We are entering the "Wealth as a Service" era

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Introduction

Setting the scene: the increasing need for high-quality financial advice

There has never been a better time to be a consumer looking for financial solutions to help meet life's varied financial goals. At the same time, consumers have higher expectations of their financial service providers than ever before. The needs of clients are evolving, with a growing demand for comprehensive financial planning and protection across all aspects of life — health, wealth, retirement.

For wealth managers, it's no longer solely about generating returns and protecting their clients' assets; it's equally about helping clients achieve these life goals and make sound financial decisions by providing timely, accessible financial advice when and where they need it. Yet most wealth managers find themselves unprepared to meet this evolving demand. Moreover, even fewer have:

- The technology required to deliver an exceptional client and advisor experience
- A sustainable strategy to recruit and retain top talent
- Suitable profit margins that justify the desire to bear the risk of the business

So where does that leave the evolution of the industry? Enter the era of "Wealth as a Service."

Wealth as a Service (WaaS) refers to service providers offering solutions that cover all, or nearly all, of the capabilities required to support a company's wealth management business (incluging technology, operations, and regulatory licensing and support). It enables a more integrated, cost-effective and scalable wealth management offering by outsourcing services to allow any financial institution the ability to offer wealth management in a more "turnkey" way.

These "as a service" offerings have already been adopted successfully in other industries to drive market growth.

Banking and lending offerings have exploded in recent years through the advent of open banking, embedded finance and Banking as a Service (BaaS) offerings

If you have recently shopped for banking, deposit or lending products, you likely noticed how much innovation is occurring, largely enabled through the rise of BaaS offerings. This has led to significant innovation in the sector:

- New distribution channels enabling growth (e.g., allowing retailers to offer loans during checkout)
- Improved digital experiences and offerings, enhancing the ability to address underserved consumers (e.g., allowing online retailers to offer insurance products on high-priced products)

To illustrate the impact of these two trends, total BaaS platform revenue is expected to surge 158% over the next four years to reach $94 billion globally.[1] The wealth management industry is not as turnkey as existing BaaS offerings, mostly due to the lack of innovation and fragmented offerings. However, the rise of WaaS offerings is accelerating and poised to scale wealth management offerings exponentially.

Using parallels from BaaS, the opportunity for WaaS is immense

This report, supported by industry research, interviews and findings from a recent survey of service providers and financial institutions (banks, insurers and asset managers), peels back the layers of the WaaS momentum, dissecting its potential to drive efficiency and growth across the industry. Three pivotal themes emerged:

- The competitive pressures in wealth management: We explore new market entrants and the substantial capital needed to thrive in today's highly competitive wealth management industry.
- The components and players of WaaS: Like embedded finance/BaaS, WaaS has many components, and existing providers in this space have different areas of focus and relative strength.
- Making the shift to WaaS: We outline key considerations and insights for firms contemplating the shift to a WaaS model, including a balanced evaluation of the benefits, potential limitations and considerations for implementation.

[1] "Banking-as-a-Service Platform Revenue to Reach $94 Billion Globally by 2028, as API Deployment Unlocks Fintech Innovation," ***Juniper Research*** website (https://www.juniperresearch.com/press/pressreleasesbanking-as-a-service-platform-revenue-to-reach-94-bn-globally/), April 2024.

The competitive pressures in wealth management

The wealth management ecosystem is incredibly competitive, with a diverse array of participants vying for their share of the growing wealth management and retirement market. This shift has been seen not only among traditional wirehouses and large banks but also other financial services sectors – regional banks, insurance carriers and asset managers – expanding their client-facing wealth management offerings to complement their existing product and distribution channels. A few industry trends:

- Insurance firms over the past decade have been standing up wealth management business lines and converting traditional insurance agents to licensed financial planners and financial advisors; however, productivity among insurance-led advisors lags their industry peers.
- Asset managers face pressures on cost and fee revenue, especially with the transition to exchange-traded funds (ETFs), and are looking to grow direct relationships with the end consumer by launching wealth management divisions.
- Private equity firms are investing in, acquiring and managing wealth management businesses, specifically in the independent and registered investment advisor (RIA)/advisory channels.
- Nonfinancial institutions, including large retailers, are beginning to offer wealth management services that go beyond basic banking solutions via partnerships to enhance their value proposition with their customer base.[2]

Nearly all financial institutions surveyed indicated they are prioritizing wealth management as a growth opportunity for their firm. However, 64% of respondents indicated cost of entry and ongoing investments as significant barriers to their firm pursuing wealth management. Many of these smaller wealth management businesses struggle to deliver a differentiated value proposition while driving efficiency to compete with the larger wealth management firms, leaving them looking for options such as those offered by WaaS providers. How can they compete?

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> Financial services has gone through profound transformation over the past 50 years. Each decade laid down a new marker. Now the business of wealth management has evolved from being investment-centric to client-centric. The lives of wealth consumers have become more nuanced. Not only are they interested in the money they make but also the decisions they make and the impact they'd like to make. When established companies lack the capability to touch these lives in meaningful ways, other providers who have a more comprehensive offering provide a compelling alternative for clients with complex financial lives.
>
> **Mark Tibergien**
> Financial Services Organization (FSO) Advisor in Residence, Ernst & Young LLP

[2] "Hazel Announces Definitive Merger Agreements With Even and ONE To Build a Business That Empowers Consumers To Improve Their Financial Lives," *corporate.walmart.com*, (corporate.walmart.com/news/2022/01/26/hazel-announces-definitive-merger-agreements-with-even-and-one-to-build-a-business-that-empowers-consumers-to-improve-their-financial-lives), January 26, 2022.

Improved offering: Financial advisors are seeking and expecting more from their wealth management firm. They want expanded product and solution offerings, such as alternative investments. In the EY Alternatives and Private Markets study, 72% of firms indicated they are materially increasing the number of products within their alternatives offering. In addition, advisors want best-of-breed capabilities, such as financial planning, portfolio management, proposal generation and performance reporting. Having a competitive solution offering and integrated platform can support a firm's efforts to recruit and retain top advisors. Firms that have moved to partner with a more comprehensive WaaS provider have seen an uplift with their ability to focus on front-office advisor growth and differentiate their offering. Across financial institutions surveyed, 79% of respondents highlighted substantial productivity gain expected in having an integrated platform across their service offering.

Keeping up with technology innovation: Financial institutions are forced to continuously invest in maintaining their technology or in technology innovation, such as focusing on imbedding AI into the platform and operating model, leveraging modern cloud technologies and keeping up with continual security threats through the latest cyber advances. Out of the firms surveyed, the significant capital requirements, high maintenance costs, and burden of legacy or poorly integrated systems all ranked as top challenges in their operating model and platform strategy. Advisors that are looking to spend more time on client-facing activities expect their technology to improve their productivity through automation and provide third-party integration with best-of-breed provider solutions. By making these significant investments each year to remain competitive, wealth managers divert capital away from growth-related initiatives in the front office. Wealth management firms allocate an average of 5.7%[3] of their revenue to technology operating expenses, leaving smaller wealth managers with fewer dollars to invest in technology. By partnering with WaaS providers who can deploy greater technology capital, smaller firms can remain competitive.

[3] Based on EY proprietary research.

Derisking the business: By considering outsourcing broker-dealer, RIA and trust company functions, wealth managers can transfer regulatory risk to scalable providers who are investing in the appropriate controls. There is an expectation that the number of broker-dealers in the United States will continue to decline as the Office of the Comptroller of the Currency (OCC), Securities and Exchange Commission (SEC) and Financial Industry Regulatory Authority (FINRA) continue to evolve regulation in the wealth management sector. As seen playing out in the BaaS industry, picking the right provider with appropriate controls and risk posture is critical.

Chart 1: Top challenges for wealth managers in operating model and platform strategy

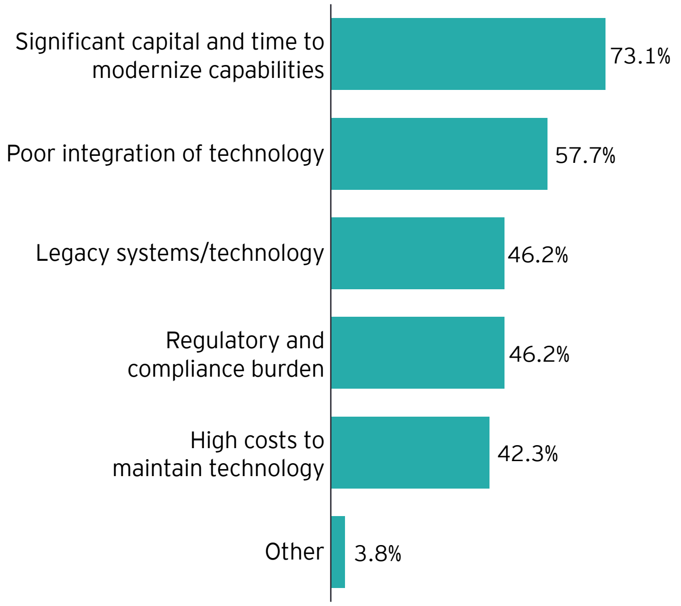
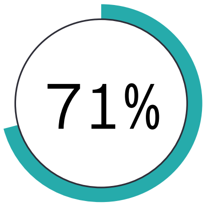


Chart 2: Top rationale of wealth managers for working with providers



of wealth managers see the ability to focus on core/undifferentiated functions as the primary driver for working with providers

> Firms are spending too much time and resources on maintaining outdated systems and routine upgrades instead of focusing on what truly matters — the advisor-client relationship. To stay competitive, firms must have the right end-to-end digital foundation, avoiding reliance on multiple legacy systems that create operational complexity and hold them back.

Ates Civitci
Chief Revenue Officer, North America, FNZ

The components and players of WaaS

Wealth management is experiencing remarkable growth due to demand from individuals with complex financial lives. With assets under management (AUM) exceeding $31 trillion in 2024 in the United States,[4] the growth is indicative of an increased desire for financial advice and a willingness to pay.

There may be no better visual of the explosion of wealth management tools, services and technology than Kitces' ever-evolving WealthTech map.[5] The sheer number of categories of available technologies seems to have exploded in recent years. These capability-specific offerings often go deep in one specific function (e.g., portfolio rebalancing). While they may offer a feature-rich solution in their specific domain, they are often not integrated into core systems and are more limited in their deployment and impact. Increasingly, these solutions are being acquired or "opening up" through easier API integration points.

Today, wealth management firms are using multiple providers and platforms to deliver services to their clients. Among the financial institutions surveyed, many indicated an increased willingness to outsource more of these functions, along with strong interest in consolidating providers to a single or handful of providers.

Chart 3: Current outsourcing landscape and willingness to outsource

Functions	Firms fully outsourcing[6]	Firms willing to outsource[7]
Clearing and settlement	38%	71%
Client portal	29%	50%
Advisor portal	25%	46%
Investment management	21%	33%
Legal, compliance and risk	21%	38%
Financial planning	17%	50%
Technology and operations	17%	46%
Finance and reporting	13%	42%

88% of firms are using more than five service providers to deliver wealth management services

71% of firms are interested in consolidating providers to a single or handful of providers

46% of firms are willing to outsource trust company responsibilities to a provider

[4] "U.S. Intermediary Distribution 2024, *Cerulli Associates* website (cerulli.com/reports/us-intermediary-distribution-2024), accessed November 2024.

[5] "Financial Advisor Technology Map," *kitces.com* (https://www.kitces.com/fintechmap), accessed November 2024.

[6] Of financial institutions surveyed, 63% fully outsource at least one function to a provider.

[7] Of financial institutions surveyed, 92% are willing to outsource at least one function to a provider.

There are service providers in the market offering more comprehensive solutions that are evolving to offer holistic WaaS. They typically fall into one of two categories:

Clearing and custody-led solutions: These solutions aim to provide advisors and clients with a streamlined, comprehensive experience through a unified platform, enhanced by strategic operations support. Many of these solutions were built with in-house technology but are starting to embrace an open architecture model, balancing third-party integrations with in-house development, and concentrating on partnerships with best-in-breed platforms and FinTech firms to deliver a holistic, integrated offering. Notable examples include BNY Pershing's newly announced Wove platform, SEI's Wealth Platform and FNZ's Wealth Management Platform (a new entrant to the US).

White-labeled packaged solutions: These solutions are making their mark by offering advisory, brokerage and trust services under a financial institution's brand. Like custodians, these providers deliver a full suite of functions, from advisory and trading capabilities to client portals and compliance functions, all within a single, integrated structure. This allows enterprise clients to focus on their brand and advisor-client relationship while outsourcing their middle- and back-office technology and operational functions. They are also differentiating their offerings by taking on the broker-dealer, registered investment advisor and trust company responsibilities to further enhance economic efficiency and reduce regulatory risk for firms. Providers like LPL Financial and Cetera Financial have led the charge with white labeled offerings, utilizing creative pricing structures to better align costs with growth and reduce discretionary capital outlay. There has been significant growth in the market towards this model for both independent and enterprise wealth managers.

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When it comes to their platform, wealth management firms want a consistent experience across their entire enterprise — from the home office to their advisors to their clients. Data should move seamlessly across each application so that advisors can get a more holistic picture of their clients' financial lives, can better serve these investors and gain rich insights to grow their businesses.

Ainslie Simmonds
President and Head of Strategy, BNY Pershing

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One fundamental principle of developing our technology platforms has always been a coexistence with the ecosystem. A seamless coexistence is important because not all clients are going to consume the end-to-end offering. They will have their own best thinking, or what they think is their secret sauce, or they may already license a piece that's a committed expense on their side. Our goal has always been that we must provide flexibility to enable various consumption models while maintaining straight-through processing and providing exceptional client experience.

Sanjay Sharma
Global Head of Private Banking & Wealth Management, SEI

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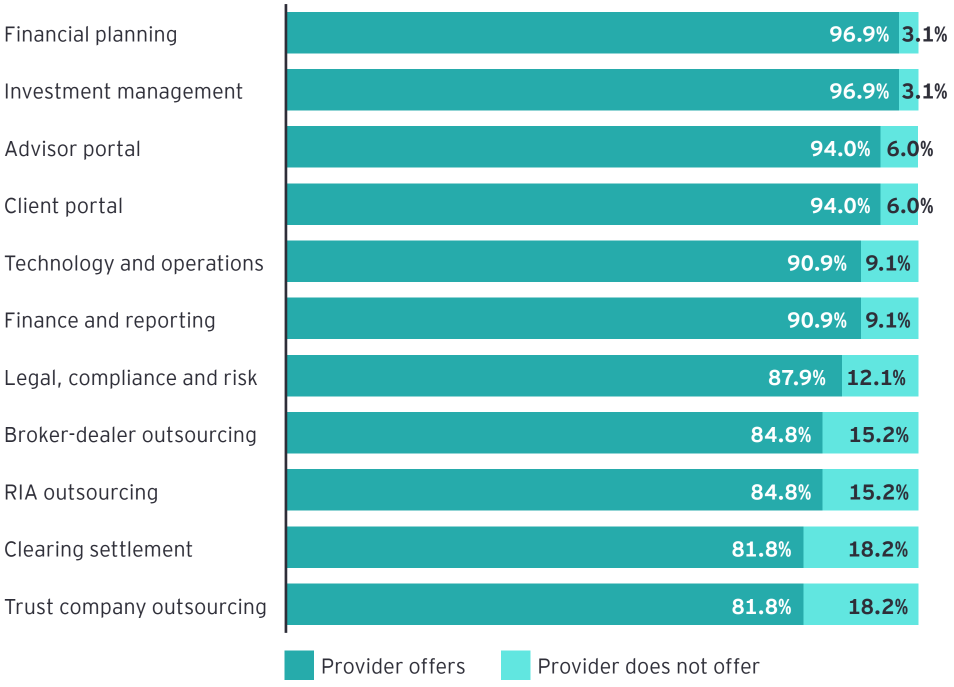
Our open architecture and non-proprietary approach enable advisors and institutions to integrate seamlessly into LPL's infrastructure, minimizing business disruption. Similarly, our technology strategy emphasizes integration focused on enhancing both advisor and client experiences. This approach empowers enterprise clients to deliver comprehensive service across business lines, leveraging industry-leading tools in CRM, planning and performance reporting. Our platform is designed to be fully configurable, allowing you to tailor the experience to your specific needs.

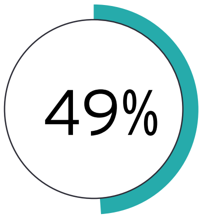
Christopher Cassidy
Head of Institution Business Development, LPL Financial

In addition, pure technology providers and operations outsourcing firms are growing prominence in the wealth management and retirement sector to take on specific functional capabilities and service support. While the technology providers can help deliver leading capabilities and digital experiences, they may not drive the operational efficiency needed to operate and scale the business. For operations outsourcing firms, while their services will drive efficiency, they may not keep up with the level of innovation needed to react to market demands. These technology providers and operations outsourcing firms are beginning to integrate more tightly with the custody-led and white labeled packaged solution providers.

Chart 4: Provider offerings and capabilities



Providers that have key partnerships, alliances and integrations



Functions providers most commonly allow to be integrated into offering

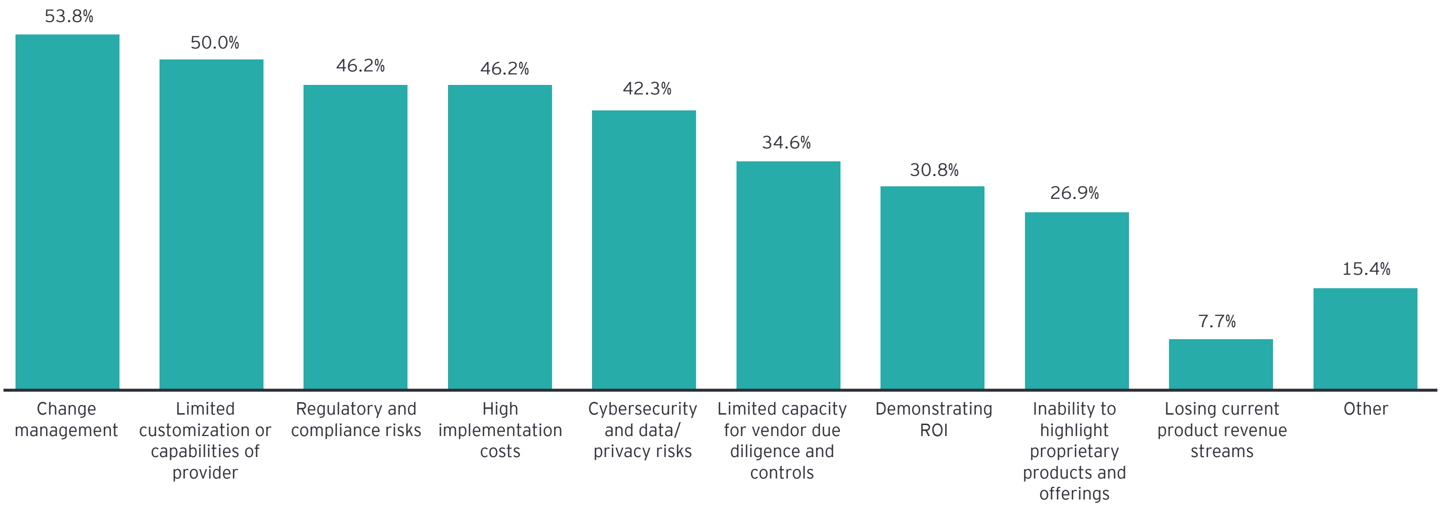
- Financial planning (78%)
- Investment management (72%)
- Client portal (63%)

Making the shift to WaaS

The key to success hinges on how financial institutions can differentiate themselves while leveraging the advantages of "as a service" models. Firms see differentiation in the front office and alignment to unique client segments as key drivers for growth, with technology, operations and even product offerings becoming more commoditized. The growing interest in WaaS models is fueled by firms' desire to concentrate more on the front office and offer more extensive wealth management services, paired with the advantages of operational efficiencies and diminished regulatory risk.

As with any new vendor relationship, navigating change management can be expensive and risky. Roughly half of financial institutions surveyed identify change management and implementation costs as primary risks, expecting providers to support them through this transformation. Nearly two-thirds (65%) of firms indicated they expect the service provider to provide implementation and conversion support. In response, providers are showing a willingness to collaborate on innovative pricing and support models. They are able to invest substantial resources to tailor their offerings to

Chart 5: Perceived risks for wealth managers in using a single WaaS provider



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Strong partnerships with WaaS providers have allowed bank-led wealth management businesses to scale and compete effectively with the largest and most sophisticated wealth managers in the industry. In my experience, these partnerships result in increased efficiency, reduced risk exposure, and higher growth while dramatically improving the advisor and clients' experience.

Doris Meister
Financial Services CEO

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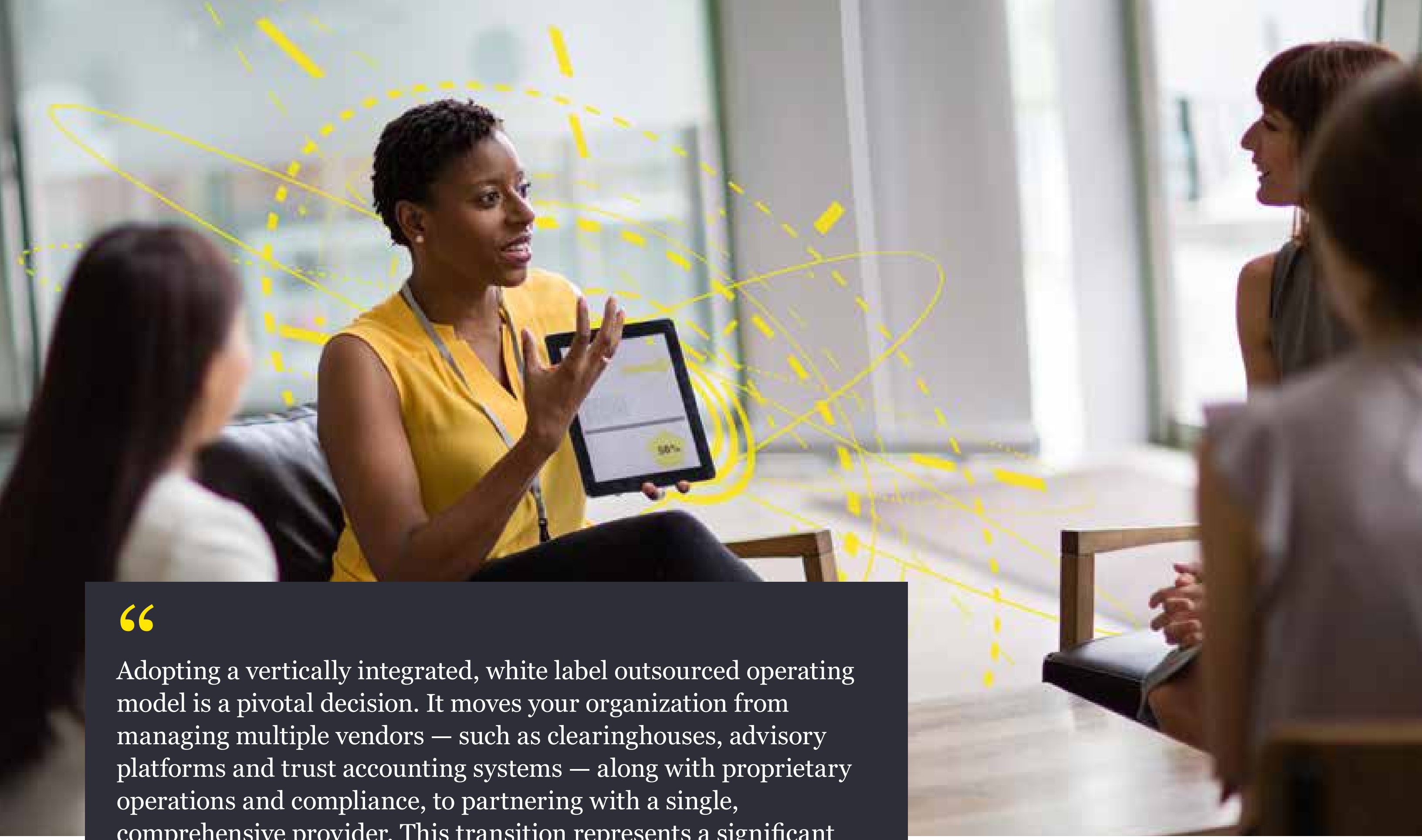
It's really going to be about the ability of financial services companies to strategically focus on areas where they can provide differentiated value and in areas where they can't. I don't think we can discuss enough about the importance of technology in terms of its ability to help an advisor scale their practice and build deep relationships with their clients. If you think about technology platforms and the level of investment committed [by these providers], that's significantly higher than many smaller firms are investing. As a result, I think the industry may see more partnerships in the future.

Brad Hearn
President of Retail Advice and Solutions, Prudential



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> Adopting a vertically integrated, white label outsourced operating model is a pivotal decision. It moves your organization from managing multiple vendors — such as clearinghouses, advisory platforms and trust accounting systems — along with proprietary operations and compliance, to partnering with a single, comprehensive provider. This transition represents a significant shift that requires trust in your partner and robust change management support. To facilitate this, we deploy an experienced team dedicated to making the transition seamless, helping you quickly return to business as usual with an enhanced service offering. We tailor the operating model to align precisely with your firm’s requirements, ensuring a solution that fits your unique needs.
>
> **Ken Hullings**
> Head of Institution Client Success

meet client needs and ensure a smooth transition and effective working model between partners.

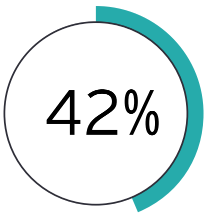
Firms should undergo a detailed selection process to find a partner that aligns with their business objectives and operating model. Selecting the right WaaS provider requires an extensive evaluation process, as well as continuous monitoring and risk management, given the heavy reliance on a single or limited number of vendors.

Additional factors to consider when selecting a provider include:

- Capital/investment budget
- Corporate strategy
- Cultural fit
- Modern integration capabilities
- Ownership structure and financial stability
- Partnership ambitions
- Risk tolerance
- Size/market share
- Technology security standards

Firms should explore integration solutions and consider working with third-party implementation partners to ensure a seamless and successful transition.

Chart 6: Wealth manager plans to change providers



of wealth managers are planning to change providers within one to two years

Keeping pace in the WaaS era

The wave of innovation in wealth management services, led by custodians, white labeled outsourced providers and tech-centric firms, is paving the way for WaaS to be a reality. WaaS's transformative power lies in its ability to streamline the complexities of financial advice, planning and investment management, offering a holistic, unified experience to companies throughout the industry. WaaS presents everything from parts in a toolkit to an integrated solution, aimed at enhancing both operational efficiency and satisfaction among wealth management firms and their customers.

As firms navigate the current wealth management landscape, they encounter a complex web of regulatory challenges and technological fragmentation. Strategic outsourcing to WaaS providers offers a compelling solution, enabling firms to focus on strengthening customer relationships and their core business offerings.

Operational profitability and scalability become attainable for firms that align strategically with the appropriate WaaS provider. It is crucial for firms to conduct thorough due diligence, weighing innovation against risk, to select a WaaS partner that complements their business objectives and client needs.

In this evolving landscape, EY teams stand ready to assist firms in assessing their wealth management strategies, acting as an ecosystem connector to wealth management institutions and providers. We have invested in building AI-enabled technology assets such as EY Nexus to enhance firms' ability to integrate with WaaS providers smoothly. Our goal is to support wealth management organizations in not only keeping pace with industry changes but also to lead in innovation and client service.

In summary

1. WaaS productivity benefits enable firms to refocus on their core value proposition:
   79% of wealth managers expect substantial productivity gains in having an integrated platform across their solution

2. Wealth managers are interested in partnering with a comprehensive WaaS provider:
   71% of wealth managers are interested in consolidating providers to a single or handful of providers

3. Service providers consider their offerings to be holistic or aspire to expand their capabilities:
   82% of providers see their firm as a comprehensive WaaS provider or looking to expand to offer WaaS, with the remaining aspiring to specialize in a specific function

4. Wealth managers do have some reservations in making the leap to a single provider:
   54% of wealth management firms highlighted change management as the biggest risk in moving to a single WaaS provider

5. Some gaps exist, although custody-led and white labeled packaged solutions are close:
   30% of providers indicated gaps or lagging their peers in the ability to offer a completely holistic WaaS offering

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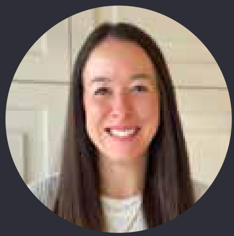

Allyson Harris
Senior Manager

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All in to shape the future with confidence.

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2406-4552472/2408-85713-CS

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