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# Digital differentiation for asset and wealth managers must focus on “better”—not just “more”

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# Executive summary

The pandemic impact on the asset and wealth management (AWM) market was to force the hand of digital interactions, forever driving this advisor- and relationship-led business to virtual meetings and mobile apps as the primary forms of client engagement. Post-pandemic, amid a balancing act of challenging macroeconomic factors and exciting innovation potential, AWM firms are looking beyond building capability via mergers and acquisitions (M&A) to securing growth through a trifecta approach of developing new assets and offerings, enhancing the experiences of customers and advisors, and monetizing data with the help of analytics and applied AI to drive real-time insights, modeling, and decisioning. The imperative for success is no longer just offerings and services across asset classes; it is increasingly digital differentiation.

HFS Research, in partnership with Infosys, surveyed 150 AWM providers across North America and Europe to better understand the growth and modernization needs of the AWM market.

## Key findings



**In a “tale of two cities” market, the asset and wealth management industry must carefully balance macroeconomic headwinds with exciting innovation potential.**

This amalgam of circumstances sets the stage for AWM providers to reconsider what they need to achieve success. AWM providers indicated their top business objectives remain aligned with the classics with driving revenue and profit growth tied for the top position (28%). Driving growth in assets under management and generating new forms of value via partnerships rank as the second tranche of critical business objectives (24%), pointing us to some of the potential new growth areas for AWM firms tied to sustainable investing and the development of digital assets enabled by a hefty side of ecosystem partnerships to enable this new value.



**Most AWM firms are currently at Horizon 1 regarding their innovation progress but have bold plans for the future.**

AWM firms indicated their current reality is firmly Horizon 1, with 55% of respondents indicating they focus on digital optimization, which in the AWM context tends to align with the launch or enhancement of capabilities like mobile apps or enhanced customer onboarding processes. The remainder is split between Horizon 2 and Horizon 3. The innovation outlook for two years from now shows aggressive progress plans. More than a third (37%) of respondents plan to shift their innovation focus to Horizon 2 initiatives, such as leveraging platforms and data and analytics to drive customer and advisor experience.



**AWM firms are keen to expand their offerings and grow their client base but suffer from basic digital hygiene issues.**

While sustainable investing and financial wellness solutions top the list for offering expansion, AWM firms also indicate that some basics, like customer onboarding, have room for improvement. The client onboarding process still takes five days or more for 87% of AWM firms, and the current average time to onboard clients is 12 days, with data challenges as the top reason for delays. Respondents additionally indicate their website is the top customer interaction channel (57%), followed by mobile apps (49%) and in-person meetings (45%). Mobile apps are expected to become the de facto interaction standard in two years.



### **AWM firms are prioritizing investments that will help torpedo digital hygiene issues now and enable data and AI-driven differentiation in the future.**

Their current investment priorities show clear plans to prioritize customer and advisor experience. The top priority is continued mobile app refinement. Other top five priorities include personalization, platform investment, and AI-enabled investment decisioning, which begins painting a picture of Horizon 1 digital investment pushing toward Horizon 2 enterprise-wide experience initiatives. The growth priorities in two years align with differentiated operating models and the potential for new business models driven by data and self-serve insights, AI-driven advice and modeling, and real-time analytics to know precisely how client assets are going and growing.



### **AWM firms cite data security, talent, and C-suite commitment as their biggest barriers to realizing value from their innovation investments.**

An interesting thing happens when we discuss barriers to achieving value with most financial services leaders: We talk about enduring problems rather than new issues. The AWM leaders in this study cited data security, C-suite leadership commitment, and talent as the big three issues holding them back—all part of a greatest-hits roster of roadblocks.



### **Full-service firms and fintechs are on track to become the partners AWM firms use most.**

As AWM firms continue pursuing innovation agendas, their partnerships are shifting. Full-service firms show a marked increase (51% to 64%) over the next two years, becoming the dominant type of partner AWM firms prefer to work with. While the rise of full-service firms is notable, their growth is matched by the rise of fintechs (from 40% to 53%). Our definition of fintechs is inclusive of wealthtechs.



### **Strategic partnerships are on the rise with AWM firms—with lofty value expectations.**

AWM firms indicate they currently work with an average of 10 strategic partners, and 63% indicate this will increase over the next two years as they pursue their innovation agendas across the Horizons. The top three criteria for designating a partner as strategic are co-innovation, cost savings, and the ability to offer cutting-edge capabilities at scale. These are challenging bedfellows.



### **The Bottom Line.**

AWM firms' trifecta approach of driving growth through new assets and offerings, enhancing the experiences of customers and advisors, and monetizing data with the help of analytics and applied AI must coalesce around digital differentiation. The C-suite-led mantra needs to be "better"—not "more."

This report is part four of a four-part series examining the growing importance of ecosystems in the BFS market through the lens of making practical progress across the innovation Horizons and savvy use of partners to help drive modernization and create new forms of value. The series includes a [broad view of banking and financial services trends](#) complemented by drill-down spotlights on [innovation and ecosystems in payments](#), [commercial banking](#), and wealth and asset management.

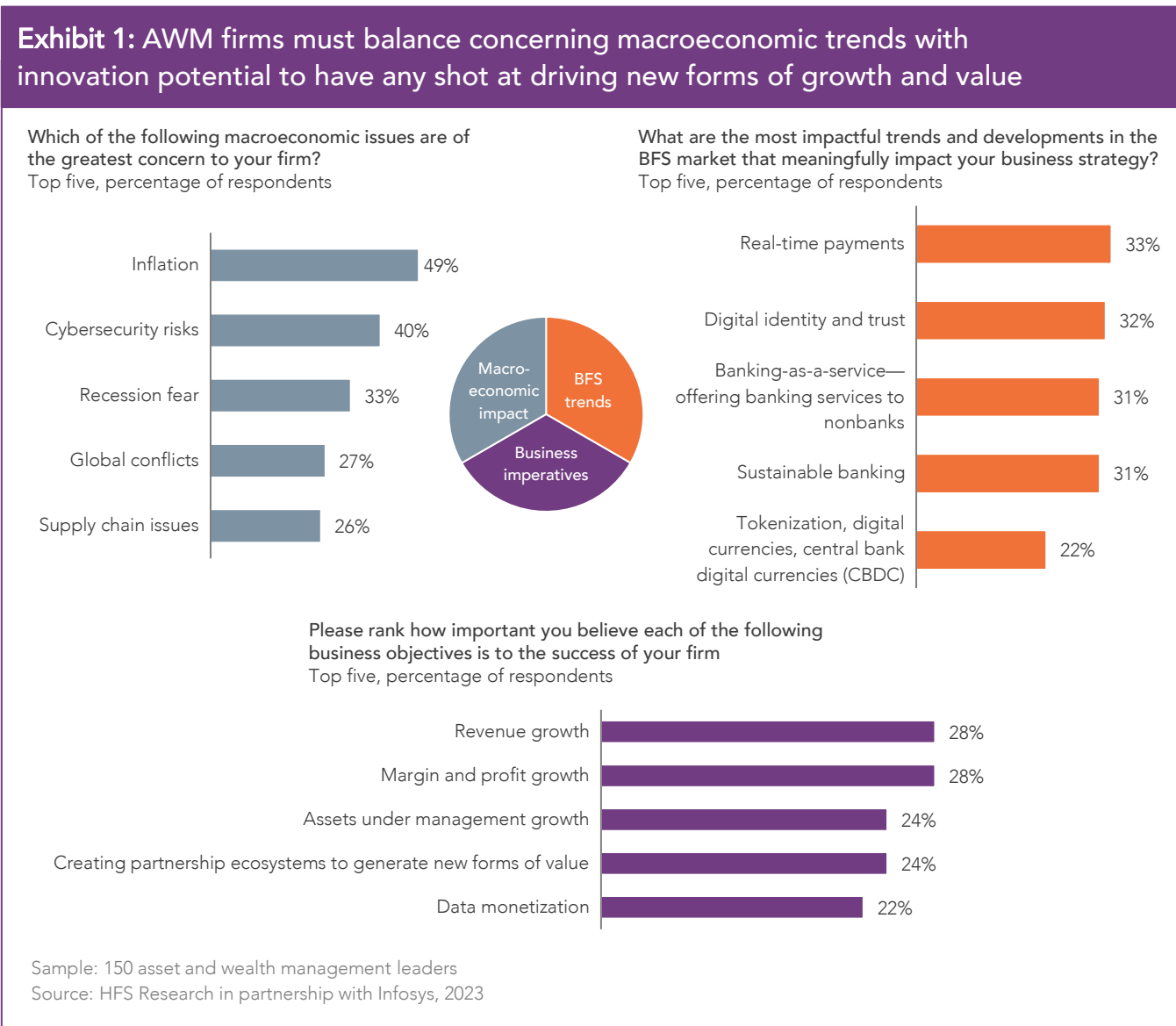
# A tale of two cities—asset and wealth management version

What’s the reality for the asset and wealth management market today? We have a tale of two cities on our hands. You know the infamous opening line: “It was the best of times, it was the worst of times...”

On the one hand, as Exhibit 1 showcases, there is an array of macroeconomic circumstances of grave concern to AWM firms, with the one-two punch of inflation (49%) and recession fear (33%) bookending cybersecurity risks (40%) as the top three concerns. Inflation and recession have clear implications on investment strategies and expected returns, while cybersecurity risks loom around security and the rise of digital assets. On the other hand, technology advancement and the

availability of innovation are the best they’ve ever been, offering the potential of new offerings like real-time payments (33%), innovative ways of interacting and protecting clients through enhanced digital identity and trust capabilities (32%), and new opportunities related to tokenization and new asset classes (22%).

This amalgam of circumstances sets the stage for AWM providers to reconsider what they need to achieve success. AWM providers indicated their top business objectives remain aligned with the classics, with driving revenue and profit growth in a tie for the top position (28%).



Driving growth in assets under management and generating new forms of value via partnerships rank as the second tranche of critical business objectives (24%), pointing us to some of the potential new growth areas for AWM firms tied to sustainable investing and the development of digital assets enabled by a hefty side of ecosystem partnerships to facilitate this new value. This ecosystem point is critical as AWM firms have invested substantially in mergers and acquisitions (M&A) that have helped them grow

bigger but not necessarily differentiated them. Ecosystem partnerships offer the potential for new types of offerings and capabilities often much more quickly and cost-effectively than the M&A route. Data monetization slips in at the number five position (22%), suggesting that some of the “new value” of the future will likely include data- and AI-enabled ways to drive revenue beyond its traditional business of advisor and relationship-led portfolio and investment management.

**Critical takeaway:** The asset and wealth management industry is at a digital crossroads. The potential for growth is there, aligned to new assets and offerings, more digital and self-service ways of interacting with clients, and a major focus on AI and analytics to power sophisticated decisioning for both advisors and clients. But this requires bold change in the face of challenging macroeconomic circumstances. Ecosystem partnerships may offer a non-M&A alternative to driving new forms of growth and value.

# AWM firms can unlock growth and new value through the innovation Horizons roadmap

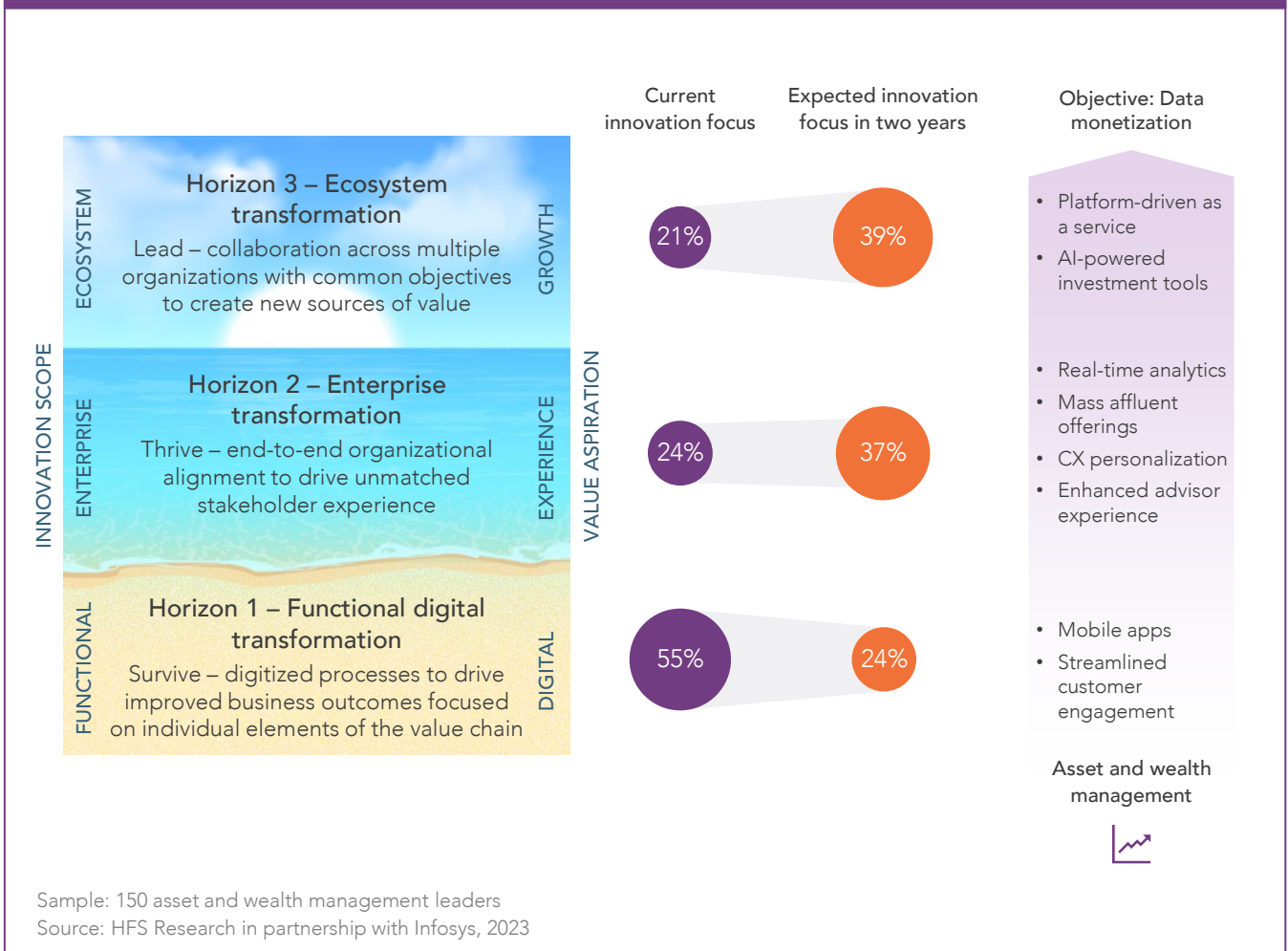
AWM firms are on the hunt for new ways to drive growth and profit. Ecosystems have emerged as a new opportunity to help AWM firms drive top-line and bottom-line impact outside classic organic and M&A routes. [HFS defines ecosystems](#) as collaboration across multiple organizations with common objectives to create new sources of value. Effective ecosystem creation is tied to enterprise maturity and innovation adoption. HFS views innovation across three Horizons:

- **Horizon 1:** Functional digital optimization, the current state, required to survive
- **Horizon 2:** End-to-end enterprise modernization, the required state, necessary to thrive

- **Horizon 3:** New value creation through ecosystems, the future state, the opportunity to lead

We asked our survey respondents to comment on their current focus for enterprise innovation and their planned focus in two years, mapped to the three Horizons (see Exhibit 2). The current reality is firmly Horizon 1, with 55% of respondents indicating they're focused on digital optimization, which in the AWM context tends to align with the launch or enhancement of capabilities like mobile apps or enhanced customer onboarding processes. The remainder is split between Horizon 2 and Horizon 3.

**Exhibit 2: AWM firms on the hunt for new opportunities have huge innovation aspirations over the next two years**



The innovation outlook for two years from now shows aggressive progress plans. More than a third (37%) of respondents plan to shift their innovation focus to Horizon 2 initiatives, such as leveraging platforms and data and analytics to drive customer and advisor experience. The enterprise transformation initiatives of Horizon 2 create new capabilities and enhance the ability of AWM firms to connect and collaborate with new partners to create new offerings and potentially new data-driven revenue streams, as reflected in the 39% who expect their innovation focus to progress to Horizon 3.

The AWM firms in this study are on a clear path to new value, enabled by enhanced engagement with customers, new offerings, and, ultimately, data-driven insights and modeling. The ecosystem opportunity in Horizon 3 is wildly exciting but also wildly unrealistic unless AWM firms take measured steps to address enterprise modernization, decades of legacy technology, and partially integrated acquisitions. There is no skipping Horizon 2. Those trying to do so will be sucked into the Horizons innovation chasm of

limited progress. The Horizons model offers a roadmap for execution, expanding value as AWM firms progress through the Horizons.

Martin Koopman, Chief Product Officer, Broadridge underscored this point in the context of time-bound competitive differentiation:

“

You know who's running in the public cloud—all the fintech and wealthtech disruptors. If you don't get to the public cloud in a few years, you risk irrelevance because your competitors will get there, and you might not be able to fully leverage microservices or APIs in the future. These are the enablers of connected ecosystems.

– Martin Koopman,  
Chief Product Officer, Broadridge

**Critical takeaway:** The Horizons model is the blueprint that can help AWM firms improve their innovation and unlock value for clients along a stepped continuum. The success of ecosystems ultimately depends on adequate investment in enterprise modernization (Horizon 2) to enable effective collaboration.



# The current operating reality for asset and wealth management firms

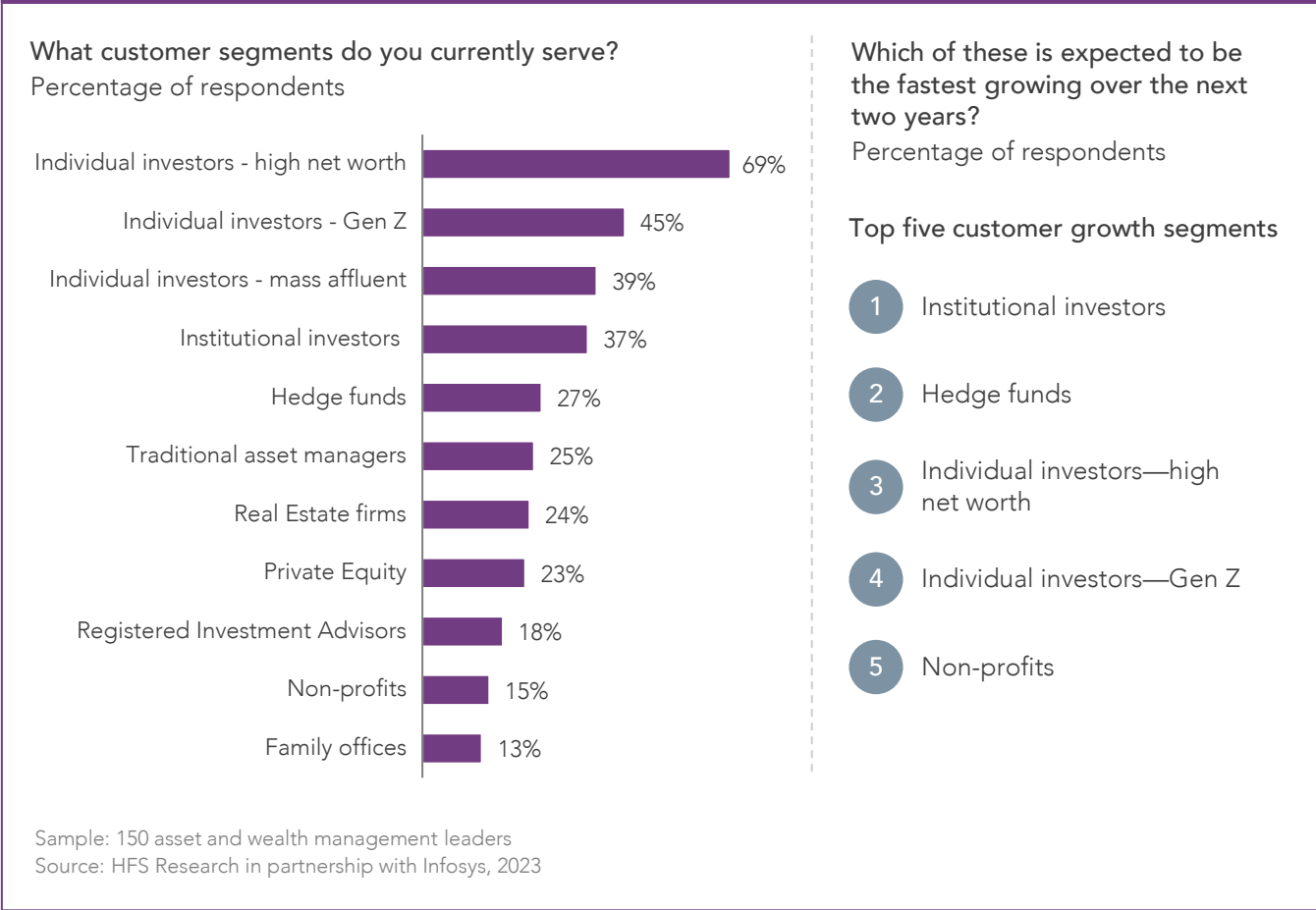
In the prior section and Exhibit 2, we discussed growth aspirations for AWM firms. But let’s look at the current operating reality—clients, offerings, customer onboarding, and client interaction methods—to see where AWM firms are today to better understand where they want to go and why.

## AWM clients reflect a mix of individual and institutional investors

As shown in Exhibit 3, respondents indicated they are serving a mix of individual investors led by high-net-worth (69%), Gen-Z (45%), and mass affluent (39%). Institutional investors are served

by 37% of the sample. Less than a quarter of respondents also serve other customers, such as hedge funds, non-profits, private family offices, and real estate firms. Customer growth is expected to come from a mixed bag of client types, led by institutional investors and a continued focus on expanding or better serving high-net-worth individuals and Gen-Z clients. The customer mix and related growth plans are critical to understand because they require varied strategies to support and enhance these relationships. There is no one-size-fits-all innovation investment that will likely satisfy the unique needs of each segment.

**Exhibit 3: AWM firms looking to expand their client base need to strongly consider how to best meet the needs of distinct segments**



## AWM firms currently offer a multi-disciplinary array of capabilities they hope to improve and expand, led by sustainable investing

The current baseline of offerings provided by AWM firms shows that firms provide an array of capabilities designed to extend their reach and value beyond the core business of investment advisory and management to complementary areas such as tax, risk, compliance, or retirement, as shown in Exhibit 4. We note the low utilization of robo-advisory capabilities, despite the focus on Gen-Z and mass-affluent clients in Exhibit 3. As we see the mass explosion of generative AI and large language learning models characterized by ChatGPT, we expect we have not seen the end of robo advisory, but explainability and governance need massive improvement—not to mention results.

AWM firms' plans over the next two years involve a mix of new offerings like sustainable investing and financial wellness solutions and enhancing existing offerings like investment modeling and risk analytics. The mix of improved and new offerings is critical to better satisfy existing clients and enable expansion to new clients. We note sustainability topped the list for offering expansion, underscoring the continued want for profit and purpose to co-exist.

Fintechs play a role in offering enablement—and they will continue to—but we should not regard them as a panacea path to new value. If internal operations, infrastructure, and applications are not sufficiently modernized, AWM firms will struggle to integrate and collaborate with fintechs.

### Exhibit 4: Sustainable investing tops the list for AWM offering-expansion plans

#### What wealth and asset management products and services does your firm currently offer?

Percentage of respondents



#### What are your top areas for offering expansion over the next two years?

Percentage of respondents

#### Top five areas for offering expansion

- 1 Sustainable investing
- 2 Financial wellness solutions
- 3 Investment modeling
- 4 Risk analytics
- 5 Digital investment modeling management platform

Sample: 150 asset and wealth management leaders  
Source: HFS Research in partnership with Infosys, 2023

## Client onboarding takes too long

New AWM clients, whether individual, institutional, or some other investor variation, want to begin using services quickly. According to our respondents, onboarding clients still takes five or more days for 87% of AWM firms (see Exhibit 5). The average onboarding time overall is a whopping 12 days. When queried about what on earth takes so long, the primary culprit is data issues, followed by identity checks and the blame-the-customer classic, “customer delays.” Data issues are generally regarded as identity, connectivity, compliance, and access issues, with a hefty dose of legacy systems and unintegrated processes requiring loads of manual intervention. As generational wealth transfers from baby boomers to younger generations, these timings will simply not pass muster with anyone expecting instant and seamless digital access—basically everyone these days.

Ben Rayner, Head of Analytics and Process Optimisation, Citi Enterprise Operations and Technology, shared some of his experience about why data challenges are so hard for AWM providers:

“

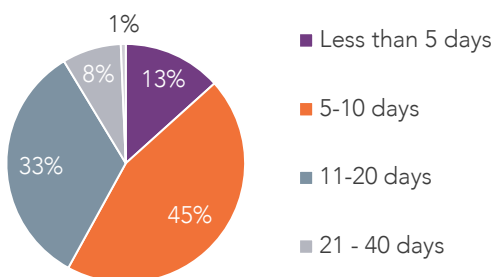
It all comes down to customers getting data in the format they want. Investment in onboarding and self-service capabilities often equates to clients accessing their information in our format. But clients say thanks, but that’s not what they want. So, then they get offered an API—but they don’t want that, either. Customers want their data in their format. Which quickly gets back to time-consuming bespoke service. This was traditionally done with people, but now we are trying to do it with automation.

– Ben Rayner,  
Head of Analytics and Process Optimisation, Citi  
Enterprise Operations and Technology

### Exhibit 5: Lengthy onboarding times for AWM customers remain a visible reminder of ancient processes

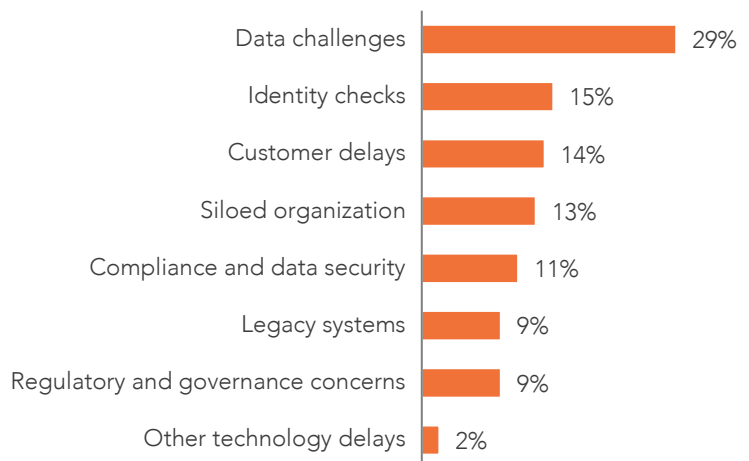
What is the average amount of time it takes to onboard a client?  
Percentage of respondents

Average = 12 days



Sample: 150 asset and wealth management leaders  
Source: HFS Research in partnership with Infosys, 2023

What is the top factor that slows customer onboarding?  
Percentage of respondents



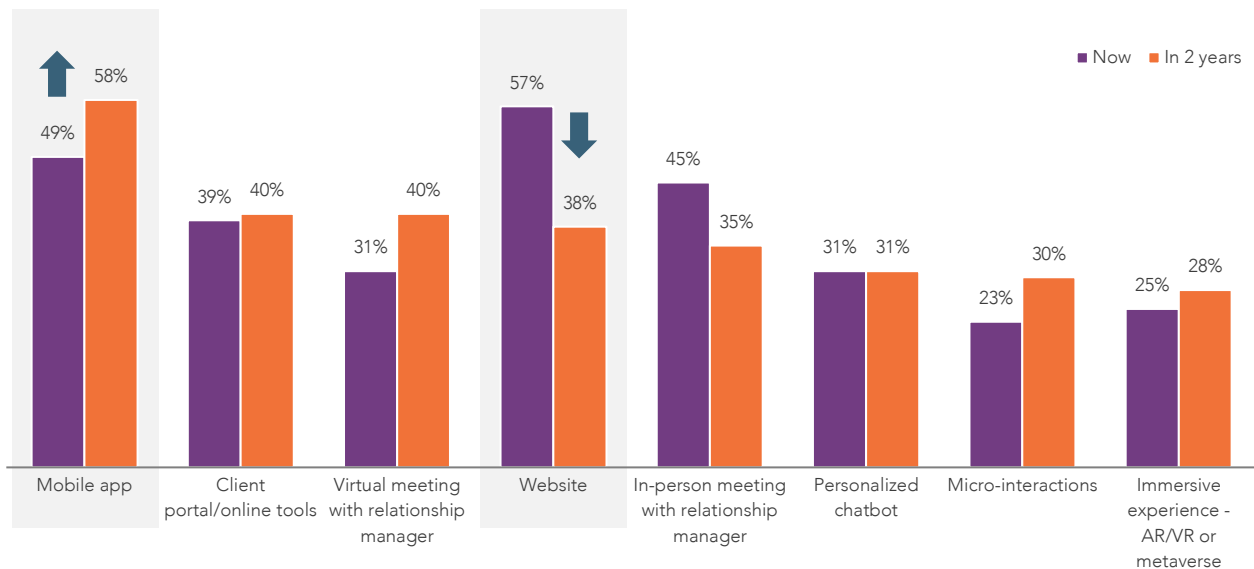
## It took a global pandemic to drive digital interaction channels beyond websites and portals for AWM firms

Asset and wealth management has long been a relationship business, with person-to-person meetings dominating customer engagement. While expert advice from investment advisors will remain in demand, customers continue to want more ways to access their data and engage with AWM firms. Websites and portals have been self-service mainstays for more than a decade. It took a global pandemic to cement mobile apps as the

top way AWM firms interact with their clients. As Exhibit 6 outlines, mobile apps are eclipsing website usage, and virtual meetings are increasingly favored over in-person meetings. We note the flat performance in chatbot usage, which we expect to shift once generative AI gets hardened for AWM use cases. While person-to-person interactions between clients and relationship managers remain critical, mobile apps and virtual meetings amp the ease factor for customer engagement—benefitting everyone involved.

### Exhibit 6: AWM firms amp the ease of customer interaction with mobile apps and virtual meetings

What are the top three ways your clients prefer to interact with your firm? In two years?  
Percentage of respondents



Sample: 150 asset and wealth management leaders  
Source: HFS Research in partnership with Infosys, 2023

**Critical takeaway:** The current operating reality for AWM firms is decidedly Horizon 1 aligned. AWM firms are keen to expand their offerings and grow their client base but suffer from some serious digital hygiene issues. AWM firms need to strongly consider the unique needs of each customer segment and ensure improved digital engagement in areas like customer onboarding and interaction channels. The classic approach of growing customers and assets under management (AUM) by adding new asset classes and products will not yield the same growth results without a strong digital baseline (Horizon 1) and enterprise modernization (Horizon 2).

# AWM investment priorities favor enhanced experience and AI-powered insights

Let’s connect the dots. AWM firms have significant aspirations for growth through innovation and believe partnership ecosystems can help them realize some of the differentiation that M&A has not quite delivered. But the emphasis is on the “aspirations”—the current operating reality shows a clear want to offer more, but fundamental digital hygiene issues keep AWM firms firmly rooted in Horizon 1. So, what’s the next move?

We asked respondents to share their current and future investment priorities. As Exhibit 7 shows, the current roster of top investment priorities for AWM firms shows clear plans to enhance experiences—both customer and investment advisor. The top priority is on continued mobile app refinement, showing good alignment with the data in Exhibit 6. Personalization, platform investment, and AI-enabled investment

decisioning begin to paint a picture of Horizon 1 digital investment pushing toward Horizon 2 enterprise-wide experience initiatives. We note the reference to mass affluent offering expansion, which must go hand-in-hand with enhanced digital and experience capabilities to be taken seriously.

The growth priorities in two years paint the picture of a differentiated operating model and the potential for new business models driven by data and self-serve insights, AI-driven advice and modeling, and real-time analytics to know precisely where your assets are going and how they are growing. Simply offering more asset classes and products without differentiated experience and engagement is just “more,” not “better.” The investment plans align well with the Horizons roadmap.

## Exhibit 7: AWM firms prioritize investments that will help torpedo digital hygiene issues now and drive data and AI-driven differentiation in the future

**Top five areas of investment now**

- 1 Launch or enhancement of a **mobile wealth management** app
- 2 Launch offerings for **mass affluent** clients
- 3 Front-office capabilities to impact **customer experience** and drive personalization
- 4 Enhanced **investment advisor experience** through platform innovation
- 5 Investment in **AI** to power quantitative investment decision-making

**Top five areas of investment in two years**

- 1 Investment in **AI** to power quantitative investment decision-making
- 2 **Real-time data analytics** to drive insights and enhance customer experience
- 3 Launch **ESG-related products** and capabilities
- 4 Launch offerings for **mass affluent** clients
- 5 Adoption of platforms for **investment management as a service**

Sample: 150 asset and wealth management leaders  
 Source: HFS Research in partnership with Infosys, 2023

Nageswar Cherukupalli, SVP & Head of Capital Markets and Sales at Infosys, shared his views on how to help AWM firms effectively plan their transformation journeys along the Horizons roadmap:

“

We are all aware that asset and wealth management firms face significant digital disruption. Entry of fintech and digital-native players into this space drives many incumbents to further accelerate this digital adoption. By leveraging cloud, advanced analytics, AI, and cybersecurity, these organizations can gain efficiencies and competitiveness in the market. Leveraging these technologies also helps derive insights for better decisions and provide access to a global talent pool that will help them stay ahead in the game. To achieve these benefits, it is key for organizations to consider the four essential dimensions of design, data, domain, and delivery as they plan their transformation journeys.

– Nageswar Cherukupalli,  
SVP & Head of Capital Markets and Sales, Infosys

**Critical takeaway:** There is decent alignment between AWM firms' innovation-driven growth aspirations and their investment priorities. Despite current macroeconomic headwinds, AWM providers must drive a clear path forward through the Horizons to have any chance of realizing differentiated growth through experience and ecosystems.

# AWM firms cite data security, talent, and C-suite commitment as their biggest barriers to realizing value from their innovation investments

An interesting thing happens when we discuss barriers to achieving value with most financial services leaders: We talk about enduring problems rather than new issues. The AWM leaders in this study cited data security, C-suite leadership commitment, and talent as the three biggest issues holding them back—all part of a greatest-hits roster of roadblocks (see Exhibit 8).

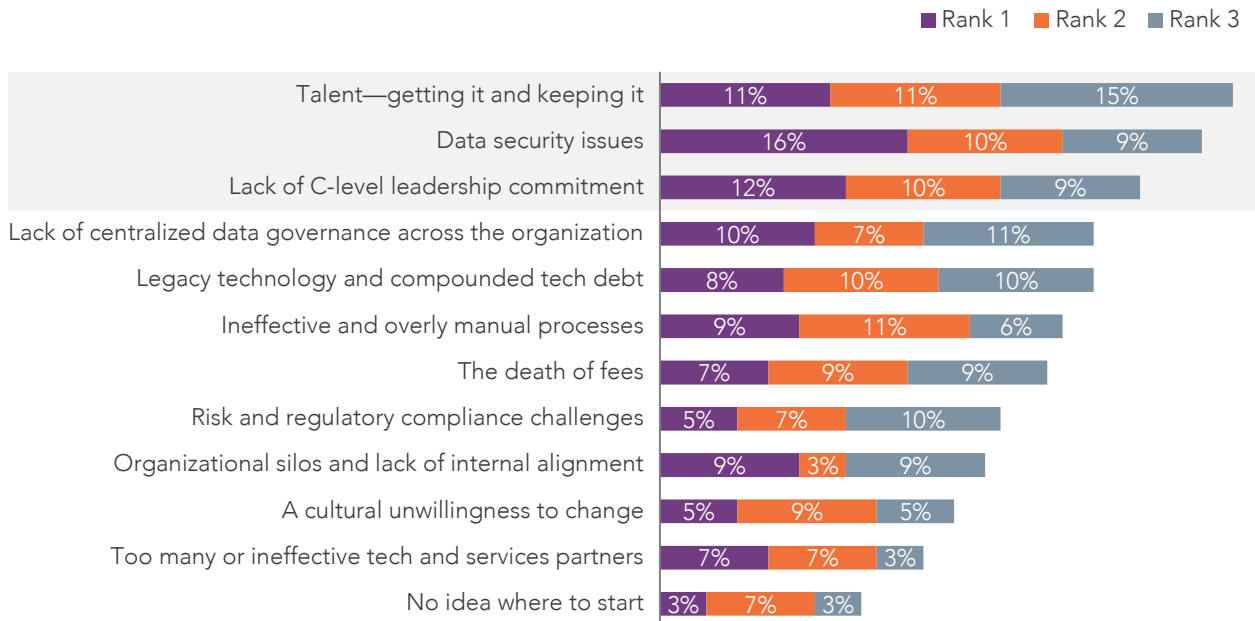
In Exhibit 1, cybersecurity ranked as a top-three macroeconomic threat. Broader cybersecurity and related data security issues are of paramount concern in asset and wealth management and any industry with stringent data privacy requirements. As AWM firms strive to offer enhanced digital means of engagement and further their use of data to offer AI-enabled insights and investment recommendations, data security must be baked into these capabilities. As [HFS has written](#), increasingly, security must be

part of offering and product development through DevSecOps approaches.

C-suite commitment is an obvious need to make progress beyond Horizon 1 project initiatives. As other sub-sectors within financial services have done, innovation cannot solely be the responsibility of the CIO’s office. It must flow from C-suite mandates with sponsorship throughout business leadership. The growth agendas of many AWM firms have been M&A-led, which has yielded offering and footprint expansion but has been decidedly lackluster on innovation gains. Key initiatives focused on achieving a strong Horizon 1 digital baseline and end-to-end enterprise modernization in Horizon 2 must dominate C-suite priorities going forward. Scale is great. Digital differentiation needs to become a C-suite imperative.

## Exhibit 8: As AWM engagement and access models change, firms are challenged by data security, C-suite buy-in, and the talent to build and run their businesses

What are the three biggest challenges to realizing value from these investments?  
Percentage of respondents



Sample: 150 asset and wealth management leaders  
Source: HFS Research in partnership with Infosys, 2023

And lastly, there is talent, rating as the biggest issue overall for AWM firms. Talent cuts in various ways for AWM firms—backfill for aging advisors, strategies for appealing to millennials and Gen-Z investors, digital strategies for mass affluent clients with a human touch, and of course, the big kahuna of technology and innovation, talent

to help drive modernization and digital differentiation. In the post-pandemic era of hybrid work, talent strategies will need a hybrid approach—work location flexibility for client-facing roles and likely strategic use of partners to help drive innovation forward.

**Critical takeaway:** Data security, C-suite buy-in, and talent are keeping AWM firms from realizing value from their innovation investments. While the culture of an established firm is often the hardest nut to crack, C-suite buy-in must take the lead, realizing that innovation is critical to future success and differentiation. No other problems will be solved without this.



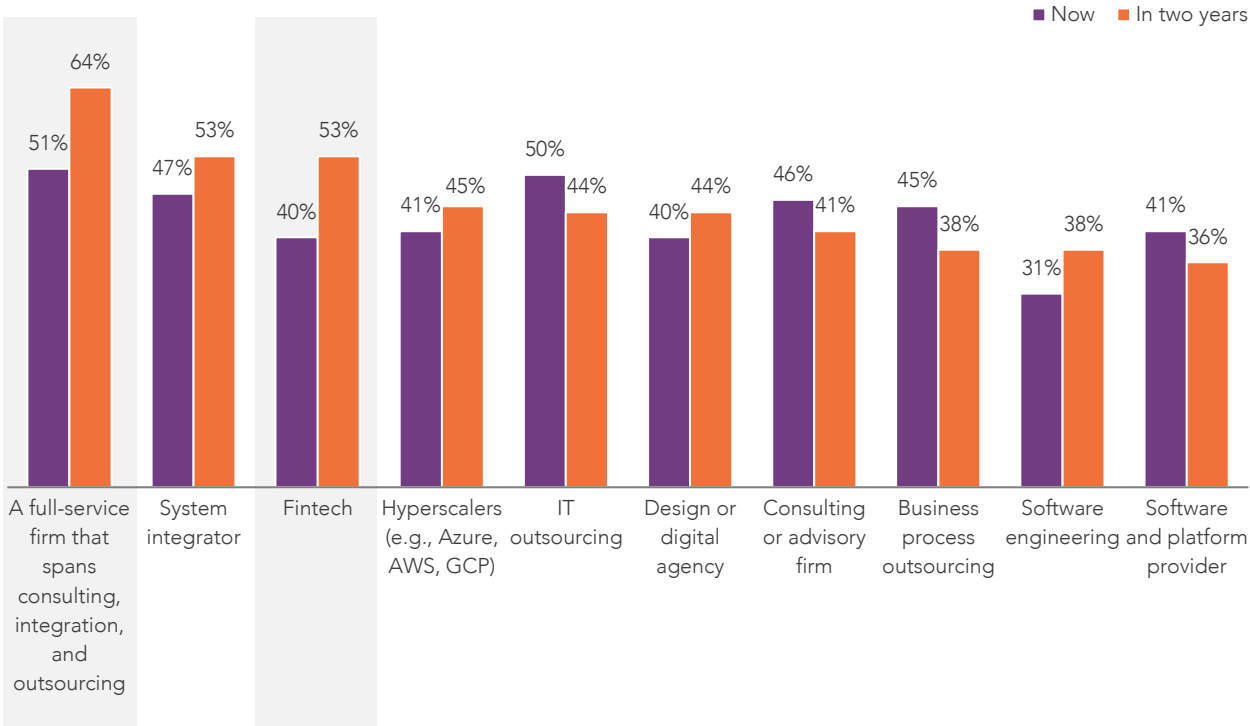
# AWM firms shift their partnering approaches to full-service firms and fintechs

As AWM firms consider how to address their various challenges, they increasingly turn to partners to help them with the innovation portion of the program. AWM firms work with a range of partner types (see Exhibit 9), with full-service firms (those offering a complement of consulting, integration, and outsourcing services) and IT outsourcing partners rating as the most used partners. As AWM firms continue to pursue their innovation agendas, this will shift. Full-service firms show a marked increase (51% to 64%) over the next two years, becoming the dominant partner type AWM firms prefer to work with. While the rise of full-service firms is notable, their growth is matched by the rise of fintechs (from 40% to 53%). Our definition of fintechs is inclusive of wealthtechs.

In both cases, the growth reflects the needs of AWM firms to help drive their innovation agendas forward. Full-service firms offer a range of capabilities to help usher AWM firms forward through the Horizons. Often, the lure of full-service firms is that they can advise, implement, or build and then help manage solutions and operations, and not always in this order. Full-service firms are often called on to drive cost savings or optimization as an engine to fund downstream innovation. Full-service firms are also emerging as a conduit for leveraging fintechs as part of larger solutions.

**Exhibit 9: AWM firms prioritize partnering with full-service firms and fintechs**

Please indicate which of the following types of partners you currently work with? What about in two years?  
Percentage of respondents



Sample: 150 asset and wealth management leaders  
Source: HFS Research in partnership with Infosys, 2023

Fintechs offer the potential of ready-made solutions or solution components. As we touched on in Exhibit 4, some of the current and future AWM offerings like portfolio management, risk analytics, investment modeling, and, of course, sustainable investing are key areas of consideration using fintechs. While fintechs such

as Robinhood, Betterment, or eToro still have a role as industry disruptors offering investment and wealth management services in their own right, many more, like Additiv, InvestSuite, and Invent, offer solutions to help AWM firms modernize and digitize operations.

**Critical takeaway:** Partnering approaches for AWM firms increasingly favor full-service providers and fintechs. AWM firms need to be clear about their objectives and ensure C-suite buy-in before going deep with a full-service provider or attempting to integrate with fintechs.

# The measure of a strategic partner is increasingly the ability to balance cost savings with innovation

While AWM firms leverage a variety of partners, only some will be considered strategic partners. As shown in Exhibit 10, we queried respondents on the number and directional trend of their strategic partners. They indicated that, on average, they work with 10 strategic partners. Sixty-three percent (63%) of respondents indicated this will likely increase over the next two

years. While strategic partners should always be a quality, not quantity play, as the numbers trend upward, AWM firms need to ensure their strategic partners support the strategic needs identified in Exhibit 1—growth in revenue, profit, and AUM—and drive new forms of value with partnership ecosystems.



As AWM firms embrace strategic partners to help them drive their innovation agendas in hot pursuit of digital differentiation, it begs the question, “What makes a partner strategic?” While many attributes bubble to the top, the most important is a provider’s ability to deliver co-innovation and collaboration (see Exhibit 11). The need for AWM firms to work collaboratively with their strategic partners underscores the criticality of internal domain and business knowledge and the need for AWM firms to learn and change as they modernize.

Cost savings is always a need, particularly when faced with the current array of macroeconomic headwinds. Enabling cost savings and offering cutting-edge capabilities at scale are just a click behind co-innovation. This combination of factors points to what AWM firms ultimately want from their partnerships—an almost impossible mix of cost savings and innovation. The only way this combination can successfully occur is if there is a strong balance of trust and a willingness to change.

Rohan Ranadive, Head of Third-Party Risk Management at a large US financial institution, shared his views on the challenges of balancing cost savings and innovation:

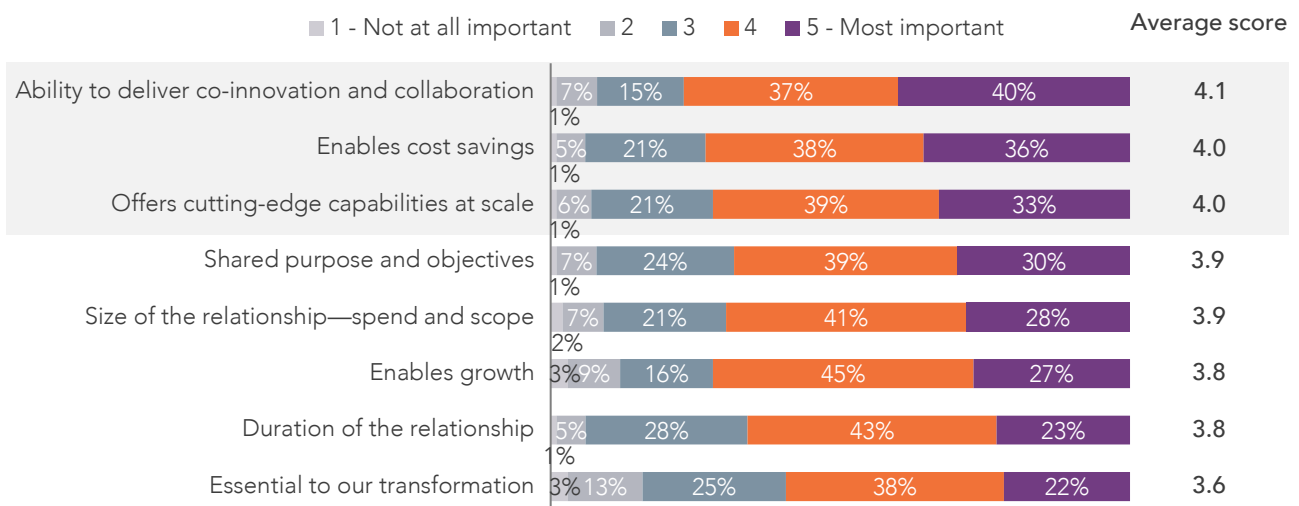
“

Partner numbers are going up. Everyone wants to be a strategic partner. However, there is often no focus or identifiable purpose for their roles. Many of these so-called strategic criteria are odd bedfellows—co-innovation and cost savings are oxymorons. And great talent does not come cheap. There is often a lack of clarity between co-innovation and collaboration. I would question whether tech leaders really want to co-innovate or if they would rather have providers do what they are told.

– Rohan Ranadive,  
Head of Third-Party Risk Management, large US  
financial institution

### Exhibit 11: AWM firms rate co-innovation as the most critical attribute of a strategic partner

What makes a partner strategic?  
Percentage of respondents



Sample: 150 asset and wealth management leaders  
Source: HFS Research in partnership with Infosys, 2023

**Critical takeaway:** AWM firms plan to increase their use of strategic partners as they pursue innovation agendas across the Horizons. Truly strategic partnerships should align with growth objectives, but be wary of clubbing too many competing objectives together. It takes specific circumstances to simultaneously drive cost savings and revenue growth.

# The Bottom Line: AWM firms' trifecta approach of driving growth through new assets and offerings, enhancing the experiences of customers and advisors, and monetizing data with the help of analytics and applied AI must coalesce around digital differentiation. The C-suite-led mantra needs to be "better"—not "more."

Asset and wealth management firms of all sizes have long been advisor-led businesses—actual people advising clients. The pandemic laid bare the final vestiges of stubborn in-person business practices in favor of virtual meetings and mobile apps with decent self-serve functionality. Now the journey needs to continue to help AWM firms move from Horizon 1 functional digital to Horizon 2 by modernizing infrastructure and applications to drive end-to-end experience. This modernization and investment in experience will set the stage for Horizon 3 ecosystem development by enabling the required connectivity and integration capabilities with future partners. The successful AWM firms of the future will be those that differentiate based on digital experience and capabilities for end customers and advisors.

While serial M&A has helped many AWM providers become bigger and add capabilities, their current operations baseline has some serious digital hygiene issues in basic areas such as onboarding and interaction channels. Their investment priorities favor enhanced experience and AI-powered insights, suggesting that AWM firms are clear about the priorities that will help set them apart. This is a hopeful trend, but as with all the best-laid plans, it comes down to execution. Given that the AWM leaders we surveyed noted their top roadblocks as talent, data security, and a lack of C-suite leadership commitment, they need a bit more than hope to create momentum. This is where partners come into play.

AWM firms are making increased use of full-service partners that offer a range of capabilities, from consulting to IT services to operations. They are complementing services partners with fintechs to help jumpstart innovation. In some cases, we see service partners helping to curate fintech partners as part of larger solutions. The ultimate success of any AWM firm is down to its strategy, growth, and execution (thus why C-Suite commitment is critical), but nothing will happen without innovation progress through the Horizons. Horizon 2 modernization and end-to-end experience will ultimately help new offerings and opportunities through ecosystems come into being. This is the future of digital differentiation.

This report is part four of a four-part series examining the growing importance of ecosystems in the BFS market through the lens of making practical progress across the innovation Horizons and savvy use of partners to help drive modernization and create new forms of value. The series includes a [broad view of banking and financial services trends](#) complemented by drill-down spotlights on [innovation and ecosystems in payments](#), [commercial banking](#), and wealth and asset management.

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Elena Christopher is Chief Research Officer at HFS. Elena sets the strategic research focus and agenda for HFS Research, understanding and predicting the needs of the industry and ensuring our unique "analyst advisory" capabilities drive thought-provoking impact across enterprises and their associated emerging technology and services ecosystems. Elena also leads our industry research coverage, with specialization in banking and financial services.



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HFS Research introduced the world to terms such as “RPA” (Robotic Process Automation) in 2012 and more recently, Digital OneOffice™ and OneEcosystem™. The HFS mission is to provide visionary insight into the major innovations impacting business operations such as Automation and Process Intelligence, Blockchain, the Metaverse and Web3. HFS has deep business practices across all key industries, IT and business services, sustainability and engineering.

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