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Global Financial Institute

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Table of contents

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neXt^{GEN}
Wealth management in 2030

Prof. Dr. Teodoro D. Cocca
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July 2014

1. Introduction – why everything will be different this time

In coming years, massive amounts of wealth will pass from one generation to another. In the United States, estimates regarding the vast size of this fortune range from $12 trillion to $30 trillion[1] over the next 30 years. In Germany, the figure is expected to total somewhere around €2.6 trillion by 2020.[2] Even though this wave has been building for years, financial-service providers, bequeathers and heirs are not fully prepared for its arrival. For the wealth management business, this transfer of assets will create an enormous strategic and operational challenge. In particular, the asset-management business will be heavily impacted by this development due to the age structure of its customers. The explosiveness of this development on business policy decisions can be seen clearly in the fact that banks' customer-service employees generally have not developed close relationships with the generation that will inherit this wealth in years to come.[3] Among the older generation, parents typically keep their children in the dark about their assets or provide them with only sketchy details about their portfolios.[4] For this reason, wealth managers and their clients must take a more conscious, deliberate approach to planning for this wave's arrival.

The generation that will come into this money will most likely have its own ideas and expectations regarding banking issues. Over the past 20 years, technological advances have dramatically altered the way that people obtain information, communicate and seek products and services. The roots of these changes can be traced back to the mid-1990s, when the gains achieved by telecommunications technology and the rapid spread of the Internet gave rise to expectations that a revolution in the financial-services industry was just around the corner. This unsettling view of the future was captured in a much-quoted statement attributed to Bill Gates: "Banking is essential. Banks are not." The subsequent disappointment in the Internet boom served as a sign that the potential of technical innovations had been overblown at least on a short-term basis. The financial industry carried out only selective changes. Established banks got the message and integrated the new technology into their business models. Over the long term, however, the potential of (disruptive) technological innovations has tended to be underestimated. It is the creeping nature of the change that ultimately reveals its deep impact. At the moment, we are experiencing a leap in innovation, a change that many people believe will have far-reaching revolutionary potential. What evidence do we have that shows that these visions of the future will come true this time? There are many indications that point to the likelihood that the changes foreseen in the 1990s are now standing right outside our doorstep. In this regard, we must remember that the rise of the Internet in

[1] See Munnell, A. / Webb, A. / Karamcheva, Z. / Eschtruth, A., How Important Are Intergenerational Transfers for Baby Boomers?, Center for Retirement Research at Boston College, 2011; see Havens, J. / Schervish, P., Why the $41 Trillion Wealth Transfer Estimate Is Still Valid: A Review of Challenges and Questions, The Journal of Gift Planning, 7, No. 1, 2003, p.11-15; see Accenture, The "Greater" Wealth Transfer Capitalizing on the Intergenerational Shift in Wealth, 2012; see Allianz Life, The Allianz American Legacies Study, 2012; see Avery, H., Private Banking for the Next Generation, Euromoney, Vol. 43, Issue 526, 2013, p. 85-85.
[2] See Deutsches Institut für Altersvorsorge: Erben in Deutschland, Cologne 2011.
[3] On average, 70 percent of the clients that an asset-management adviser assists are older than 50. This one fact reflects the true extent of the problem associated with generational change. This trend is underscored by the finding that, in 40 percent of these cases, no information is available about the generation that will follow the current client (see Cocca, T. D., External Asset Managers, study, Zurich, 2011, unpublished).
[4] "Just 39 percent of parents whose children are age 25 or older have fully disclosed their wealth to children, while 53 percent have disclosed just a little and 8 percent have disclosed nothing at all" (U.S. Trust 2013 Insights on Wealth and Worth, 2013, p. 5). See Coutts, Breaking the Wealth Taboo: Making Succession a Success, 2013, p. 23; see Northern Trust, Wealth in America Survey, 2012; see Allianz Life, The Allianz American Legacies Study, 2012.

the 1990s represented a technical breakthrough that was plagued by the teething pains that are inherent to such sweeping changes (a lack of telecommunications infrastructure, security gaps, slow initial adoption rates, insufficient technical maturity, etc.). Today, we are experiencing the dawn of social media, a period of innovation that is fueling changes in social behavior and, thus, will have a much deeper impact on social structures.[5] At the same time, entire generations of digital natives have emerged, people whose entire lives have been shaped by new technological and social parameters. To these digital natives, such changes simply reflect "technological normality" and do not represent any sort of revolutionary innovation. The revolutionary potential lies precisely in this normality of change.

The coming change of the generational guard poses two principal challenges to the wealth management business. First, the transfer of wealth to the next generation poses a threat to existing client relationships – and for one major reason: The beneficiaries can always decide to move their money elsewhere. Second, clients' needs and habits change over time. As a result, wealth managers may be unable to find the right formula for addressing and serving these new generations of customers. Based on their merits alone, each of these developments would provide reason to conduct a fundamental strategic analysis of them separately. But if they act in unison as expected, they will heighten the potential for structural change in wealth management.

This white paper will explore the changes in the preference structure of high net-worth clients that will be induced by this change of the generational guard as well as examine the systemic impact of this development on the structure of the wealth management industry.

Chapter 2 will concisely summarize the characteristics of future generations of clients. Chapter 3 will address the demands that this change will place on wealth management in 20 years. These conclusions will be summarized in 10 imperatives that apply to the wealth management business of tomorrow. Chapter 4 will outline four very different scenarios that these changes could prompt in the wealth management landscape. Chapter 5 will conclude this study with some summarizing remarks.

[5] See Bahlinger, T.: Der Wettbewerb wird zunehmend im Web entschieden, Die Bank, EFW Special 2011 p. 38ff.; see Deloitte, A New Breed – Opportunities for Wealth Managers to Connect with Gen X and Y, 2012, p. 3ff.; see Jessica F. Furseth, Millennial Banking Comes of Age, BANKING INSIGHT, June, 2012, p. 12-15.

2. Characteristics of neXt^{GEN} customers

Breaking down the characteristics of generations is a sensible approach to take because these groups are viewed as social categories that share certain social similarities (values, preferences, lifestyles) as a result of having grown up at the same time or having experienced the same events together.[6] Generation X can also be viewed as Generation Client among wealth managers. Generation X, the group that will be inheriting the wealth, is defined as the group of people who are 30 to 45 years old.[7,8] The next generation, Generation Y, is also added to considerations as a way of studying possible development trends and cross-generational factors. Generation Y consists of people who are 15 to 30 years old. This is the first generation to be born directly into an information society (members of this group also go by the name of "digital natives").

Studies that have explored the needs, preferences and values of Generation X paint the following picture (summary):

- Lifestyle: Compared with earlier generations, Generation X is more determined to create a balance between work and leisure. Members of the baby boomer generation made their careers a very high priority in their lives, a choice that frequently placed job needs ahead of family interests.[9] Generation X, by contrast, works to live and does not live to work. Humor and casualness are fully compatible with workplace demands. Given that members of Generation X grew up during a time of rising divorce rates, two-income households and challenging economic conditions, they are considered to be more individualistic and independent. Having control of their lives is a critical issue to them (high degree of self-determination regarding work and leisure time). Individual involvement, autonomy, freedom and individual responsibility rank fairly highly, while authority figures, conventions and rigid structures are frowned upon.[10] In dealing with money, this generation assumes a cautious, conservative attitude that puts a priority on saving.[11]

- (Financial) education: Generation X is much better educated than the baby boomer generation.[12] This is particularly the case when it comes to financial knowledge. During their lifetimes, members of this generation have had a front-row seat to an evolution in which the media have intensified their focus on the financial world and economic topics have taken an increasingly important role in social life. In the 1990s, the media began to steadily step up their coverage of stock-market and financial news. As part of this trend, the number of specialized publications rose. Traditional forms of media like television and newspapers also gave much more airtime and space to doings in the financial world. This reporting helped create a certain amount of general knowledge about financial issues and gave rise to a skeptical attitude toward banking behavior. During this period, the economy and the financial world became issues of greater importance – economic matters evolved into major questions on society's agenda. In addition, this generation has been an eyewitness to shattering world events, including the crises in Asia and Russia, the bursting of the Internet bubble and 9/11. Other collective memories of Generation X include the fall of the Berlin Wall and the Iron Curtain, the integration of Europe and the introduction of the euro. This generation has also watched multinational companies rise and then spread around the world. In the process, members of Generation X have

[6] See Jablonski, G., Generation X: Selbst- und Fremdbeschreibung einer Generation, Heinrich-Heine-Universität Düsseldorf, 2002, p. 6.
[7] This statement is based on the fact that a person born in Germany in 1950 has a statistical life expectancy of 64 (males) and 68 (females) years (see http://www.lebenserwartung.info/index-Dateien/ledeu.htm).
[8] See Hole, D. / Zhong, L. / Schwartz, J., US Deloitte Review, Talking about Whose Generation?, Issue 6, 2010.
[9] See Helms, R. M., New Challenges, New Priorities: The Experience of Generation X Faculty, The Collaborative on Academic Careers in Higher Education, Harvard University Graduate School of Education, 2010.
[10] See Williams, K. C., / Page, R. A., Marketing to the Generations, Journal of Behavioral Studies in Business, Volume 3 - April, 2011, p. 1-17.
[11] See Hammill, G., FDU Magazine, Winter/Spring 2005.
[12] See Cocca, T. D. / Volkart, R. / von Siebenthal, P., Equity Ownership in Switzerland 2008, Zurich, 2008, p. 28; see Cocca, T. D., LGT Private Banking Report 2012, Vaduz, June 2011, p. 28. The findings here contrast with the results of the Merrill Lynch Private Banking and Investment Group, Young High Net Worth Insights Survey, 2013.

kept their ears attuned to the public debate about business practices, some of which have been heavily criticized. Some of these companies became caught up in a conflict with collective attitudes and the zeitgeist. They then felt the wrath of the new global media order, a process that blackened their corporate images (remember Shell's plan to sink the Brent Spar oil platform in the Atlantic and the global outcry that followed in reaction to it). As a result, this generation has personally experienced the power and menacing nature of mass movements. The financial crisis of 2007–2013 struck members of this generation during a phase of their lives in which they had built up substantial assets for the first time. The extent of the crisis and its impact were so unclear that they were forced to battle fears about their future and the future of their families.

- Consumer behavior: Generation X is said to be less loyal to particular brands and more open to new ones. With PCs and the Internet having become second nature to them, members of Generation X are the first generation to possess true technological savvy. In their dealings with banks, this generation tends to have more multibank relationships and to change banks more frequently than previous generations did. As this generation has come of age, expectations about the quality of service have radically changed: the "teller window" and the "banking bureaucrat" have given way to the "customer zone" and the "relationship manager." This is also the first generation that has been able to use banking services without ever having to set foot in one of a bank's brick-and-mortar branches. At the same time, this is also the generation that complains about "information overload" and has developed a taste for "retro" elements of consumption.

Studies that have explored the needs, preferences and values of Generation Y paint the following picture (summary):

- Lifestyle: Generation Y grew up during a time of swift social and technological change. Its members were born into a technological, electronic and wireless society in which boundaries have disintegrated around the world. They are egocentric and self-reliant, with a strong yearning for independence and autonomy. Self-image is a high priority. Another major concern is a desire to be accepted by their peers and to remain in touch with them. Being on the cutting edge and using innovations as an image enhancer are all part of this generation's self-portrayal. The new media and the presumed individualization that they facilitate have given rise to a new form of social pressure that acts as a strong unifying force. The masses have become the "swarm." Members of this swarm do not base their actions on strict forms and standards. Rather, they take their cues from the behavior of those they follow on Twitter, Facebook and in communities. These new norms are must-haves for those who are determined to remain on the cutting edge. People who are not connected to this world simply do not exist. And those who fail to tell all will be banished from the collective connected fold.[13]

- (Financial) education: Generation Y is also well-educated and is willing to learn and discover new things. New concepts are quickly grasped, and there is a willingness among this generation to apply life-long learning.[14] The boundary between education and entertainment has been swept away. This is the case for other areas as well, places where entertainment, as a part of this generation's world of experience, becomes a core element of demand behavior (see consumer behavior). This generation's attitude about the financial world is drawn from the Internet bubble and the financial crisis of 2007–2013 – in terms of image, this is hardly the best basis for a close, trusting relationship. As a result of the crises they have experienced in their lifetimes, members of this generation show a certain disinterest in financial topics and are disillusioned about other parts of the financial world. Members of this generation put more faith in the advice of friends (and possibly

[13] See Liessmann, K.P., In der Ich-Falle, Die Presse, Spectrum, 9/28/2013, p. II.
[14] See Williams, K. C. / Page, R. A., Marketing to the Generations, Journal of Behavioral Studies in Business Volume 3, April, 2011, p. 8.

relatives) than they do in a possible face-to-face meeting with a bank employee. The highest level of confidence is placed in members of their own community or in the judgment of independent third parties.

- Consumer behavior: Entertainment as a part of this generation's world of experience is a central need of demand behavior. Generation Y defines itself through visual and aesthetic stimulation and is largely influenced by these impulses. This generation is impatient and must be constantly challenged. "Content is king" is the indisputable rallying cry of this generation. The ability to freely pass content from platform to platform is a must. Many members of this generation do three jobs at once: They act as the producer, distributor and user of content. They prefer to buy products that have been recommended to them by others. They put more faith in new information media than traditional ones. It is also among the first generations that have been able to use banking services without ever having to set foot in one of a bank's brick-and-mortar branches. Bank brand names mean little to this generation and fail to exert much power in the way of customer loyalty. The key brands in this customer group are primarily in the technology industry.

In the report that follows, Generations X and Y will be identified simply as "neXt^{GEN} customers."

3. The demands of neXt^{GEN} wealth management

The previous chapter showed that the next two generations of wealth management customers differ greatly from today's customers in many ways. The typical characteristics of these two generations lay the foundation for the new demands that wealth management will face in the future.

This chapter will present 10 imperatives that are designed to help modern wealth management providers serve neXt^{GEN} customers.

3.1. Interact virtually!

Compared with previous generations, neXt^{GEN} customers have radically different expectations regarding transparency and spontaneity in their interaction with product and service providers. neXt^{GEN} customers have no room in their lives for plodding, time-consuming banks that are far removed from the world of neXt^{GEN} members. While some financial institutions have yet to get up to speed on e-mail, many young people already view this form of communication as a relic of the past.[15] As social interaction increasingly takes on new forms, the ways that banks interact with their wealth management customers will have to be expanded or even redefined. Today, such interaction continues to be dominated by personal contact in the form of a face-to-face meeting with a bank adviser.[16] In the future, virtual channels will be added to this approach. The spread of new media demonstrates that, for neXt^{GEN} customers, a trusting environment for the exchange of very personal and intimate information can be also created in a virtual setting. The increased use of such interactive settings in wealth management could be linked to special technical requirements in terms of data security and protection of individuals' privacy, particularly in those areas where services for ultra high net-worth individuals or families are provided. But nothing will stand in the way of the fundamental acceptance of virtual communication. In this process, neXt^{GEN} customers will be able to use a number of communication alternatives that will enable them to get/stay in touch with the bank at all times and/or on a continuous basis. Traditional customer assistance (face-to-face) will be provided in virtual channels (chats, video conferencing[17], Skype, social media). In addition to the challenge of providing a consistent customer experience in all communication channels, this change will give rise to a number of new ways to use multimedia solutions as an aid to the face-to-face meeting with the banking adviser.[18] A physical presence or a face-to-face meeting will remain useful. But it will be essential only in cases where complex services are being provided. For increasingly standardized services, a virtual provider will become the normal approach used in wealth management . The usefulness of standardized, automated and digitized customer-assistance services is being significantly underestimated by established banks.

3.2. Empower me!

In years to come, smart banking solutions will move to the forefront. Such solutions will enable neXt^{GEN} customers to manage their financial affairs in totally new ways while carrying out their business in an aesthetically elegant environment.[19] Wealth management customers will go through an evolution that will transform them from object to subject. This philosophy of "customer empowerment" will become the centerpiece of the innovation process in banking. neXt^{GEN} customers want to have more autonomy and say in their banking business. They also expect banks to give them the opportunity to represent their interests in an independent, self-reliant and self-determining manner. Empowering wealth management customers will involve providing them with new freedom to make and influence decisions about their financial affairs. One key feature of customer empowerment in virtual worlds is access. In their traditional business models, banks have a knowledge edge on the customers, and they share this information with their customers in specific areas. But in an information society and the ubiquitous access to data

[15] See Buhl, H.U. / Weiß, C. / Moser, F. / Fridgen, G. / Eistert, T., Die digitale (R)evolution, Die Bank, issue 06/2012, p. 46-50.
[16] See Cocca, T. D., Beratungsqualität, Sonderauswertung, LGT Private Banking Report 2010, Vaduz, June 2011, p. 23.
[17] Here is one example: video-provided advisory assistance by HypoVereinsbank in Germany, http://www.hypovereinsbank.de/portal?view=/privatkunden/250235.jsp or Bank Austria https://kundewerden.bankaustria.at/smartbanking/index.html#
[18] See Böhmler, C. / Schäfer, L. / Madlener, S. / Ruf, S., Privatkundengeschäft: Multi Channel Banking 2020, Die Bank 9/2011, p. 36ff.; see Grahl, A. / Ullrich, O., Hightech im Kundenservice: Durchbruch für die Videotelefonie?, Die Bank, 5/2011, p. 68ff.
[19] See The Economist, Revenge of the nerds – An explosion of start-ups is changing finance for the better, August 3, 2013; see Leurs, C., Next Generation im Private Banking – Tradition meets Twitter, Die Bank, Heft 12/2012, p. 34-37.

it provides, this form of asymmetric communications cannot form the foundation on which a business model is built. Wealth management of the future will provide customers with tools and solutions that will give them direct access to internal bank systems, trading platforms, databases and know-how. The exclusivity of wealth management will boil down to the question of access to smarter, cleverer investment solutions and options. In the bank of tomorrow, customers will gain much more direct access to parts of the value chain and will play a more active role in the development of services. In this process, the fundamental difference between information and knowledge (the ability to draw inferences about and judge information) will become increasingly important. For banks, this will involve a structured approach to knowledge (knowledge management).[20] Both the approach to maintaining this knowledge base and customers' direct access to it will open a world of unexpected possibilities. For this reason, modern wealth management will be one of modern customers, emancipated customers, who will demand much of their bank and significantly shape its way of doing business. The shaping power of customers is frequently underestimated or ignored in the evolution of bank strategies. All too frequently, bank strategies are based on internal needs and not on their customers' ideas and wishes.

3.3. Fulfill me!

High net-worth individuals have a special social responsibility and want to fulfill it. There is growing evidence that bank customers are determined to more actively assume this responsibility. This includes knowing how invested funds contribute to the greater good of society (What impact is my investment having? Are training positions being created? Are sustainable business practices being employed? Are my funds going to arms makers or the nuclear industry?). The question of the ultimate good of an investment weighs much more heavily on the minds of neXt^{GEN} customers. Unlike traditional philanthropists, neXt^{GEN} investors expect to have their capital returned, possibly with interest – in addition to producing a measurable social benefit. But a growing number of such investors are also willing to forgo returns on the investment if the particular enterprise makes a major contribution to society, politics or the environment. People who practice this approach, which goes by such names as social investing and impact investing, join together and form social media or online communities (Global Impact Investing Network, Big Society Capital or toniic). Social investing taps financing sources (private investment capital in the form of borrowed capital and equity in place of donations and contributions) to support social projects, fuels the establishment of socially motivated companies and encourages social innovation. neXt^{GEN} customers are particularly interested in such issues because they reflect this generation's core values and serve as a counterweight to a culture that can be summed up by the German advertising slogan of "greed is good:" use your money for a good cause! Entrepreneurial thinking for social good provides a long-range sense of purpose to both the bank and its customers.

3.4. Connect me!

At the moment, the contours of collaborative knowledge creation or the provision of services are just now taking shape in social networks. But this will ultimately become an inexhaustible source of new business models – financial service providers must ensure that their customers have access to such communities.[21] "Communities" are nothing new to the wealth management business. For centuries, wealth managers have formed such groups by bringing together customers with the same interests or have served as the people who open the door to an exclusive society for their customers. It is just as possible to connect customers in virtual worlds. But this can be done in a more scalable and systematic manner if exclusivity, an important feature of wealth management , can be maintained for the high net-worth clients of a wealth manager. This can mean networking with experts to discuss various issues, entering exclusive communities (millionaires clubs like TIGER 21, ASMALLWORLD, Diamond Lounge, LuxuryRatings.com, Affluence.org and Squa.re.), providing access to private equity (Pi Capital, c-crowd, Crowdcube, Kickstarter, BERGFÜRST), presenting and discussing investment strategies (eToro, twindepot, Covestor, ayondo, StockTwits, DragonWealth) and even putting investment strategies into action (investtor.de,

[20] A knowledge-management system is an information and communication system in which knowledge is stored and displayed. Originally, such systems, including consulting systems, were set up and used by major companies. The aim was to give all employees in the company access to the company's complete knowledge base available in the form of data and information. This practice was designed to enable employees to avoid recollecting information that was already available. This can provide a substantial boost to efficiency and knowledge sharing. (See Accenture, Winning in the New Banking Era: Next Generation Core Banking, a Catalyst for Success, 2013.)

[21] See the home page of www.starmind.com.

sharewise). In the process, these communities are used to share information or to make joint investments (Family Bhive). True virtual community banks that enable customers to manage their investments themselves have now gone into operation (Fidor Bank, Holvi, Simple, yavalu). Other providers help ease customers' search for the right asset manager (assetinum.com, Ameriprise) or offer new types of investment solutions (Interactive Investor, Fixnetix, Fidessa, gekko, MoneyPark, StockPulse). Loans are directly worked out on social lending platforms by lenders and borrowers (Lending Club, Funding Circle, Zopa, iwoca, Prosper, FINPOINT, auxmoney), and new loan-issuing processes are being implemented (Wonga, smava, MarketInvoice). The concept of a family office can also be found in the virtual world (CCC Alliance, FutureAdvisor). Networking can also cover the B2B area (e.g., E-Merging: a communication forum for independent asset managers). Last year, the same provider also organized the first virtual financial trade fair. New approaches can be taken in customer care as well as through the creation of "customers-help-customers" portals.[22] The aim of the provider can be to network its own customers or to create a community devoted to its entire range of products and services.

3.5. Emotionalize me!

The image of the entire banking industry has been tarnished by the crisis years 2007 to 2013. Certain classes of investments have taken a beating as well: After witnessing recent crises first hand, the new generation of investors has little appetite for the stock market.[23] Providers of wealth management services also frequently have bland advertising campaigns. Up to now, such values as security and stability have been the centerpiece themes of these campaigns. But messages aimed at neXt[GEN] must evoke associations like innovation, progress, cleverness, coolness and smartness. Older banking customers tend to be very discreet about discussing their banking relationships (if they bring up the issue at all). But younger generations have not grown up in a world of banking confidentiality and sealed lips. As customers, they want to make a statement when they bring up the name of their preferred provider of asset-management services. Eventually, such customers may even want to be proud of their provider because this company is known for the novel approaches it takes in the world of finance. To reach this level of customer commitment, a bank must invest heavily in the creation of such an image. The key issue here is that the brand message must be transmitted along the whole value chain and in the customer's entire world of experience. In the future, the emotionalization of the brand and the entire customer experience will play a much bigger role than they do today. From a marketing point of view, banks are somewhat behind the times, given that less modern or less technology-savvy brand attributes are used to position bank brands. A range of products that can be viewed simply as a "commodity" creates few opportunities for a memorable brand experience. This is particularly the case for very standardized products like passive (and, occasionally, active) mutual funds where the products can be seen as interchangeable parts. When the core product has so few distinguishing characteristics, the client experience related to this core product becomes the essence of wealth management. In this regard, virtual worlds create the ideal environment for creating a competitive edge. As a rule, highly standardized products are well suited for a virtual sales channel. But they become a true client experience only when they are presented in an appealing sales setting.

3.6. Respect me!

In the wake of the financial crisis and the sweeping damage these events inflicted on the banking industry's image, the public is keeping a very close eye on the behavior of these institutions today. This development has given fresh life to a long-running standoff between the concepts of legality and legitimacy. It is simply not enough for a business activity to be carried out within the framework of legality. A company also needs the approval, and thus a seal of legitimacy, bestowed by employees, customers, shareholders, lenders and other stakeholders. To become legitimate, a business activity must do something more than fulfill requirements laid done by a code of laws. It must also meet an ethical standard that extends beyond the conditions defined by this very code. Such sustainable business practices have come to be known as "corporate responsibility." For this reason, the essence of

[22] See Accenture, Banking Technology, Vision - The technology waves that are reshaping the banking landscape, 2013, p. 8
[23] "Approximately half (51 percent) of Gen Y said that investing in the stock market is overrated and an equal number said they do not think they will ever be comfortable investing money in the stock market for fear of losing it. By comparison, 19 percent of "baby boomers" said the stock market is overrated." (U.S. Trust, Insights on Wealth and Worth, New York, 2012, p. 7); see Farah, P. / Macaulay, J. / Ericsson, J., The Next Growth Opportunity for Banks – How the Post-Crisis Financial Needs of Younger Consumers Will Transform Retail Banking Services, Cisco Internet Business Solutions Group, February 2010.

conscientious, ethical company management is a continuous decision-making process regarding what should be done and avoided within the context of corporate responsibility – and done in a way that extends beyond legal requirements. In today's business climate, a time in which every move made by the industry is being closely monitored by a skeptical public, banks have an excellent opportunity to make good. By exhibiting coherent behavior as corporate citizens who do business in a manner that reflects the zeitgeist and social values, banks can set a new standard and thus redefine the practices of the entire industry. neXt^GEN customers expect nothing less. The asset-management industry has its very own set of structural problems that have yet to be solved convincingly, a group of problems that were clearly exposed by the financial crisis. neXt^GEN customers have developed special concerns about a number of issues in this regard: hidden fees, opaque sales commissions, remuneration systems that create the wrong incentives and advisers who act as sales machines for their banks' own products. Such practices have no place in the world of consumption in which neXt^GEN customers live – the immediate reaction unleashed by today's social media communities can quickly ravage a company's image. Lawmakers have taken the correct step of demanding that the business actions and words of banks comply with requirements laid down by the law – and banks should employ no concealed motives or hidden objectives in the process of doing so. Every action undertaken by a bank must comply with the written and unwritten laws of today's world of consumption. For this reason, the action must be evaluated to determine whether it meets this standard. In this regard, banks have a special social responsibility because they play such a central role in the economy. If banks are determined to regain their lost trust, they will need to make a public and credible commitment to high ethical and professional standards. neXt^GEN customers will view such business actions as an expression of respect and will reward it by returning the lost trust and becoming more loyal customers.

3.7. Excite me!

In wealth management, customer recommendations are an essential part of customer-acquisition efforts. Thanks to the use of new media, this feedback process takes on a new dimension of importance: positive customer reviews (likes) and negative customer reviews (dislikes) spread much faster in virtual space. Banks and their advisers are graded by the community (ratemybank.org). As a result, these assessments cast a harsh spotlight on the qualitative performance of the bank/adviser (including the investment return that was achieved). This evolution in communication now gives every customer more opportunities to influence the community's actions. In contrast to traditional media, though, this form of communication is much more difficult for a bank to steer. Success is generated and attention is gained by those companies that believe "great" is not good enough and view the constant push to improve as part of their DNA. Google's mission statement exemplifies this attitude: "We're always looking for new places where we can make a difference. Ultimately, our constant dissatisfaction with the way things are becomes the driving force behind everything we do."[24] Satisfaction is no longer enough. Particularly, the upscale business of wealth management, the new place to make a difference must be customer excitement. Increasingly, customers are not just comparing banks with one another. They are also measuring their performance against best-in-class companies in other industries. The demands of today's technologically savvy and cosmopolitan customers are extremely high as a result.

3.8. Open yourself!

The imperatives discussed so far require banks to largely refocus themselves and to reposition their business models. A wealth manager serving neXt^GEN customers must also look outward in many ways and open itself. In response to the new wave of regulations written in response to the financial crisis, many banks have turned inward and intensified their focus on internal problems. As a result, they have taken their eye off the customer and created a strategic opening for new providers. Today, a modern wealth manager must take a more conscious look outward and focus on customers. On the technological level, banks must also systematically employ a strategy of accessibility: Digitized internal processes to which customers have been denied access for a number of reasons are now coming under pressure. Sooner or later, customers will have to be given access to them. Core elements of advisory services that are already being prepared by software for the assessment management adviser are particularly well suited for such increased access. Examples include internal bank systems that

[24] http://www.google.com/intl/en/about/company/philosophy/

link customers' need patterns to particular investment recommendations (example for a software-based financial adviser: wealthfront.com). Closed proprietary systems are no longer state of the art and must be replaced by open compatible solutions. The strategic objective is for a system to be accepted by a critical mass of customers and then drive other systems from the market. Such compatible solutions will address the aim to aggregate all customer relationships. The need of customers to check all of their assets at the push of a button is met by account aggregation services that have direct access to customer data (mint.com, SigFig, Personal Capital, numbrs.com).).

3.9. Assure yourself!

Up to now, the business field of wealth management has been largely unaffected by revolutionary technological change that has occurred at the interface between the wealth manager and the customer. Above all, technology plays a role in the preparation of an investment solution and its implementation within a financial institution (the key part of the value chain in asset management). This creates the ominous possibility that wealth management will fail to give sufficient attention to developing customer-driven technological solutions. One striking fact about today's industry is that no exclusively online wealth manager has succeeded in gaining a substantial market position. Most banks do now provide their customers with virtual banking solutions (with transaction services). But their reasons for doing so more reflect a defensive attitude than they do conviction. They want to prevent their customers from moving their money to an online competitor. But if a bank's entire management team and organization are not fully committed to a virtual business strategy, it will be unable to reach the top in this innovation-driven area. This dilemma complicates efforts to devise a strategy. If a critical mass of a bank's decision-makers fails to grasp the need to make preparations to serve new generations of customers, it will be impossible to carry out a strategy like the one recommended in imperative 10. On the other hand, if a bank waits until the evidence of the success of a neXt^{GEN} banking strategy has become obvious to all, other providers will have already occupied the relevant hubs in the virtual network. The principles of the network economy are clear: The winner takes all. The essence of this message is that, as a result of the network effect, the benefit of a standard or network rises as the number of users grows. When the benefit for all continues to rise as the number of users grows, this creates a positive feedback loop. Once critical mass is reached, the number of users climbs exponentially. When two or more companies compete against one another in a marketplace with strong positive feedback loops, only one can emerge as the winner. It is unlikely that all will survive.[25] For this reason, a company must position itself in a particular market at an early stage. Otherwise, it could be too late.

3.10. Reinvent yourself!

The transformation that will turn a firmly established wealth manager into the provider of choice among neXt^{GEN} customers will require the bank to dissect its business model and to put its "sacred cows" out to pasture.[26] The challenge lies in calling old ways of doing things into question and, under certain circumstances, offering completely new solutions. In today's business world, innovation cycles are becoming shorter and shorter. This means that providers must continuously be prepared to adapt their business operations in terms of personnel, process, organization, and, above all, culture. The pressure of constant reinvention will place high demands on the institutional organization of a company. As a result, network organizations could take the place of hierarchy-driven solutions. At times, this process of renewal will require courage and perseverance because experience has shown that the time customers need to adapt themselves to a completely new model can be greater than expected. Nonetheless – or, rather, therefore – one conclusion can be drawn: Banks that recognize or even accept the signs of the times and seize their opportunities right now will be the ones that will emerge from this period of upheaval in a strengthened position.

[25] See Shapiro, C. / Varian, H. R., Information Rules – A Strategic Guide to the Network Economy, Harvard Business School Press, 1998, p. 176.
[26] See Karasu, I., Technologietrends: Digitale Agenda für das Bankgeschäft, Die Bank, EFW Special 2011, p. 22ff.

Facts and figures...

... about the use of social media by neXt[GEN] customers

- 52 percent of Twitter and Facebook users are older than 35. Usage by people who are 50 to 56 years old rose from 9 percent to 20 percent between 2008 and 2011. [27]
- 70 percent of millionaires in the United States use social media. [28]
- On average, a high net-worth individual in the United States is a member of 2.8 social networks and has an average of 110 contacts.[29]
- 47 percent of ultra high-net worth individuals in Europe use Facebook. [30]
- 25 percent of older people in Switzerland now own a tablet – the very same as the number of digital natives (that is, those people who grew up in a world of cell phones, computers, and online life) who own them. At 37 percent, the largest group of tablet owners consists of people who are 30 to 54 years old. [31]
- More than 20 percent of people between 60 and 69 years old now say they can no longer imagine life without social media.[32]

... about implementation at financial institutions

- 60 percent of asset managers have no presence in social networks. [33]
- Only 22 of 50 private banks have optimized their websites for the integration of smart-phone applications.[34]
- Demand for web-based (mobile) financial services will grow exponentially: In 2030, 44 million Germans will do their banking online (today: 27 million).[35]

... about the needs of neXt[GEN] customers

- More than 50 percent of ultra high-net-worth individuals in Europe view social media as an important communications channel with their bank.[36]
- The highest growth rate in online banking is being generated by people older than 65. By 2060, they will be the largest user group of online banking.[37]

... about inheritance

- Only one-quarter of baby boomers say that bank advisers have a relationship with their children or heirs.[38]
- Only every second private banking customer between the ages of 30 and 49 who will come into an inheritance in the near future expresses satisfaction with his or her main asset-management adviser. [39]
- Only 46 percent of investors between the ages of 20 and 30 discuss financial issues with their parents.[40]

[27] See KPMG, The growth of social media in Wealth Management, Perspectives, 7/5/2012.
[28] See KPMG, The growth of social media in Wealth Management, Perspectives, 7/5/2012.
[29] See Forbes, Five Social Networking Sites Of The Wealthy, 5/2/2008.
[30] See Assentium, Social Media Study, Zurich, 2012.
[31] See http://www.yr-gruppe.ch/category/mui.
[32] See Dapp, T. / Berscheid, H., Deutsche Bank, Silver surfers – The importance of older generations for the Internet, 2013, Deutsche Bank Research, p. 4.
[33] See KPMG, The growth of social media in Wealth Management, Perspectives, 7/5/2012.
[34] See Booz & Company, Talking Wealth Management Digital, Zurich, 2013, p. 2.
[35] See. Dapp, T., Online banking and demography – Future generations will take online (banking) for granted, Deutsche Bank Research, 2013, p. 1.
[36] See Assentium, Social Media Study, Zurich, 2012.
[37] See Deutsche Bank, Silver Surfers – The Importance of Older Generations for the Internet, 2013, p. 7.
[38] See US Trust / Bank of America, Insights on Wealth and Worth, 2013, p. 5.
[39] See Accenture, The "Greater" Wealth Transfer Capitalizing on the Intergenerational Shift in Wealth, 2012.
[40] See Accenture, The "Greater" Wealth Transfer Capitalizing on the Intergenerational Shift in Wealth, 2012.

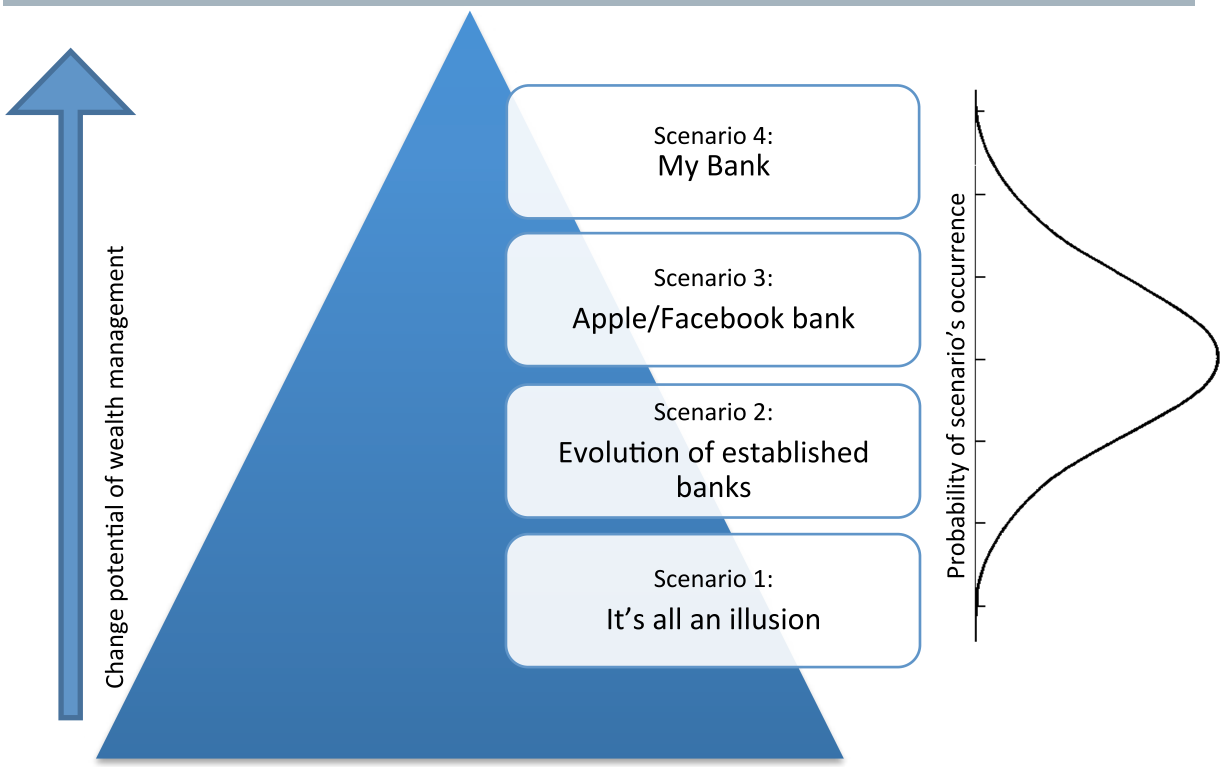
4. Four scenarios for the year of 2030

The following section will describe four scenarios that are drawn from the new business conditions, values and preferences related to neXt^{GEN} customers. These scenarios will sketch out the possible structure of the future wealth management industry. To a certain degree, Scenario 1 will serve as the antithesis to the three other scenarios because it will describe a trend in which the entire banking landscape does not change as a result of several inhibiting factors. The other three scenarios will describe a future in which the revolutionary and change potential of wealth management will grow from scenario to scenario. Scenarios 2 and 3 are considered to be the most likely to occur.

4.1. Scenario 1: It's all an illusion!

Technological developments are widely rejected by high net-worth neXt^{GEN} customers, and projected change scenarios turn out to be wrong. As neXt^{GEN} customers age, their preferences and behavior patterns begin to increasingly resemble those of past generations. As a result, age-driven conservatism replaces the technological savvy they showed in earlier years. The "digital deniers" – a group of customers that largely rejects the integration of information technology in the banking business – remains the dominate customer group. Scandals involving embezzled funds, security lapses and inadequate protection of customers' privacy among the first innovative providers

Figure 1: Scenarios



cause high net-worth individuals to lose their faith in new technological solutions. Regulators then forcefully step in and tighten the demands placed on the providers in the financial services sector. As a result, it becomes practically impossible to start up a company in the financial services sector. Established providers see no need to strip down their business models and integrate technological innovations only grudgingly. In 2030, asset-management services are generally provided in the way that they were in 2014: The same traditional investment products are provided by classic providers in all investment classes. These products are sold by banks and advisers who counsel their customers during personal meetings.

4.2. Scenario 2: The astounding evolution of established providers

Established providers are now offering their own solutions to meet the needs of neXt^{GEN} customers and are rapidly developing their own range of services in stages. In doing so, they give third-party providers no opportunities to gain a substantial share of the market. Regulators support this trend by raising the level of legal requirements on new products and services to such a high level that start-up costs for new companies become substantial. Adoption rates in wealth management are now greater than originally assumed. High net-worth individuals are attracted to the combination of a proven physical presence, established brand names and track record with a broad range of communication channels, including social media. Here, too, the preferences and behavior patterns begin to increasingly resemble those of past generations as neXt^{GEN} customers grow older. As a result, age-driven conservatism replaces the technological savvy they showed in earlier years. Traditional wealth management adds new interaction channels. New technologies assist such things as meetings between customers and advisers. These meetings generally remain a physical face-to-face event. For standard solutions, customers are serviced interactively. But, as the complexity of needs rises, the direct contact between the adviser and customer proves to be the most efficient form of interaction. When facing decisions that affect a family's entire inheritance, customers continue to feel much more comfortable when they meet with their adviser in person. Virtual assistance is unable to create a trusting, efficient interaction environment for the mass majority of customers. Providers who only do business in the virtual world do find some customers in individual niches. But most of the market remains under the control of established providers. Companies with innovative products and services that have proven to be successful are bought up by established players and integrated into their own business models. For this purpose, leading wealth managers specialize in the screening and monitoring of innovative solutions and become masters at integrating innovations into their businesses.

4.3. Scenario 3: Apple and Facebook establish "iWealth"

The established wealth managers have proven to be completely incapable of grasping the needs and characteristics of neXt^{GEN} customers and of aligning their business models to address them. A huge number of internal roadblocks have prevented credible, consistent neXt^{GEN} strategies from being put into place. In addition to the inability of established organizations to recognize the potential of new technologies and the opportunities created by this emerging customer segment of technologically savvy, forward-thinking, unconventional and networked millionaires, these banks have been drained of the entrepreneurial spirit that fuels their will and capability to be innovative. The bankers are forced to come to the conclusion that they are not "inventors" and that they were stuck in the past when the time came to shape the future. In addition, outdated, inconsistent internal IT systems prevented new solutions from being put into place. The banks' top managers paid too little attention to the issue in the past. Having been consumed by the new regulatory world that arose after the financial crisis, these banks poured too much of their energy into dealing with internal issues. Increasingly, customers are turning their backs on traditional banks, having concluded that these institutions are unable to and uninterested in learning the right lessons from the financial crisis. The industry's credibility takes a beating, and banks gain the reputation of being backward-oriented and poor corporate citizens. These developments are fueled by a mounting number of scandals related to shadowy deals and questionable business practices. Companies that have had nothing to do with the financial business in the past fill the breach. These are companies that know how to court the needs of neXt^{GEN} customers and gain large shares of the market. As a result, they become the guardians of customer interfaces in asset management. Such companies appeal in particular to neXt^{GEN} customers because they place a premium on their independence. The independence of such providers bolsters the customers' own strong desire for autonomy as well as their skeptical, financial-crisis-driven attitude about banks that hawk their own products. Within a short span of time, "iWealth," the world's first virtual private bank set up by Apple and Facebook, becomes a new force in the asset-management business. iWealth initially begins operations in the United States before expanding to Asian countries where it takes advantage of the above-average technological savvy possessed by high net-worth individuals there. It then takes over Europe. In 2030, iWealth has linked more than 5 million millionaires around the world, the largest market share in wealth management. Those wealth managers who dominated the business back in 2013 have been pushed to the sidelines in 2030, the victims of their inability to keep pace with the times. iWealth provides its customers with a total virtual customer-assistance experience. The key to its success is the largest network of high net-worth individuals in the world. This network began to form under the name of "Millionairebook" on Facebook and led to the establishment of iWealth in 2018. Apple (as a co-founder) has taken the lead on a number of matters, including the physical contact points via SmartTablets, SmartTV and SmartWatches; the design and promotion of the end devices; and the global advertising campaign. The business activities are handled by transaction and depository banks that remain out of the customer's view. The investment products offered on the open platform of iWealth come from traditional banks that never work directly with clients and have been downgraded to the level of low-fee producers of a simple "commodity." Thanks to its tremendous brand loyalty, iWealth has enormous margins and extensively exploits economies of scale.

4.4. Scenario 4: Millionaires set up their own virtual bank

Neither the innovative products of established asset managers nor the success of third-party providers (iWealth) is able to gain a long-term foothold in the market. The former is tripped up by managers' long-range inability to successfully integrate innovation into their own business model and their own tarnished image. The latter fail to maintain their image of independence. The more market share they gain, the more dominant their position becomes. In selecting network partners, mutually dependent relationships and conflicts of interest arise, bringing to mind issues of the past. Customers lose their flexibility and can use only those services that are added by the third-party providers. Consumers increasingly complain about the misuse of market power, a form of protest that deals a blow to the image of providers. The larger providers like iWealth become, the more difficult it is to maintain the cultural and organizational characteristics that ensure innovativeness. Customers look for solutions that both facilitate the ease and convenience of the new technologies and provide them with the opportunity to use new best-in-class products and, thus, maintain the flexibility of the product range. neXt[G-EN] customers want to assemble their own tailored service packages by selecting the individual components along the value chain. Customer interfaces are dominated by portals that provide users with access to various financial service providers and facilitate the easy integration of different providers into a comprehensive solution. As time passes, portals have evolved into aggregators and organizers of content. They now enable users to search for and compare different financial service providers as well as to consolidate the presentation of data from the selected providers and to execute online financial transactions via several providers and interfaces using the same password. Digitization enables the value chain to be broken down into its individual links and to be reordered on the basis of the client's needs. Clients use their financial portals as a way of cherry-picking individual components in the value chain from the best provider of each one. As a result, the value chain can be flexibly assembled, turning every link in the chain into an interchangeable part (advisory, strategic and tactical asset allocation, portfolio management, trading, risk management, asset reporting, tax statements, customer care). This service moves to the forefront as customer loyalty erodes and the average number of banking relationships rises. Users assemble their own banks – My Bank, which is actually not a bank at all. Rather, it is a network of individually arranged financial services. The community plays a major role in this trend as every user can access the aggregated feedback of other members of the community and find the best-in-class provider. In this scenario, banks lose their direct interface with customers and play nothing more than a minor role: They basically provide the technical infrastructure and the processing function.

5. Conclusion

Wealth managers face tremendous challenges today. To be successful, they must unite their traditional values with the needs of a high-tech world and develop an understanding about the preference and value structure of future generations of customers. For banks determined to succeed in this new world, the task of coming to terms with these new business conditions has become more important than ever before. Banks' leading executives must delve deeply into this issue, gaining an overview of the opportunities presented by new technologies, evaluating these opportunities in terms of their own skills and areas of expertise, and drawing the necessary conclusions. The imperatives and scenarios of the future contained in this white paper can support this process.

It can be assumed that this strategy process will ultimately lead to the conclusion that urgent investments must be made in the technical upgrading of wealth management. At the moment, it appears that wealth managers are missing a major opportunity to establish a position in an attractive market and to profit from it. This shortcoming can be clearly seen in two facts. First, only one-quarter of baby boomers say their banking adviser has a relationship with their children or heirs. Second, only every other customer between the ages of 30 and 49 who expects to receive an inheritance in the near future is satisfied with his or her primary asset-management adviser. The message communicated by these examples is equally clear: Inactivity will not be a rewarding strategy. Only those banks that begin to serve new customer generations at an early stage can expect to have any chance for success. High net-worth customers are early adopters of new technologies. As a result, a new customer group consisting of technologically savvy millionaires is not a customer group that any wealth manager that considers itself to be future-oriented and innovative can afford to ignore. The opportunities offered by this trend are fraught with risks. "Doing nothing" is most likely the biggest risk of all.

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