Data – An elixir for Asia's wealth industry?

Hubbis set out on a project to discover whether the Asia wealth market believes that data will play a crucial role in empowering advisers and enhancing client experience and loyalty. Exclusively sponsored by Thomson Reuters, we held two closed-doors round table discussions in Hong Kong and Singapore and we also polled a broad cross-section of wealth, legal and technology experts. The result was a clear win for Big Data. But, there was far less clarity on how and when Asia's wealth industry can realise these goals.

THE ROUND TABLES: WILL DATA BECOME A NEW CURRENCY FOR ASIA'S WEALTH INDUSTRY?

Is data becoming a new currency or a new commodity for Asia's wealth industry, or, is it perhaps a renewable resource that can help usher in a new era of higher client and provider returns? Hubbis and Thomson Reuters invited a broad cross-section of wealth experts to round table discussions in Hong Kong and Singapore in December to discuss the growing role of data in their industry. We hoped to discover innovative technology strategies and software can help assembled, verify, manage and disseminate data so efficiently that it will help dramatically boost the client experience, leading in turn to an increase in wealth management firms' AUM and profitability. The consensus was emphatically positive, but with plentiful caveats that might help the industry plot its way forward.

DATA IS NOT JUST RENEWING ITSELF, it is proliferating. Armed with technology solutions, the global wealth management industry is now urgently working out how to fully utilise and monetise this ubiquitous resource, which like the universe itself is expanding relentlessly.

Over the past decade, and at an accelerating velocity in recent years, there have been great advances in the analytical platforms and software that allow for the combination, management and extrapolation of structured and unstructured data. For the first time, data can be assembled, interpreted and managed at an economically sound cost to wealth providers.

But, there is much work to be done. Harnessing the power of this vast and growing universe of structured and unstructured data is far from easy. There is much progress still to make in terms of internal systems at wealth providers, as well as melding the technological solutions into a usable, efficient form. Only then can data, properly managed and disseminated, help drive investment decisions and ultimately client satisfaction and retention.

Moreover, there is no absolute certainty surrounding the outcome. As customer-centric applications and internal strategies gradually replace a product-centric approach, can super-efficient data provide the catalyst to greater AUM and revenues, while also reducing costs and enhancing profitability? The jury is out so far, but wealth services providers have no choice but to follow this path.

The current creed is that wealth providers that win the race to digital wealth management will create and adapt platforms that integrate all customer needs by providing relevant, customised, and compliant interface and solutions.

Clients of Asia's wealth management providers have become increasingly expectant in terms of their end-user experience, often driven by their positive experience of 'Big Tech' from the likes of Google, Amazon, Apple and others, the demands on the wealth management industry are increasing. This will only increase as more and more digital natives either create or inherit Asia's wealth.

Wealth transition from older HNW individuals to the younger, digital native generations will accelerate the demand for digital transformation in the wealth management business, including exchanges, brokers and dealers, investment banks, asset managers, private banks, retail and commercial banks, and the entire world supporting these service providers (such as research, custody, and compliance).

There is also a hope that this digital evolution might bring about a revolution wherein many less wealthy, but also well-to-do, people who have been thus far excluded from the traditional wealth management business will be included in the flows.

Technology a solution, but also a threat

Digitisation of wealth management is being facilitated as bridges are built between established financial service providers, technology companies and fintechs.

Diverse types of companies - fintechs and internet platforms,

for example - are competing ever more energetically with the recognised, brand name financial institutions to win wealth customers. These new business models sometimes, selectively, offer better, faster, cheaper variants of existing services in investment management and brokerage.

At the same time the private banks and other established players are trying to absorb and leverage the fintech solutions, usually alongside the technology companies that have traditionally serviced the wealth industry's needs. Regulatory change is also demanding greater management of data, as regulators worldwide are forcing through compliance and as they need a more accurate forensic trail in the event of investigations.

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Data fusion theories

There is also the challenge of fusing structured and unstructured data with metadata. Data alone is of no use, it must be paired with content for it to be relevant. "The idea," explained one banker, "is to take the metadata that is coming in from internal information and then push relevance from the market data providers' point of view."

Data management is indeed all about relevance. "Data needs to be accurate and it also needs to be actionable," said a banker at the Singapore round table. "Insight is irrelevant if it does not give the advisers and the clients the ability to perform a particular action or to make a business decision."

In Hong Kong it was noted that an increasing array of innovative solutions are on offer from an increasing number of fintechs, whereby banks can indeed make sense of their internal data.

But the next immediate phase could be proprietary data and the client's data melded together to form a digital advisory dashboard that will be used by the RMs, for example to advise clients on current portfolio holdings. Prompting them to have a conversation about things that should specifically be of interest to them. Aligning this with the smart formulation and rollout of apps for clients will enhance what the industry calls 'stickiness'.

Leveraging data to achieve Ultra HD

"We are still learning to leverage data properly," said one banker. "And we must also recognise that we are not the only firm with which the client works, so we do not necessarily have full information, only part of the picture."

The key is to approach the client, ask to see certain types of aggregated data that the client controls, then come up with some value-added analytics. Clients generally are receptive to this approach, panellists reported.

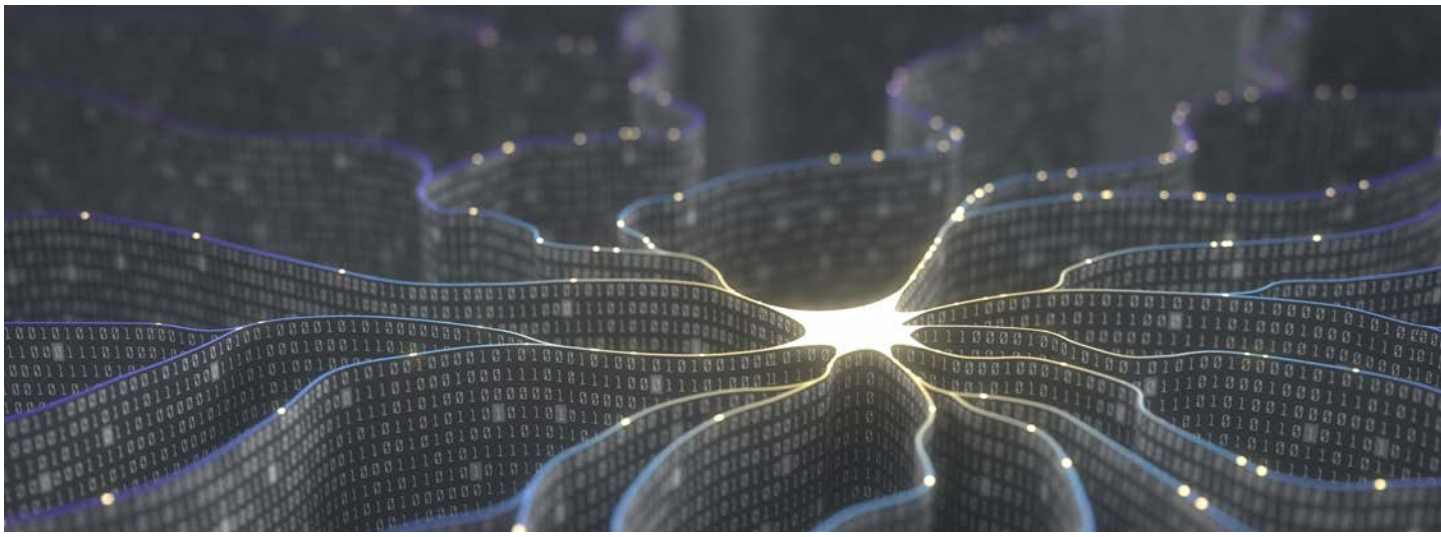
"If properly armed with a bigger picture, wider angle view of their position, the clients will, we hope, pay more advisory fees and pass more of their assets to the bank," the banker explained. "But just as importantly, our objective is to make the clients better investors and by engaging in wholesome discussions with those clients we achieve a great loyalty that we would otherwise."

What banks do not have yet, largely, is bringing the offline and online footprints of the client engagement and information together. This would be followed by AI engines to understand how the RMs can then next interface with the clients at the right moment, with the right ideas or products. AI should help enable standardisation, transparency, accountability, auditability.

Spawning a new digital footprint

"There are many different drivers pushing us down this path, but certainly many wealth managers today are today zooming in on market data as a tool to help increase their revenues and trying to provide bespoke customer experience to their end client," explained an expert at the Hong Kong discussion.

"As a leading Asian bank at the forefront of digital banking, we are combining investment instruments with client data and



preferences to produce the optimal investment choices. Using 'Big Data' and AI to better serve wealth management clients is central to our current DNA."

Innovations are allowing wealth managers to access new data sets such as social data to supplement the other data they might accumulate on their clients - and these combine to enable new ways of understanding customers and the market.

Looking at the transitional picture, Banking 2.0 is rapidly evolving towards Banking 3.0, as one expert noted during the Hong Kong discussion. The very first retail banking transition was the arrival of ATM, supplementing bank tellers. Then came the online portal and today banks are trying to add greater functionality to their online portal.

"It is no longer just giving clients access to their statements," he elucidated. "Banks are also trying to encourage idea generation or even transactions on their online portal."

Getting data right, from the start

Bringing data in is the first key step. Careful and structured onboarding of clients can allow banks to know substantially more about their clients today than a decade ago and dramatically more than 20 years ago.

Thinking about clients before the onboarding stage is also vital. "You can think about the right relationship manager depending on their circumstances, the right products and services to put in front of them, based on what you know about them even before they have been onboarded."

The key phases of the digital data revolution were highlighted by a banker at the Singapore discussion. First, build the data infrastructure, second produce data analysis and third, develop a more sophisticated kind of AI that allows for a replicable and scalable analytical platform.

Too much of the effort goes into extracting information, not necessarily looking at the quality and cleansing the data to make sure that upstream business can reuse it.

Quality more important than quantity

But it is not all as easy as it might sound. For many years, firms have been collecting the incorrect information, putting it in the wrong place, and so when computers go in and start trying to extract information into a digital format it often becomes distorted.

Quality of data is certainly more of a business and technology constraint, as well as an opportunity which different banks are trying to solve in diverse ways. "Too much of the effort goes into extracting information, not necessarily looking at the quality and cleansing the data to make sure that upstream business can reuse it," noted one expert.

Accordingly, it is vital to target data right from the source, right from the time client puts in their signatures at account opening and make sure that the data quality as

well as the upstream activation is sorted out right then and there. That is the simplest way to tackle this without any legacy."

Digital, and bespoke

Assuming that correct data is input and enabled from the outset, what does all this mean for the advisory and execution models the wealth industry has traditionally maintained? For the evolution to Banking 3.0, wealth management banks are trying to aim towards an even more bespoke advisory model, armed with digitally weaponry.

"The bespoke interface might just be face to face," said a banker in the Hong Kong discussion, "or it could just be 'chatbot' or even it could just be logging into online to obtain bespoke information and ideas."

In the more mainstream retail or priority banking arenas banks are collecting individual data from clients, for example spending habits on credit cards, to help them come up with better credit card promotions. For example, if 90% of their credit card spenders are spending on F&B then it makes sense for banks to come out with additional promotions within the F&B realm. "We can easily extrapolate to the wealth sector from these developments," explained one banker.

Data through the looking glass

In the wealth management space, the provider will, for example, hone its online portal and its RMs to focus ideas and funds that are closely allied to the searches a customer might have made. Data will increasingly be gathered to support ideas and products with information. Decisions will increasingly be mandated by data.

"We are one of the increasing number of banks providing research online exclusively for our clients," said a regional banker in the Hong Kong panel. "Added to news and insights the next step will be an app on the smartphone that will also allow portfolio review as well some transactional interface. Additionally, for security and ease of access, the use of face recognition and thumbprints instead of signatures is another innovation in the pipeline."

Enhanced ideas, greater interaction

Another expert elucidated: "It is certainly within expectations to know what your banking client does, and to then pitch ideas or enhanced services to him or her, albeit in a sufficiently subtle way in our wealth sector. We should not wait for clients to ask us. For example, preferential FX rates or currency analyst reports might be shown to those customers who regularly conduct certain currency transactions. This could then be taken up by the RMs to help them help their clients."

With more data and information, the RMs will also have a sensible rationale for a more regular communication with their clients. If that becomes a two-way flow that results in greater business for the firms and improved returns for the clients, then it is a win-win that ultimately justifies the investments to be made.

The wealth sector has different challenges and priorities to the retail banking market. Private bank clients book very big tickets, but not so frequently, and they require customisation and personal attention. The retail client is cookie cutter, small tickets but very regular and requires far less personal attention.

"However," noted a regional banker, "Wealth has been moving so rapidly in Asia in the past two decades that we must remember that smaller clients can very quickly become big private banking clients. We need to observe, react and transition them seamlessly."

Many leading banks have wealth arms, so collecting and extrapolating credit card spending can provide a huge knowledge base on the customer, from their family situation to their travel preferences and so forth. "Feeding that in to the private banking RMs allows them to use that information in a very selective way," said a banker. "But, of course, all this data has to be sanitised for data protection and must have an audit trail."

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Mind the (data protection) gaps

Regulatory and compliance issues are ever more prominent issues when generating, storing and then relaying personal data, especially with GDPR [General Data

Protection Regulation] next year.

"It is essential now to seek explicit client consent and the banks also need to provide additional rights, such as the right to delete data if a client later changes their mind," explained an expert in the Singapore discussion. "One needs the procedures and controls in place to make sure that can be enforced and to be transparent. This raises huge issues for the regulators as well as the banks and wealth management firms."

There is no doubt the wealth management world is moving towards far greater transparency, especially the tax universe, and this also means that the banks will need to develop a more forensic IT system to help them manage data and the electronic discovery issue.

And, ironically, to achieve this goal, personal data collection and holding will become even more fraught with dangers. "Data collection on clients must be within the parameters of personal data protection rules and guidelines, for example Hong Kong's PCPO," noted one banker. "Bankers and other wealth advisers must be careful - if clients consent to the data collection and use then it is legal, but it must be disclosed to the client and used in a smart way, much as Google or Amazon collect their data and propose products or solutions to their customers."

Asian institutions need to focus on GDPR and increase their investment. Data collection also implies legal liabilities that are on the rise, especially with the rising levels of cyber-crime globally. Many believe there will be harmonisation of regulations on data in the same way as there is ongoing harmonisation of other regulation.

An expert in the Singapore debate also noted that clients must be comfortable with the use of their data, not just with its gathering and holding in the wealth providers disk drives or cloud solutions.

"There is a risk that clients feel that we are targeting them too directly and unless there is real, immediate, demonstrable value in that for the client it is risky."

Human interface will endure

Panellists in Hong Kong concurred that wealth managers need a multi-pronged strategy to grow their businesses. "While the online space and mining and analysing data are all vital, you cannot forget the offline space. The RM's abilities should be enhanced, his

efficiency boosted, but it would be negative to make them feel they will be overtaken by AI and robo-advisory. I for one do not believe the RMs will be replaced because as you go up the wealth spectrum greater customisation is required."

Robo, panellists agreed, cannot yet accommodate the requirements of a high net worth investor and the higher one moves up the wealth curve, the greater the complexity of requirements.

The Singapore panel agreed that banks do not yet need to automate everything, as the human interface is indeed vital. And that it is essential to put the client at the centre of everything wealth firms do. You need to put the client at the centre of everything, so that data can help advisers be predictive. We should not try to be too clever at this stage and go far beyond that.

An expert in the Hong Kong gathering noted that the so-called digital revolution results in more and more happening online but that this is not another world in creation.

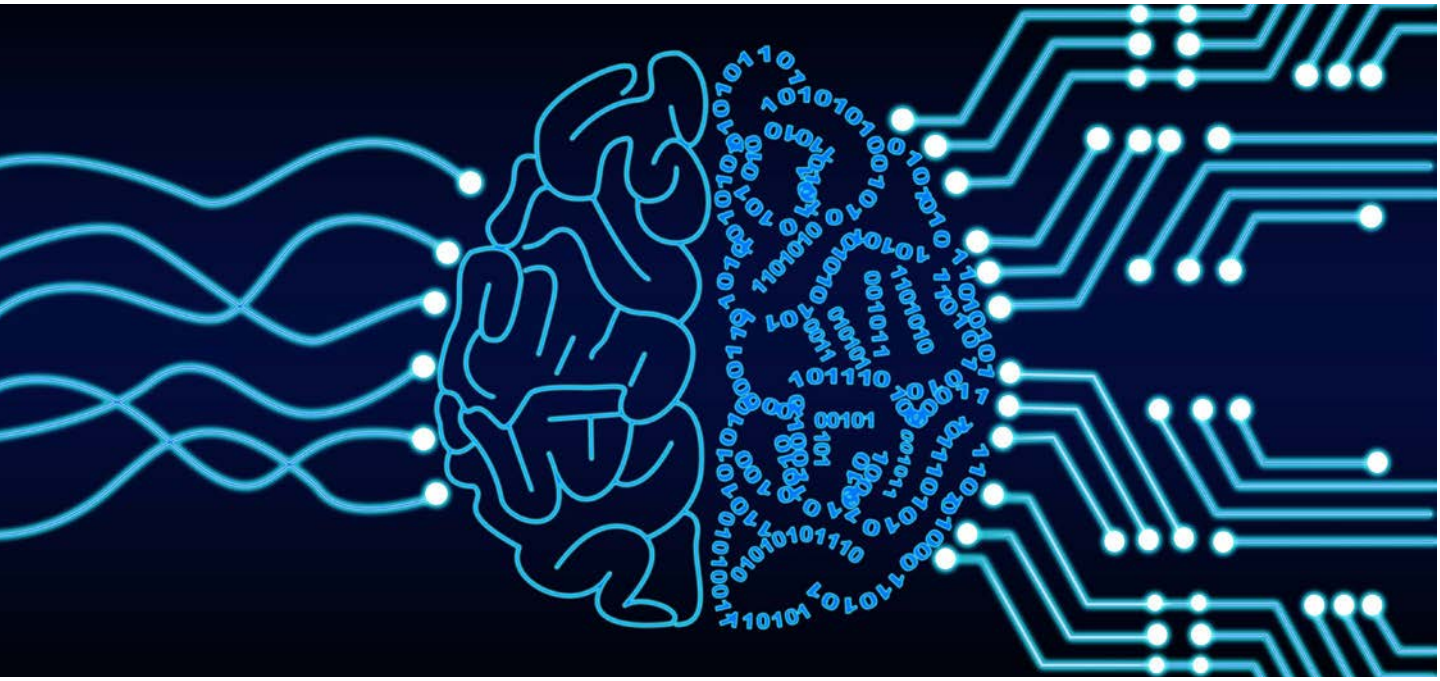
"There are today - and there will be going forward - many products not available online, hence structured products, private equity funds discretionary portfolio management and other areas are all outside the online experience for now and the foreseeable future."

Banks do not yet need to automate everything, as the human interface is indeed vital.

Robo-advisory today focuses mostly on ETFs and that is not really the domain of private banking. "In the true private banking world, the RM's skills and interpersonal abilities are essential," opined one banker. "Armed with data asset allocation models should be available to the RM and to the clients, to enable such discussions. In the past, that discussion might have been more internal to alert the IC [Investment Counsellor] to speak to the RM and then to the client for the portfolio review. Now it can all be more open and transparent."

The Singapore panel agreed that over time there will be a more comprehensive automation of many of the key elements of the wealth planning and wealth management cycle. But there was also a general feeling that as wealth is so intensely emotional, and ultimately connected to an individual's personal context in terms of their family, their business, their generation and their legacy there would always be the strong personal element involved.

"Therefore," said one professional in the Singapore discussion, "I feel we are always going to have a human interface to the extent that we really build



trust-based relationships with clients."

Cost reductions to offset transaction fee compression

Data can - and indeed should - do more than boost the number of transactions, the number of conversions, the AUM. It can also help achieve cost savings by improving internal efficiency and the RM's time/client management.

"There are so many areas of the wealth business where fees and commissions are under pressure from the market or regulators," reported one banker, "so the cost reductions become even more important.

A panel member noted that a transition is inexorably taking place from transactional fees, which are ever lower, to encouraging the client to pay for the digitally-enhanced advisory service. It is an evolution that is targeted to offset the reduction in other fees that has, in part, come about due to other technological advances, such as online trading.

While in Europe there is greater uptake of such enhanced advisory services, Asian clients have tended to want to 'do their own thing'. But that is gradually, slowly changing as discretionary penetration has multiplied rapidly in the past five or more years, albeit from a very low base.

Hope for a new era of advisory fees in Asia

"Although only nascent progress has been made so far, the fact is that we slowly see more clients who are genuinely willing to pay an annual fee for advice," explained one banker. "And as wealth transitions to the second and third generations I think we will see over the next decade a significant increase in digitally-enhanced advice."

As more data is collected and as more technological solutions - including from the growing ranks of fintechs - appear to process that data, the relationship between the different arms of wealth firms will advance. "How can siloed aspects of a relationship be brought together and how can the banks activate valuable, fee-related advice on top of that?" asked one wealth expert.

Improving the efficiency of the communication between the research teams, the ICs and RMs is indeed essential. "Platforms to run morning reports, for analyst reports, developments, news, risk ratings and so forth, as well as tying it to market data can all combine to take our productivity to another level."

The direction the wealth industry is taking is clear - data is the destination. But the roads the different firms take will be different and often fraught with anticipated hurdles and unexpected diversions. ■

The Hubbis and Thomson Reuters 'Big Data' poll:

Can data help transform Asia's wealth industry?

Hubbis reached out to the market to poll respondents on the role of data and technology in promoting wealth management. We found overwhelming support for the view that appropriately managed data gathering, and dissemination will positively impact the industry, helping client interaction, improving the client experience and helping the wealth industry to survive and prosper.

HOW CAN DATA AND TECHNOLOGY HELP YOU GROW AUM AND IMPROVE OUTCOMES AND THE EXPERIENCE FOR YOUR CLIENTS?

Key comments and findings:

- Client data is key to managing service providers' relationship with their wealth clients.
- Data such as net worth, suitability needs, risk appetite, cashflow requirements, experience of various asset classes, next generation requirements, are all essential data points.
- Banks can use this data to provide solutions in terms of products and service.
- Banks can enhance the client experience with more customised, tailored solutions.
- Banks will be able to manage the clients' positive and negative feedback more efficiently.
- Data collection can be handled in a systematic way, with a central repository (data lake) to store both structured and unstructured data across the bank, and then advanced analytics tools can help the bank derive insights to client expectations, behaviour, satisfaction, and potential business opportunities.
- Technology is already helping our firm; we have invested massively for many years in an integrated IT platform, including mobile access, for our clients. This IT platform has increasingly become a selling factor by itself, attracting EAM, multi- and single-family offices, and it has even played a role in some of the recent successes in terms of partnerships with strong local onshore banks to support their efforts to set-up a local private banking franchise. But we are wary of private data, due to confidentiality and our corporate culture that argues again exploiting personal information. Hence, it is very unlikely that big data will become a major source of business enhancement for the foreseeable future.

- Data and technology are tools to improve our product/ service for clients. Advancements in the field also allow us to make more informed decisions and improve the customer experience and grow AUM.
- Several themes are driven by technology. Accessibility as more sophisticated wealth management services will become available to a broader customer base. Lower-cost, as the cost of receiving advisory and management services will decrease as automation lowers the operating costs and new 'disruptive' entrants [such as fintechs] will spur competition in the market. Personalisation, as algorithms become more sophisticated, the degree of customisation will increase significantly, improving the value for the end-client.
- Data will help improve the client acquisition process, helping firms target the right client segment.
- Data will allow firms to know clients better and we can be more targeted in our advice and services. Data will also help providers see client patterns (buy/sell/no transactions) and be able to predict what products the client is most interested in.
- Data will help proactive identification of clients with relationship in decline.
- Technology will enable personalised client research/material in preferred languages.
- Data can help in the review of clients' portfolios to see if the allocation (with its underlying risk/return) is aligned with the clients' investment objectives. With this analytical approach, firms can ensure the portfolios are on track and then make informed investment decisions, thereby enhancing the client experience and the return of the portfolios.
- Data will help firms look at the geographical distribution of AUM and formulate marketing strategies accordingly to attract new clients and win additional AUM.

How do you use data to track business results and monitor your performance?

Data mining of past client trades enables banks to monitor the performance of their existing portfolio, provide switch ideas when market conditions change, ensure proper suitability and appropriateness for ongoing portfolio management.

For new products or a new trade launch, firms can zero in on which clients would have potential interest, given the past trading history of the clients.

Data can help track RM performance and business unit performance leading to accurate allocation of resources.

How can data/technology help with formulation of risk tolerance and objectives as well as preference for certain investment types?

These features are embedded in our system and the whole sales process (including regulatory thresholds such as derivative knowledge and concentration limits) is automated.

Risk tolerance levels can be analysed by comparing actual investments and implied risk in a client portfolio with the 'declared' risk profile of the client as detailed in the Investment profile questionnaire; this includes actual yields versus the target yields.

The result is we can see how the portfolio allocation compares with expectations, all achieved through leveraging data analytics. Predictive analysis will advise us which new product or service may be of interest to which clients.

There is a burden of regulation to put all the weight on the 'formal' investment objectives, as stated in the legal documentation, so it could be hazardous to shift the focus away from that based on non- or less tangible/formal information.

Most models currently used were developed based on technological and data limitations of the 20th century, be it risk models, valuation metrics or

portfolio diversification. Better and smarter models and machine learning can continuously test and improve those models and metrics, combined with bigger sets of (usable) data.

How can data and tech help you improve/augment investment advice?

Idea generation is embedded in our system, although this is at the early stage, as is suitability, risk tolerance, client vulnerability and so forth.

As a small to mid-sized player focusing on the high end of the HNWI clients, we promote the deep relationship between our RMs and clients, we believe in discipline, not in emotional decisions often driven by the noise of the market. Accordingly, we can easily automate but explaining to and convincing clients will remain a non-automated process.

Data and tech allows for unique insights and correlations to surface, hence this is an extension to business intelligence. With better data and tech, you can trust that the advice dispensed is the most relevant, up-to-date and accurate.

The hybrid discretionary portfolio based on technology (big data/AI) and human involvement could be one of the ways to help maximise the return on client portfolios and the internal efficiency of the bank.

Digital access will enable clients to stay engaged with a bank, despite various time zones, either via a chatbot or AI system where clients can gain online access to their portfolio and leave instructions with the RM, if he/she is not contactable.

The client is evolving with the development of technology and changes in our societies, so we must re-evaluate our current business processes and change accordingly if we want to survive in the future.

A core theme leading this transformation is client empowerment, whereby the client is delivered data and information through any number of static and mobile devices. This empowers the client to make their own decisions, empowers its RMs to serve the clients better and to concentrate on high value conversations with the clients.

We are moving from a situation of lots of hidden information to transparency, accessibility, moving from an analogue world to a digital world. Imagine, for example, the relationship manager might have access to the holdings of the client in different banks and where the client can access whomever they want within the bank, but potentially also the regulator.

The regulator meanwhile might also get access to all the information in the bank and instead of doing spot check audits, they might run their analytical models on the information available in the banks.

"If one starts thinking about all this it will have a very significant impact on how you work, how you capture information and how you manage that". ■