Disruption knocks on Asia's advisory door

The next 12 to 24 months will finally see fintechs and digitalisation impact the value propositions of many types of players across the industry in the region, despite the hype to date. How and where this happens is still up for grabs, it seems.

Judging by the views of most of the 160-plus respondents to a recent Hubbis survey on digitalisation in Asian wealth management, the industry is on the verge of significant and irreversible digitally-led change.

Such consensus – across a mix of senior management and front-line practitioners, plus some of the leading fintechs and other service providers operating in the region – has far-reaching implications for all types of institutions and advisory firms, and of all sizes.

They need to rethink how and where they invest, and the most effective ways to resource themselves, to align with the core value which they bring – or at least want to be perceived as bringing – to their clients.

Most likely, to get the desired results, this will involve a partnership approach. This means start-ups teaming up with more established financial players to deliver a combination of innovation-plus-experience to create the essential ingredients for clients today – relevance and context.

Practitioners are also cognisant of the need to not let clients feel their wealth management partners are lagging behind them as automation capability becomes part of all other aspects of their everyday lives.

Ultimately, in the drive to deliver customised investment advice and outcomes, distributors like banks, independent advisers and insurers which are ahead of the curve will need to launch algorithm-driven tools that allow their clients to understand their individual risk appetite, investment horizon, level of financial expertise and idiosyncrasies.

This foundation will then enable simple portfolio building and factor-based investing tools to follow.

Key take-aways

- *What do digital wealth management means to industry practitioners across Asia (see box on page 2)*
- *Oganisations need to think and behave more like technology companies*
- *The positive impact of digital is more widely predicted to be delivered through start-ups and new players*
- *Collaboration is the inevitable and most realistic way forward for traditional wealth management firms*
- *The availability of more data, and better use of it, will drive the development of better solutions to clients.*
- *Big Data is considered the most under-utlised area of banking currently – yet one which has the potential to have the most profound impact on the industry*

PREPARING FOR THE INEVITABLE

Undeniably, digital is core to the future for wealth management. It represents the evolution of the business to meet the needs of developments in client needs and preferences.

For someone like Vineet K Vohra of Arete Financial Partners, for example, this means helping wealth managers leverage the power of digitalisation in several ways: encouraging channel automation, data analytics and robotics to gradually strengthen management processes.

"[It is about] taking the human away from the mundane to the more complex, nuanced domain of thoughtfulness, empathy and responsive action," explains Vohra, director and practice leader at the firm.

Yet digitalisation has its pros and cons. On the 'plus' side, it attempts to simplify, speed up and, hopefully, maximise efficiency.

This is clearly a bonus for most in the affluent space. Here, clients gravitate towards lower-cost platforms that avail what was previously the domain of private banks. This includes thorough investment profiling, benchmark asset allocation models, open-source product shelves, investment research and lower-cost execution.

As offerings become more widely available and commoditised, wealth management firms need to automate much of these, requiring digital solutions internally as well as in the client-facing arena.

"[Digital] starts with the customer and makes it extremely simple for them to manage their needs," says Sandeep Deobhakta, division head of retail banking at Vietnam's VP Bank.

"For the institution it's an opportunity to reduce costs and transform the customer experience."

A 'minus' for digital, however, is the fact it de-personalises and commoditises the offering and interactions. And one-on-one, emotional relationships are still core to what many wealth managers believe help them stand out – especially further up the wealth pyramid.

In this higher-net-worth segments, more information is captured about

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Arete Financial Partners

Defining digital wealth management – what does it mean to you?

- *Disruption to traditional business models, but at the same time enabling more innovative products and services for clients*
- *Using technology to either replace and/or make more efficient and add value to current and traditional processes*
- *Change and moving with the times – including staying ahead of clients who are technologically advancing and are setting their own expectation levels*
- *Saving time and other resources to achieve effective results*
- *Ensuring automation and efficiency with zero manual intervention, in order to make decisions instantly*
- *Enabling data collection and management, allowing the presentation of selected information without manual intervention*
- *Facilitating customised portfolio management*
- *Incorporating business intelligence and artificial intelligence (AI) from front-to-back with a view to (i) saving manual costs; (ii) strengthening internal controls; (iii) creating operational efficiency and effectiveness; and (iv) detecting any irregularity or suspicious transaction*
- *Using Big Data, analytics and metrics to help prevent AML/CFT, financial crime and corruption, talent management, risk management, and business and investment decision-making*

On the horizon

There are several key ways that wealth management firms say they are likely to implement digital solutions over the next 12 to 24 months:

- *Functions via Big Data and mobile technology – both in terms of product development and improving the client experience*
- *Expanding bank retail services through online offerings with a better client interface and information systems*
- *Robo-advisory platform and back-office blockchain efficiency improvements*
- *Online client communication tools, making available more information available to them directly*
- *A more comprehensive mobile experience eliminating the need to speak with an RM*

clients and their needs. These must therefore be overlaid with market information on suitable opportunities to deliver distinctive value-adding services – particularly advice – on a client's (relatively) more complex requirements.

Without digital tools, how can firms and advisers leverage ever-larger amounts of data to identify the right solutions for clients in order to justify the fees?

LIMITED DISRUPTION TO DATE?

The optimism and expectation around digital wealth management, which many see as an inevitably, doesn't convince everyone.

Indeed, many market practitioners are adamant that there is little tangible evidence so far of fintechs or robo-advisers creating any real disruption in the industry in Asia.

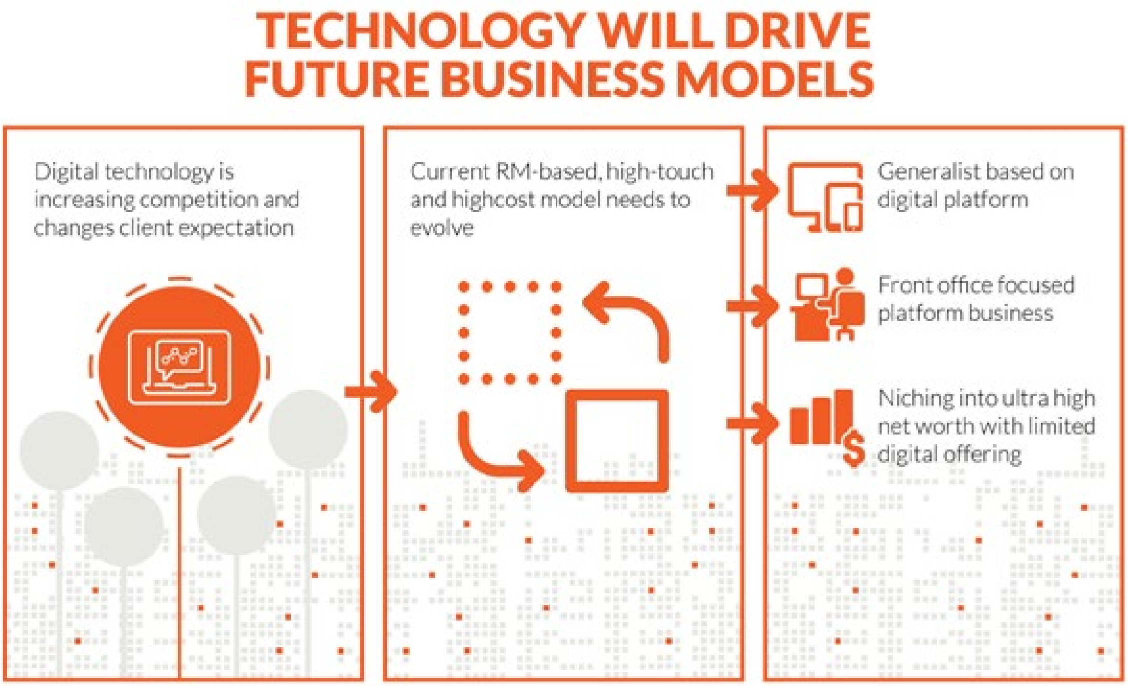
One of the survey respondents who works for a large private bank, for example, says he still expects to be subject to more of the same in terms of the unavoidably-painful process of delivering, at best, mediocre improvements via an outdated model.

And he is resigned to the fact that this will be delivered by a combination of internal developments and third-party solution providers able to attach to the bank's core operating platform.

It might also take more time for robo-advisory to be adopted in local markets in Asia given that these are more commonly to be relationship-based advisory environments.

It seems more realistic that only once the first layer of millennials take over as 'captains of industry' will digital make more in-roads.

Fundamentally, the impression of some industry practitioners seems to be that most of the traditional banking organisations in Hong Kong and Singapore talk a lot about being digital, but struggle to actually make required changes; the culture is lacking.



> **"There will be a focus on productivity, enhancing customer service and meeting compliance needs."**
>
> **ADRIAN GOSTICK**
> BondIT

For example, some industry experts say that incumbents continue to move slowly. These practitioners observe a lot of 'fanfare' about fintech disruption, with major banks promoting their own incubators and 'disruptive' fintech festivals – but largely brand such initiatives as PR exercises.

And fintechs which get selected, say they often can't access the sponsoring bank as a client.

Even if they are an interested client, which is the exception, the onboarding process can take more than one year in some of the major banks, just to review and sign basic legal agreements.

Yet time is one thing fintech firms do not have as funding is limited, particularly for early-stage, pre-revenue start-ups.

This is tied to another of the reasons for the slow take-up in Asia – that a lot of start-up fintechs are struggling to raise capital to take their offerings to the level where it will make the difference. Investors seems to be too focused on looking for the next 'Google' instead of a range of companies that, combined, could make just as much of a difference.

The digital capabilities and disruption so far has been on speed on transaction services. And event here, progress has generally only been made on very simple, commoditized-type products.

Yet although many robo-advisory solutions are quite basic, some observers say that they have resulted in disruption in the market for investment advice – in the sense that they have forced incumbent wealth and asset management firms to act.

Some of the applications of digital to date are more along the lines of:

- Automation of KYC/AML
- Aggregation of data
- Introduction of APIs to better connect existing technologies
- Better online banking covering, not just checking account or credit cards
- Personalised apps to clients to access investments and insurance portfolios in real time
- Communication with clients via tools such as 'live chat'
- Investment profiling and suitability assessments
- Social media
- Online trading and reporting

PROACTIVELY RESHAPING THE LANDSCAPE

To date, many banks has been that despite the flurry of robo-advisers and other fintechs emerging across Asia in recent years, institutions have not embraced them. This is a criticism levied at them based on the fact they haven't made a sufficient commitment to fostering real change or pushing the boundaries.

Among the possible reasons for this, especially at the HNW level, is due to the first-generation of fintechs being

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> **WILL LAWTON**
> Eigencat

more focused on building glossy front-ends rather than having robust investment processes.

Those individuals and organisations which are a little more forward-thinking, however, predict that the industry is on the cusp of real change.

They see the opportunities from embracing fintech and evolving with it – and don't want to be subjected to the greater challenges which will come from resisting it.

One of the technology vendors who shared his views, for example, has been working on a proof-of-concept for a family office that will facilitate a clear, real-time picture of the family's wealth at any time – down to individual allocations and exposures at the asset level, even including the attribution each asset makes to the portfolio.

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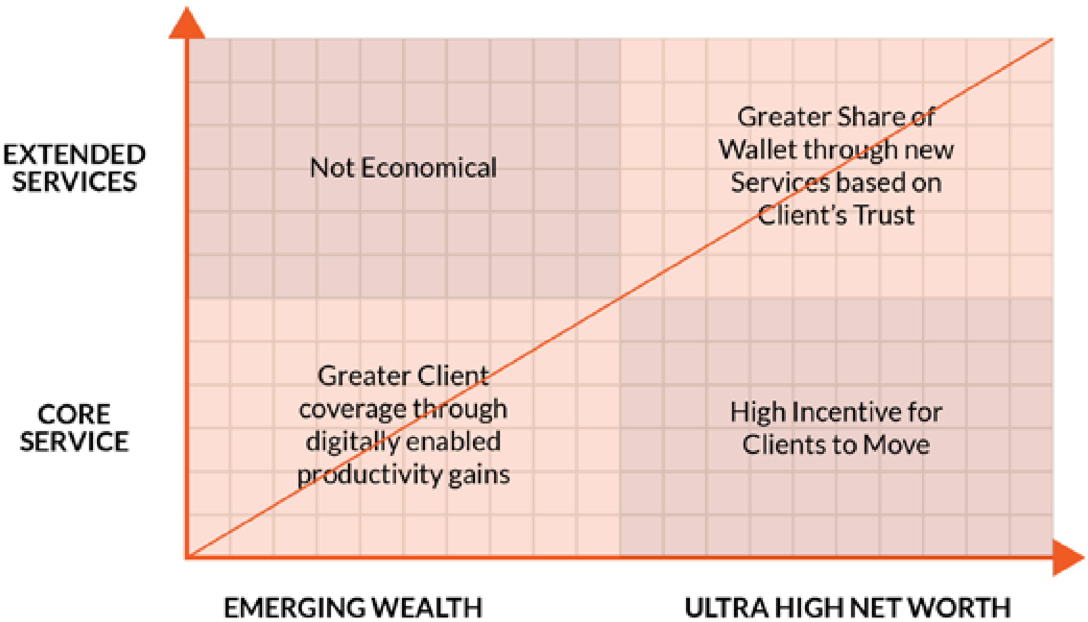
DONALD SOO
Orb Global Wealth Management

Further, this can be done for each member of the family, all the way up to the head, to enable a perspective on the full picture.

This should have added benefits, too, such as assisting with succession planning and reducing the time spent in court as well.

For multi-family offices, another big impact of fintech will come from (custodian) banks modernising their platforms to be able to more connect

EVOLUTION OF SERVICE THROUGH DIGITAL



digitally with external parties such as independent asset managers and fund managers.

"This will make analysing portfolios easier and more comprehensive," explains Riccardo Lehmann, managing director at Swiss Asia in Hong Kong.

But will all banks adapt at the same speed? This is doubtful, he adds.

START-UPS TO SET THE PACE?

According to Will Lawton, co-founder of Eigencat, robo-advisory platforms will improve their propositions dramatically over the next 24 months. "[They will] become a challenge to the banks," he predicts.

Part of this involves getting multi-product, professional-grade investment advice, to ensure relevance. And this is only realistic when experienced investment professionals and asset managers are involved – specifically, people who have designed investment processes to combine their knowledge with technology. Lawton believes that such developments will only be delivered via new players.

A number of industry players share his view.

The number of individuals working within large institutions who can bring real value to their clients are few and far between.

As a result, it is more likely to be the nimbler and targeted start-ups which will be able to hear through the noise to bring the most interesting new ideas to market.

For true disruption to take place, however, the view among the majority

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of survey respondents is that some collaboration between old and new players is inevitable – and necessary.

Adrian Gostick, managing director for BondIT in Asia Pacific, expects to see the biggest impact of digital being delivered by collaboration – existing wealth management organisations partnering with fintech firms that bring capabilities which are necessary but which the firm is unable to develop.

"There will be a focus on productivity, enhancing customer service and meeting compliance needs," he predicts.

Especially in jurisdictions like Singapore and Hong Kong, which are making a clear government-level push towards fintech development via regulatory support and initiatives like sandboxes, the ecosystem of start-ups, fintechs and existing large financial institutions is set to thrive.

"In the next 12 to 24 months we will start seeing new fintech services that will create disruption to the industry," says Donald Soo, chief executive officer of Orb Global Wealth Management.

At his own firm, for example, he is spearheading the implementation of a new CRM and portfolio management system. "I think our value proposition to clients will be enhanced, but the impact will be delivered across all players."

But start-ups need to be what Lehmann at Swiss Asia calls "good enough", so that the big players in the industry adopt these internally. "Just another portfolio consolidation software is not enough. And we don't need to reinvent the wheel."

DIGITAL IMPACT

Many practitioners in Asian wealth management believe a combination of Big Data analysis and machine-learning capabilities will have the most profound impact on the industry – especially as they become more widespread and sophisticated.

According to Gostick at BondIT, wealth management firms barely scratch the surface of the data available to them. "There is an enormous quantity of data on customer behaviour, interests, future aspirations, life events, etc that today are not being leveraged and combined with available investment choices to derive portfolios of investments tailored to that individual client."

As a simple example, Gostick asks why Amazon can recommend books, films or music that it knows the customer will enjoy, yet banks are generally unable to proactively recommend any tailored investment advice to their customers?

By contrast, one of the biggest challenges for many wealth owners in Asia is being able to aggregate all of their disparate pieces of information from multiple counterparties.

Only then are they able to truly understand what drives their wealth, and only then will they have the ability to make decisions in a fast-changing world.

Big Data can also help to streamline the KYC/CDD and minimise the overall account maintenance and regulatory compliance costs.

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There is a lot of urgency around getting this right. Decisions must be made in the context of global events – political, economic, foreign trade, etc, and the mountain of information paves the way for fintechs as potentially useful tools to stick to the vital few pieces of data that matter most.

As organisations start tapping into this data and use it to better service their clients, including anticipating investment and client trends, the more competitive they will become.

A key technical driver, believe some respondents, is a core operating platform which enables coverage and client-related modules to be seamlessly attached, drawing on appropriate data and information and enabling execution of transactions and communications.

What some practitioners believe the industry needs, is a mind-set shift beyond mobile and towards blockchain – given that the tools and techniques now exist to use it and turn data into insights, and then action.

Digitally impressive firms

The 160-plus respondents to this survey highlighted some of the different types of organisations – wealth managers and non-wealth managers alike – which can boast some interesting digital offerings.

Some of the most frequently mentioned companies by respondents, divided into specific categories – are:

Banks –

- *Credit Suisse*
- *DBS Bank*
- *UBS Wealth Management*
- *UOB Bank*

Robo-advisers –

- *Betterment*
- *Hargreaves Lansdowne*
- *Nutmeg*
- *Tilney Bestinvest*
- *Wealthfront*

Trading platforms –

- *Charles Schwab*
- *Interactive Brokers*
- *Saxo Bank*
- *TD Ameritrade*

Other companies –

- *Alipay*
- *Bondevalue*
- *Discovery Insure*
- *eWise*
- *Tencent*
- *Fidelity*
- *ING Direct Australia.*
- *Squirrel*
- *Vanguard*
- *Thomson Reuters*