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US wealth management: Amid market turbulence, an industry converges

Traditional delivery models may soon be history, as firms of all stripes broaden both their offerings and their target client and adviser segments. The competition will be intense.

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Executive summary

The approaching end of a decade-long run of growth fueled by market performance and net interest income, though somewhat expected, will be a rude awakening for US wealth managers. Over the past ten years, through the emergence of new models, shifting client preferences, and operational ups and downs, firms grew used to—in some cases, reliant upon—market-driven growth in assets. Assuming that the tailwind is waning, at least for a time, it will soon become apparent which firms remained operationally sharp during the good times and which overrelied on external forces.

Equity and bond markets suffered simultaneous declines in 2022, with the S&P 500 down nearly 20 percent and the US aggregate bond index experiencing the worst year of performance since inception. This market downturn, unmatched since the financial crisis of 2008, erased close to 50 percent of the cumulative market appreciation from the preceding five years. However, the swiftest escalation in interest rates in over half a century took the sting out of this market decline: even compared against 2021's record (market-driven) growth, US wealth managers achieved strong results in 2022. Revenues and profits rose by 6 and 8 percent, respectively, resulting in a one-percentage-point increase in overall profit margins.

Performance in the first three quarters of 2023 has remained positive, albeit not as strong as in 2022. Interest rates increased by a further 100 basis points, and equity markets briefly achieved full recovery before sliding again—the S&P 500 was up 9 percent at the end of the third quarter, compared with 20 percent at the peak. From wealth managers' perspective, 2022 may have represented a transitional year in which a historically sudden surge of inflation was offset by rising interest rates. And 2023 may be the beginning of a period during which the industry's resilience is tested more thoroughly as the softening action of high interest rates gradually fades.

Grappling with shifts in the macro environment is already a stiff challenge for US wealth managers, but another long-brewing trend is close to becoming a permanent feature of the industry landscape. The industry has long been organized along distinct lines in terms of delivery models and client segments. This structure has been gradually loosening, as wealth delivery models of all kinds expand beyond their old borders, shaking off traditional limitations on what services they offer clients and advisers and which clients and advisers they serve. Technology is accelerating this transition. And whether wealth management firms have a large in-house technology function, rely largely on WealthTech vendors, or operate somewhere in between, most are now as reliant on technology as they are on people. Technology's importance will deepen as generative AI demonstrates its enormous potential for boosting productivity, improving client experience, and supporting growth. Some firms have already announced initiatives to equip their advisers with tools that rapidly synthesize insights they can use in real time with clients, while others are exploring use cases that leverage gen AI for content creation and A/B testing to significantly improve prospect engagement.

As convergence in the US wealth management industry accelerates, competition will intensify. This situation calls on individual firms to carefully consider which big bets they can make now to stay relevant to their clients and advisers under the new competitive paradigm. Many will determine that they need new recipes for growth. Strategic clues come from the practices of top performers, which reaped disproportionate rewards in 2022. The fastest-growing firms tend to have access

to proprietary lead generation channels (for example, workplace), have expanded their offerings (adding banking in particular), offer superior multi-segment adviser value propositions, have scalable infrastructure, and make disciplined M&A choices. These markers transcend legacy lines between the delivery models.

Firms that benefited from rising interest rates have a unique opportunity to reinvest into the business for the future, while the rest will need to make tougher choices and free up capacity that can be redeployed toward long-term growth. As we detail later in this report, firms can position themselves for the new dynamics at play by focusing on six areas: expanding offerings, building centralized lead generation capabilities, developing a talent attraction strategy, leveraging gen AI for adviser and other client-facing staff productivity, reallocating resources, and redesigning their operating models for scalability and flexibility.

The good, the bad, and the rest: An economic overview

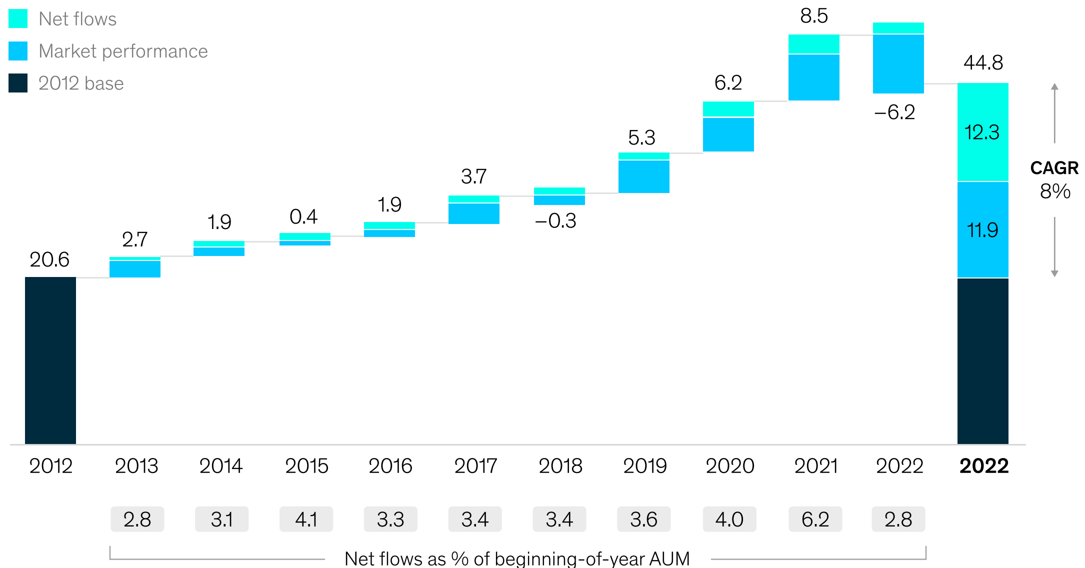
After a decade of nearly unbroken growth driven by market appreciation, the US wealth management industry experienced a significant contraction in 2022 (Exhibit 1). Client assets overseen by the industry declined by $6.2 trillion, erasing almost a year and a half of market appreciation. Market performance accounted for $7.6 trillion of the decline and was offset slightly by $1.4 trillion of net inflows (2.8 percent organic growth). This compares with 6.2 percent organic growth in 2021 ($2.6 trillion), which was bolstered by favorable economic conditions and federal stimulus money.

The saving graces were interest rate hikes, which enabled the industry to fare relatively well despite major headwinds. Over the course of 2022, the Federal Reserve increased the federal funds rate by a total of 425 basis points to the highest level since 2008. Wealth management revenues, profits, and profit margins continued on their growth trajectories, increasing 6 percent, 8 percent, and one percentage point, respectively in 2022, further validating the industry's resilience and attractive fundamentals. Beneath the positive headline performance was significant variance in results between individual firms, strongly correlated with each firm's ability to extract bottom-line impact from rising interest rates. For winners, this created a unique opportunity to secure additional financial capacity they can reinvest in the business.

Exhibit 1

After a decade of growth, US wealth management client assets contracted in 2022 as a result of negative market performance.

Client assets, US,[1] $ trillion



[1] Year-end US wealth manager client assets. Includes retail assets with wealth intermediaries (eg, broker–dealers, digital-direct firms, and private banks). Excludes directly held securities (eg, through employee stock plan options or bonds purchased directly from the government) and institutional assets (such as pensions).
Source: Cerulli Associates; public filings; McKinsey Wealth Management Survey

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Asset growth concentrated at the top, again

In 2022, industry net flows decreased by 3.4 percentage points to an average of 2.8 percent (below the ten-year average of 3.8 percent between 2012 and 2021). The trend of wide disparity in performance across delivery models—as well as between firms and advisers—continued. As is often the case, the benefits of growth settled at the top of the industry.

In the years leading up to 2022, organic growth disproportionately accrued to digital-direct wealth managers (sometimes referred to as online brokerages) and registered investment advisers (RIAs). RIAs, despite seeing their net flows approximately halve, recorded the highest net flows of any channel, at 5 percent in 2022 (Exhibit 2). They outpaced digital-direct firms, which experienced more muted growth: net flows declined by almost four percentage points to a total of 3 percent—slightly above the average for the industry and well below the 2017–21 average of 6.5 percent. Digital-direct firms faced two challenging factors. First, 2021's record-high levels of new account openings were unsustainable, as they resulted in large part from a confluence of favorable market conditions, social-media-driven uptake of trading (so-called meme stocks), and the stimulus money distributed to households. In fact, based on our analysis of public filings, the growth in number of self-directed accounts overall declined sharply to 7 percent, compared with 27 percent year-over-year growth in 2021. Second, a flight to advice is common in economic downturns and periods of increased volatility. According to McKinsey's 2023 Affluent and High-Net-Worth Consumer Insights Survey, among clients who have both a self-directed account and a traditional adviser, 58 percent actively reallocated assets to their adviser in 2022.

Exhibit 2

A slowdown in net flows was broad-based, with the notable exception of independent broker–dealers.

Net flows,[1] % of beginning-of-year client assets

Delivery models	2017–21 average	2022	Change, 2022 vs 2017–21 average, percentage points
Wirehouses	1.5	1.0	–0.5
National/regional broker–dealers	4.0	3.5	–0.5
Independent broker–dealers	1.5	3.5	+2.0
Registered investment advisers	6.5	5.0	–1.5
Private banks	1.5	0.5	–1.0
Digital-direct firms	6.5	3.0	–3.5

[1] Does not include several smaller delivery models (eg, bank-owned broker–dealers, insurance-owned broker–dealers, bank trust and nondepository trust companies), which together account for approximately 10% of total assets.
Source: Cerulli Associates; public filings; McKinsey Wealth Management Survey

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Two other delivery models achieved above-industry net flows: independent broker–dealers and national/regional broker–dealers, at 3.5 percent each, both buoyed by the continued movement of advisers to their models. Finally, wirehouses and private banks continued to underperform other delivery models (reporting net flows of 1 and 0.5 percent, respectively) in terms of industry average and their share of total client assets. At wirehouses, the underperformance was partly an outcome of productive advisers' continued migration to independent channels.

As in previous years, asset growth was concentrated among the top performers. The three fastest-growing wealth managers in absolute terms in 2022 represented one-fifth of total industry assets but one-third of net flows. A similar dynamic was at play within each delivery model: the fastest-growing independent broker–dealer accounted for 50 percent of net flows for the model category (versus 33 percent of assets); the fastest-growing national full-service firm accounted for 70 percent of net flows (versus 37 percent of assets); and the top-performing private bank represented the lion's share of the channel's growth. And a new McKinsey survey of leading RIAs with more than $10 billion in assets suggests that the difference in net flows between top and bottom quartiles is about seven percentage points.

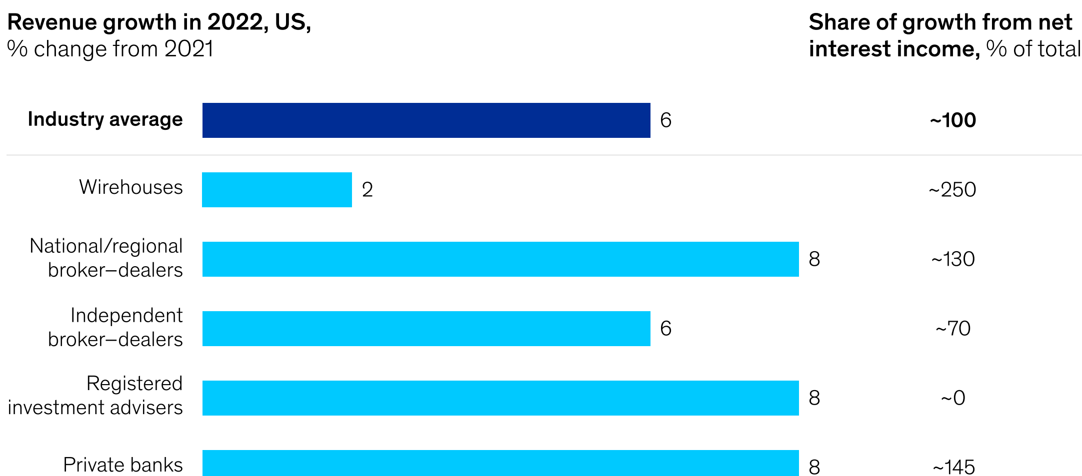
A similar clustering of asset growth holds true at the adviser level, although the gap between top performers and the rest narrowed relative to 2021. The top quartile of advisers outperformed the second-highest quartile by two times in 2022 (down from 2.5 times) and the bottom quartile by a factor of ten (down from 12 times). Within the top quartile, the top decile outperformed the next tier by a factor of 2 (adding 26.8 and 13.5 new households per year, respectively).

Positive operating leverage again, against the odds

Industry profit pools increased for the ninth time in ten years, growing 8 percent to reach an all-time high of $65 billion. But 2022 was a slowdown compared with the 30 percent profit growth registered in 2021. Total revenues for the US wealth management industry grew 6 percent to $255 billion (Exhibit 3), and costs increased

Exhibit 3

Overall US wealth management revenues grew 6 percent in 2022; most growth came from revenue streams related to net interest income.



Source: Cerulli Associates; *InvestmentNews*; public filings; McKinsey Wealth Management Survey

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4 percent to $190 billion (Exhibit 4). This positive operating leverage enabled the industry to expand its overall pretax margins to 26 percent (a one-percentage-point increase year over year). While this was the second straight year of positive operating leverage after five years of flat margins (Exhibit 5), the dynamics in 2022 were markedly different from those in 2021. In 2021, positive operating leverage resulted from a combination of record net flows and near-record market appreciation; in 2022, rising interest rates fueled high-margin net interest income revenue streams.

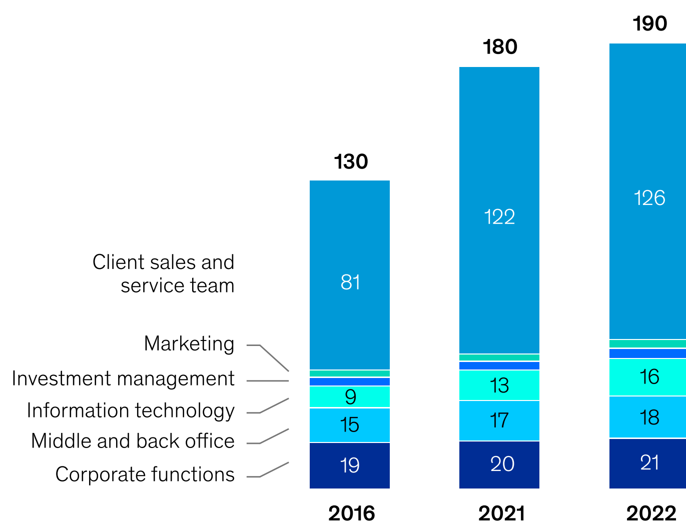
On the revenue side, revenue streams related to net interest income accounted for over 100 percent of industry-wide revenue growth in 2022, more than offsetting a decline in revenue streams tied to asset levels. These dynamics were observed across almost all delivery models, notwithstanding significant variation in the details between models. The notable exception is RIAs, which were challenged by the worsening macro environment and virtually no exposure to interest rates. They did, however, continue to see strong organic asset growth, driven in large part by

Exhibit 4

Overall cost growth slowed in 2022, caused by slowing growth of client sales and service team costs.

Total wealth management[1] costs, US, $ billion

Cost growth, CAGR, %
2016–21 2021–22



	2016	2021	2022	CAGR 2016–21	CAGR 2021–22
Revenues, $ billion	165	240	255	8	6
Of which, compensable revenue,[2] $ billion	81	118	116	8	–1
Pretax profits, $ billion	37	60	65	10	10
Pretax profit margins, %	22	25	26		

[1] Includes operating costs of wirehouses, national/regional wealth managers; registered investment advisers; digital-direct channels; bank-owned, independent, and insurance wealth managers; and private banks.
[2] Assuming that private banks are entirely salary and bonus (no compensable revenue).
Source: Cerulli Associates; *InvestmentNews*; public filings; McKinsey Wealth Management Survey

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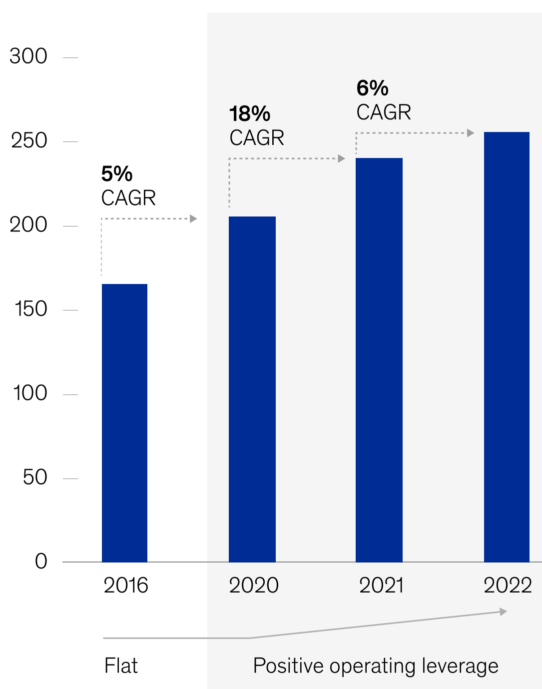
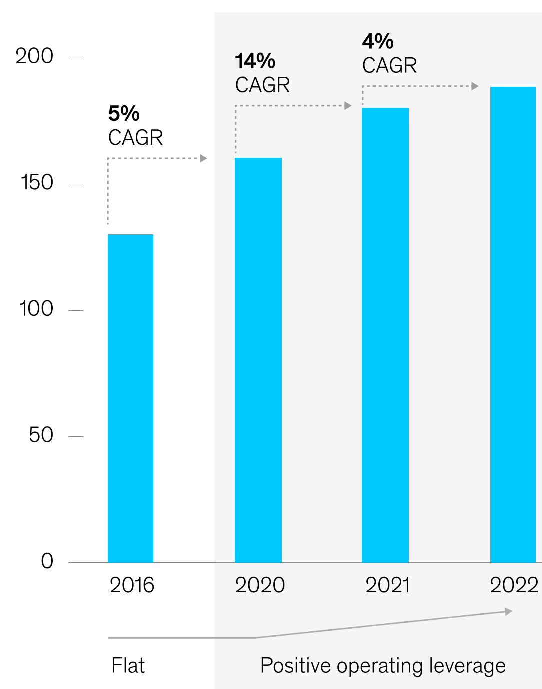
Exhibit 5

Rising interest rates helped the industry grow and achieve a second straight year of positive operating leverage.

Industry operating revenues,[1] $billion



Industry operating costs,[2] $billion



[1] Includes revenues attributable to wealth management clients—primarily advisory fees, trading commissions, mutual fund trailers, net interest income, and lending fees.
[2] Costs represent total operational expenses excluding extraordinary items.
Source: Cerulli Associates; *InvestmentNews*; public filings; McKinsey Wealth Management Survey

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adviser movement into the RIA model and custodian referrals.

Cost growth in 2022 slowed, growing at 5 percent versus the 7 percent average growth between 2016 and 2021 (and 14 percent growth in 2021), primarily due to the slower growth of client sales and service team costs, which represent two-thirds of total industry costs. In 2022, these costs grew only 3 percent, compared with the 9 percent per annum growth between 2016 and 2021. Client sales and service team compensation costs are largely tied to compensable advisory and brokerage revenues, which in fact decreased by 1 percent in 2022. In contrast to most years over the past decade, the growth in revenues due to rising rates mostly benefited wealth management firms (rather than the advisers)—hence the overall increase in profit margins.

Given healthy revenue growth, the wealth management industry continued to invest in growth and infrastructure, as evidenced by the more significant cost increases in technology, middle- and back-office operations, marketing, and other support functions. Combined, these cost categories grew an average of 9 percent, versus the 4 percent per annum average for 2016–21. While managers took a long-term through-cycle view and continued to invest in future growth and scalable infrastructure, interest rate hikes are unlikely to be sustained at the same

level for the long term, which would inevitably exhaust this source of high-margin revenue growth. Moreover, a decline in rates (compared with 2023's historical highs) would be a significant headwind. Therefore, wealth managers should seriously consider continued investments in the business now, while conditions are favorable, to future-proof their business and operating models for tougher times ahead.

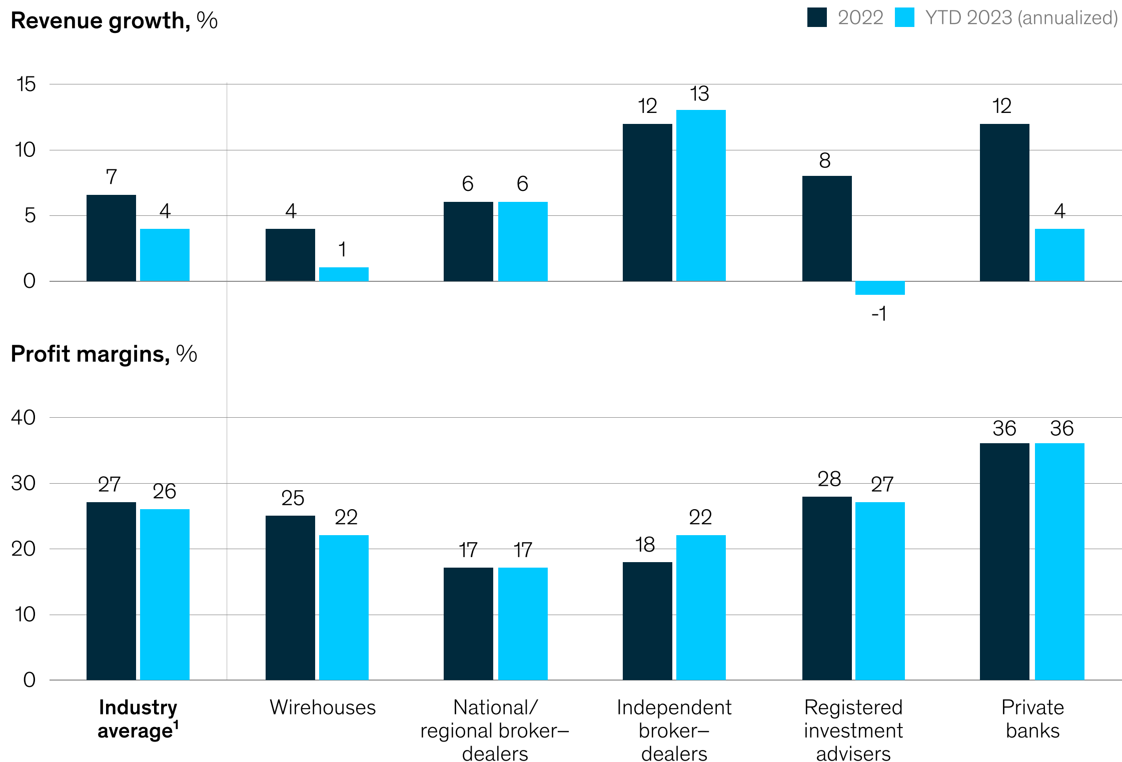
2023: End of the easy ride?

In 2023, the macroeconomic environment has shifted again, with a mixed impact on the industry. Our analysis of the performance of public wealth management firms in the first three quarters of 2023 (on an annualized basis) suggests client assets have partially rebounded, growing by 8 percent compared with a 12 percent decline in 2022, whereas revenue growth has slowed from 7 percent to 4 percent (Exhibit 6).[1] In other words,

[1] The 7 percent growth figure for 2022 cited here differs from the 6 percent cited earlier in the report because it includes growth figures only for wealth managers that report their performance publicly (i.e., covers only a subset of the industry). The 6 percent figure covers the whole industry and is derived from both public filings and the McKinsey Wealth Management Survey.

Exhibit 6

Wealth management's revenue growth has slowed, but profit margins shrank only slightly over the first nine months of 2023.



[1] Based on a subset of the industry that reports publicly and the McKinsey RIA Benchmarking Survey. The 7% industry growth figure for 2022 differs from the 6% cited earlier because it includes growth figures only for wealth managers that report their performance publicly (ie, covers only a subset of the industry). The 6% figure covers the whole industry and is derived from both public filings and McKinsey Wealth Management Survey.
Source: McKinsey RIA Benchmarking Survey. Includes quarterly earnings and financial supplements for Ameriprise A&WM, Bank of America GWIM, BNY Mellon WM, CI Financial US WM, Edward Jones, Goldman Sachs WM, JP Morgan PB, LPL Financial, Morgan Stanley WM, Morningstar IM, Northern Trust WM, Oppenheimer Holdings PC, Raymond James PCG, RBC US WM, Silvercrest AM, Stifel Financial GWM, UBS WM Americas, and Wells Fargo WIM

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the pendulum has swung back, with revenue drivers partially reversing from 2022: by mid-2023, public markets had almost recovered to peak 2021 levels (before sliding again), though due to the lagging nature of revenues versus assets, the impact of the recovered asset levels has only been fully realized in the third quarter thus far. At the same time, for all but the independent and regional broker–dealers, growth in net interest income cooled because rate increases were smaller than in 2022 and advisers and clients allocated away from relatively low-yielding bank deposits to higher-yielding offerings like CDs, treasury notes, and money market funds. At the same time, profit margins have decreased from 27 percent to 26 percent, primarily because of slower revenue growth.

While the overall picture in the first three quarters of 2023 has been largely favorable to wealth managers, dynamics differ across delivery models.

— *Wirehouses* reported 8 percent growth in client assets due to strong market performance, and revenues increased 1 percent, compared with a 4 percent increase in 2022. In fact, only one of the four wirehouses experienced positive revenue growth; the remaining three reported an average decline in revenues of 2 percent. The weaker revenue performance is due to lower fee-based revenues more broadly, which are affected by previous quarter-end balances, lower transactional revenues related to reduced client activity, and a slowdown in net flows, all of which were only partially offset by higher net interest income. While net interest income increased in absolute terms over 2022 on an annualized basis, all wirehouses reported declines in net interest income in their most recent quarterly reporting relative to Q4 2022, due to the slower pace of rate hikes and the impact of “cash sorting” (client deposits dropped by 10 percent from the fourth quarter of 2022, and deposit balances fell another 3 percent in the third quarter of 2023). Pretax margins declined by three percentage points to 22 percent as costs grew by 5 percent.

— *Private banks* experienced 6 percent growth in client assets and 4 percent annualized revenue growth (compared with a 12 percent increase in 2022). Growth in net interest income, the main driver of revenue growth in 2022, tapered off as clients in this segment shifted toward higher-yielding liquidity solutions. Costs increased by 4 percent, resulting in a flat pretax profit margin of 36 percent.

— *Independent broker–dealers* grew assets by 9 percent, thanks to strong adviser recruitment by the largest firms and recent acquisitions of RIAs and smaller broker–dealers. Revenues grew at an annualized 13 percent rate (versus 12 percent for the same set of firms in 2022), the highest rate of all delivery models, due to a more than 100 percent increase in net interest income that carried over from 2022 from rising interest rates, favorable terms with partner banks, and volume growth across cash offerings. Unlike other delivery models, cash sorting has not been as much of a headwind because existing deposit volumes are much lower (on a per account basis) and smaller average client sizes likely are resulting in “stickier” deposits. We estimate that approximately 45 percent of independent

While the overall picture in 2023 has been largely favorable to wealth managers, dynamics differ across delivery models.

broker–dealer revenue growth in the first three quarters of 2023 has come from net interest income, compared with 70 percent in 2022. Finally, costs have grown by 7 percent, and as a result, profit margins for this segment have soared on a relative basis, the largest improvement among delivery models (a four-percentage-point increase, reaching 22 percent margins).

— *Registered investment advisers* grew assets by 9 percent, benefiting from adviser movement into the channel, the steady pipeline of custodian referrals, and the emerging success of direct marketing by the largest RIAs. However, revenues were flat, compared with an 8 percent increase in 2022. Notably, RIAs have little to no interest rate exposure, which contributed to the lower revenue growth versus independent and regional broker–dealers; it may also make them more resilient than other models to a lower-rate environment.

— *National and regional broker–dealers* grew assets by 6 percent and revenues by 7 percent on an annualized basis (similar to their 2022 performance), driven by strong net flows from adviser recruitment and the continued growth in net interest income, which grew the second fastest, behind independent broker–dealers. In turn, costs grew by 7 percent, resulting in pretax profit margins of 17 percent—the same figure as the prior year.

Overall, despite the macroeconomic uncertainties, industry performance remains relatively strong in 2023, largely due to continued high interest rates and partially recovered capital markets. But wealth managers need to be clearheaded about the temporary nature of this reprieve and may want to invest now in preparation for a more challenging environment. And it is not just macroeconomics that will change. The long-established lines along which the industry is structured are evolving, and firms will face a new competitive paradigm. As always, structural shifts open up as many opportunities for striking out ahead of the pack as cracks in which laggards can stumble.

Convergence is here

Amid a three-year span of unprecedented market volatility and macroeconomic shifts—record-high equity markets followed by the largest single-year decline in a decade and the fastest and highest interest rate hikes in history—it might be easy to overlook the acceleration of a more industry-specific trend: the convergence across traditional wealth management delivery models.

This trend itself—a long-brewing response to client and adviser preferences and the need for diversification of revenue streams—is not "new news." Wealth managers have for some time been adding banking and lending services and trying to compete across a full range of client segments. And advisers have been converging around planning-led value propositions and adding services including insurance, tax preparation, and bill payment to make client relationships stickier. But thanks to the catalyzing impact of technology and the evolution of client and adviser needs, we are now on the cusp of this convergence solidifying into a new industry structure.

After decades of convergence, many wealth management platforms are starting to look more like one another, and the delivery channels based on business models (for example, wirehouses), affiliation (independent broker–dealers), type of relationship (RIA versus brokerage, advised versus self-directed), product focus (banking led versus investment led), and ownership (bank or insurance owned) are becoming less relevant. Ultimately, end clients are not very aware of the differences between delivery models, and they evaluate their advisers and wealth managers based on their direct experience.

In response to evolving client and adviser needs and the continued march of technology, data, and analytics, wealth management firms across delivery models have been converging across four axes.

The one-stop shop

More than ever, clients prefer one-stop-shop solutions for financial and other needs adjacent to wealth management. When we surveyed wealth clients in 2018, 29 percent said they prefer holistic advice across adjacent needs; in our 2023 survey, the figure jumped to 47 percent, a 60 percent increase (Exhibit 7). The biggest growth in adjacent needs has been in lending and banking services: our survey indicates that approximately 30 percent of clients with $1 million to $25 million in investable assets prefer to consolidate banking and wealth relationships (rather than keep them with separate institutions), an increase of approximately 250 percent since 2018.[2] Younger investors are even more interested in a one-stop shop: more than 73 percent of clients between the ages of 25 and 44 prefer to consolidate their wealth and banking relationships, up from 20 percent in 2018 (Exhibit 8).

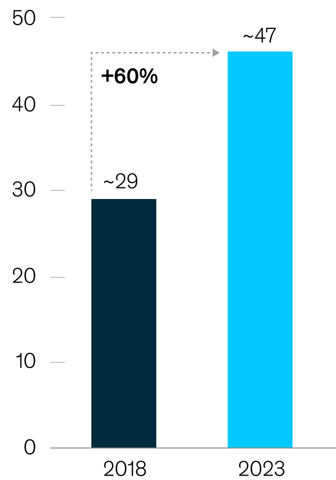
Wealth managers have been responding. Wirehouses started integrating banking and lending solutions years ago, offering central asset accounts to serve as the funding center for their clients' investment, credit, lending, and debit needs. Several national and regional broker–dealers have followed suit, offering banking and lending, with some acquiring banking charters. From the other direction, banks have been trying to enhance their wealth management offerings to better serve their deposit clients, and banks, custodians, turnkey asset management platforms (TAMPs), and fintechs are looking to innovate across banking solutions to provide white-labeled lending and cash management solutions for RIAs and broker–dealers. In addition, wealth managers are adding nonfinancial products and services such as trust administration, tax preparation, estate planning, and lifestyle management services (bill pay, for example) to their platforms. Some firms are outsourcing these adjacent services or offering them through strategic partnerships; others, RIAs in particular,

[2] McKinsey Affluent and High-Net-Worth Consumer Insights Survey.

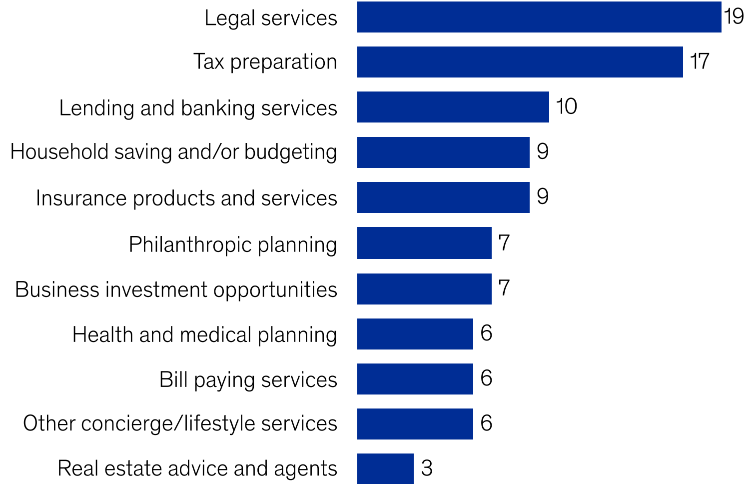
Exhibit 7

Client preference for holisitic advice continue to increase, rising about 60 percent since 2018.

Respondents who prefer holistic advice,[1] % of respondents



What services would you or do you find most valuable if provided by your wealth institution?, % of respondents



[1] Percent of respondents who indicate that they "prefer to work with an investment professional who can holistically answer my financial needs across investments, life insurance, banking, and taxes."
Source: 2023 McKinsey Affluent and High-Net-Worth Consumer Insights Survey (n = ~7,000)

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have been acquiring tax practices, setting up trust administration, and building out concierge services to enhance their value propositions to clients. There is, of course, a defensive aspect to all of these moves: clients, or their heirs in case of intergenerational transfer, are less likely to go to a competitor for an adjacent service if they can easily add it to their existing relationship.

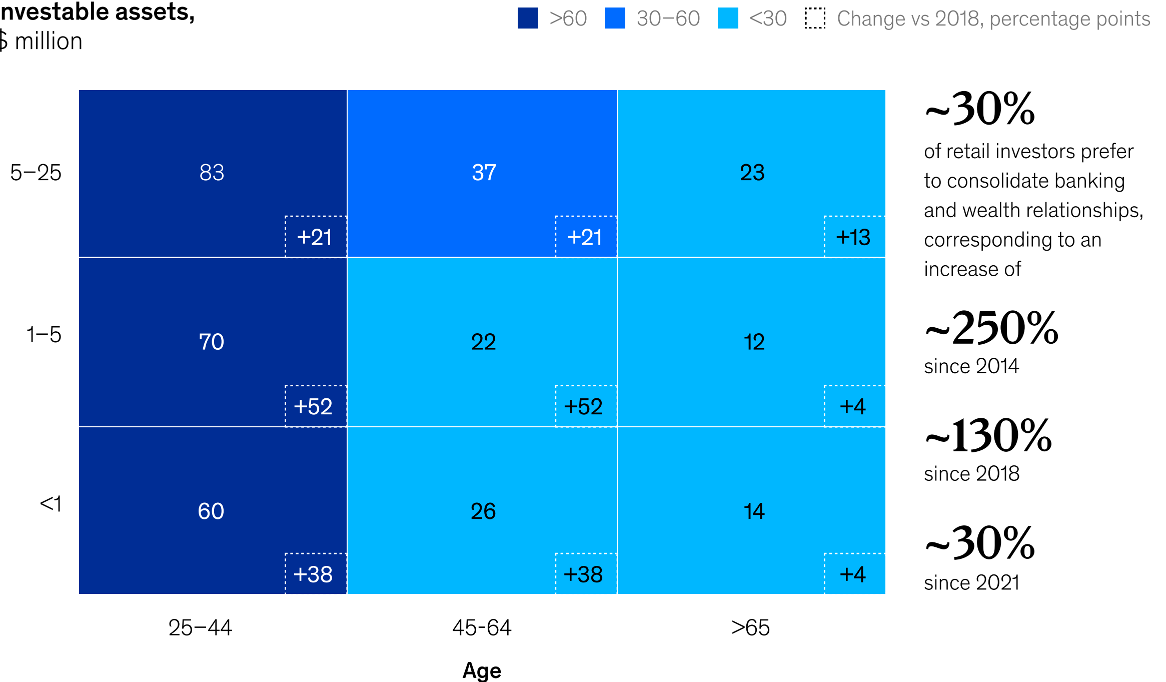
In another sign of convergence, traditional adviser-led wealth managers are offering digital-only options, while digital-direct firms are mirroring this approach and expanding their advisory services. The traditional firms are motivated by serving smaller clients profitably, attracting clients early in their wealth accumulation journey with the aspiration to serve them more fully later on, and accommodating clients who simply like having a digital option alongside an adviser. For their part, digital-direct firms are building out advisory offerings to better monetize their existing relationships by providing higher value.

Of course, providing a broader set of products and services increases operational complexity and cost to serve, but it creates clear value over the long run by enabling wealth managers and advisers to have primary relationships with their clients, which translates into five times greater share of wallet than for secondary relationships. In some cases, it also enables greater retention of assets through the intergenerational wealth transfer (primarily through trust services and legacy planning), something advisers value. In addition, it helps diversify and expand revenue streams, primarily through net interest income—which has proved crucial for many wealth managers over the past year or so.

Exhibit 8

Younger and, to a lesser extent, wealthier consumers increasingly prefer to consolidate banking and investing.

Agreement with the statement ‘I prefer to place investments with a firm where I also have a banking relationship,’ % of consumers



Source: 2023 McKinsey Affluent and High-Net-Worth Consumer Insights Survey (n = ~7,000)

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Come one, come all

The second axis of convergence in US wealth management is the rise of multisegment platforms, whether segmented by client or adviser, as wealth managers seek to tap into wider asset and revenue pools. The trend holds across almost all delivery models (Exhibit 9). Consider a few examples:

— RIAs, historically focused on the core millionaire segment, are now expanding into the ultra-high-net-worth segment as most productive wirehouse advisers are starting to break away and start their RIAs as better technology and investment content become more easily accessible. From 2016 to 2022, $10 million–plus relationships grew 13 percent annually in the RIA channel, versus 8 percent for wirehouses and private banks.

— Digital-direct firms are also moving upmarket, with double-digit growth similar to that of RIAs in $10 million–plus relationships between 2016 and 2022, according to our estimates.

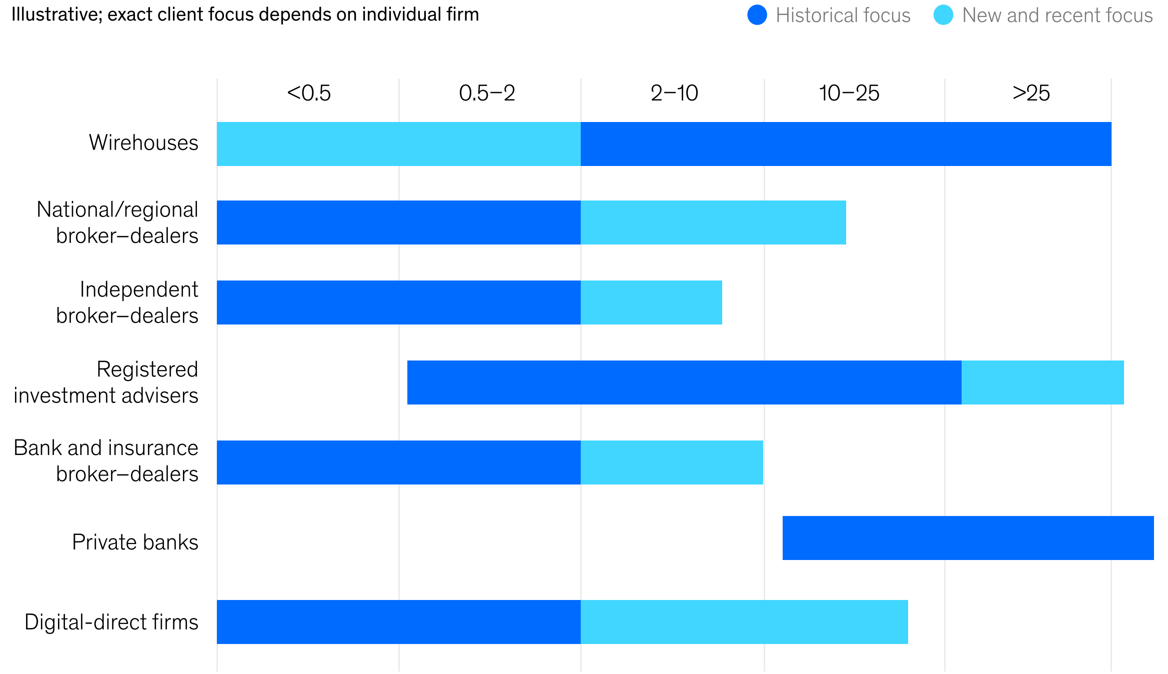
— Bank-owned wealth management firms (including wirehouses) are heading down-market, rolling out digital-only models to capture a large installed retail banking client base in lower-wealth segments.

— Regional and independent broker–dealers are also competing to attract high-net-worth teams

Exhibit 9

Firms across delivery models are serving broader sets of client segments.

Investable assets, 2017–21, $ million



Source: McKinsey Wealth Management Survey

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and move upmarket. Between 2016 and 2022, these firms grew their assets with $1 million–plus relationships by 9 percent annually, in line with the industry as a whole.

On the adviser side, more individual advisers want the freedom to choose the affiliation that best serves their needs, and many are opting for independent models. Whether they opt for a custodian, broker–dealer platform, or employer, advisers need some degree of support from a trusted financial institution. Some enjoy the benefits and full-service support that come with the employee model; some value the greater autonomy of the 1099 independent model but do not want to deal with middle- and back-office complexity; others seek the complete independence of the RIA model, where they can build their own business. While there is growing adviser preference for independence, a significant portion of advisers prefer W2 employee affiliation with greater support and lower risk (especially as they build their client base).

Both as a retention mechanism and a recruitment strategy, wealth management firms are increasingly catering to all of these affiliation preferences. Independent broker–dealers are acquiring RIAs with W2 advisers while enabling 1099 advisers to affiliate with their broker–dealer or corporate RIA. Some of the largest independent and regional broker–dealers are expanding their platform services to include RIA custody to retain the assets of fully independent firms. Additionally, some wirehouses already have affiliated independent channels. Some of the largest and

fastest-growing wealth managers have multiple affiliation models to appeal to a broad range of adviser preferences.

Novel approaches to client acquisition

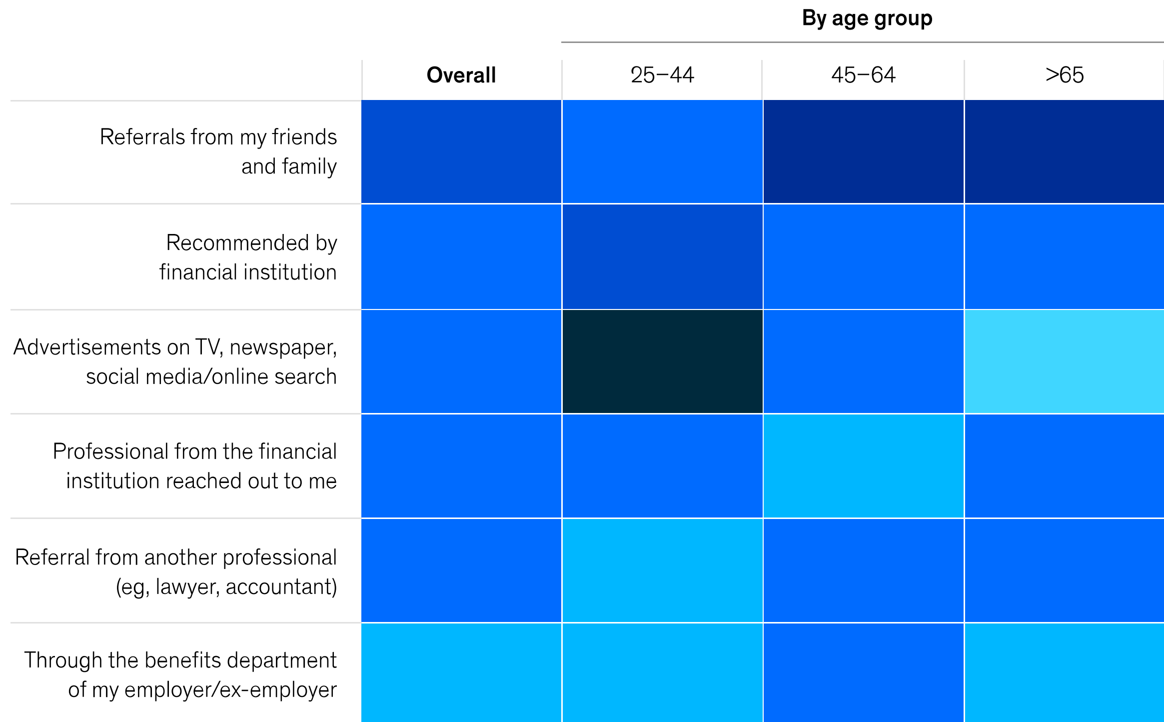
The fastest-growing wealth management firms are taking a fresh look at client acquisition. The traditional approaches—adviser recruitment and M&A, adviser led, client referrals, centers of influence—are still part of the mix, supported by adviser training and practice management, but many firms are turning to centralized lead generation to boost organic growth, especially among the younger clients (Exhibit 10). Acquiring client assets through adviser recruitment or M&A is estimated to be the most expensive model, with a cost of acquisition typically between 250 to 300 basis points—varying widely depending on the size and quality of a specific book of business. Custodian referral programs seen in the RIA channel are another expensive model, with an estimated acquisition cost of 200 basis points, although the costs are smoothed out over the lifetime of the relationship. Successful direct marketers have achieved acquisition costs as low as 80 to 150 basis points, but this requires strong execution. The most attractive acquisition model comes from privileged

Exhibit 10

Referrals remain the largest source of new clients, but centralized lead generation is increasingly a major source.

How did you find your financial adviser at your primary investment firm?, % of respondents

Share of respondents, %



Source: 2023 McKinsey Affluent and High-Net-Worth Consumer Insights Survey (n = ~7,000)

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access to prospects through the workplace, retail banking relationships, or self-directed offerings. Firms with adjacent businesses that succeed at this cross-selling approach can achieve acquisition costs as low as ten to 20 basis points.

In addition to their primary aim, wealth managers see these new acquisition channels as a differentiator in adviser recruitment. Consider that the average US wealth adviser is 50 years old and that 40 percent of total client assets are currently managed by advisers who are estimated to retire in the next decade. In this context, first-generation advisers continue to gather assets, improve their productivity, and seek opportunities to monetize their practice before retirement. Junior advisers, in contrast, are hungry for access to proprietary leads and for support from wealth management firms to grow their business and find succession opportunities.

Strategies are emerging in five distinct areas:

1. **Retirement and workplace.** Wirehouses, independent broker–dealers, and RIAs have made significant investments in the retirement segment by building new businesses or acquiring existing ones. Acquisitions have centered around employee stock option administration solutions, third-party administrators (TPAs), and retirement plan advisory practices. In that third category, there were 74 acquisitions in 2022, compared with eight in 2017.[3] Some are developing executive financial counseling offerings. From the other side, some recordkeepers are bolstering their retail offerings through acquisition and innovation, such as collective investment trusts and in-plan managed accounts, to build wealth management relationships with clients outside of retirement plans. These firms are leveraging their privileged access to prospects through the workplace (and often employer endorsements) to gain trust and capture both in- and out-of-plan assets for acquisitions costs as low as ten to 20 basis points.

2. **Affiliated self-directed businesses.** Digital-direct firms and wealth managers with sizable self-directed businesses are setting up centralized lead generation capabilities to transition self-directed clients into higher-value advisory relationships. The most successful firms have developed systems across people, processes, and tools to drive acquisition costs down to as low as 20 basis points.

3. **Retail banking clients.** Bank-owned wealth managers, which have historically relied on in-branch referrals, are increasingly deploying sophisticated marketing techniques and analytics to increase top-of-funnel conversion. They are also actively blurring the lines between traditional banker and financial adviser roles and are introducing collaboration models to maximize client experience. Successful bank-owned wealth managers are acquiring clients from retail banking relationships for between 20 and 70 basis points.

4. **Tax, insurance, and ancillary services providers.** To better serve clients and gain privileged access to a new pool of prospects, independent broker–dealers and RIAs are acquiring firms that provide adjacent services. Recent acquisition examples include tax practices, insurance broker general agencies, trust administration service providers, and business management/CFO services companies. Although centers of influence with tax and insurance providers have been a common practice for many years, these acquisitions are too early in their development to estimate their client acquisition costs.

5. **Direct-to-consumer marketing.** Many wealth managers are now viewing direct-to-consumer marketing as a way to boost client acquisition, often starting with third-party affiliate marketing services. For example, many fast-growing RIAs are looking to diversify away from the expensive custodian referrals by building proprietary direct marketing engines. When

[3] Margarida Correia, "Retirement plan adviser M&A off recent highs but still robust," *Pensions & Investments,* July 14, 2023.

Generative AI is likely to bring technology even further to the forefront of the wealth management model.

firms focus on a narrow target segment with the right offer, the right marketing hook, and the right seller at the right time, acquisition costs can be as low as 70 to 80 basis points.

Firms with multichannel client acquisition engines not only can lower their cost of customer acquisition and achieve greater organic growth, but also can enhance their value proposition and use the access to proprietary leads as recruitment currency for advisers.

Technology takes center stage

Historically, traditional wealth management offerings relied almost solely on the client–adviser relationship, with technology considered a secondary path to success. But advances in technology, data, and analytics started boosting client and adviser expectations: clients were looking for highly personalized experiences seamlessly delivered across web, text, app, and video channels, and advisers began to expect seamless desktop experiences, client portals, and middle- and back-office processes.

In response, about two decades ago, wealth managers began investing significant resources in technology, and the trend is accelerating. In fact, spending on technology has outpaced revenue and cost growth of the industry over the past five years (9 percent versus 8 percent versus 7 percent, respectively, from 2016 to 2021), with a big jump in 2022 (19 percent year-over-year growth, versus 6 percent and 5 percent, respectively). Tech upgrades have spanned adviser desktops and tools, client portals, data feeds and integrations, cloud infrastructure, core tech modernization, and cybersecurity, among others. Today, assembling a tech stack across in-house and vendor solutions to support higher productivity for advisers and better experience for clients is a core competency for wealth managers. In addition, fintech and WealthTech have become core enablers.

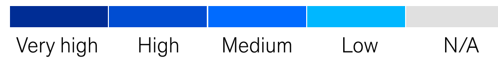
The emergence of generative AI is likely to bring technology even further to the forefront of the wealth management model and to push client and adviser expectations even higher. While we do not see gen AI displacing the role of the adviser in the near future, it provides a once-in-a-generation opportunity for wealth managers to improve client experience (in addition to other use cases across the value chain) and increase the productivity of advisers and other client-facing staff. In the latter category, gen AI is already being deployed to generate and synthesize meeting notes, draft financial plans and client briefs, support compliance reporting, and serve as a virtual assistant.

According to McKinsey estimates, gen AI could help the average wealth adviser reorient 20 to 30 percent of their time toward growth-related tasks (Exhibit 11). The biggest time savings will come in preparation for client meetings, servicing of accounts, compliance, and financial planning. Unlocking this potential will require integration of gen AI into existing workflows and training programs for advisers and other client-facing staff. Wealth managers and advisers who capture gen AI's potential first are likely to significantly outperform the rest of the pack, at least until the technology becomes more widely accessible and integrated across the industry.

Exhibit 11

Generative AI has potential to significantly increase adviser productivity.

Relative amounts of time spent/potential time saved



Adviser activity area	Adviser activities	Share of adviser time spent on activity,[1] %	Time savings potential from gen AI,[2] % of adviser time spent on activity
Client-facing activities	Client meetings	Very high	N/A
	Financial planning/proposals	High	High
	Client service problems	Medium	Very high
	Preparing for client meetings	Medium	Very high
	Prospecting for new clients	Medium	Medium
Investment management	Investment research, due diligence, and monitoring	High	Medium
	Trading and rebalancing	Medium	Low
Administrative and professional development	Managing day-to-day operations and administration	High	Medium
	Practice management	Medium	Medium
	Compliance	Low	Medium
	Professional development activities	Low	N/A
	Other	Low	N/A

[1] Share of adviser time spent on activity: very high ≥20%; high = ~10–20%; medium = 5–10%; low ≤5%.
[2] Estimated time saved by deploying gen AI: very high = 40–50%; high = 30–40%; medium = 10–30%; low ≤10%
Source: Cerulli Associates

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Agenda for a new industry landscape

The past 18 months can be seen as a transition for the US wealth management industry—a sharp departure from a decade of relatively easy and predictable growth to a new, more challenging environment that will test each firm's fundamental strengths. At the same time, wealth managers will be operating in a landscape shaped by new competitive dynamics as the distinctions between delivery models evaporate.

Wealth managers can benefit from future-proofing their strategies and deciding what big bets they want to make beyond business as usual. As we approach a definitive shift in the macro environment, US wealth firms are broadly in one of two positions: some benefited from rising interest rates and now have a unique opportunity to reinvest into their business for the future, and others will face tough choices about where to pull back or pursue transformational change to free up capacity that can be redeployed toward long-term growth.

Thriving in this environment will require a focus on strategic positioning, operating model design across the value chain, and development of a well-tuned "execution engine" to create forward momentum. Wealth managers can position themselves in the shifting landscape by focusing on the following six areas:

1. **Expanded offerings.** Expanding the scope of advice and product offerings in response to evolving client needs will be crucial; firms that do not keep up with evolving client needs and their desire to bank and invest in one place risk losing share to those that do. Wealth managers can pursue accretive impact by deciding where to lean in for their clients and acquire new capabilities, whether organically or via partnerships. The right approach will depend on the wealth manager's starting position and the needs of its client (and adviser) bases.

2. **Institutionalized lead generation system.** Building and scaling centralized lead generation capabilities is a proven competitive advantage, yet few wealth managers have mastered it. While putting in place and scaling such a system requires investment, the benefits are compelling. For example, the acquisition of a $1 million relationship can unlock $50,000 to $70,000 in advisory fees over a decade, suggesting that wealth managers should be willing to spend as much as $15,000 to $20,000 on client acquisition. Gaining exclusive access to a large installed client base (for example, workplace) can further decrease client acquisition costs.

3. **Adviser talent strategy.** A competitive adviser talent attraction strategy is vital in the industry, especially in light of projections that the number of advisers will remain flat (or, excluding RIAs, will decline by 1 percent per year) and the growing percentage of assets managed by advisers closing in on retirement. Near-term solutions include improving adviser productivity and enhancing the value proposition—for example, with succession solutions, technology, adviser compensation, paths to growth, or increased flexibility. At the same time, an innovative long-term approach to adviser development, compensation, and service models can attract new profiles of advisers—including those new to the industry and from other roles in the industry—to serve the next generation of clients.

4. **Adviser productivity leveraging gen AI.** Embedding gen AI capabilities into workflows can move the needle on productivity of advisers and other client-facing and supporting roles. For this reason and others, the technology has potential to separate winners from losers over the coming years. Success with gen AI calls

for investments in technology coupled with a focus on risk, compliance, and importantly, change management across the organization. We expect to see outperformance by the firms that make the right big bets.

5. **Resource reallocation.** With clarity on strategic priorities, firms should take a granular look at spend across the organization and realign it in support of the priorities. Such an endeavor puts resources behind highest-conviction growth priorities and is a thoughtful approach to cutting back on complexity. It often involves a realignment of incentives and KPIs to tailor them to various businesses operating at different speeds.

6. **Target operating model.** The final priority is the firm's operating model. Redesigning the operating model is an opportunity to embed scalability and hardwire sources of competitive advantage. This includes creating a more flexible cost base that can adapt quickly to changing market conditions, as well as creating a culture that can be a force multiplier.

Beneath the ups and downs that wealth managers have been experiencing lies significant opportunity. As the wealth management ecosystem undergoes a once-in-a-generation convergence, wealth managers of all sizes have an opportunity to reposition their franchises for a healthier future while broadening the ways in which they help clients and advisers meet their financial needs in an environment of greater uncertainty.

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