Digital Solutions for Faster, Cheaper & Smarter Wealth Management

A smart panel of digital solutions experts and online platform providers mulled over the state-of-the-art for digitalisation in the global wealth management industry, and its applications to the current environment in the Middle East. The delegates at the Hubbis Middle East Wealth Management Forum were treated to some sharp insights on topics ranging from digital adoption to the arrival of Big Tech.

These were the topics discussed:

- *The potential for new entrants - BigTech brand names and start-ups - to compete with private banks and wealth management firms built on a traditional business model.*
- *Build it yourself or plug and play?*
- *What are the key trends in digitalisation?*
- *Platforms and processes - the role of digital.*
- *Selecting your technology solution provider.*
- *What are the consequences of failing to embrace digitalisation?*
- *What does the client demand from his interface experience?*
- *How to decide what if effective, what is working well? What KPIs should be used?*

PANEL SPEAKERS

- **Damian Hitchen**, Chief Executive Officer, Middle East & Asia, Swissquote
- **Yunus Selant**, Regional Manager Middle East & Africa, Allfunds Bank
- **Philip Story**, Head of Distribution, EMEA, Investors Trust
- **F. Edward Lopez**, Chief Revenue Officer, JHC Financial

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THE KEY TAKEAWAYS

Service the client

Technology in wealth management needs to begin and end with the client. To achieve this, wealth management firms embracing digitalisation must invest strategically, either using their internal resources or by partnering with fintechs and other solutions providers that can fast-track their objectives.

New entrants can move fast

The panel felt that generally wealth management clients are receptive to embrace robo-advisory, as a cost-effective solution, and that means new entrants can rapidly eat away at the traditional players, making it more essential than ever to embrace digitalisation from front- to back-end in each firm. However, the reality is this is not taking place rapidly enough, leaving room for business and profits erosion from tech-savvy, funding-heavy competitors.

But human interaction remains in demand

Nevertheless, the human element of the wealth management industry, advice and execution by relationship managers who know and relate to their clients, will remain in demand. This will allow the traditional players potentially to retain their higher wealth clients, perhaps while retail or mass affluent migrate to digitally-driven service providers.

Blockchain still blocked by lack of practical applications

The blockchain technology must be able to convince some major financial institutions and leading regulators of its efficiency and applicability to real-life uses, for example if any of the banks globally signed it up as a potential alternative to their transfer and settlement systems, such as SWIFT. But right now, this has not yet happened and seems some way off.

Digitising the platforms

The newest breeds of digitised online platforms offer very low execution fees and capabilities as well as a strong rationale for individual and institutional clients, including the ability to identify and ensure regulatory-compliant securities, funds and other investments are offered, or if not then they are flagged. And why do HNWIs still use private banks to buy simple, commoditised instruments such as ETFs? The logic is for digitised platforms to grow and spread their wings further to makers such as the GCC.

Add value as well

If financial institutions in the Middle East take up more of the services on offer from online platform providers, as is likely, they must not forget to also add value to their existing and future clients. There are many areas where value can be added to wealth management clients, be this in monetary terms, time saved, wealth preservation and structures enabled, compliance achieved, tax saved, debt costs reduced via refinancing, and so forth. Then the fees become more relative to tax or other savings, or gains made.

Big Tech might be thinking twice

Will Big Tech brands pull out their howitzers and blast their way into the world of financial services? Possibly, yet, propelled by the technologies, their understanding of the customer psychology and their seemingly limitless financial resources. But they are perhaps concerned also about reputation and image issues of being involved in the world of finance, as instruments or facilities taken up and investments made can turn sour or difficult in vacillating global financial conditions.

"**TECHNOLOGY IN WEALTH MANAGEMENT** needs to start by looking after the client," said one expert, on opening the discussion. "By that, I mean getting all of the information on to the dashboard, the platform, for the customers to, as step one."

Then, to take the next steps, the wealth firms need to decide if they pursue those using internal resources, or they use an external partner to help them move to a more digitised range of services. He indicated these steps have generally not moved as quickly as people had expected, and more likely will not in the foreseeable future.

Early hype still not fulfilled

Another panellist concurred, offering a perspective from the UK. "There was a lot of hype early on," he reported, "but it has taken a lot more years than envisaged."

Wealth management clients are receptive to embrace robo-advisory, as a cost-effective solution, accordingly some of the new entrants who offer those types of seamless, efficient services are growing. "And they will continue to grow and increase profits because the cost to them of taking on and servicing a new client is almost minimal. So, the more clients they have the more profitable they become very quickly."

Meanwhile, for a larger, older, traditional wealth management business, a new customer is another cost to them, as many perhaps most of

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PHILIP STORY
Investors Trust

them do not yet have the systems in place to take on and to effectively and profitably service them.

Don't blink, or things will have changed again

Another expert highlighted the breath-taking pace of technological advances. "There are so many new technology and digital upgrades happening," he noted, "and as soon as one thing is implemented, it needs to be changed, and then changed again. But stepping back, face to face communication remains very important, with many customers still afraid to move away from that so it will take time from the client side."

The discussion turned to digital currencies and the blockchain, with an expert noting that cryptocurrencies still have yet to prove themselves as a recognised, viable asset class. "It is very early stage," he remarked, "so there are challenges of education, there are challenges from regulators to understand their prices, there are many challenges for the industry. This needs to be embraced and then properly regulated."

As to blockchain, he added that this needs to have some real-life uses, for example if any of the banks globally signed it up as a potential alternative to their transfer and settlement systems, such as SWIFT. "Real-life cases across the board and better education and better impact on people's daily lives and then I think the industry can move forward," he said. "We are on pause right now."

DAMIAN HITCHEN
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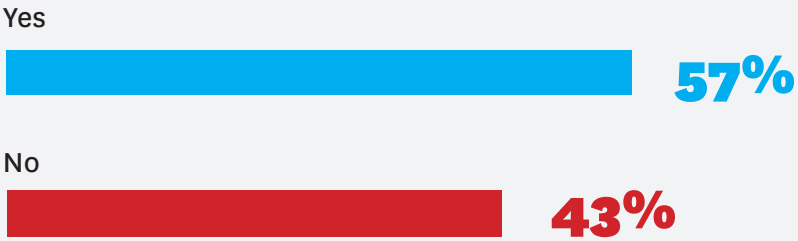
DO YOUR CLIENTS SHOW MUCH INTEREST IN ROBO OR DIGITAL PLATFORMS TODAY?



Source: Middle East In Asian Wealth Management Forum 2019

Blockchain needs real-life affirmation

A fellow panellist concurred, adding that he believes blockchain will be fully recognised globally, not just by the banking and financial services industry but also by the regulators, but it will take more time.

The panel moved on to the newest breeds of digitised online platforms, their low execution fees and why many private banks and other providers can still charge high commissions to buy into passive instruments such as ETFs. One platform provider explained that their platform, honed to its current efficiency over the past 20 years, had been remarkably successful in bringing lots of assets and clients together with transparency.

"It is a market place, a supermarket," he commented. "Platforms here still have much further to evolve, but it is about bringing that value to the table for our clients, for example institutional access to ETFs for just 10 basis points, and more and more firms are moving towards that type of market, but it will take time."

Another panellist expanded on the cost side of the platform equation. "Wealth management customers are seeing cost transparency for the first time, this month in the UK, for example. This means there are plenty of nervous wealth managers there who now have customer who know exactly what they are paying."

Add value as well as efficiency

A fellow panellist remarked that cost is very important, but so is added-value. "Now, you want the cost to be as low as possible, but from a wealth management point of view, proving to your clients that you are adding value to them is the most important element."

Exploring value further, this might be in monetary terms, or time saved, or wealth preservation enabled, or compliance achieve, tax saved, debt costs saved via refinancing, and so forth. "There are so many different areas where you can add value," a panellist explained. Then the fees become relative to tax or other savings, or gains made.

And he noted that when there is huge competition, potentially from new entrants, for example in insurance, which are rocket-propelled by either technology or funding, or both, then the incumbent players can only survive if they add value.

"TO DIFFERENTIATE BETWEEN WHAT IS THE MIFIDII SHARE CLASS AND WHAT IS NOT A MIFIDII COMPLIANT SHARE CLASS ALLOWS FULL TRANSPARENCY UNDER THE REGULATORY LANDSCAPE ACROSS EUROPE"

Smart platforms

An expert returned to the platform and the ability to be transparent and efficient from a compliance perspective. "To differentiate between what is the MIFIDii share class and what is not a MIFIDii compliant share class allows full transparency

WILL YOU BE REPLACED BY A ROBOT WITHIN TEN YEARS?

Source: Middle East In Asian Wealth Management Forum 2019

under the regulatory landscape across Europe," he explained. "We are looking to develop those type of tools across here, so we see that digital capability and enhancement is assisting the lives and businesses of all those clients and taking our business to the next level as well."

The panel cogitated on the rollout of robo-advisory and its impact on face-to-face protocol in wealth management, concluding that the best was a blend of technology and human interaction with the customer. "For those moving or investing large sums of money, they are going to need the value of some trusted advisers sitting across the table, not just a robo- or a screen," said one expert.

Pause for reflection

And the discussion closed with a brief focus on the arrival of Big Tech in the financial services universe. "Barriers to Big Tech coming in are regulation," said one panellist, "as I think they do not want to be under the regulatory scrutiny like traditional financial services firms."

Another panel member highlighted the reputational risks. "In their existing businesses they are very successful, they have fantastic reputation, whereas to move into a new business such as insurance, or banking or investments where market movements can result in a bad image, could affect their reputation and image." ■

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