**Asset and Wealth Management Activities**

Banking organization asset and wealth management (AWM) activities include traditional trust services such as investment management, investment advisory, personal trust, corporate trust, transfer agent services, and certain employee benefit account services, as well as securities custody, securities lending, securities clearing and settlement, and functionally regulated securities broker-dealer and registered investment advisor activities. Serving as trustee and paying agent for bond issues including structured debt and asset-backed issues also is considered an AWM activity. The administration of AWM services is a significant line of business for most large, complex banking organizations as well as many smaller banking organizations, and services often are delivered in an integrated manner.

Wealth Management Definition: Wealth management is a specialized investment advisory service that combines financial services to address the needs of affluent clients. It involves a consultative process to tailor a customized strategy using various financial products and services.

Role of Wealth Managers: Wealth managers act as financial conductors, coordinating various financial services such as estate planning, accounting, retirement planning, and tax services. They manage clients' assets and create a strategic plan for their current and future needs.

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

A graph of a person with a blue bar

Description automatically generated with medium confidence

More than ever, clients prefer one-stop-shop solutions for financial and other needs adjacent to wealth management. When we surveyed wealth clients in 2018, 29 percent said they prefer holistic advice across adjacent needs; in our 2023 survey, the figure jumped to 47 percent, a 60 percent increase. The biggest growth has been in lending and banking services: approximately 30 percent of clients with $1 million to $25 million in investable assets prefer to consolidate banking and wealth relationships, an increase of approximately 250 percent since 2018.[1](javascript:void(0);) Younger investors are even more interested in a one-stop shop: more than 73 percent of clients between the ages of 25 and 44 prefer to consolidate their wealth and banking relationships, up from 20 percent in 2018.

**Treasury management services**

Treasury management is the act of managing a company’s daily cash flows and larger-scale decisions when it comes to finances. It can provide governance over a company's liquidity, establish and maintain credit lines, optimize investment returns, and strategize the best use of funds. As a company raises, earns, or uses cash, treasurers or senior financial officers ensure that there is working capital to maintain operations and reduce financial risks.

**Cash flow management:** Ensuring there's enough cash on hand to cover bills and expenses.

**Liquidity management:** Maintaining a balance between having enough cash available and investing excess funds for returns.

**Risk management:** Protecting the company from financial risks, like currency fluctuations or interest rate changes.

**Payments and collections:** Streamlining processes for sending and receiving money.

A graph of benefits of treasury management services

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**Services offered by banks:**

**Account services:** Consolidated accounts for better visibility into all your company's finances, along with account sweeps to automatically move idle funds into interest-bearing accounts.

**Cash concentration and disbursement:** Centralizing collections and automating bill payments to save time and resources.

**Remote deposit capture:** Electronically depositing checks to improve efficiency.

**ACH (Automated Clearing House) Services:** Streamlining electronic payments and collections.

**Wire transfer services:** Facilitating secure and fast domestic and international money transfers.

**FX (Foreign Exchange) services:** Managing currency risk associated with international business transactions.

**Investment services:** Helping companies invest surplus cash for better returns.A pie chart with text on it

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**Risk management**

Banking risk management is the process of a bank identifying, evaluating, and taking steps to mitigate the chance of something bad happening from its operational or investment decisions.

Typically, risk teams separate fraud and compliance operations, resulting in separate teams for [**Fraud risk management**](https://www.unit21.ai/blog/fraud-risk-management), responsible for managing risk associated with fraud operations, and [**Compliance risk management**](https://www.unit21.ai/blog/compliance-risk-management), responsible for managing risk associated with compliance operations.

Treasury management is pivotal in identifying, assessing, and mitigating financial risks. These risks may include:

* **Market risk**: Exposure to fluctuations in interest rates, exchange rates, and commodity prices. market risk is the chance that an adverse event outside the banking industry itself will negatively affect a bank’s investments. This could be from an issue in a single industry—such as the US housing market collapse in 2008—or from a general national or international economic downturn. Other types of crises, such as political instability or natural disasters, can also increase market risk.
* **Credit risk**: The risk of counterparties failing to meet their financial obligations. It’s the risk of a bank lending money to a customer and not having it paid back. This can decrease the amount of assets a bank has available to meet its financial obligations.
* **Operational risk**: Risks associated with internal processes, systems, or human error. A component of operational risk is cybersecurity risk. This is how likely cybercriminals are to successfully attack a bank’s digital systems. The resulting theft or destruction of digital money or sensitive information can significantly hinder a bank’s ability to operate effectively. It can also put customers and stakeholders at risk.
* **Liquidity risk**: The risk of being unable to meet short-term financial obligations. Liquidity risk refers to the chance that a bank will run out of physical money, including if it can’t convert its other assets into cash fast enough. Thus, it becomes unable to meet its short-term obligations to creditors or customers.
* **Compliance Risk:** [Bank compliance risk](https://www.unit21.ai/blog/bank-compliance) involves the risks a bank takes by not fully complying with applicable government laws or [industry regulations](https://www.unit21.ai/blog/aml-regulations-around-the-world). These can include punitive fines, civil lawsuits, criminal charges, and even economic sanctioning. Compliance risk includes a component of reputational risk, as well

**Risk mitigation strategies and tools:**

1. **Diversification**: Spread investments across different assets or markets to reduce exposure to a single risk.
2. **Hedging**: Use financial instruments like derivatives to protect against adverse price movements, such as currency hedging.
3. **Credit assessment**: Conduct thorough credit assessments of counterparties and establish credit limits.
4. **Contingency planning**: Develop contingency plans to address risks and ensure business continuity.

A graph of a credit loss

Description automatically generated

The chart shows that the industry’s provision expense was $20.6 billion in the first quarter, down $4.3 billion from the fourth quarter. Despite the quarter over-quarter-decline, provision expenses have been higher than the pre-pandemic average for the past seven quarters.