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Fintech in Wealth Management: The new reality

1. Introduction

Over the course of the last decade, the application of financial technology (Fintech) has reshaped the financial services industry in many ways. Online brokers, direct banking, online payments and digital payment wallets have managed to become an essential part of our everyday life and many of us can hardly remember the times without them.

What people tend to forget though, is that all these products that an average user of financial services is nowadays relying on, are in one form or the other, the result of the remarkable growth of the fintech industry that we witnessed over the better part of the last decade.

But whereas online banking, online payment solutions and online trading platforms were a rather obvious fertile grounds for the adoption of fintech, there are some other areas of the financial services industry that are rather slow in adopting innovative technologies. One of these areas, is wealth management.

2. A complex relationship of wealth management and fintech

2.1 Specific environment

The wealth management industry is traditionally seen as an area of finance where personal relationships, tailor made products and strategies as well as multi-jurisdictional and cross-asset coverage play an immensely important role. Therefore, it would probably be an understatement to say that this is an area where "quality over quantity" describes the ultimate goal of every wealth management client. To that end, this remain an area where the price of a product or a service, is not something that is a detrimental factor influencing client's decision whether to use a particular service or to purchase a particular product.

Against the backdrop of the above-mentioned, it is rather hard to imagine seeing a wealth management firm, following the footsteps of neo-brokers and developing an online app that would provide an in-app and cost-conscious experience, given that this is, whereas not entirely irrelevant, is not the top priority of its wealth management clients.

2.2 Difference in preferences

As part of their day-to-day business, despite being focused on rather affluent client group, wealth managers are providing their services to a number of different client segments that are primarily differentiated based on the amount of their disposable assets. Ultra-high-net-worth individuals (with more than ca. EUR 30 million in disposable assets), high-net-worth individuals (with more than ca. EUR 5 million in disposable assets) as well as the ever-growing group of mass affluent clients (with more than ca. EUR 1 million in disposable assets) are just some of the main categories of wealth management clients, even though the aforementioned thresholds may differ from firm to firm.

However, all of the above-mentioned, have rather different preferences, needs and (with the exception of positive return on their investment) different expectations from their wealth managers.

2.3 Intergenerational wealth transfer

By 2030 it projected that 18.3 trillion USD, in wealth will be transferred from individuals holding more than USD 5 million in net worth to their successors which will constitute by far the largest intergenerational wealth transfer in history. [1]

Whereas older generation of wealthy individuals belonging to any of the above-mentioned categories of traditional wealth management clients have rarely been focused on the benefits that the use of innovative technologies may bring to their service experience, the forthcoming intergenerational wealth transfer is poised to create an entirely new group of wealth management clients.

The younger generations, including the vast majority of the primary successors of the baby boomer generation that are already in their 50s, are generally more familiar with the technology as well as potential benefits that its deployment for the purposes of management of their assets may bring. Those at the lower end of the succession tree, primarily millennials and the gen-Zs, are expected to pose an entirely new challenge for their service providers that are not “into-tech”. Accustomed to have the access to everything at the fingertips, they can hardly fit the shoes of their parents and grandparents that were quite comfortable with reviewing their portfolio performance at pre-arranged quarterly meetings with their dedicated portfolio managers.

New asset-classes are also something that the new generations see as mainstream rather than an exotic area: exposure to crypto- assets, tokenised representations of real-assets

[1]Source: Wealth-X, “Preservation and Succession: Family Wealth Transfer 2021”, Link: https://altrata.com/reports/preservation-and-succession-family-wealth-transfer-2021

as well as investment opportunities in the venture capital space are some examples of asset classes that may be a standard product for a client but that not all wealth managers are familiar with. Interaction with neobanks, that the clients may be using, DeFi protocols, assets in digital wallets or investment structures in venture capital space in different jurisdictions (not to mention decentralised autonomous organisations "DAOs") can be another challenge for old-fashioned wealth managers that are not up-to-speed with the topics that these new generations may deem as rather important.

3. Fintech in Wealth Management: key benefits

Applying new technologies in the wealth management sector can bring a number of benefits and open new avenues via which the wealth managers may be able to serve the needs of their rapidly changing client groups. The list is quite long, but includes (among other):

3.1 Efficiency improvements

Deployment of innovative technologies, like advanced data analytic systems based on artificial intelligence or machine learning, can provide a number of advantages for wealth managers across their back and front office.

The pace at which advanced AI and machine learning models can analyse vast amounts of market and economic data, can hardly be compared to the capacities of human labour. Deployment of these systems that can swiftly comb through massive datasets, thereby identifying market patterns and anticipating market and economic developments, can provide significant level of cost, time and operational efficiency to the front office of wealth management firms as well. The same can also be applies in the back office, primarily in the area of risk-management and compliance monitoring, where AI systems can much quickly analyse real-time risk-management and compliance related events and incidents and factor them into the broader risk-management and compliance management strategy and processes of the firm.

Arguably, deployment of advanced AI based data analytic systems can also achieve better financial performance for wealth management firms. Despite the fact that there is no sufficient empirical evidence that would support this claim, there are some first

examples of the benefits that the deployment of AI in the decision making process in particular can bring: beginning of 2025, a hedge fund startup that replaced its analysts with an AI system, has managed to beat the market by more than 5% over a six month period, becoming the very first firm to achieve such groundbreaking success.[2] Whether and to what extent this will in the future prove to be a sustainable and reliable business model, remains to be seen as more firms start adopting (wholly or partially) a similar strategy.

3.2 Unlocking the access to new asset-classes

Due to the above-mentioned differences in preferences and personal circumstances, wealth management firms are offering different products to different groups of their clients. Despite the fact that there are regulatory considerations that limit the access to all asset classes for all investors, the lack of liquidity that is tied to some asset classes, is another reason why some wealth-management clients still lack the access to some investment products.

Tokenisation is arguably one of the technological breakthroughs that promises to democratise the access to less-liquid asset classes for a larger number of investors by lowering the barriers to entry particularly for smaller investors. Deployment of distributed ledger technology (DLT) in the form of tokenisation of existing financial products, like for instance financial derivative instruments or units in private investment funds, could create a secondary market for financial products from these asset classes and thereby simplify the access to them for smaller investors. This could be particularly interesting for investors sitting at the lower end of the wealth management client scale, that are generally not able to participate in rather illiquid or investment schemes characterised by large ticket sizes.

By opening their doors to DLT and tokenised products, wealth managers could also open access to another asset-class for their investors: crypto-assets, that do not constitute regulated financial instruments, like the tokenised financial products mentioned above. The younger generation of wealth management clients is increasingly eager to participate, at least with a small part of their investment portfolio, in the dynamic crypto-trading environment that is nonetheless related to high-volatility.

3.3 Better client experience

Scheduling a quarterly/semi-annual follow up meeting in a high-floor office accompanied by fine wining and dining experience would pretty much illustrate the way in which a

[2] Bloomberg, "Hedge Fund Startup That Replaced Analysts With AI Beats the Market" Link: https://www.bloomberg.com/news/articles/2025-02-13/hedge-fund-startup-replacing-analysts-with-ai-beats-the-market

standard interaction between wealth management clients and their portfolio managers looks like – in yesterday's world.

The modern-day investors, including the ones that will be the beneficiaries of the previously mentioned intragenerational wealth transfer, are accustomed to having access to everything, from business communication, payments, transportation and travel management at their fingertips. The logical question anyone can ask is – why should it be any different with the wealth management?

The answer to this question is not as simple as it appears to be. Whereas investing in stocks or ETFs via mobile apps of neo-brokers has become a convenient way for a lot of retail investors to manage their personal investments, management of multi-million-euro portfolios via mobile-apps is a too far fetching dream even for tech enthusiasts. Neo-brokers have also managed to democratise access to standardised wealth management solutions (largely through deployment of robo-advisors) for retail investors, that are now able to create their "individualised" portfolio management strategy within minutes.

Nonetheless, this does not mean that there are no ways in which the use of technology could improve the overall experience of traditional wealth management clients. The deployment of automated reporting systems that would provide the client with real-time notifications about the key developments that may be of significance for their portfolio performance, the use of online platform infrastructure via which the client could provide instructions to its wealth manager and via which it could receive prompt feedback as well as follow the implementation of key decisions in real-time are just some high level examples of how the use of technology could improve the client's overall experience.

The onboarding process can also be heavily streamlined with the use of technology: instead of gathering information from the client (and based on countless sheets of paper) about their investment behaviour, preferences, financial situation and loss bearing capacity, the firms can leverage the use of digital IDs and extract the information about their new client from their previous service providers.

One might however ask a very legitimate question: why would any firm that the client is leaving accept to do something like this? Well surprisingly, the answer to this question lies in the regulation, see below.

4. Regulatory Considerations

4.1 Regulatory status

Wealth management firms operating in the EU are generally licensed under the regulatory framework for investment firms, based on the Markets in Financial Instruments Directive (Directive 201/65/EU "MiFID II"). This is a pretty standard setup that can differ from firm to firm, especially where a firm also engages in some other, less wealth management specific services, like asset management that is regulated under the EU regulatory framework (the AIFMD and/or the UCITS framework as the case may be).

There are however a number of important regulatory developments that are also shaping the wealth management industry by virtue of their impact on regulated EU investment firms regulated under the MiFID II framework primarily. Surprisingly for many that read this, these regulatory developments are expected to serve as a catalyser rather than be an impediment to the use of innovative technologies in the wealth management industry.

4.2 Open Finance

The open finance framework is poised to start a new era for the financial services sector in the EU, in which consent based sharing of customer's financial data between financial institutions across various sub-sectors (incl. investment services, insurance and consumer credit) shall become a new normal. By leveraging the data about the past customer behaviour, their preferences and financial situation, the financial institutions shall become able to provide the customers with more individualized financial products and services.

The framework builds on the open banking framework based on the Second Payment Services Directive (PSD2) and broadens the scope of financial data that will be eligible for consent-based sharing which will cover (among other) data about: Savings, investments in financial instruments, insurance-based investment products, crypto-assets, real estate and other related financial assets as well as economic benefits derived from such assets including data processed as part of suitability and appropriateness assessments under MiFID II.

Under this new framework, the financial institutions (incl. investment firms that wealth managers operating in the EU usually are):

a) will be able to obtain the above-mentioned categories of data about their customers from their previous financial service providers and leverage them for the purposes of more

efficient and more individualised provision of their service, but,

b) they will likewise be obliged to share their customers data with their competitors upon customers' request.

Practically speaking, the introduction of the above-described framework on open finance (once finalised) will have big practical impact on wealth management firms, whose clients will basically be able to take with them all their data and move them to another wealth manager who will be able to leverage them for faster onboarding and more efficient provision of their service to the client.

On the other hand however, this presents an opportunity for wealth management firms, that will be able, from day one, to develop personalised product and service offering for new clients, primarily through the use of innovative technology (like AI systems) that could tailor the investment strategy for new clients in a way so that the client does not have to go through a long onboarding and customisation process when changing its wealth management provider.

To see more about this topic, please see our dedicated article.

4.3 Digital assets

One of the main reasons for the slow adoption of crypto-assets as an asset-class by institutional investors and incumbent financial institutions in previous years was (with the exception of high volatility, that is nonetheless not reserved for crypto-markets only) the lack of a proper regulatory framework and the associated legal and regulatory uncertainty.

As of 30 December 2024, with its Markets in Crypto-Assets (MiCA) Regulation, the EU has become the jurisdiction in the West, with a comprehensive regulatory framework on crypto-assets that creates a harmonised set of rules applicable to issuing and offering of crypto-assets, provision of services related to crypto-assets as well as licensing of businesses operating in the crypto-space.

The MiCA-Regulation, also provides for an equivalence regime for regulated financial institutions (incl. MiFID II investment firms) that are conditional upon completing a mandatory notification procedure, generally allowed to provide crypto-asset related service equivalent in nature to the services they provide, also with respect to crypto-assets. For instance, wealth management firms authorised to provide investment advisory and discretionary portfolio management services (the most common combination in the

industry) are allowed to provide the same services with respect to crypto-assets, without the need for obtaining a separate license as a crypto-asset service provider (CASP) under MiCA Regulation. To see more about the MiCA Regulation, see our dedicated article series "Navigating MiCA".

The world of digital assets is not limited to digital assets regulated by the MiCA Regulation, given that this regulatory framework only covers digital assets that do not qualify as regulated instruments under other pieces of EU legislation, incl. financial instruments under the MiFID II framework. Tokenised financial instruments (which are in a nutshell financial instruments like bonds or structured products, that are issued and exist solely as digital tokens on a DLT infrastructure) are increasingly being used by both fintech startups and incumbent financial institution, due to related cost, time and operational efficiency that their use is generally associated with. They also open avenues of access to new asset classes for some investors, for which lack of liquidity may be a show-stopper: for instance, by allowing access to private corporate bonds, real-estate, venture capital and private equity investments through tokenised assets for which a secondary liquid market can be created.

With this in mind, and conscious of the rising popularity of tokenised financial instruments (financial instruments like bonds or structured products, that are issued and exist solely as digital tokens placed on a DLT infrastructure) the EU has also created a separate regulatory framework, the so called DLT pilot regime that allows regulated financial institutions in the EU to engage in trading with DLT based financial instruments.

DLT Pilot Regime went live on 23rd of March 2023 and will initially run for a period of 6 years during which regulated investment firms, market operators and central securities depositories (CSDs) willing to operate DLT market infrastructures will be able to apply with their NCAs for exemption from certain requirements applicable under the Markets in Financial Instruments Regulation (MiFIR), the Central Securities Depository Regulation (CSDR) and the Settlement Finality Directive. The permission to operate DLT market infrastructure will also come with the EU passport, enabling operators to provide their services across the EU based on a single permission.

To see more about this topic, please see our dedicated article.

4.4 Digital ID Wallet

More efficient client onboarding in the data-driven financial services sector the EU is planned to function based on the main two pillars: the above-described open finance framework and the framework introducing the EU Digital Identity Wallet.

The Regulation on establishing of the European Digital Identity Framework (Regulation (EU) 2024/1183, also known as eIDAS 2.0), creates a legal basis for the creation of the EU Digital Identity Wallet, that shall allow people and businesses in the EU to identify themselves and exchange confirmations on certain personal information digitally, by using a digital wallet stored in their smart devices.

The EU Digital Identity Wallet will store key information about the person like the name, date of birth, address, nationality, as well as some further pieces of information such as information on professional qualifications, bank balance, investment behaviour or medical history.

The framework is aligned with the EU regulatory framework on AML/CTF based on the new EU Anti-Money Laundering Regulation (AMLR) and the 6th EU AML Directive, that provide the legal basis for the use of EU Digital Identity Wallet as a credible identification method that obliged entities (incl. regulated financial institutions) will be required to accept for the purposes of conducting customer-due-diligence process (commonly known as KYC onboarding).

Further, MiFID II investment firms will be able to use the information stored in the EU Digital Identity Wallet for the purposes of performance of the suitability assessment of new clients, which includes assessment of information related to (among other) client's financial situation, investment preferences, investment horizon, loss bearing capacity etc.

This will have an important practical impact on wealth managers as well, that will be able to leverage the EU Digital Identity Wallet when onboarding new clients in combination with the access to client's data based on the previously described open finance framework. This can significantly streamline and accelerate the onboarding process for new clients thereby improving efficiency and overall client's experience.

4.5 AI Regulation

As with any other technological breakthrough, the main reason holding behind regulated entities around the world from embracing new technologies like AI more quickly, is highly complex regulatory environment that they are operating in.

However, as of recently, in the EU we have witnessed the development of a number of legislative and policy developments that have started to create a level playing field for financial institutions looking to use AI systems.

First, the EU has become the very first jurisdiction with a comprehensive regulatory framework on AI with its AI Act that has entered into force on 1 August 2024. The new EU regulatory framework, that has wide ranging horizontal effect (applying across all industries) introduces new transparency and organisational requirements on entities using, developing or importing AI systems, including financial institutions that are generally expected to be more frequently in the role of the user of AI systems (usually procured from external IT vendors). To see more about the AI Act, check our dedicated website page.

Given that financial institutions are however subject to their sector-specific regulatory requirements, they are required to ensure compliance with them as well when considering using AI systems for their front- or back-office activities. Supervisory authorities across the EU (German BaFin, French AMF, Dutch National Bank etc.) have published a number of policy papers and guidance so far aimed at familiarizing financial institutions with their key obligations that need to be fulfilled when they consider the deployment of AI systems.

Further, when it comes to investment firms (incl. wealth managers) the European Securities and Markets Authority (ESMA) has published on 30 May 2024, the first targeted statement that is intended to serve as a general guidance for investment firms looking to deploy AI based systems for the purposes of provision of retail investment services. The statement provides the EU investment firms in particular with the guidance on how to ensure their compliance with the MiFID II framework when using AI based systems. To see more about this see our dedicated article.

All of the above-mentioned, can serve as a solid starting point for wealth management firms looking to use AI systems, either for the purposes of process streamlining in the back-office department or efficiency and potentially performance improvements in their front-offices. Despite not being a complete regulatory framework (like the MiFID II or the emerging open finance framework) they are all illustrating quite clearly what are the key supervisory expectations from firms looking to use AI, thereby removing regulatory ambiguity as to what was generally supposed to be considered by a regulated firm before it decides to deploy this innovative technology in its day-to-day business.

5. Conclusion

Against everything above-mentioned, it is fair to conclude that the use of fintech in the wealth management industry can be both very beneficial as well as regulatory and operationally feasible. Therefore, it is no wonder that nowadays fintech is no longer a distant startup-reserved topic that wealth managers are entirely unfamiliar with – on the contrary: from smaller online brokers that are entering the space, by offering robo-advisory based wealth management experience for retail clients to more established asset- and wealth-management firms that have implemented fintech solutions (in one way or another) in their day-to-day business, fintech is increasingly becoming a standard part of the wealth management industry.

This does not mean though that there is not much more that can be done or that there are no old-fashioned wealth management houses that stand rather unprepared for the forthcoming wave of intergenerational wealth transfer. Therefore, in the coming years it remains to be seen how the fintech solutions will continue reshaping the wealth management industry, largely in the same way the managed to create an entirely data-driven financial services ecosystem, that we all could hardly function without.

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