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Link to Content Summary page
Link to Photos
Link to Video Highlights

Does Digital Equal Faster, Cheaper and Better Wealth Management?

Hubbis assembled a group of experts from around the globe in Jakarta to discuss the benefits that digital technology can offer the wealth management industry, such as customisation and hybridisation. The panellists also pondered some of technology's shortcomings to date, such as why robo-advisory has not yet met expectations.

These were the topics discussed:

- *What's the potential for non-banks and other start-ups to eat into existing market share of organisations built on a traditional business model supported by RMs and bricks and mortar wrapped around well-known brands that are perceived to be safe?*
- *Build it yourself or PLUG & PLAY?*
- *What digital trends are we seeing elsewhere?*
- *Platforms and processes - whats the role of digital?*
- *Which technology solution provider do I choose?*
- *What are the consequences of not doing enough or anything?*
- *What is the client experience supposed to look like?*
- *Have we seen any examples of tangible success in digital wealth management?*
- *How should banks decide what's working? What KPIs should we use?*

PANEL SPEAKERS

- **Ivan Kusuma, Senior Vice President, Investment Business Head, Commonwealth Bank**
- **Michael Gerber, Chief Executive Officer, 360F**
- **Namit Khanna, Sales Director - SEA & India, Finantix**
- **Anthony J. Harper, CEO & Co-Founder, Axial Partners**
- **Loic Pitrou, Managing Director, New Wealth Experience**

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EXECUTIVE SUMMARY

Experts gathered at the Hubbis Indonesia Wealth Management Forum to discuss the ever-popular topic of digitalisation in wealth management, and for some, the shine has worn off robo-advisory solutions. Heralded as the next big thing, customer engagement with digital advisers has been thwarted by low financial literacy and lack of interest.

Instead, panellists urged those in the industry to look towards education, hybridisation, customisation and transparency as ways to boost customer engagement. Relationship managers are here to stay for the foreseeable future, but augmentation using digital data-processing power will give a boost to the experts who are increasingly pressed for time.

"THE BIG QUESTION WE WANT TO answer today is, what are we supposed to be achieving by using technological enhancements in the wealth management industry?" began one attendee. He noted that a recent survey carried out with wealth management customers in Hong Kong found that 95% are not interested in technological advancements and that most do not even use the new digital platforms.

"A digital adviser is simply a human adviser

MICHAEL GERBER
360F

IVAN KUSUMA
Commonwealth Bank

giving digital advice, as robo-advisory systems have not reached the level of reliability and engagement many had expected," added another expert. Indeed, many wealth management advisers are breathing a sigh of relief at this, as their jobs are safe for the foreseeable future.

So why are robo-advisory systems falling short of expectations? "There are two reasons," began an expert. "Firstly, they are prohibitively expensive to acquire, and secondly, customers do not wake up in the morning and think, 'I want to buy a financial product'. There is no direct reward, sometimes customers must wait for years to see benefits."

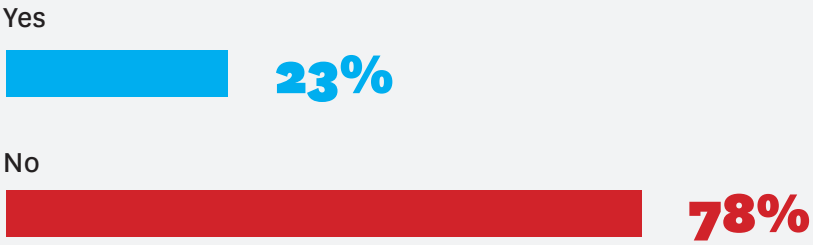
Certainly, most people would prefer instant rewards, and this is where the human adviser becomes so valuable. "They can nudge, cajole and convince the customer to buy a product, then clap them on the shoulder and say, 'you have done a fantastic job!'" joked an attendee.

For front-end success, financial literacy is key

"Digitalisation is a current buzzword in the financial industry," agreed an expert, "but there are two distinct units, the back-end which is the data-processing side, and the front-end which is used for customer engagement," he explained. "The front-end is the disappointing part," he added. "For there to be any success from digitalisation, the front-end must be engaging and truly easy to understand," he concluded.

ANTHONY J. HARPER
Axial Partners

DO YOU IMAGINE THAT A RELATIONSHIP MANAGER IN WEALTH MANAGEMENT WILL BE REPLACED BY A ROBOT WITHIN 5 YEARS?



Source: Indonesian Wealth Management Forum 2018

A key issue preventing customer engagement with digital advice is financial literacy. "If a robo-adviser designs a model portfolio for a customer, indicating 68% equity plus other asset classes, then you take that to the street and ask people what it means, 95% will have no understanding of the terms, nor how to act upon that information," elucidated an attendee. "Most laypersons cannot differentiate between a fixed income and an equity product."

An expert provided another example from a recent study, where people on the street were asked to explain the concept of compound interest. "91% of people could not explain how it works," the expert revealed, "which shows how difficult most financial products are to understand for people without a financial background."

These examples show that customers are unlikely to act successfully upon information given to them by robo-advisers. "Digital advisory solutions must dispense advice in a way that at least 95% of people can understand," a delegate argued, "because if the customer follows advice blindly, then their portfolio performs badly, we will quite rightly get complaints."

In Indonesia, and in Southeast Asia in general, customers want to be close to their money, as most high net worth individuals are first- or second-generation wealthy. However, in most cases, those who manage their own portfolios do not outperform the banks.

In fact, a recent study indicated that 92% of self-managed portfolios performed worse than those that were professionally-managed. This comes as no surprise as it takes a lot of interest, time and knowledge. "The best solution is for customers to be honest and upfront about their risk appetite and goals, then let their money be managed by professionals, who report back frequently," advised an expert.

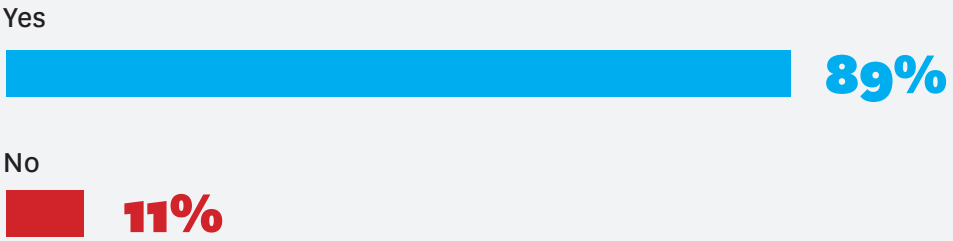
LOÏC PITROU
New Wealth

"DIGITAL ADVISORY SOLUTIONS MUST DISPENSE ADVICE IN A WAY THAT AT LEAST 95% OF PEOPLE CAN UNDERSTAND,"

All aboard the digital train

The level of adoption of digital solutions varies widely between countries. "In India, where the vast

DO YOU FEEL CONFIDENT THAT DIGITAL WILL PLAY A SIGNIFICANTLY MORE IMPORTANT PART IN WEALTH MANAGEMENT IN INDONESIA?



Source: Indonesian Wealth Management Forum 2018

majority of the population are retina-scanned, the onboarding for financial services is quick and easy," explained an attendee. "I can buy a mutual fund or systematic investment product with only my ID card," he continued.

In contrast, in the Philippines, most onboarding still requires filling in mountains of paperwork. "In Indonesia, which is geographically dispersed, digitalisation represents an effective way of connecting with customers at a low cost," an attendee added.

"Onboarding in three minutes is nothing but a party trick if it leads to customers buying a product that will ultimately lose them money," warned an expert. "In the retail sector particularly, customers rely upon their investments, so they must understand what they are doing," he continued. "We must find a trade-off between fast onboarding and ensuring that customers people understand what they are buying."

NAMIT KHANNA
Finantix

Prioritise customers, prioritise customisation

Customisation is another buzzword becoming associated with digitalisation. Customers are not satisfied with off-the-shelf products, but the cost of a human relationship manager (RM) engaging with a customer for many hours to work out the perfect customised portfolio is prohibitive. "The clock is ticking, so RMs must offer off-the-shelf products as quickly as possible," explained an expert.

"It is just a case of implementing the right technology," argued an attendee. "Seventy per cent of our net revenue now comes from digitally customised portfolios. This is going to become the new normal," he added.

Forging independence from fund providers is fast becoming a major issue in the wealth management sector. The Royal Commission in Australia is pressuring wealth managers to shift from commission-based earnings to fee-based pricing, charged directly to the client in exchange for unbiased advice.

"The Australian fee-based service is superior to the retrocession model," a panellist explained, "as it is transparent and open-architecture, with a clear understanding that it is a fee for service transaction."

So, how does the fee-based service bring together the digital and traditional advisory sectors? "Customers get frustrated communicating with robo-advisory, and even if the advice seems legitimate, they still prefer to have a professional RM look over their portfolio and give their trusted opinion," explained an expert. "If the RM is not under commission from certain agents, they can give an unbiased opinion for a fee."

"DIGITAL "SEVENTY PER CENT OF OUR NET REVENUE NOW COMES FROM DIGITALLY CUSTOMISED PORTFOLIOS. THIS IS GOING TO BECOME THE NEW NORMAL,"

What use is digitalisation? Hybridise to survive

The panel discussion concluded by focussing upon the value of digitalisation in wealth management and the future directions. "Digitalisation has no doubt improved onboarding, data analysis and workflow for the wealth management industry," an expert explained.

"RMs will not be replaced by robo-advisory, there will always be a place for them because of the unique customer engagement skills they offer," a panellist stated. "However, the productivity of those RMs will be improved by the adoption of digital augmentation, especially when dealing with the mass retail market," he added, concluding the discussion. ■