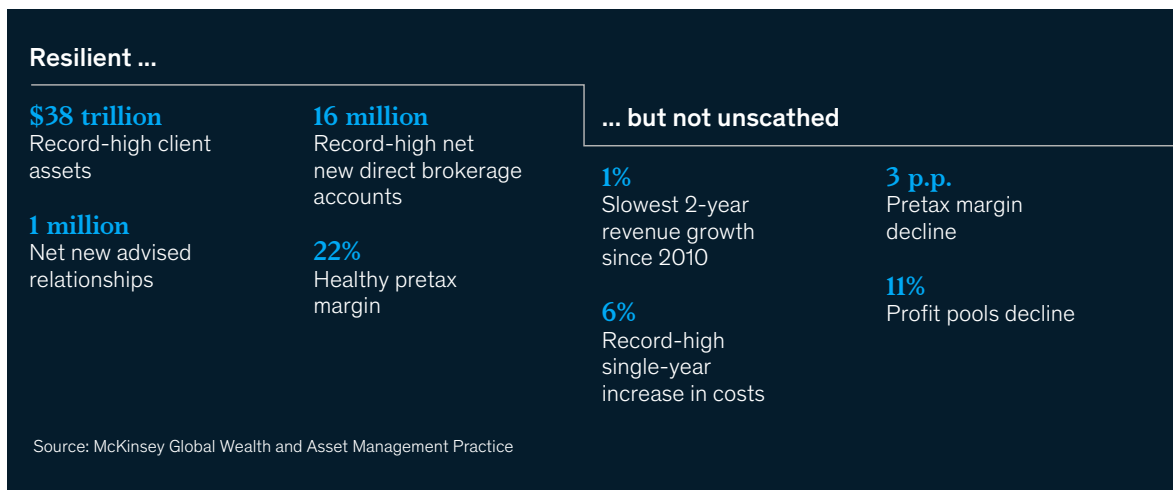
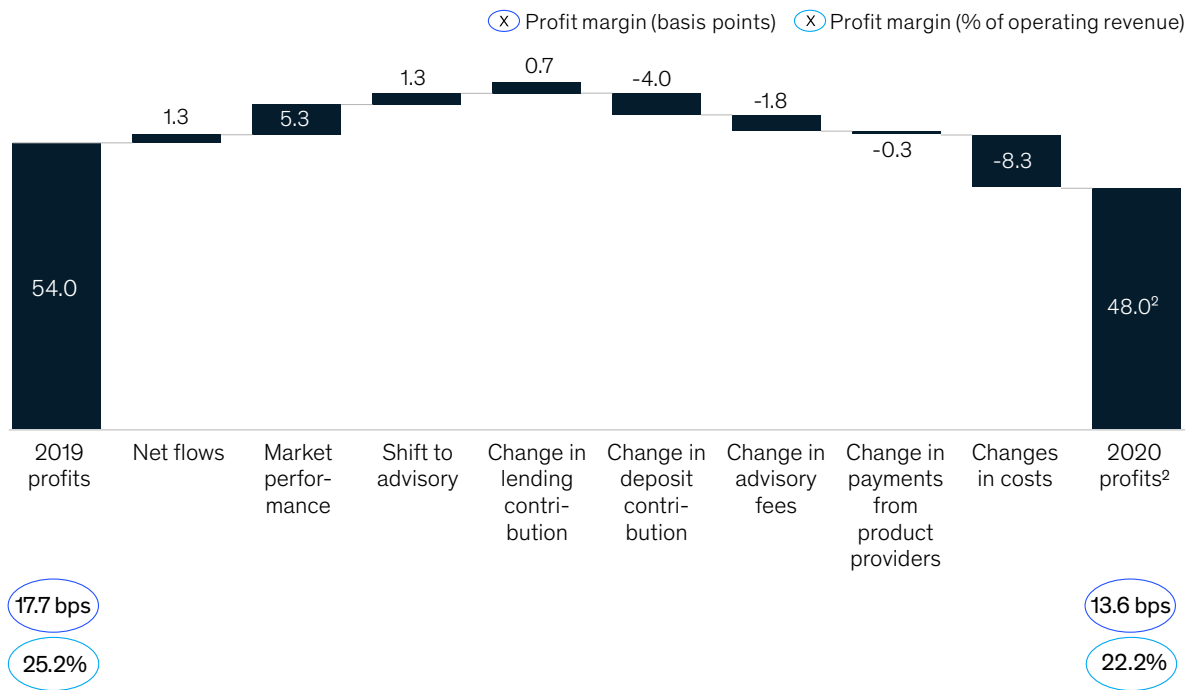


Exhibit 2

US profit pools declined by 11 percent in 2020.



¹ Pretax operating profits. Annual profit pools based on average assets under management.

² Contributions from funds transfer pricing, payment for order flow, and other factors add up to <\$0.1 billion and are excluded from the chart.

Source: McKinsey Global Wealth and Asset Management Practice

interest-rate uncertainty and industry-specific challenges including lack of cost discipline, increased competition from new entrants, and an aging and shrinking advisor force.

Despite this near-term uncertainty, US wealth management remains a growth industry, albeit with moderating revenue growth projections. McKinsey modeling suggests industry revenue pools will grow by about 5 percent per year over the next five years,¹ driven by moderating market performance, moderate net flows, and the continued shift from brokerage to advisory (where revenue yields are typically higher). However, the growth will not be equally split among industry segments. We expect digital advice models, including robo- and hybrid

advisory, to continue growing fastest, potentially even outperforming their historical revenue growth of more than 20 percent per year. Next in terms of growth will be registered investment advisors (roughly 10 percent projected annual growth rate), followed by national/regional broker-dealers (6 percent), direct brokerages (5 percent), wirehouses (2 percent), and other broker-dealers (independent, retail, and insurance owned) plus private banks (1 percent). If interest rates return to prepandemic levels, wirehouses and direct brokerages will disproportionately benefit, given their reliance on interest income from cash for profitability, with the overall growth rate for the industry reaching about 7 percent a year—similar to the growth that occurred between 2015 and 2018.

¹ Long-term asset class forecast, Q2 2021, State Street Global Advisors, April 22, 2021, ssga.com.

A growth agenda for the coming decade

Over the last 18 months, the industry has spurred a significant wave of innovation and experimentation. It is also facing long-standing demographic shifts that will redistribute wealth among subsegments. This combination of forces will shape growth trends for years to come. We see four key themes: fast-growth segments, new client needs, new products, and new business models (Exhibit 3).

Fast-growth segments offer new potential

Three investor segments are showing signs of significant and lasting growth: women, engaged first-time investors, and a segment we call hybrid affluent investors.

Women are taking center stage as investors over the next decade. Today, women control a third of total US household investable assets—approximately

\$12 trillion. Over the next decade, this share will grow. The biggest cause of this shift will be demographics: as baby boomer men die, many will cede control of assets to their female spouses, who tend to be both younger and longer lived. By 2030, American women are expected to control much of the \$30 trillion in investable assets that baby boomers will possess—a potential wealth transfer that approaches the annual GDP of the United States. At the same time, younger affluent women are becoming more financially savvy; for example, 30 percent more married women are making financial and investment decisions than five years ago.²

A new wave of engaged investors are opening accounts. The resurgence of the engaged-investor, or active-trader, segment has been one of the most headline-catching disruptions in the industry. Since the start of 2020, more than 25 million new direct

² For more on these trends, see Pooneh Baghai, Olivia Howard, Lakshmi Prakash, and Jill Zucker, "Women as the next wave of growth in US wealth management," July 29, 2020, McKinsey.com.

Exhibit 3

Contours of the new growth narrative.

<p>1 Fast-growth segments</p>	<p>Women</p>	<p>Engaged first-time investors</p>	<p>Hybrid affluent investors</p>
<p>2 New needs</p>	<p>Personalization</p>	<p>Omnichannel access</p>	<p>Integrated banking and wealth</p>
<p>3 New products</p>	<p>Private markets</p>	<p>Digital assets</p>	
<p>4 New business models</p>	<p>Services to registered investment advisors</p>	<p>Digital advice models</p>	

Source: McKinsey Global Wealth and Asset Management Practice

\$30 trillion

in investable assets will be possessed by baby boomers by 2030, much of it controlled by women

brokerage accounts have been opened, a significant percentage by first-time investors. This growth resulted from a confluence of prepandemic market developments (for example, the elimination of online brokerage commissions, access to fractional share capabilities) and pandemic-related trends such as high savings rates (enabled by lower consumption).

While this segment's exponential growth is likely not sustainable (for example, there was a sharp decline in trading app downloads and active daily users in the third quarter of 2021), it remains poised for accelerated growth over the next decade, given engaged investors' relatively low median age of 35.³ The opportunity for wealth managers is to serve this segment by meeting their demand for direct brokerage-based investing and to build deeper relationships with them over time—for example, by recognizing that these new investors tend to express their personal values in their investment decisions.

Hybrid affluent investors are an opportunity to differentiate. While headlines have focused on the rise of first-time young investors with typically low assets, growth in the hybrid investor segment—those with at least one self-directed account and a traditional advisor—has been overlooked. In 2021, a third of affluent investors—households with more than \$250,000 and less than \$2 million in investable assets—were hybrid (Exhibit 4), a sharp increase of nine percentage points in just three years. The biggest beneficiaries of this trend have been incumbent and new direct brokerages, as well

as some traditional wealth managers with sizable direct brokerage platforms.

The rapid growth of hybrid affluent investors is a result of two trends that are expected to persist: investors' desire for human advice and the ease and affordability of direct investing. Therefore, to foster deep relationships with affluent clients and prevent them from investing with competitors, wealth managers of all types need to have both direct brokerage and advisor-led offerings with a seamlessly integrated experience across the two. Achieving this will not be easy; it will require careful management of channel conflicts and potential revenue cannibalization.

New customer needs provide an opening to differentiate

Investors are increasingly looking for institutions that can provide them with omnichannel access, integration of banking and wealth management services, and personalized offerings. As similar kinds of benefits become available from providers of other services, investors see them more as needs than as luxuries. In fact, fully 50 percent of high-net-worth (HNW) and affluent clients say their primary wealth manager should improve digital capabilities across the board.

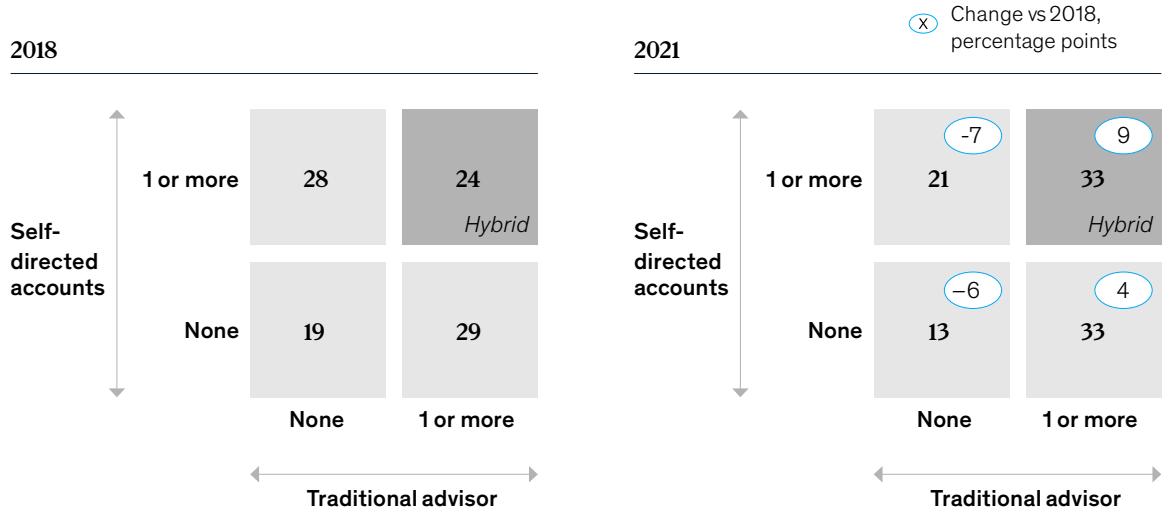
Omnichannel access is no longer just 'nice to have.' One of the clearest disruptions triggered by the pandemic has been the sharp acceleration of digital adoption across consumer segments—including wealthier and older clients who were previously less

³ Schwab Generation Investor Study 2021, [aboutschwab.com](https://about.schwab.com).

Exhibit 4

The fastest-growing segment of affluent investors is hybrid—those with self-directed accounts plus a traditional advisor.

Use of self-directed accounts and traditional advisors, % of affluent investors¹



¹Defined as having \$250K–\$2M in investable assets. Source: McKinsey Affluent and High-Net-Worth Consumer Insights Survey

digitally inclined with respect to financial advice. As a result, according to McKinsey’s latest Affluent and High-Net-Worth Consumer Insights Survey, digital is now the most preferred channel for clients, closely followed by remote (Exhibit 5).

This trend is even more pronounced for the HNW segment, which we define as households with more than \$2 million in investable assets: roughly 40 percent of HNW clients say phone or video conferences are their preferred wealth management channels, and only 15 percent look forward to going back into branches or resuming in-person visits. Interestingly, the preference for digital and remote engagement among HNW clients is higher than for their affluent counterparts.

Convergence of banking and investing has gone mainstream. Over the last three years, there has been a striking increase in clients’ preference to consolidate their banking and wealth relationships to achieve convenience and better relationship deals: the share with this preference has risen from 13 percent in 2018 to 22 percent in 2021. The trend applies to both wealthy and young households (Exhibit 6). In particular, 53 percent of those aged under 45 and about 30 percent of those with \$5 million to \$10 million in investable assets prefer to consolidate relationships.

Banks and wealth managers alike can benefit from this trend, but their starting position differs by client

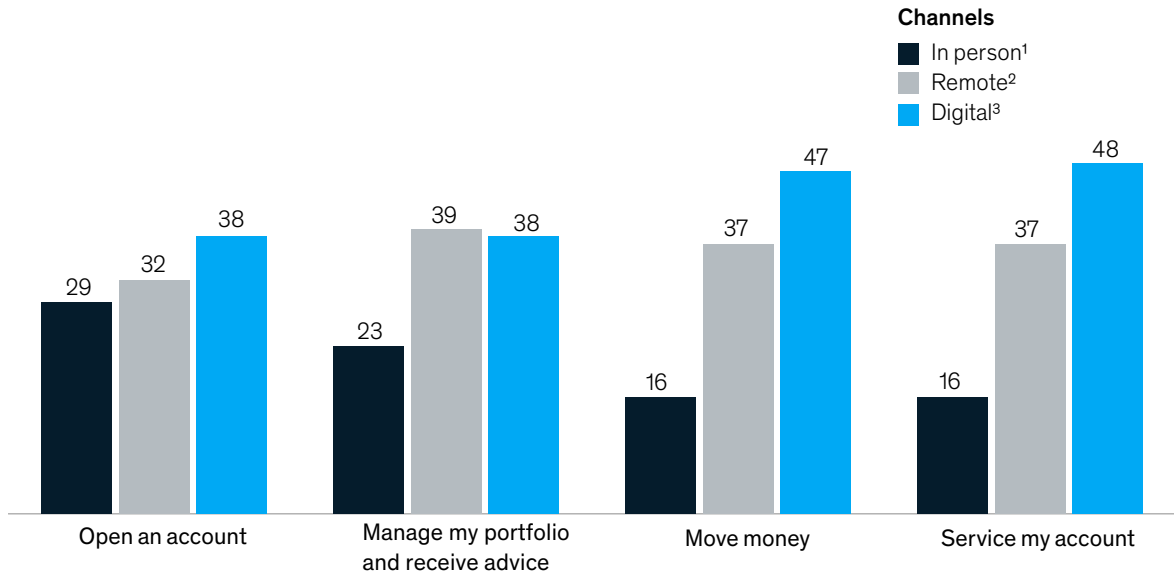
40%

increase in total direct brokerage accounts since the start of 2020—more than 25 million new accounts

Exhibit 5

Investors anticipate a more modest role for in-person channels than for digital and remote when the pandemic recedes.

Anticipated preferred channel post-COVID-19, % of investors



¹ Includes respondents who selected "in-branch" or "in-person with financial advisor."

² Includes respondents who selected "email," "phone," "mail/post," "SMS/text," "secure video conference, eg, Zoom, Skype, FaceTime," or "online or mobile live chat."

³ Includes respondents who selected "company website" or "mobile app/site."

Source: McKinsey Affluent and High-Net-Worth Consumer Insights Survey, n = 5,874

segment: HNW, ultra-HNW,⁴ and older clients tend to consolidate banking with their primary wealth manager, whereas young investors are more likely to consolidate wealth management with their primary bank.

Clients' reasons for consolidating with their primary bank or investment firm vary. High-yield deposits, lower management fees, and seamless transactions across accounts are the top three reasons for consolidation—and are basically

50%

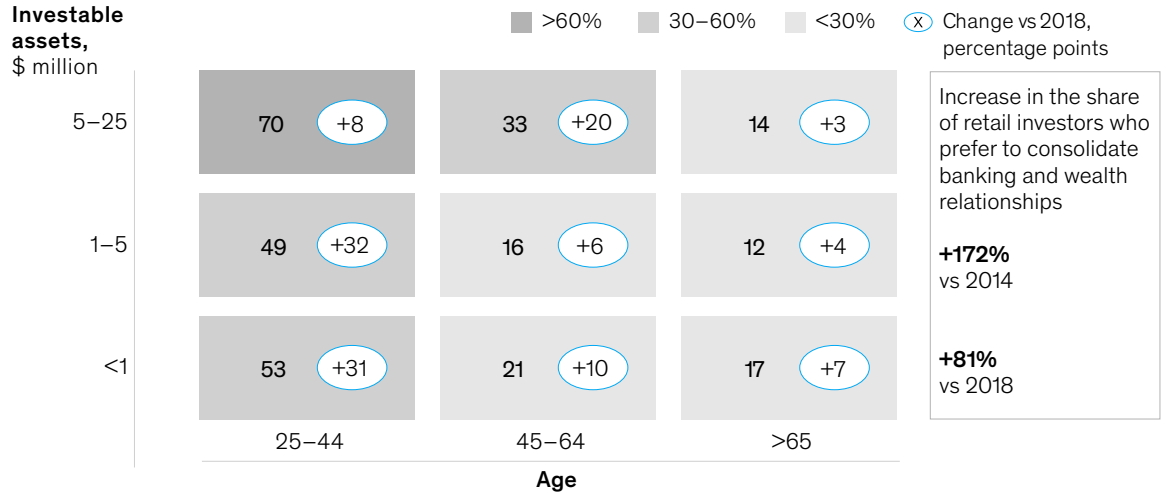
of clients think their primary wealth manager should improve their digital capabilities

⁴ In this article we define HNW customers as those with between \$2 million and \$25 million in investable assets; ultra-HNW have more than \$25 million in investable assets.

Exhibit 6

Younger and, to a lesser extent, wealthier segments have a strong preference for consolidating banking and investing.

Agreement with the statement “I prefer to place investments with a firm where I also have a banking relationship,” % of retail investors



Source: McKinsey Affluent and High-Net-Worth Consumer Insights Survey, n = 5,874

table stakes. Beyond that, our research has found that banks generally win on convenience (for example, an existing relationship with the client, customer service tailored to younger clients), while investment firms win on products and reputation (for example, more expansive accounts or products such as securities-based lending, concierge-like customer service tailored to older clients, and recommendations).

The increased preference for consolidating banking and investing has been driven by a flurry of innovation. National banks are building wealth management capabilities and closely integrating experiences with traditional banking services, often in partnership with fintechs. Full-service wealth managers are upgrading their digital banking capabilities. And consumer-facing fintechs—with millions of users—are blurring the lines between investing and cash management.

Rise of personalized investing. Personalization matters. It is a key driver of client satisfaction

and the number-three factor for clients selecting financial advisors. Wealth managers have responded to the demand to personalize investment management with customized, tax-efficient managed accounts. Because of their operational complexity, these products have typically been accessible only to the HNW and ultra-HNW segments. However, direct indexing, fractional share trading, and \$0 online commissions are shifting the paradigm by enabling customized portfolios of securities at lower minimums.

Assets under management (AUM) in direct indexing tripled between 2018 to 2020, reaching \$215 billion, or 17 percent of the retail separately managed account (SMA) market. We anticipate direct indexing volumes to triple through 2025, given how this new investing technology meets client needs, most notably the growing demand for tax-efficient investing and the desire of some retail investors, particularly younger clients, to ensure that their portfolio holdings reflect their personal

values (Exhibit 7). The recent flurry of acquisitions of direct indexing providers by leading US wealth and asset managers will create further supply-side momentum in expanding the growth of the category.

Broader adoption among clients will require further innovation. For both self-directed and advisor-led models, offering direct indexing requires a careful consideration of the trade-offs associated with taxes and environmental, social, and governance (ESG) constraints. All this creates a need for intuitive interfaces and analytical tools, which need to be integrated into the advisor desktop and workflow.

New products expand ways to serve customers

Across industries, transformation arises from the introduction of new products. In wealth management, we see notable potential in two main

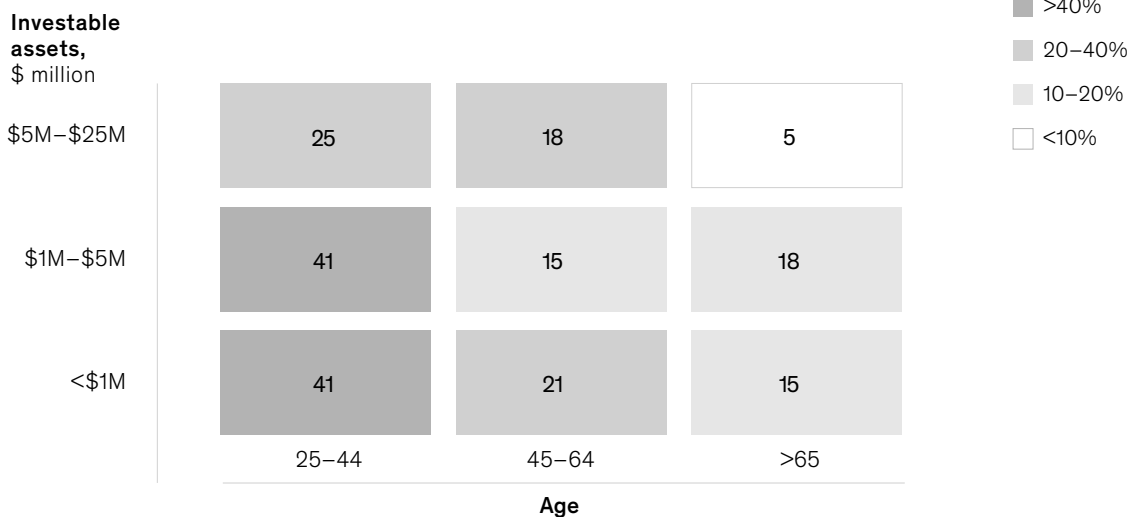
categories of new products: investments in private markets and investments in digital assets.

Democratization of private markets. In the current lower-for-even-longer interest-rate environment, investors' appetite for alternative investments is as high as ever, with the young leading the way: about 35 percent of 25-to-44-year-old investors indicate an increased demand for alternatives. Within alternatives, private markets (private equity, private debt, real estate, infrastructure, and natural resources), an asset class that was once the preserve of institutional investors, is making inroads to individual portfolios. Large private-markets firms are building out retail distribution capabilities and vehicles, and home offices make it easier for clients to access private-markets products, often with the help of fintech infrastructure providers. Increased client demand and innovations have potential to increase the share of assets allocated to private markets from

Exhibit 7

Younger and, to a lesser extent, less affluent segments are more likely to consider ESG when choosing investments.

Split of investors who regard ESG as a top 3 consideration when choosing investments
% of investors



Source: McKinsey Global Wealth and Asset Management Practice (2021, n = 3,776 for <\$1M, n = 1,709 for \$1-\$5M, n = 389 for \$5-\$25M)

about 2 percent in 2020 to 3 to 5 percent by 2025, representing asset growth of between \$500 billion and \$1.3 trillion. It is imperative for wealth managers to facilitate this growth by making it easier for their clients to access private markets.

Digital assets going mainstream. The arrival of an army of new retail investors has proven to be a boon to the growth of new asset classes that were incubated in the margins of the market. Nowhere is this phenomenon clearer than in the realm of digital assets, which have ballooned from a combined valuation of \$100 billion in 2019 to a market capitalization of more than \$2.5 trillion today. They span multiple digital asset classes, or “tokens,” beyond cryptocurrencies, including tokenized equities, bonds debt, stablecoins (typically pegged to conventional currencies), art, and collectibles. The motivations for investors in digital assets are diverse—experimentation, speculation, the search for inflation protection, or getting exposure to the building blocks of new technology that is increasingly cast as the next iteration of the internet (that is, Web3). Whatever the motivation, investors’ enthusiastic embrace of digital assets is very clear. For example, digital trading platform Coinbase has gathered a staggering 68 million verified users.

For wealth managers, digital assets present both an opportunity and a challenge. On the one hand, the cryptocurrency market has grown too large to ignore amid robust client demand; 11 percent of affluent clients and 8 percent of HNW clients invest in digital assets. On the other hand, three broad challenges are associated with offering cryptocurrencies. First, regulatory ambiguity—on asset classification and tax reporting, among other issues—has lingered, often creating uncomfortable levels of risk exposure for wealth managers. While it is still early days, the advent of crypto exchange-traded funds (ETFs) could help address some of these challenges. Second, the infrastructure required for offering digital assets, including custody services, differs from what is required for traditional investment products. Lastly, digital asset classes are not well understood by many advisors, so advising on the products is challenging for them.

Wealth managers face a choice: they can take a wait-and-see approach and accept the business risks associated with staying out of a rapidly growing market, or they can pursue the opportunity aggressively by leveraging partnerships with fintechs while addressing heightened regulatory risks. What remains for certain is that over the longer term, there is meaningful potential for a far broader class of digital assets to enter the investing mainstream and for the underlying technologies of blockchain-based decentralized finance (DeFi) to revolutionize the distribution of investment products, including the T+0 settlement cycle.

New business models position firms for growth

The last of our four contours of the new growth narrative is the introduction of new business models. Two such models are of importance: offering services to registered investment advisors (RIAs) and digitizing the delivery of advice.

Advisors’ desire for independence presents an opportunity to serve RIAs. The last decade has seen a migration of advisors to registered independent advisors, with 24 percent of all financial advisors being part of an RIA in 2020, compared with 16 percent in 2010. This shift is expected to continue apace, with the share of advisors affiliated with RIAs growing to 26 percent by 2025. Motivations for advisors’ migration to RIAs include the expectation of higher payouts plus two other factors: First, advisors are looking at the RIA channel as the best way to monetize their business, with RIA acquisition multiples for top advisors (those with books over \$1 billion) two to three times higher than retire-in-place incentives at traditional wealth managers. Second, technology and services firms, working in conjunction with the major custodians, have lowered barriers for advisors to launch their own firms. Moreover, advisors believe they can procure technology and services that are similar to or better than what traditional wealth managers provide.

While this trend presents a challenge for wirehouses and broker–dealers, whose advisor force is expected to shrink by 3 percent over the next five years, there is a silver lining: RIAs’ reliance on third-party products and solutions creates an opportunity for participants in the wealth management ecosystem to seek a share of this fast-growing revenue and profit pool. Some ecosystem participants are viewing this segment in terms of a single product or service—lead generation, tech point solutions, custodial offerings, banking-as-a-service for advisors, asset management. Others, including turn key asset management providers (TAMPs), established custodians, and traditional wealth managers with attacker mindsets, are attempting to build a next-generation, wirehouse-quality platform for advisors.

Therefore, wealth managers, especially those who rely on advisor recruiting for growth, need to look beyond the competitive threat posed by the fast-growing RIA channel and explore new business models that would allow them to participate in this growing revenue and profit pool. Wealth managers seeking to serve the RIA segment will need to manage technology as a core competency, and those with large advisor forces will need to manage the advisor attrition risks associated with opening up the platform (even partially) to RIAs.

The opportunity for digital advice models. Digital advice models, including robo-advisor and hybrid advisor models, have been around for more than a decade and have been the fastest-growing wealth management delivery model, with more than 20 percent annual revenue growth between 2015 and 2020. They still account for only about 1 percent of the market, but the growth prospects are high: the last three years—and last 18 months in particular—have marked a step increase in investor comfort

levels with these offerings (Exhibit 8). In fact, the share of investors saying they are comfortable with remote advice grew from about 38 percent in 2018 to roughly 46 percent in 2021. Among clients younger than 45, the comfortable share grew from 43 percent to 59 percent. Similarly, while comfort with digital-only advice remains modest overall at about 15 percent, it has more than doubled since 2018 among investors under 45, to roughly half in 2021.

Unsurprisingly, the growing interest has motivated wealth managers to expand into and innovate in this channel. However, wealth managers should be aware that achieving a step change in adoption of digital advice offerings will require going beyond the lower-cost value proposition, privileged acquisition strategies, and brand equity. Among investors who do not express comfort with robo-advisor models, the main reasons they give are perceived lack of personalization, privacy concerns, and lack of motivation to explore the offering. Bringing more investors on board will require matching the advisor-like experience with personalized content and solutions.

Embracing the new growth narrative: A four-part agenda

Clearly, wealth management remains an attractive industry with strong growth fundamentals and long-term margins. If anything, the disruptions we have discussed in this report expand the industry’s options and will shape the growth narrative for the next decade.

Given the pace of change, stasis is not a viable option. We recommend that wealth managers follow a four-part agenda for action: reposition, redesign, reimagine, and reallocate.

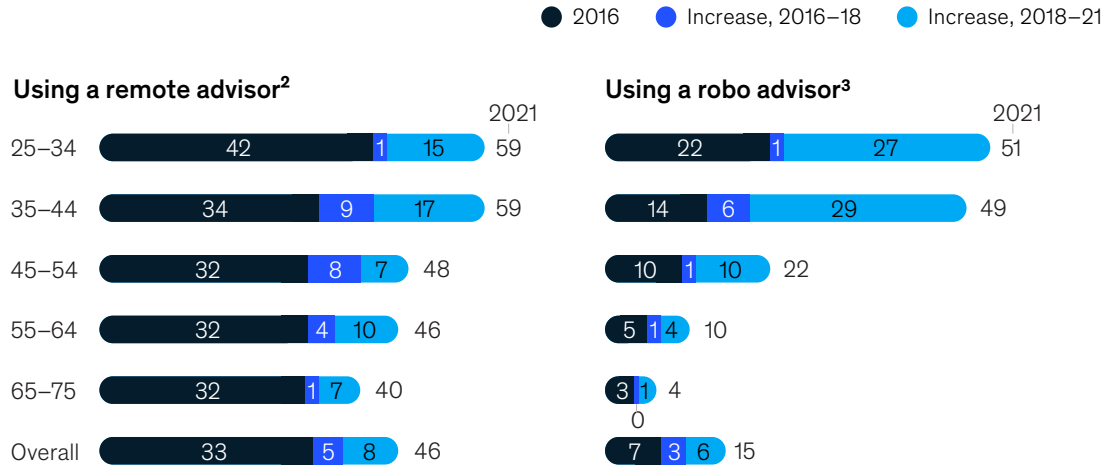
A large, stylized blue graphic consisting of the number '2' followed by the letter 'x', indicating a two-fold increase.

faster annual revenue growth projected over the next five years for RIA channel versus industry overall

Exhibit 8

Comfort with digital advice models has accelerated in the last three years, especially for younger segments.

Comfort with using advice model, by age segment, % of investors¹



¹ Investors with investable assets of \$250K–\$5M. In 2016, n = 2,128; in 2018, n = 6,356; in 2021, n = 5,486.

² Respondents who agree or strongly agree with the statement “I would be comfortable working with an investment professional who does not live or work near me, if I can reach them over the phone and email whenever I need to.”

³ Respondents who agree or strongly agree with the statement “I would be comfortable with an automated online advisor (ie, a “robo” advisor) managing my investments based on my personal characteristics and goals.”

Source: McKinsey Affluent and High-Net-Worth Consumer Insights Survey

Reposition the firm for what’s next

Every wealth manager needs to take a hard look at the secular growth themes shaping the industry—fast-growth segments, banking, personalization, new product propositions, and new business models—and decide, based on the firm’s unique sources of competitive advantage, which of these updrafts it should ride. Where a firm lacks natural advantages in capitalizing on particular growth themes, M&A is a critical lever for accelerating the repositioning of individual wealth management franchises. The last 24 months have seen numerous high-profile transactions as firms seek scale and/or the acquisition of new capabilities to accelerate their strategy. We expect M&A to be a particularly important theme over the next 24 months as wealth managers reposition themselves for the postpandemic “next normal,” whenever it arrives.

Redesign offerings for new needs

Firms also should monitor and try to anticipate evolving client needs, using this information to redesign their offerings. Examples could include new value propositions (for instance, around tax efficiency, integration of wealth and banking, or specific high-growth segments), privileged access to new products (such as digital assets or private markets), or completely new business models (for example, light-guidance digital offerings).

Reimagine client engagement and experience

The third agenda item is to radically reimagine client engagement and experience. The pandemic has reset clients’ assumptions about how they want to be served, and the accelerated uptake of technology has created unprecedented degrees of freedom for wealth managers. Every wealth manager needs to ask, “What is the blueprint for a client experience

60%

increase in share of investors comfortable with digital-only models since 2018 and 21% increase in those comfortable with remote models

model in a digital-first world?” and “How can such a model simultaneously deepen our relationships and broaden our reach?”

Reallocate resources to support the strategy

Finally, successful wealth management firms make a bold commitment to putting the money where the strategy is, and they make multiyear resource-reallocation decisions, including where firm’s top talent spends time, in favor of growth. Regular reallocation of resources is a critical but often neglected step that can close the loop between visionary strategic intent and successful implementation.

Our research across industries suggests that fortune favors the bold: the top third of companies, which have been the most dynamic resource reallocators, achieved 1.6 times higher total returns to shareholders than the bottom third (about 10 percent versus 6 percent annualized over 20 years). In the wealth management context, we estimate that top performers are making strategic resource reallocation decisions to the tune of 15 percent or more of operating expenses over five years, whereas those simply dabbling with subscale experiments in strategic growth areas will not see results. Simply put, firms should not aim to be all things to all clients.

Five questions for wealth management executives

Given the significance of the opportunity at hand, wealth management executives must consider their firm’s readiness to capitalize on it. To provoke a self-assessment, we offer five questions for executives to ponder and discuss with their teams:

1. *What are the three or four priority growth themes you are betting on for the next five years? While several growth avenues and disruptions are reshaping the wealth management landscape, the optimal recipe will differ depending on an individual firm’s starting position and its sources of competitive advantage. Clarifying priority growth themes and aligning with your executive team help lay a foundation for developing a winning growth strategy.*
2. *Do you have the right team and operating model? To paraphrase Peter Drucker’s famous phrase, “Execution eats strategy for breakfast.” A prerequisite for successful execution is an effective leadership team that is brought together around critical behaviors. In the context of wealth management and the shifts the industry is going through, these behaviors for executive teams must include operating in an agile manner and developing connections across business units and functions. In addition, the team needs leaders who are not afraid to experiment and innovate and whose mandates are aligned with major growth themes that typically cut across business unit lines (for example, banking and wealth, segments, sustainability).⁴*
3. *Does your ability to attract sought-after client-facing and technology talent match your ambition? Over the last 12 to 18 months, wealth managers of different sizes and business models have publicly announced ambitious hiring targets with an emphasis on client-facing and technology talent. However, these plans have been challenged by severe labor*

⁴ For more, see Natasha Bergeron, Aaron De Smet, and Liesje Meijknecht, “Improve your leadership team’s effectiveness through key behaviors,” January 2020, McKinsey.com.

shortages across industries, as a result of what has been dubbed the Great Attrition: 40 percent of employees say they are at least somewhat likely to leave their current job in the next three to six months, and 54 percent of employees say they leave because they do not feel valued by their organizations.⁵ Wealth management is no exception to this trend.

While many of the levers for attracting and retaining talent remain effective, other factors have gained importance during COVID-19, with more than 80 percent of workers saying that a hybrid-office working model is the optimal route forward. In addition to rethinking their operating models to attract and retain talent, wealth managers need to take bolder and more creative approaches to attracting new-to-industry talent. These may include flexible working arrangements, alternative career paths (including new payout structures for client-facing roles and programs aimed at creating the next generation of advisor talent), and partnerships with various types of educational institutions.

4. *Are you reallocating a significant portion of your resources—spending and capital—toward priority growth areas, including M&A?* Systematic and dynamic resource allocation is an essential part of a winning business strategy. Achieving industry-leading levels in this area involves several steps: conducting a critical review of the firm's existing cost structure, introducing a culture that continuously reallocates resources from low- to high-value tasks, increasing transparency around returns of individual projects, and implementing governance processes to enable more dynamic resource allocation.

Capital reallocation can be a powerful tool for acceleration of growth in high-priority areas, which requires a clear M&A blueprint consistent with the broader enterprise strategy. We expect three major M&A themes to shape wealth management deal making in the next 18 to 24

months: (a) transactions focused on platform synergies, mostly in the vibrant RIA market but also among the largest wealth managers; (b) transactions focused on entering adjacent revenue pools, such as asset management, banking, retirement, or payments; and (c) transactions to acquire capabilities that will be key for growth—for example, direct indexing, tax solutions, or wealth tech.

While not all deals are accretive in value, the top 25 percent of deals achieve 8.5 percent excess TRS. Top acquirers are distinguished from the rest by two characteristics: the ability to embed M&A in their strategic planning process and a clear post-acquisition playbook, inclusive of an integration capability. Thinking through programmatic M&A in the context of business strategy is essential for making accretive deals that contribute to both top-line growth and business value.

5. *Do you have a partnership strategy rooted in your business strategy?* When it comes to digital, data, and technology, it is impossible for any organization to stay ahead of the pack on every dimension, so a clear partnership strategy is crucial. In fact, many wealth management incumbents already rely on fintechs to gain access to better technology across the value chain—client acquisition, client front-end, portfolio management, point solutions on advisor desktops, cybersecurity, and cloud infrastructure, among others. Looking ahead, it is important for executives and their teams to be clear-eyed about which capabilities will be a source of sustainable competitive advantage and then to decide how to acquire those capabilities: build in-house, build in-house in partnerships with fintechs, or outsource.

Despite a modest dip in profits, the US wealth management industry has thus far come through the pandemic not only unscathed but with tailwinds

⁵ Aaron De Smet, Bonnie Dowling, Marino Mugayar-Baldocchi, and Bill Schaninger, "Great Attrition or Great Attraction? The choice is yours," *McKinsey Quarterly*, September 8, 2021, McKinsey.com.

from sustained demand for advice, potential upside of higher interest rates, the rise of new client segments, and the embrace of unprecedented levels and speed of innovation. As the industry moves toward the hoped-for postpandemic new normal, it faces near-term macroeconomic uncertainty but also meaningful opportunity.

Tomorrow's successful managers will need to adapt their models to preempt the disruptions that lie ahead and adopt a new sense of purpose and innovation as they head into a period of growth.

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