Plugging the digital gap

While the demand for digital wealth management is growing among Asian investors, many traditional players are struggling to respond. So firms which enable financial institutions to offer clients and advisers a web-based portfolio investing service have a niche to exploit, says Alex Ypsilanti of Quantifeed.

Wealth management continues to move from the traditional model of personal financial advice towards becoming increasingly digital.

Although the initial driver was customer demand, the industry itself is now a force of change.

This seems long overdue. The target customer profile has evolved from the HNW individuals to the mass affluent, plus there has been a generational shift into the millennials – born between 1980 and 2000 – who are immediately familiar with, and reliant on, technology.

The upshot is a growing number of institutions looking to either build their own digital platforms or buy in the technology to upgrade their investment services in this way.

It was recognition of this impending transformation within the industry that led to the birth of Quantifeed in 2013.

"There was an 'Aha!" moment when we first came across products from direct-to-consumer Silicon Valley start-ups," says chief executive officer Alex Ypsilanti. "But I think the biggest catalyst was the realisation that financial institutions, especially those in Asia with well-established distribution networks into mass affluent and HNW, would struggle to respond to the opportunity for digital wealth management."

Today, he believes that the firm is the region's leading provider of digital investment solutions.

Yet Ypsilanti is quick to add that this goes beyond what most people understand to be 'robo advisory'. "We are cautious of the term robo-advice because it's ill-used and ill understood," he says. "We describe the space as digital or online wealth management, whereas robo-advice is a poorly conceived term, and it connotes opacity and the potential of things going wrong."

ALEX YPSILANTI
Quantifeed

He argues that the blanket terminology describes only a thin sliver of what digital wealth management should be all about.

Instead, Ypsilanti points to a hybrid, or augmented, model.

"This means not just pure robo-advice but essentially a product that sits alongside wealth advisers or wealth managers."

QUICK TO ACT

The struggle which Ypsilanti foresaw for traditional wealth management models lies in the development of the technology needed to provide a digital wealth management offering quickly and cheaply enough.

Not only do legacy technology and systems weigh down many large financial institutions, but legacy ways of doing things too.

"There is a lot of change coming from the mass affluent and retail audience," he explains, "and there is a lot of demand there for digital and for wealth management because a lot of these people don't get any wealth management services at the moment."

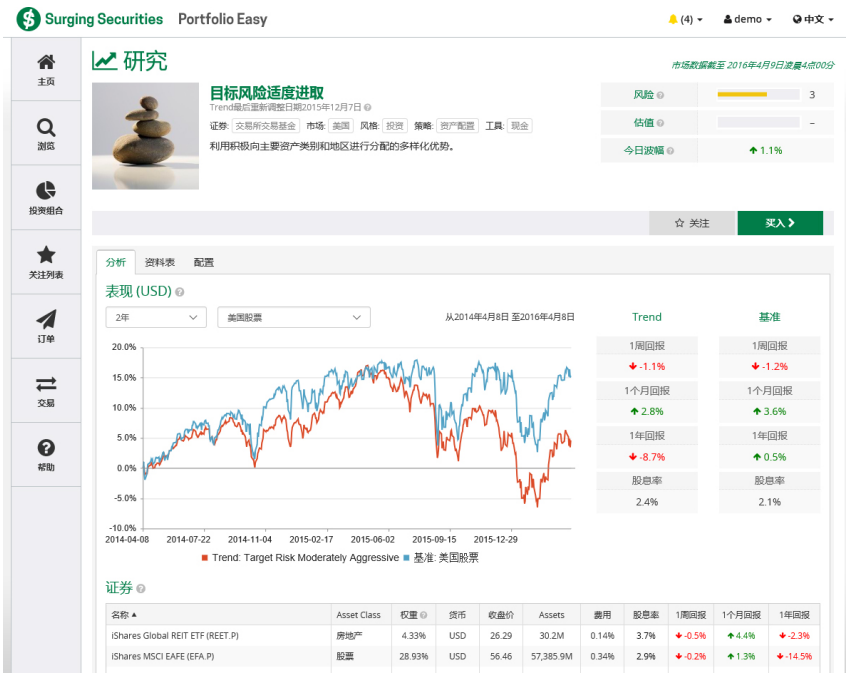
It was this vision which inspired him and co-founder Ross Milward, chief technology officer, to create Quantifeed.

With a combined 30 years-plus in equities and equity derivatives at top-tier investment banks, they could see that the changes driving the business were coming from inside as well as outside.

Banks, brokers and independent advisers alike began to see they would need to leverage technology to access market segments which were previously unexploited, or even off radar.

"This change is not just being led by the end-consumer; it is also led from within the industry," says Ypsilanti.

Quantifeed's response was to provide a software platform which is flexible enough to scale from the simplest wealth management to tailored solutions. "Our offering is a piece of software that we distribute as a Software as a Service or, in fact, Platform as a Service,"



A user's journey

The first step of the process which Quantifeed focuses on is planning. This means setting goals and assessing the risks, the provision of related financial planning tools, and a checklist of controls to ensure internal and regulatory compliance.

Ypsilanti sums this up as "personalisation or customisation under certain constraints or requirements".

Quantifeed's risk profiling capabilities also mark out the company from many competitors. "We learn more about the client in a constructive and algorithmic way," he explains.

Although many banks do this already, it is by no means universal among smaller banks and brokers, especially for the mass affluent segment.

Secondly comes trading. Quantifeed facilitates funding the product and enabling clients to withdraw from it. Connectivity to multiple execution platforms provides global market access across multiple currencies and security types.

"The advantage with our platform," explains Ypsilanti, "is that it can host any kind of product, including funds, ETFs, listed securities and so on."

The third element is portfolio management. This covers rebalancing the portfolio.

"That could be looking at its P&L, performance and where you could be in five or 10 years," Ypsilanti explains. "Are you fulfilling your goals?"

he explains, emphasising the focus on the investment needs of the end-user.

OFFERING SCALE

For investment institutions, Quantifeed provides a scalable portal for their clients, white-labelled under the company's own brand. "Financial institutions with established distribution networks really value the idea that they can say 'this is my product' and 'this is my brand'," says Ypsilanti.

Further, by removing complexity as well as the need for specialist knowledge, customers have a simple user experience which is personalised to their needs through the digital channel for wealth management.

"We work with our clients, the financial intermediaries, to basically offer the investment experience they want to give to the user," adds Ypsilanti.

This might range from anything from a pure vanilla, robo-advice kind of offering, to something akin to an augmented model.

Quantifeed's digital offering works alongside the adviser all the way to something that is more for the self-directed investor.

"It is shelf of portfolios," explains Ypsilanti, "and as a consumer you can pick and choose whichever ones you like."

This all goes back to the idea of Platform as a Service. In terms of execution of trades and custody of assets, customers see what they need to see – not the technology behind it.

"What we realised from the very early days is that our clients want to brand it and make it look the way they want to make it look but they also don't want to move away from legacy systems or legacy relationships."

GETTING AHEAD QUICKLY

In driving Quantifeed forward, Ypsilanti is also very aware that things are moving fast.

"Nobody really knows how robo-advice or digital wealth management is going to evolve," he observes.

"We have got robo-advice 1.0 but the evolution to 2.0, 3.0 and so on, and what it looks like in Taiwan versus Korea versus Hong Kong versus Australia, for example, is going to change."

With this in mind, Quantifeed aims to use its model as the foundation and develop it specifically so that individual financial institutions do not have to worry about the future.

"If a bank commits to building [this themselves], they also have to commit to supporting and maintaining it, and most importantly, innovating and evolving it. For many, that's a scary thought," adds Ypsilanti.

Inevitably, therefore, there is still room for growth in the region for models like that of Quantifeed's.

"As a business strategy, certainly the consumer banks and the online brokers are our priority," explains Ypsilanti.

"The markets we are targeting are Australia, Japan, Hong Kong, Singapore and Taiwan, and there is China, of course." The Philippines and Thailand are also on the agenda for the next 12 to 18 months, he adds.

Along with John Robson, the firm's head of strategic partnerships, the experience of the management team has attracted engineering technologists and strategists with backgrounds in computer science and quantitative finance, including CFA and PhD level qualifications – with a total of 12 employees. ■