Link to Article on website

EY Partner Mark Wightman Surveys the Digital Topography in Asia's World of Wealth Management

Mark Wightman, Asia-Pacific Wealth and Asset Management Consulting Leader at EY, has a bird's eye view of the evolution of the wealth management industry in Asia, including advances in digitisation, and key priorities for the private banking sector. He has over some years been a regular speaker and expert thought leadership panellist at Hubbis' public and private events. We 'met' up with him by video call recently to dig down into his view of the digitisation of wealth management taking place in the region, the key priorities for investment today, and some of the key areas where further advances are likely in the coming years. It is not possible in a report of this kind to capture anywhere near the full range of his observations, but we have tried to distil some of his key insights in this Q&A. His overriding perception is that, to compete effectively, private banks should leverage digital solutions to first understand their clients as deeply as possible. From there, they can curate the optimal flow of manageable and relevant information and ideas, and then communicate and deliver omnichannel experiences, but always in the preferred media of their individual clients. He explained how upgraded digital platforms are likely to be essential for survival, how digital must be employed for cost savings in an industry suffering from cost-revenue imbalances, and how transparency must be achieved for both compliance, but also for clients to genuinely understand pricing and the value-adds they are being offered.

GET IN TOUCH

View Mark Wightman's LinkedIn Profile

Find out more about EY

MARK WIGHTMAN
EY

"In terms of digital differentiation, clients see the front-end delivery, their customer experience. However, digital is also an important element throughout the entire banking model, from onboarding through execution, post-trade, compliance, portfolio management, reconciliation and reporting, data, analytics, and so forth. You can digitise all of those elements in terms of processes, and it will add up to a significant enhancement of the entire end-to-end efficiency of the business and add value. But much of this is assumed to be readily available by the customer so, in terms of differentiation, it comes back again to relevance and also how digitisation can help achieve some of the more sophisticated client expectations, such as detailed goals-based planning."

What are Asia's private clients seeking from their wealth management providers these days?

What clients are seeking most in this environment is relevant engagement with their banks and wealth management firms. All our research clearly shows that in the HNW and UHNW segments, those clients want pertinent and targeted information. These days, there is just too much data out; there is simply too much information. Clients want relevant, bite-sized information that makes a difference to their investment universe. Digital is not just the pretty front end; digital is an end-to-end solution. The vital element is not just mechanics such as KYC and onboarding, but to truly understand what your customer is interested in – to know their portfolios, and make sure that communications are relevant. In short, they want to be understood, and engaged in the ways they prefer, leveraging the omnichannel offering.

What are some of the key trends you see amongst your clients in this industry in this region?

In the past, too much data has been just sitting in spreadsheets, underutilized. But, looking at some projects underway in the region now, we are seeing improvements to CRM functionality for private bankers which will allow them to capture more relevant information and have more relevant conversations with their clients. The bigger spenders are re-platforming or improving the STP to help enhance AUM. There is also a strict compliance overlay to these activities, as both a lack of transparency or reputational damage can seriously impact a wealth business today, and the stakes are higher than ever before.

So, given the providers are seeing all these same pressures from competition, client expectations and regulation, how do the private banks differentiate themselves?

It varies. Some can clearly differentiate based on their size, scale, and perhaps their investment banking backed product set. Some will position themselves more in terms of their local expertise and history. Some will combine their wealth offering with their commercial banking businesses to offer a tailored solution to perhaps appeal to more entrepreneurial families in the region. In terms of digital differentiation, clients see the front-end delivery, their customer experience. However, digital is also an important element throughout the entire banking model, from onboarding through execution, post-trade, compliance, portfolio management, reconciliation and reporting, data, analytics, and so forth. You can digitise all of those elements in terms of processes, and it will add up to a significant enhancement of the entire end-to-end efficiency of the business and add value. But much of this is assumed to be readily available by the customer so, in terms of differentiation, it comes back again to relevance and also how digitisation can help achieve some of the more sophisticated client expectations, such as detailed goals-based planning.

Furthermore, I'd call out the focus on "building back better" as clients & firms want their ESG and impact priorities understood, and services provided. Many wealth managers have made bold statements around their net zero plans but now need to operationalise this which is another real area for differentiation (and more than just products, services & technology but touches all of them).

What about the specifics of the Asian HNW and UHNW investor?

In Asia, private clients tend to trade more complex products and more embedded derivatives than their equivalents in Europe or the US, and there is also a lot more self-directed investment by first-generation money. Many people in Asia have made money based on their own prowess, and they like to make their own decisions. So, they tend to like to get quotes from a few parties once they have selected their products, seeking to get the best deal. Witness the growing demand for private markets access in the UHNW & family segment.

In Europe, private banking in many cases is purer wealth management, with a very significant element of wealth preservation. Based on experience and trust, clients there often place much more of their assets in discretionary mandates, with everything taken care of, for a fee. Switzerland, for example, might have 50% DPM, whereas in Asia it is probably nearer 10%, as there is more scepticism here as to the real value of DPM, and more founder-creators of wealth who like to take a more hands-on approach to their investments.

Can digital change the situation in any way?

We haven't seen any pure digital private banks in Asia yet, whereas in Europe there are instances of such entities being created and trying to use open APIs to link to a whole variety of service providers. Without mentioning names, we see some of these challengers in Europe making a go of it in the retail mass affluent space so, potentially, we'll see the same coming into play in Asia. Obviously with the bank as a platform, the open API story is a very strong one, and we see regulators in the region such as the MAS encouraging this rather progressively. In this model, the bank essentially becomes a gateway.

"A lot of the investment is today going to app development, robo is just another element of digitisation, like internet banking. now everyone has them, these things are no longer differentiators. Trade flow optimisation is also attracting a lot of spend. So too is the back office digitalisation; while the clients don't see it directly, banks still need to standardise their operating model and achieve economies of scale, that is the only the way they are going to grow their business across the region and drive profitability."

What about the role of digital in RM empowerment?

Digital can significantly enhance the effectiveness of RMs, by reducing administration, improving processes, upgrading recommendations, and cutting the clutter from information flows to clients. This helps free up the RMs to spend more and better-quality time with their clients. Just think about the hassle saved with call reports if firms use real-time voice to text transcription (and then link to automated next best action...). Banks and RMs can then decide if they target more clients with this additional productivity or delve deeper into their existing clients with regards to other services that can be offered, such as estate planning, inter-generational wealth transfer, insurance, real estate strategy, educational strategies for their kids and these sorts of things. The average RM is still rather product-centric, whether driven by reverse inquiry or selling the latest product of the day, week or month. Very probably, from a profitability perspective, the bank could potentially make more money by increasing the share of the wallet of existing clients. In Asia, clients tend to multi-bank, so the more you can win from their share of wallet, the better. That is an immediate and clear goal and to achieve it requires a real understanding of the client., RMs need to be able to offer more and, to do this, they need to be freed up and have their existing processes enhanced by digital solutions. Yet again, it comes back to relevance and engagement, which digitalization can help improve. Digital truly is a game-changer.

In your view, what is the best approach, build, buy or partner in today's world of private banking and technology?

To truly digitise requires significant budgets, so I think it is necessary for banks to review their whole operating model and determine which elements they could potentially overlay

with various FinTech solutions. Bespoke build is expensive so it's best to only consider this for truly unique offerings as you gain from the shared investment & expertise when buying or partnering. Banks don't always have the best track record of being able to build on time, and particularly when a lot of internal resources are dedicated to existing projects. Robo-advice is an example and there are a number of good FinTech solutions out there which could be leveraged to work within the existing digital services. Robo could be direct to client (D2C) but is usually a tool to empower the RM and helps provides consistency of advice and service. Another current area of investment is around conversational banking and client communications (across chat, document sharing, VC and even simple execution) where banks are often leveraging FinTech solutions. Of course, all such projects should engage stakeholders, including the regulators, early on for a successful outcome.

Are the RMs sufficiently skilled, capable and adaptable to handle the range of digital solutions available and the changes to the way they can, or perhaps should, go about things?

RMs are generally happy to adopt new technology. For the most digitally advanced institutions, it is a selling point to these RMs. If you have a leading platform, realistically it is easier for your RM because they do not have to spend as much of their days filling in suitability forms and other documents, onboarding new clients or being chased by back office and compliance teams. Given the regulatory-compliant world we live in, there is and increasing volume of regulatory paperwork to be completed. If we can digitise and automate that, with e-signatures and e-documents for example, it makes life is a lot simpler. The RM can then spend more time on the interesting side of things, which is actually adding value to clients, servicing them, keeping on top of their needs and providing relevant solutions.

But does all of this not push some RMs from their comfort zone?

Fundamentally, this is an industry that is there to produce investment performance & service customers through their preferred channels. There might be some initial resistance to change, but on the flip side, clients often say to their banks that another private bank does this for them, so why can't you guys? If you are an RM, you would be worried if you're spending a lot of your time on the daily grind rather than on productive client work. For private banks that can put in place new and strong digital platforms, this should help them attract new RMs who see the clear benefits to the business and to themselves.

Is Robo flavour of the month still and is it delivering advice?

It's important not to get carried away with this concept. If you look at D2C robo today, it is not true robo advice. Currently, in most instances, the robo ask a small number of questions and then sorts the client into one of perhaps five to ten predefined buckets. That is not advice, it is digital allocation into

assets that are on the approved lists, these days often ETFs.

However, there are quite a lot of different types of robos out there when you really start looking into it. Some delve more into the behavioural psychology side of things, asking questions such as what a client might do if their portfolio went down 10% or 20%. They start to understand fear of loss, as well as risk appetite. Suitability is mandatory already when you're onboarding a client, and there are annual updates after that, so that clearly has to flow through everything else you do for each client as well.

Where should the private banks and others be focusing their digital investments?

A lot of the investment is today going to app development, robo is just another element of digitisation, like internet banking. now everyone has them, these things are no longer differentiators. Trade flow optimisation is also attracting a lot of spend. So too is the back office digitalisation; while the clients don't see it directly, banks still need to standardise their operating model and achieve economies of scale, that is the only the way they are going to grow their business across the region and drive profitability. Re-platforming is another focus area, because within five years, if you haven't got a strong scalable digital offering, you're no longer going to be competitive in the market. So it is mandatory, as simple as that.

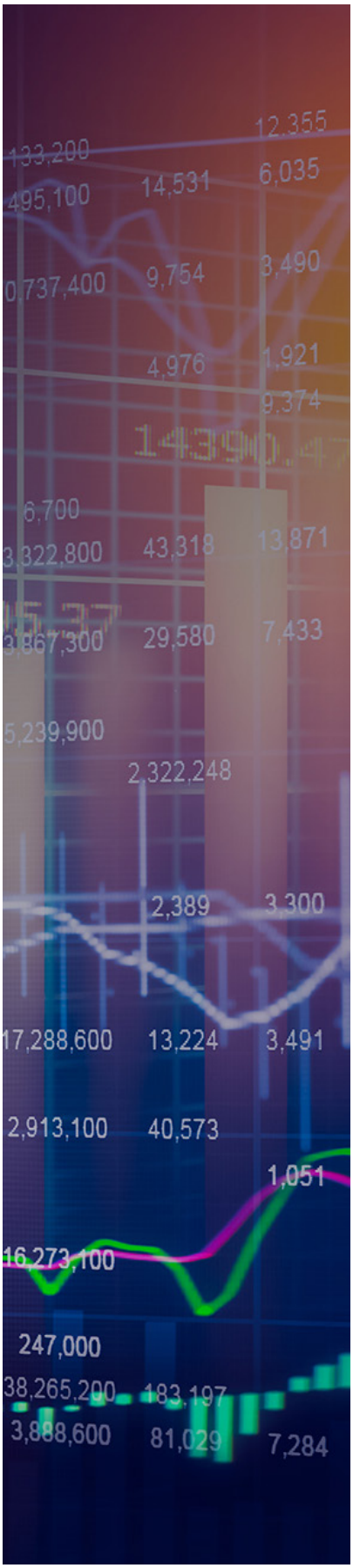
Generally, cost-income ratios are high, but it costs money to go digital. That may mean that some of the smaller private banks, might be questioning whether it's viable to meet the changing needs of their client base. Can they really invest the money they need?

What does the competition look like ahead for the private banks?

The lines between asset management, insurance and wealth management are already blurring. This is very clear and traditional manufacturer-distributor relationships are breaking down because we now have asset managers buying or building distribution capability bank buying or building manufacturing (DPM/funds) and insurers looking at the overall wellness (health & well agenda). I cannot mention ANY names.

What about Big Tech, are they a threat to the incumbent players in Asia?

So far, we haven't seen the technology firms really push into the wealth management arena yet. However, with some major global brands having secured banking licenses, the rise of notable FinTech financial groups, especially in HK, Singapore & China and the retail banks continuing to drive into this space to some degree, we are likely to see these types of players trying to produce a much better end to end experience, to be able to handle clients from retail right through to mass affluent to private banking clients. I think we're moving into more of a world of cooperation & ecosystems right now, so you will see more of these new FinTech players and more global tools coming into



Asia, and vice versa, leveraging best of breed technologies.

Can you attempt to define the key digital investment priorities for the foreseeable future in Asia?

Increased communication channels should be at the top of the priorities list. You must have omnichannel, that's a 9 out of 10 priority ranking. Other key priorities, ranking 7 or above, should include tools to better understand clients and improve the sales process, solutions to achieve cost savings, and the digital upgrade of platforms. Another focus area, that ranks lower in my view, are robo – which to me is more like a wheel on a car now, in terms of being an essential element of the wider wealth industry platform. The drive to advisory and discretionary are of mid-ranking importance; in my view, discretionary is not going to take over the world out here in Asia.

And thinking ahead, what other elements might we see emerging as part of the digital revolution in the coming years?

I wonder where and when we might see some more social media elements coming into the wealth management space? Perhaps clients will want to rank RMs, or they might want to provide information on wider industry. Overall, there is a drive to greater transparency, with the regulators driving it through CRS, MDR, AEOI, BEPS, suitability rules, accountability rules and so forth. Fees are under pressure, and there is a far greater focus on fee transparency and getting value for money. That whole area is potentially a game-changer because it has a direct impact on products. Traditionally, there have been a lot of embedded fees in all types of products, particularly structured products, which have been a big driver of profitability for a number of banks. Looking ahead, we might well see that we arrive in a simpler, more transparent world where digital and the RM work hand in hand to provide the client with much greater transparency and better value. We cannot ignore the growing importance of ESG & Sustainability and, from a products perspective, I do think we'll see more banks offer crypto & digital assets as we see wider acceptance. We are lucky to be working in Asia during this exciting time. ■

Mark Wightman - a Snapshot

A recognised thought leader in the region, Wightman is the EY Asia-Pacific Wealth and Asset Management Consulting Leader. He has led projects across the buy-side, including strategy, risk and regulations, operating model, , with the majority of his time focused on business and digital transformation. He originally graduated BA and MA from Oxford University. He has been a Singapore Permanent Resident for over 15 years and has focused on the Asia-Pacific market for over 25 years.

He joined EY in 2014 after spending over 20 years in the industry with operations, technology and strategy roles. He started his career in financial technology after the London Business School in 1994 and later raising VC and exited.