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Digital: Can it Facilitate Faster, Cheaper and Better Wealth Management?

In the fourth panel meeting of the day at the Hubbis Digital Wealth Forum in Singapore, experts discussed whether the financial industry is benefitting from faster, cheaper and indeed better wealth management thanks to the rise of digitalisation.

These were the topics discussed:

- *What does the platform of tomorrow look like?*
- *Where are we with ROBO?*
- *What's the likelihood we can engage clients directly?*
- *What's your value proposition and why will it be successful?*
- *Have consumers, banks and consultants really embraced 'new stuff'?*
- *Who will rock the boat?*
- *Are traditional wealth managers struggling to keep up with client expectations?*

PANEL SPEAKERS

- **Freddy Lim, Co-founder & Chief Investment Officer, StashAway**
- **Kunal Bajaj, Founder, Chief Executive Officer, Clearfunds**
- **Tanmai Sharma, Chief Executive Officer, Canopy**
- **Elena Okhonko, Independent Financial Adviser, Financial Alliance**
- **Mark Nelligan, Chief Executive Officer, Singapore, Pershing**
- **Charlie O Flaherty, Partner, Crossbridge Capital**

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EXECUTIVE SUMMARY

Panellists on the fourth panel of the Hubbis Digital Wealth Forum in Singapore debated the rise of robo-advisory solutions and decided that although technology is coming along in leaps and bounds, a robo-human hybrid is considered beneficial for the time being, so it is not yet time to put wealth managers out to pasture. Clients still want the human touch, and the feeling of building and maintaining human trust. As yet, artificial intelligence cannot replicate a number of vital elements of the human relationship, although with the speed of advancements in technology, that time might come sooner rather than later. The financial sector broadly and the wealth management industry in particular will no doubt continue on the path towards digitisation as customers demand faster and more user-friendly experiences and as the financial firms seek lower cost, more efficient processes that add to their competitive edge.

A PANELLIST BEGAN THE DIALOGUE by asking a question which is on the minds of many wealth advisers. "Are we going to be replaced by robo-advisers?" he queried.

A robo-adviser is a digital version of a financial adviser that provides investment guidance and management with minimal human input, based on algorithmic data that is continually updated. This type of advisory service uses its data processing capabilities to allocate, manage and optimise assets for clients.

"Within the next few years," a panel member predicted, "robo-advisory will be integrated at least as part of a hybrid service into almost all investments."

"This technology can be used effectively to serve a much wider client base," another attendee commented. "And it seems to be attracting the mass affluent to a space traditionally occupied by the high net worth demographic.

However, at present, Asia is behind the US, UK and Australian markets in the use of the technology. "Research shows that currently, around half of the robo-advisory systems used in Asia today are not passing the minimum level of attainment, they seem to be performing poorly compared with traditional wealth management channels," reported a fintech expert.

This, panel members agreed, shows that it is important to put the financial purpose first. "Fintech is not 'techfin'," said one expert, "it is not technology first, it is actually finance first powered by the technology."

TANMAI SHARMA
Canopy

ELENA OKHONKO
Financial Alliance

Great potential for digitalisation in India

Panellists then began to discuss the effect of automated advice technology on the mass affluent in India. "The development of wealth and asset management companies in India is incredibly dynamic," observed one enthusiastic panellist. "There has also been tremendous growth in systematic investment products. Current records indicate that over $1 billion dollars a month are being contributed by investors who might each put in only $10 per month."

Interestingly, although India's investment market is in an embryonic state, there is a public infrastructure which is far superior to other more developed markets. "For example," offered an expert, "the digital identity card, given to 99% of the population, or more than 1 billion people, now gives an identity to many who did not have one. This takes away the know-your-customer (KYC) headache, meaning that we can open accounts within seconds."

"The KYC process still takes about seven months at many private banks," joked a panellist in response.

In addition to this superior infrastructure, India has incorporated a unified payments interface (UPI) to move money between people and banks. This can then be adapted to build outstanding solutions for signing documents and opening accounts. "There are only a handful of documents that still have to be signed in person," explained a panellist.

"We can ride on this infrastructure to provide regulation and robo-advice which has huge potential for the industry."

So, what can robo-advice achieve for the Indian market? "A robo-adviser, built for Indians in India, brings with it the ability to bring sophisticated financial advice to people who have never had, or cannot afford, an adviser," clarified an expert.

Indeed, incorporating the mass affluent, and even the relatively impoverished, into a market traditionally reserved for the super-wealthy has brought great empowerment. "You can join an automated platform for a tiny price, for example we heard of one investor who started with two cents!" an attendee said with a chuckle. "It is global, it is diversified, you can leave any day, there is no penalty and the fees are all inclusive."

Stepping into a robo-future

Panellists then discussed the future of robo-advisory technology. "In the US," an expert offered, "the bigger robo-advisory companies have overwhelmed the smaller ones with outpricing and superior user experience. In Asia, the start-ups will come and go then we expect the industry will later consolidate in the same way. Ultimately, it all goes back to trust."

It seems that while there is an interest in automation, self-directed business and online interaction, there is still a need for a hybrid system with trusted human advisers supervising.

However, these trusted human advisers are not cheap. Panellists put forward their views on whether humans will continue to outperform robo-advisers, or if they are become obsolete as the technology improves.

The key advantage that robo-advisory systems have over their human counterparts is the speed at which they can trawl through information to allocate the right funds to the right people. "When we are allocating products," explained a guest, "we have to trawl through upwards of 6000 choices. Filtering them is time-consuming and difficult."

Despite this, although humans are more fallible than algorithms, they still outperform machines. "Human wealth managers are just that, human," one expert commented. "They select certain funds partly because they have might have direct contact with a fund manager and more accurately understand their offering and investment strategy. They also get hunches, based on their experience. This is the kind of thing you just cannot code for or compress into an algorithm."

MARK NELLIGAN
BNY Mellon

KUNAL BAJAJ
Clearfunds

"HUMAN WEALTH MANAGERS ARE JUST THAT, HUMAN,"

What robo-advisers talk about at lunch

What is the future for AI and robo-advisory? Guests attempted to describe what challenges face the development of robo-advisory in the next few years.

"The core banking systems of most banks were probably built in the 1970s," one guest reported. "Trying to be cleverer and faster and cheaper by implanting robo-advisory is like putting a huge engine in the chassis of your 1970s car - the existing structure simply cannot handle it, it is more likely to just blow up or break down."

"This is true," agreed another expert, "but digitalisation will be a positive advance if banks can set up a digital platform for a low fee and minimal disruption within a compressed period of time, for example a few months."

At the current point in time and away from the mass affluent or newly banked markets, it appears that genuine wealth management clients still prefer a human touch. "Transparent, honest client engagement establishes trust," one expert observed, "so a hybrid model where a client can check in with a human adviser is most likely to be the way forward. It will bridge the gap until we truly trust artificial intelligence, and that could be as far as two decades away.

When this trust develops, and technology advances sufficiently, robo-advisory is likely to become ever-more important in the financial industry. "In the future, there will just be a newer, faster, cheaper, better financial industry," said a panellist to conclude the discussion. And wealth management clients will likely be a major beneficiary as their portfolios are honed by the wide range of digital enhancements and as their interface with the firms improves and becomes more enjoyable. ■

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