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Asia in Focus: The State of Play for Digital Wealth Management

Our latest Hubbis mini-survey tackles the immensely topical question of where the wealth management industry has progressed to in its journey towards back- to front-end digital transformation. There is a considerable and seemingly ever-expanding range of digital solutions being rolled out across the region, many but not all already established in Europe or the US, and for this survey, Hubbis has worked with sponsor SS&C Advent to gauge the state of play for some of the key areas of digital advancement and implementation, from robo advisory, AI, machine learning, cloud-based solutions, data analytics, relationship manager enhancement and CRM protocols. What we found here is that digital transformation requires cultural engagement with innovation, it requires total focus on the end-client and that the incumbents, armed with their brands, their reputations, their histories and their customers, are well placed to fight it out with any new digital-first entrants and disruptors. In short, embrace change, start early, strategise smartly and invest wisely; if following these guidelines, the incumbents will be well placed not only to survive against the new and old competitors but to prosper as well.

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While the world remains locked down or fearing the next wave of the pandemic, it is becoming ever clearer that in practical terms, doing business will likely not be the same in the future as it was pre-2020 for financial institutions, as a considerable number of the rules and restrictions will likely stay in place, creating a new normal. But what is happening now in terms of digital transformation is only an acceleration of a journey that any forward-thinking private bank or independent wealth management (WM) firm ought to have embarked on enthusiastically as well as strategically some time ago.

From back to front

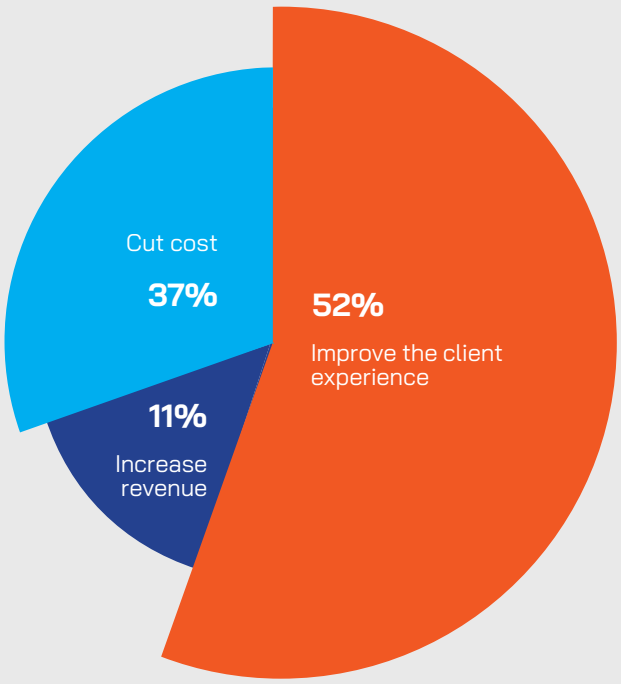
As Hubbis can attest to, from the numerous interviews, discussion events, and thought leadership debates that we organise and report on continuously, digital transformation is required from back to front in any of the WM organisations, and also in the middle. The priorities in Asia are today all about personalising the digital experience, accelerating innovation, and leveraging ecosystems.

This multi-faceted digital transition journey, therefore, has numerous objectives, but the overriding mission is, of course, to produce more business ultimately, and more profitability for those offering the WM services. Naturally, at the same time, the incumbents are improving their efficiencies, offering clients more cost-effective dealings, and providing much more sophisticated and relevant advice.

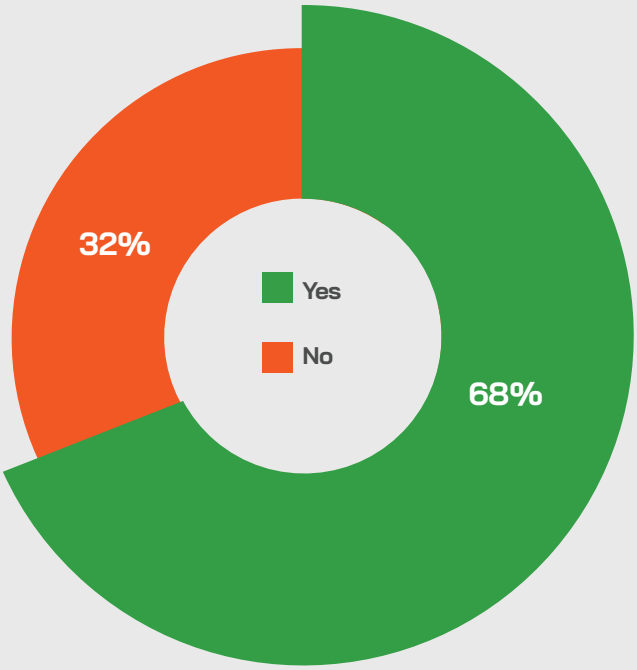
Knowing your client

And to achieve more business, it is the client who must be front of mind in every key decision

WHAT IS THE MAJOR OBJECTIVE FOR BANKS TO DIGITISE THEIR WEALTH MANAGEMENT SOLUTIONS AND OFFERING?



IS IT REALLY TRUE THAT MILLENNIALS PREFER DIGITAL TO FACE TO FACE COMMUNICATION?



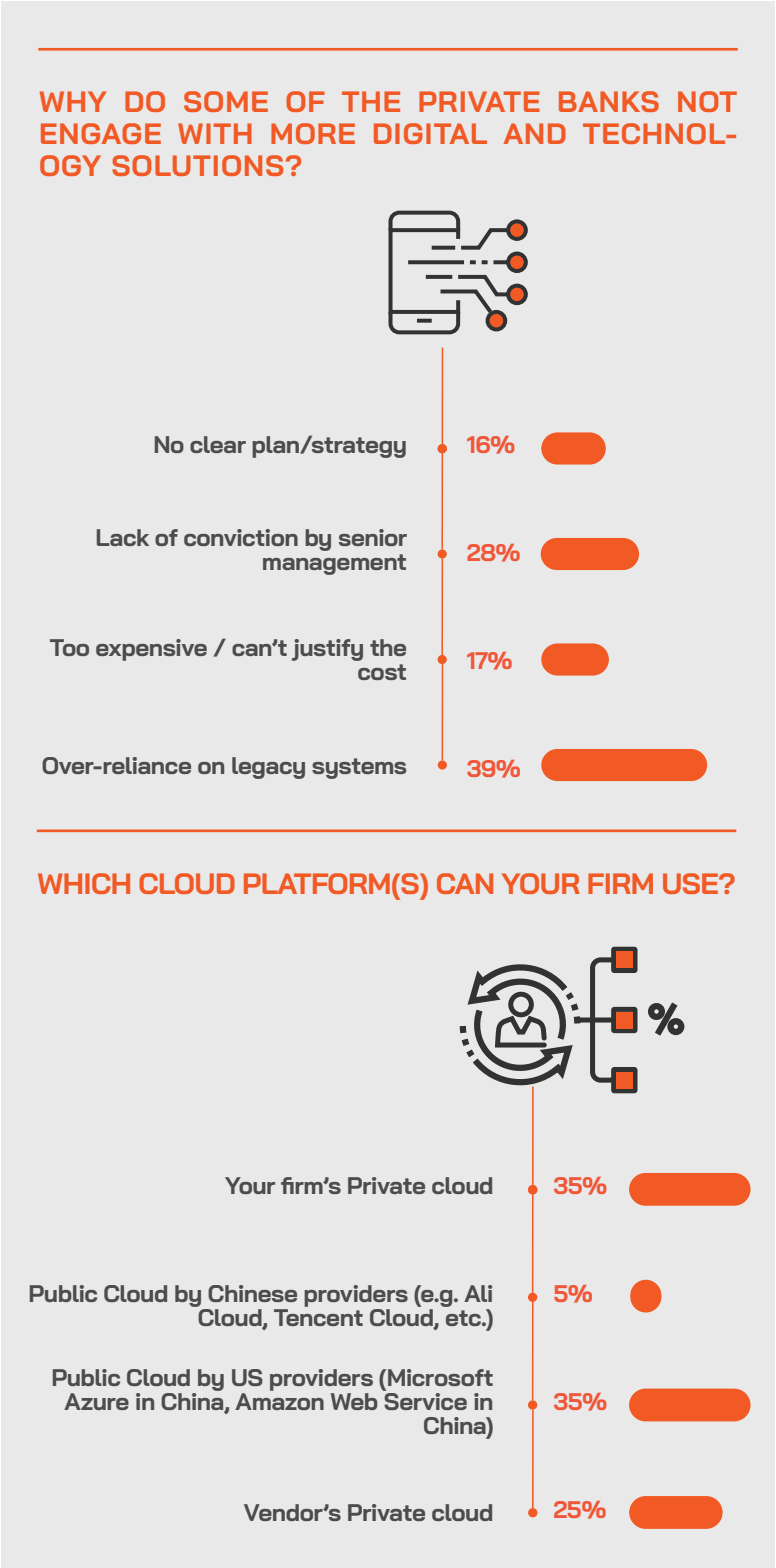
taken by the banks and other firms, and right from the outset of the digitisation journey. And the industry knows all too well that the client of the future is getting younger. Wealth is transitioning from the first and even second generations, and it is the Millennials who are either inheriting or making Asia's wealth. And that is why 68% of our respondents noted that to truly engage with this generation, digital connectivity is essential.

Of course, as they get older, these younger generations will in all probability become wealthier and take on more family and other responsibilities, and they will likely also want better engagement with the RMs and advisors; hence the hybrid model is still strongly preferred by both the banks and WM incumbents, as well actually as the FinTechs and other tech companies offering them solutions and outsourced services.

Embracing the digital culture

And stepping back from this vision of the future of wealth management, it is therefore truly vital for organisations to either embrace or create a culture throughout to enable digital transformation. They need to see beyond the buzzwords and actually focus on what they really need to achieve in order to achieve better outcomes in their selected areas.

The right culture must be adopted at the very heart of each organisation. If the culture is one of embracing the philosophy of digital innovation and digital transformation, and that is mandated by the top-level management within and throughout an organisation, and if they set very analytical goals in terms of the value of the investment, exactly what their targets are and by when, then the technologies will be far more likely to achieve the goals, and in a timely manner.



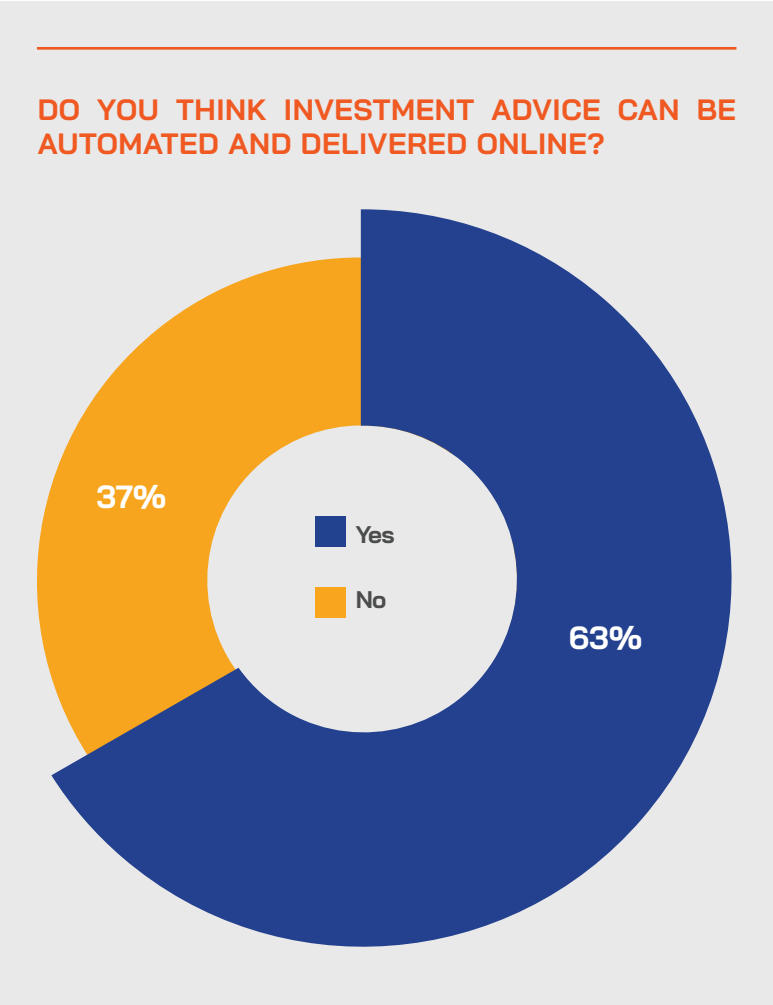
Assess first, and then act decisively

The wealth organisations also need the kind of understanding to get the best out of the critical

part of the engagement from FinTechs and other technology solutions providers. Seeing very clearly what the problems are, where the hurdles might be, selecting the right solutions, and then absorbing and integrating the technology will be much smoother if these steps are followed thoroughly and enthusiastically.

To achieve all these goals, the approach must be rooted in careful planning and strategy, based on what the bank or other organisation wants to achieve over the next period, and then using technology to solve a problem or set of problems. And most importantly, this will help ensure a value chain that is then scalable, not only to the existing customer bases but the potential portfolio of customers in the future, potentially also across other segments of wealth below the HNW and UHNW categories, for example to the mass affluent market. A major obstacle continues to be legacy systems, with the banks struggling to make significant advances, front to back, so again a clear and decisive action plan is required to overcome this and other obstacles.

What the pandemic has done is to bring a new normal nearer by accelerating what has already been going on from the transformational and technological perspective. But it is not just about adopting technology, it is also about the cultures and mindsets of institutions, making sure that the banks and firms and those who work in them understand what they are doing and that they are able to fully operate in the forthcoming environment, by constantly digitalising for the future.



The banks and other WM organisations need to appreciate that such transformation does not happen overnight. The reality of the matter is that one often needs to create API layers on top of legacy systems, in order to make it possible to get the required data and information moving in an efficient manner from one point to the other. It is vital for the leaders to more clearly see the challenges in full focus for themselves, and more clearly realise the true value to be attained at the end of this process, and to even accept that it will at times be painful to reach that point, and to acknowledge that these types of digital journeys take years, and will need constant revision and adjustments.

Unblocking the old pipes

Accelerating innovation means WM players increase agility and ensure faster time to market for new offerings. That is so important because there are many digitally native FinTechs and BigTech challengers in this market, trying to disrupt. The route to success is increasingly a buy but do not build approach, which allows speed and very flexible customisation, as well as rapid API-based orchestration.

As to leveraging ecosystems, this means wealth managers have to be able to implement a platform that is scalable within an open banking environment. Before considering AI/ML or any new technology, financial institutions

should have their digitalised processes in order. Lack of smooth integration in existing systems is still a productivity blocker in many wealth management firms.

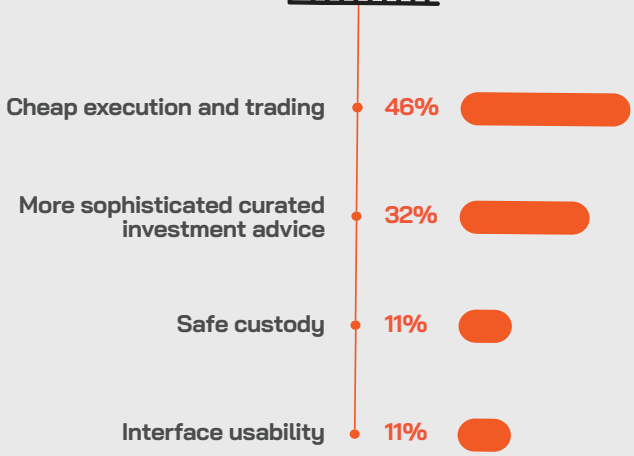
Continuous upgrade required

Legacy technology has become more and more complex and costly to maintain, so WM players have to build a new customer layer, which is integrating all the internal sources, but especially integrating many third-party systems. And so, there is the route to success, it is software as a service-based and cloud-based capabilities, it has to be a scalable, open banking architecture, it has to make possible ecosystems with seamless connections, and such a banking environment also has to allow the firms to address multiple market segments, including potential extensions such as retail, or SMEs, if they later want to go into these markets.

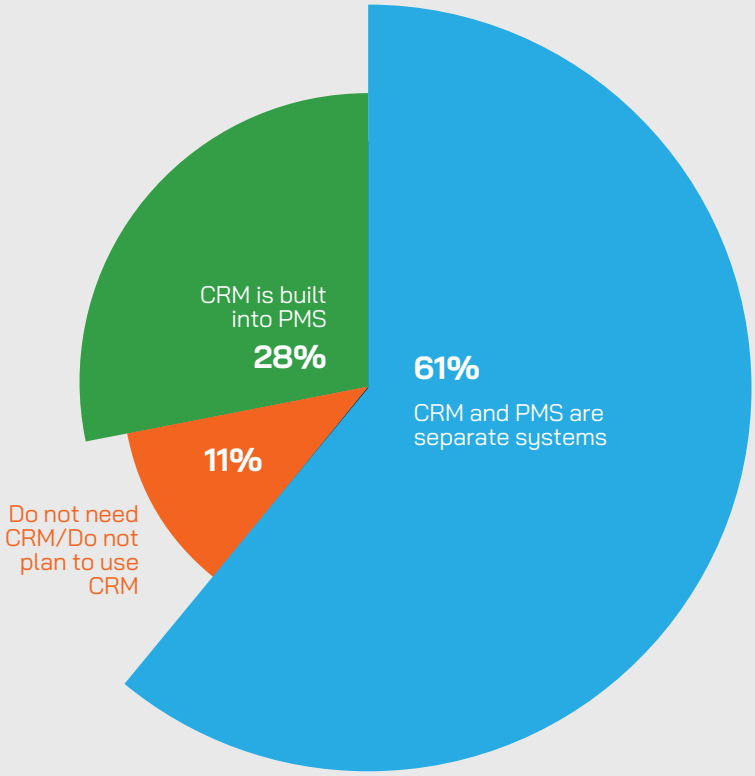
Those banks and organisations that have been systematically upgrading their infrastructure, their API layers, their database systems, creating microservices that can be reused much more effectively, no matter what the form factor, whether it is on the phone, whether it is on a smart-watch or whatever might the form factor might be, it is those organisations that have been consistently investing in the modernisation of the technology stack which definitely have a greater ability to accelerate their digital transformation than any organisations starting late, or worse still, starting right now.

Moreover, the buyers of such technologies do not actually need to spend vast sums of money; they can spend at manageable levels to bring on board these

ON A DIGITAL PLATFORM WHICH OF THESE IS MORE IMPORTANT?



WHAT ARE YOUR BANK'S OR YOUR FIRM'S STRATEGIES REGARDING CRM?



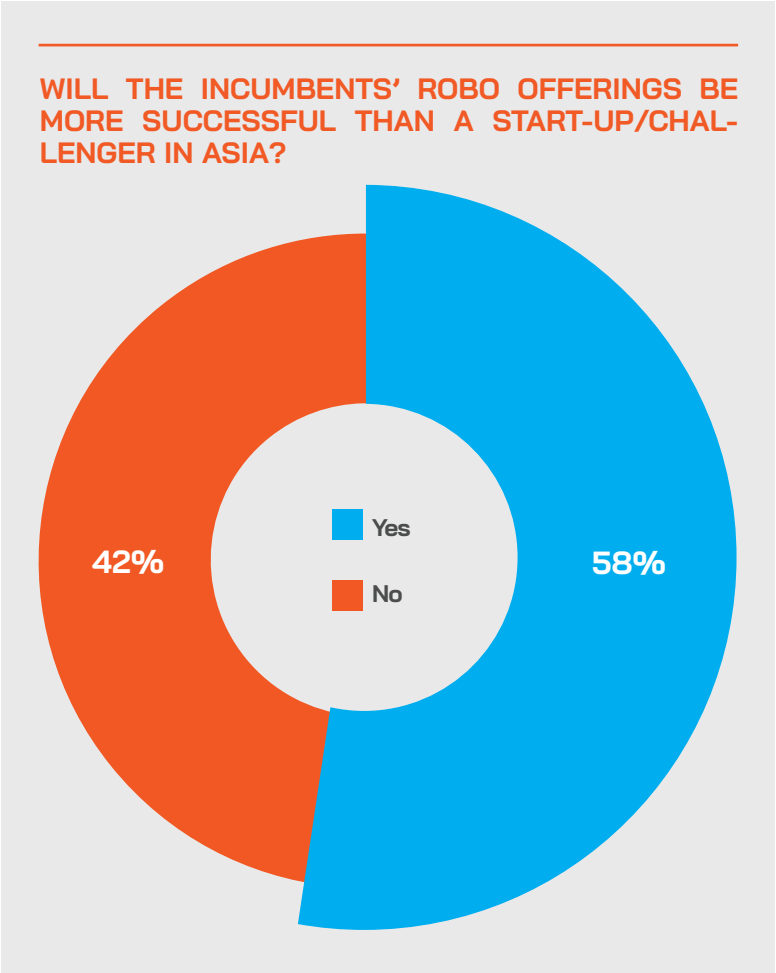
new solutions, for example, via SaaS and the cloud-based data management protocol.

Data in the clouds

If WM players accelerate their innovation appropriately and more importantly smartly and effectively, with the objective to provide a complete digital investment process, starting from onboarding all the way to execution, this will also require providing better analytics, providing business intelligence, approving business processes, integration of legacy systems with the alternative FinTech models and accelerating the scalability of the solution.

Data aggregation to help banks and other firms improve their clients' approach to investing is another key area. It is very hard to make progress around digitisation, around AI, around analytics, if you do not have a good data foundation. And much more progress needs to be achieved in this regard, as so many banks are still even working with bank statements, even in this day and age. Only when we solve these areas can you really start thinking about analytics and algorithms for recommendations.

Data is, therefore, central to the proposition in the future. Bankers and other WM professionals report how, to safeguard the future of their business, they are expanding their data analytics, and putting the firm's data in the cloud, where it is accessible to their bankers, teams and customers. Accessibility of the data is essential, so capabilities around that are critical, including for FinTechs, because it allows them to bring the data they need into their platforms.



Further, the business focus regarding investment for data should be to centralise it. The wealth manager cannot afford to have inconsistent data flowing through the organisation. All disciplines including research, asset allocation, portfolio construction, operations, risk, performance management and reporting should base their decisions on the same data, furthering the already robust argument for cloud-based storage and access, rather than ever-growing banks of servers and se ts of IT personnel, in-house. Unless you are a global major brand bank, in which case the resources are there to keep all within the walls of the enterprise. But few have that luxury.

Knowing the mission

And data is nothing without the right assessment and application of the missions surrounding it. The right type of analytics will significantly enhance the ability to offer relevant, tailor-made insights, ideas and products to the client-facing bankers and advisors. And again, client-centricity must be at the core. It is not all about selling; it is all about meeting and even anticipating client needs and expectations.

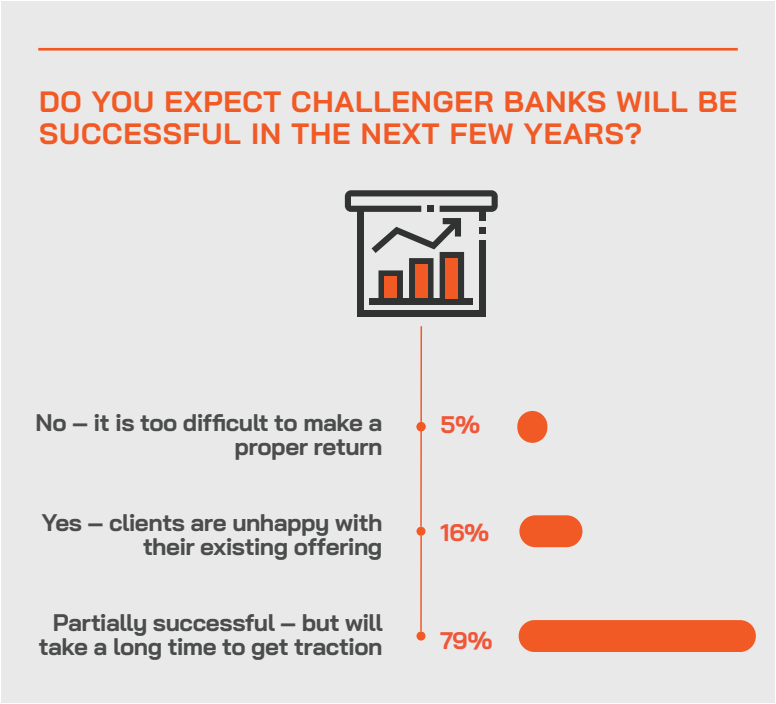
The practice of truly providing clients with a personalised experience requires a digital-first approach to enhancing customer engagement. Today's digitally-savvy customers expect the highest standards of service, anytime and

anywhere, producing interactions that are convenient, and result in enhanced trust, where everything is personalised and relevant, where the whole information content is open, and very easily also extendable. And it is vital to offer this in a conversational approach that makes it, of course, immersive and engaging for the clients.

Focusing on CRM

As private banks and wealth management firms across the globe have in very recent years been gearing up for a fundamental shift towards the delivery of more innovative and personalised client engagement, technological advances are so well progressed now that it is possible to capture more and more information about clients and their behaviour in order to offer them the best products, solutions and ideas. CRM (client relationship management) is most certainly gradually becoming a far more entrenched concept amongst private banks and other WM firms in Asia, as these relatively new areas and the technological advances can help forge new and much better outcomes, and delivery than ever before are only now being more widely understood.

And all this leads back ultimately again to the RM and how the wealth management industry can help them become more effective, more productive, more client-centric, and also more content and settled. That is why it is also important to realise that to offer personalisation, data is crucial, but the analytics required are all well and good, yet the quality and integrity of the data is essential, as the very first step. This is an area many in the industry are really focusing on these days, as the right data that is well organised and sorted by both AI and machine learning (ML) will give the banks and other WM players the level of tailoring and relevance to help drive them forward with customers.



Empowering the RM

The industry therefore needs to be making sure the RM journey throughout each of their business days are better, that they are addressing the more challenging and productive tasks instead of the repetitive, very simple operations and tasks. In short, enhancing the RM's expertise and capabilities is a central way to improve the customer experience as well.

AI algorithms are now capable of taking up the challenges in the middle office and back office, but those are necessity functions, they are not revenue drivers. AI and ML can, most importantly, help advisors match ideas and products from a broader universe to the right clients, helping the advisor also to make the final, relevant decisions, and thereby improving the customer experience and the WM firms' business.

But they do not simply need an algorithm providing a recommendation, they also need an RM who knows how to work with that information, to then bring the recommendations to the client, because clients get overloaded with all kinds of information, all kinds of recommendations, news, and they need to make sense of it, which is where a smart RM or advisor really comes to the fore.

Freeing up the RMs to be more relevant, more insightful and ultimately handle more business is therefore core to the proposition that digital solutions offer.

Anecdotal evidence highlights how at the global private banks, an average RM who was perhaps managing USD200 million of client money just a few years ago is today managing double that. They can do that because processes have become more efficient, data becomes more

readily available, but also, the analytics, the recommendations on top of the data become more useful and relevant.

The incumbents can fight tough

Importantly, if the right steps are taken early enough and strategically enough, there is no reason for the incumbents to worry that they will be squeezed out by new digitally-enabled entrants. The brand name or established organisations have both customers, history and they have a reputation. Even in areas such as robo advisory or fighting back against the Neo banks, the incumbents can fight back and win through. That perspective was is why 58% of replies confirmed this view.

Part of the reason for this view is that the respondents are evidently not confident that the 'Neo' or 'Challenger' digital-only banks will be able to gain a lot of traction rapidly. Almost 80% of replies indicated that these new entrants will take much more time to win customers and also profitability. Across the region, from Australia to India there are either neo bank licenses already issued, or there are plans are afoot to grant such licenses. Hong Kong is ahead of the pack, followed by South Korea, Taiwan, Australia, Malaysia, and of course Singapore has plans, albeit postponed due to the pandemic, to issue five licenses of which two will be digital full bank licenses and up to 3 digital will be wholesale bank licenses.

But there is some wariness evident amongst potential customers of those neo banks that are opening their virtual doors. There is a genuine concern whether these new entrants should be trusted compared with the digital arms of the incumbent, brand name institutions, most of many of which have been boosting their digital offerings and expertise for some years already, DBS in Singapore being a prime example.

Those incumbents that take a deep embrace of innovation and a profound cultural engagement in digitisation throughout every nook and cranny of their infrastructure and DNA will, many believe, be able to fight back admirably. A core issue for the neo banks is in fact, the concerns over data privacy and cybersecurity; as many believe this is one of the issues on which customers need reassurance and time to assess matters, there is a growing sentiment that the challenger banks as a whole will take longer to gain the critical mass to compete and to gain profitability.

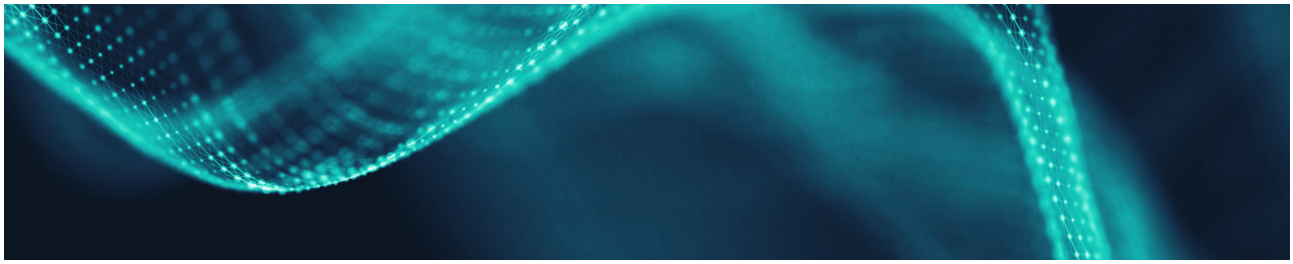
Not sitting still

Apart from having the architecture, the technology, the support, and the agility, the culture of the incumbent banks and institutions is also very important as they rise to the challenges of the new entrants. And this is especially relevant at this time, as the pandemic has forced every financial institution to scale up its digital capabilities, and forced many top management teams to realise that digital is no longer a luxury that can be built over time, it is essential and needed immediately.

The incumbents will not, therefore, be sitting still; they are certainly very much up for the challenge, with most making substantial investments in this area, to make themselves more nimble, more able to take advantage of unique existing advantages that they have as incumbents. They have large franchises, strong brands, they have a huge amount of trust with their customers already, so it is then a question of how effective they are at leveraging these advantages.

Embrace change and win!

Digital architecture is a must, it is no longer a luxury, or a vague concept to be addressed at some later stage. For any of the incumbent banks who are behind the curve, this pandemic has been a huge wake-up call; they must be prepared and organised for the challenges ahead in the new age if they want to win. This thought-provoking survey underlines yet again that the speed of digital transformation in the financial sector will almost certainly accelerate in the months and years ahead. Any institutions that felt they could drag their feet and watch how digital transformation played out had better think again. Embrace change or risk obsolescence. ■



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