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Demystifying the fintech hype – a glance into the future

Hubbis assembled a panel of cutting edge technology experts and tech investors at the November 9 Digital Wealth Asia event for a discussion on the impact of innovative technologies on the wealth management arena. Blockchain, cryptocurrencies, ICOs, AI, robo-advisory, and other new world jargon were the fuel for an energetic debate.

These were the questions we asked:

- *Making sense of crypto and blockchain - what are the real applications and implications in financial services?*
- *What are the lessons to be learned so far from elsewhere in the world?*
- *Where should you be based? Hong Kong, Singapore or China?*
- *What are the Legal & Ethical Challenges?*
- *Could AI recalibrate wealth management in Asia?*
- *Will machine learning transform investment strategies?*
- *Are the smart algorithms in the background driven by actual investment professionals or just tech kids in the garage?*
- *How should robos be regulated? And what impact will this have on their potential?*
- *What will be the impact of AI on the investment process? How will it evolve over time?*

CHAIR AND PANEL SPEAKERS

- **Christophe Lee**, Founder, JP Asia Partners (Chair)
- **Julian Kwan**, Chief Executive Officer, InvestaCrowd
- **Stanley Chao,** Co-founder and Head of Data Science, Red Pulse
- **Seamus Donoghue**, Director, Lykke
- **Adrian Gostick**, Chief Revenue Officer, BondIT
- **Ralph Mogicato**, Entrepreneur, Independent Senior Advisor, Professional Board Member, Angel Investor, Swiss ICT Investor Club

THERE IS A SCHOOL OF THOUGHT THAT BLOCKCHAIN, which can be characterised as a public ledger in cyberspace, could spell the end of the need for trust intermediaries in the financial arena.

"You do not need centralised authorities," said one expert, "so the proposition is that everything in the future can be digitised. In our vision of this we could have everything such as bonds, fixed income, real estate, funds, every type asset enabled for trading and exchange via any medium including mobile devices. Effectively, you can have your own bank and asset manager all at your fingertips, no need for intermediaries anymore."

CHRISTOPHE LEE
JP Asia Partners

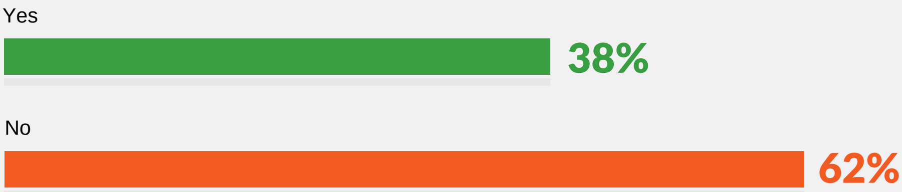
Blockchain and the intermediary

But while blockchain threatens the possible end-game for trust institutions, it is just as possible that the institutions that have built trusted brands will win through and wealth institutions will, by a similar rationale, maintain and expand their role as intermediaries.

Many of the estimated 1200 plus cryptocurrencies have been enabled by blockchain technology. Bitcoin is the most famous of these but a core concern for anyone in buying or trading such cryptocurrencies is custodising these assets.

JULIAN KWAN
InvestaCrowd

IF YOU HAVE NOT INVESTED IN BITCOIN DO YOU IMAGINE YOU WOULD DO SO NOW?



Source: Hubbis Digital Wealth Asia, November 2017 - Hong Kong

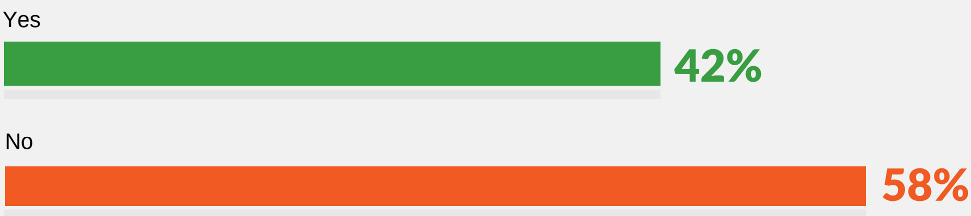
STANLEY CHAO
Red Pulse

"Can people trust the infrastructure?" asked one panellist. "The question now is who will win this business, the traditional trust institutions, or a new breed of digital asset custodians."

Cryptocurrencies need proper two-way liquidity exchanges and absolute security to be valid. "We have been trying to work with those who bring liquidity because more liquidity brings more issuers and brings more wallet," said another expert. "For us the focus is to help people become comfortable that the custody of their assets is safe and the jurisdictions we work in are safe."

SEAMUS DONOGHUE
Lykke

CAN YOU IMAGINE THAT AI AND/OR ROBO ADVISORY WILL EVER REPLACE HUMAN ADVISORS?



Source: Hubbis Digital Wealth Asia, November 2017 - Hong Kong

Blockchain gives birth to tokenisation

Another panellist has been incorporating blockchain and cryptos into their platform and had recently completed a token sale, also notably without an intermediary involved, just as virtually every ICO [Initial Coin Offering] to date.

"The ICO phenomenon is a story of a rapid growth unregulated market, so passing regulatory muster is essential," he said. "We have been working with accountants and lawyers to determine exactly what these coins or tokens are. For example, are they a security, or a utility token, how can they be defined." Greater regulatory scrutiny of ICOs across the globe is a positive because there have been some high-profile scams in this space.

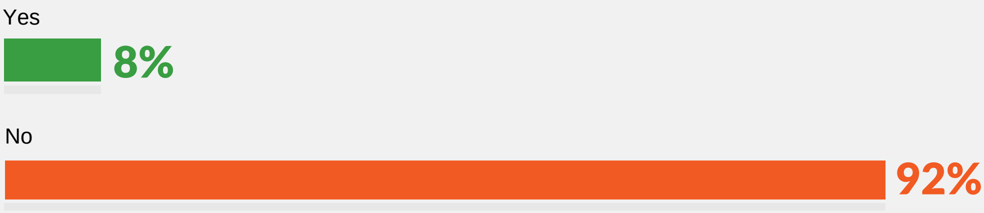
ICOs need a purpose in life… don't they?

"Tokens issued in an ICO should have a purpose," he added. "By incorporating blockchain into our platform we have been able to introduce our own cryptocurrency token that can be used on our platform for an exchange of information."

"This, he added, "is what we envisioned, an ecosystem to exchange research and knowledge on our platform. With our token we can incentivise people to come on our new platform and we control the monetary dynamics of our platform. With a small degree of inflation, we can pay out our content producers."

Another expert cautioned: "I would be very careful about the ICOs. Some are viable and respectable, but it is like investing in a start-up, so check the team, the business idea, you have to understand it all." Another voice warned: "An ICO is only valid if the team involved are genuine with a genuine purpose for the token."

FROM A REGULATORY, COMPLIANCE AND LIABILITY PERSPECTIVE WOULD YOU FEEL CONFIDENT ADVISING YOUR CLIENTS TO INVEST IN CRYPTO?



Source: Hubbis Digital Wealth Asia, November 2017 - Hong Kong

Disintermediation…or can the VCs fight back?

The world is waking up to the fact that a lot of these ICOs are nothing more than 'hot air' with little of substance behind them. "But," noted one expert, "we are starting to see established start-ups with track records with VC funding, with a genuine business, whether it is utility token or security token. There are some amazing ideas out there, but one must be discerning. And blockchain and cryptocurrencies are on a rapid and exciting upward trend."

EFFECTIVELY, YOU CAN HAVE YOUR OWN BANK AND ASSET MANAGER ALL AT YOUR FINGERTIPS, NO NEED FOR INTERMEDIARIES ANYMORE

Another technology expert noted that ICOs are all about disintermediating the VCs and intermediaries and moving towards the peer to peer model. "It is

ADRIAN GOSTICK
BondIT

RALPH MOGICATO
Swiss ICT Investor Club

like Airbnb and the ratings system they have in place. So, with around an estimated 400 ICOs a week, most of those you would not want to touch, so how to differentiate and find the nuggets? "

Disclosure could help achieve a certain rating for the ICO, so if the founders state who they are, if there is a viable working product and so forth, all those factors would impact the rating and help people make an educated decision. "Otherwise," said one investor, "evaluating a company on your own as a layman is next to impossible, you might as well throw darts at the board."

AI spells a new standard

Artificial Intelligence, AI, is another rapid growth area. One fintech expert explained that his company's model uses data science and machine learning algorithms to simplify the process of building, monitoring, optimising fixed income portfolios. "We are helping wealth management institutions and advisory firms improve across sort of three different areas," he explained.

"The first is productivity, using algorithms to speed up processes and come to clients with ideas so much more rapidly. The second is to help organisations scale their business by using some of these innovative technologies to rapidly prioritise his clients, his tasks. And for customer service, the advisors can suddenly rapidly tailor portfolios and investment ideas."

Another panellist highlighted his firm's focus on robo-advisory in the fixed income market. "In the equity world data constraints tend to be linear and in the bond world it is much more complex, and we have non-linear constraints, so things like the minimum denomination of a bond or an increment to which you add a bond to a portfolio."

Productivity gains

He continued: "What we bring is productivity gains. So, for example to build a new $5 million bond portfolio, down to a target yield, duration, certain selected sectors, certain types of bonds, certain levels of liquidity, and so forth, that process that could have taken days. We can reduce it to about 30 seconds. And then rebalancing that portfolio becomes just as efficient and virtually real-time."The result is dramatic contraction of processing time. "Now we have the solution down to seconds rather than relying on perhaps a fixed income product desk which may typically take hours or days to get back to you with answers."

Another expert underlined just how AI technology can radically alter the work environment. He cited one US investment bank that has since 2000 cut its equities markets markers from 600 in year 2000 to less than 10 today. Similar numbers were cited for the fixed oncome market.

Wealth firms – threatened by tech, or enabled?

"Technology is changing everything across financial services," he remarked, "and the same in the wealth space. The role of an advisor is tough, they have got lots of customers they have to look after. They do not have very good information to help them make decisions, so technology and data will greatly help and the customer will be pleased."

AI can help automate some of the research process. Instead of research analysts mining the web for events and news through multiple websites much of this can be done by computers. A panellist elucidated this point: "You can create a web scraper, go down and download a million websites and then use a machine learning and language processing to go through the articles and try to find the relevant ones."

But he also noted that "there is no way a computer can replace the human analyst, and as much as the process can be automated you still need a human to contextualise, to understand the content. So, we can use technology to help the analysts help the advisors more efficiently and more accurately."

In the short term, therefore, AI will likely augment the performance of the advisor, but in the longer-term of course there becomes a time when the advisor's role, especially with pressures on the wealth firms' profits. "Many banks are already wondering how they can give the idea generation capabilities directly to the customer and let them execute automatically," concluded one panellist. "That has dramatic implications for the industry." ■

GREATER REGULATORY SCRUTINY OF ICOS ACROSS THE GLOBE IS A POSITIVE BECAUSE THERE HAVE BEEN SOME HIGH-PROFILE SCAMS IN THIS SPACE

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