

# The Rise of the Digital ‘Neo’ Banks and the Impact on the Future of Wealth Management

*Swiss platform/custody provider Swissquote serves its entire global client base of more than 300,000 customers entirely through a digital interface. Damian Hitchen, CEO for Asia based out of the firm’s new Singapore office and armed with the new CMS licence there, presented a fascinating Workshop to delegates at the Hubbis India Wealth Management Forum, explaining in considerable detail about the arrival of the digital banks in Asia and how the digital revolution is picking up steam. He warned that those in the wealth management industry who do not embrace change face possible extinction as smarter, bigger and more resourceful entrants pile in.*

**H**ITCHEN BEGAN BY EXPLAINING THAT SWISSQUOTE is a listed Swiss bank but manages its relationships to all parties only via its platforms. “We have no branches,” he reported, “we are effectively a digital bank and have been so for 20 years, but we do not take cash, we build assets on our platform through our client relationships, mostly the B2B model.”

He then explained that the marketplace has evolved beyond finding someone to create a nice, shiny front-end. “What is really important is integrating the end to end process, so that actually the clients receive a truly digital execution model from front to back, seamlessly.”

With that, he used some excellent slides to highlight two model platforms of the fintech banks, the digital banks otherwise known as the Neo Banks.

## Here come the ‘Neo’ banks

Hitchen explained how new arrivals are rearranging the banking landscape, producing challenges to the existing players. The ‘Neo Banks’, such as the digital banks now



DAMIAN HITCHEN  
Swissquote

[Link to Content Summary page](#)  
[Link to Article on website](#)  
[Link to Presentation](#)  
[Link to Event Homepage](#)





opening their virtual doors in Hong Kong, offer ultra-fast in-app account opening that takes five to 10 minutes, and they provide excellent mobile app user experience.

Of course, they offer smart banking by using transaction data for personalised communication and recommendations. “Smart banking is all about using transaction data, using AI, using robos, to look at preferences and behaviour of the clients and then translating those insights into the services,” he explained.

Neo banks achieve cost advantages as they have no branches. “As I mentioned earlier, this also applies to Swissquote, as we have no branches; therefore our cost base, our cost/income ratio is lower than traditional

bank norms, far lower than an operator who has a very large distribution salesforce. I worked for a global bank for 10 years when they were at the time the largest bank by employee numbers in the world, with roughly about 400,000 people, and with that brings a large amount of fixed, operating costs.”

Neo banks do not suffer from legacy mainframe IT infrastructure, they use the latest cloud-based software. “One of the biggest challenges today is this legacy system problem, whereby solutions are patched together, so it becomes inefficient, and not user-friendly.”

The Neo banks also sell to new clients on the basis of what is called ‘freemium’ with the basic offering free of charge, then

they aim to up-sell via monthly subscriptions, and then cross-sell through the marketplace.

Moreover, they leverage the new open banking possibilities, so they use utility providers for back-office banking functions, and they integrate fintech partners to offer best-in-class solutions.

Meanwhile, the Big Techs are encroaching into the banking value chain without becoming insured deposit-taking entities. Their aim is to satisfy the payment, credit and advice (insurance/wealth) needs of millions of customers via their own non-bank platforms.

### **Loyalty is old hat**

Hitchen then pointed to some Accenture research that showed clearly how, based on 33,000 customers surveyed across 18

markets, they found the older generations prefer to work with banks they know and trust, while the younger and future generations, of which the Millennials are the most active segment, care mostly about user experience, not about brand and history.

Hitchen highlighted some of the new Hong Kong digital banks who are now challenging the hegemony of the big brand name banks that have been operating for decades, or even centuries. “We can see also that some of the major traditional banks are also teaming up as investors and partners in these Neo banks,” he reported, “to defend their positions and prepare themselves for this new world of banking. Essentially, they are building a new digital proposition to access millions of new customers, and we are also seeing insurance giants as partners as well.”

### Spreading across Asia

Hitchen explained that this phenomenon will spread across the region. He noted that the Monetary Authority of Singapore plans to give out new digital banking licences later this year.

“We are seeing major banking and financial groups essentially creating another version of their existing online banking and wealth proposition with these Neo bank operators,” he remarked. “And in Singapore, they are going a bit further, offering both online retail and wholesale /commercial, and SME type lending licenses as well. But my key point here is that we are seeing FinTechs who are very good at the front-end and client experience delivery teaming with players who have built extremely large businesses and customer databases over the decades, working in partnership.”

At some point, smaller fintech entrants will not survive alone. “You have to have huge critical mass and scalability, or you have to be acquired, go into partnership or a JV with somebody who is bigger,” Hitchen surmised.

### Evolve, or face extinction

“Why do we all need to evolve?” Hitchen asked, rhetorically. “Well in the face of the neo banks and the Big Techs encroaching on the traditional players, those in the industry must defend and extend relationships, they must drive harder for the trusted relationship, they must leverage data and analytics to determine what clients want to do. In these ways, they can increase revenue opportunities by improving

and banking landscape, explaining that it is a step-by-step process from lower margin business such as payments to higher-margin activities such as lending or wealth management. And he showed the audience some examples of this type of evolution in Europe.

He then offered the core premise that all digital evolution and future positioning by financial service providers can be accelerated and optimised by those firms open-minded to innovation and diversification by partnering, rather than building in-house. “There are numerous good players out there, and unless you are a global bank with immensely deep pockets, you will be left behind unless you partner optimally with the best providers.

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reaction times of both clients and advisers, thereby leveraging volatility out there, and they can reduce revenue ‘concentration risk’ via multi-revenue models. And how should they evolve and transform? By smart use of in-house capabilities, and then by partnering and by outsourcing.”

### From lower to higher margin

Hitchen then delved into considerably more detail in the Workshop on the steps of this disruption of the financial services

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### The Swissquote advantage

And with that, Hitchen went into considerably more detail on Swissquote’s platform and its B2B offering.

He explained that as a fully digital bank, Swissquote has accumulated a global portfolio of more than 300,000 clients,

of which about 220,000 are individuals, and the rest are B2B partners. And the firm operates across 65 markets and offers more than 3 million investment products on its platform.

Swissquote offers a state-of-the-art trading and custody platform and tools to allow firms to trade on behalf of their wealth management clients. The firm's clients include B2B, for example, regional banks, private banks, independent/external asset managers, insurance companies and family offices, all of which are looking to provide their clients with an enhanced digital experience.

Offering full information, access, and functionality, Swissquote's platform houses over three million investment products online. The firm can partner with regulated partners who use their technology platforms for custody and to execute securities trading, on behalf of their clients.

### **Bank? Fintech?**

"In our DNA, Swissquote is as much a software house and fintech as a fully licensed, regulated and stock market listed bank," Hitchen elucidated, "because of the six hundred staff globally, more than half of them are software and development professionals. So, based on the feedback we receive from our B2B partners, we can build the platform uniquely for them, which also has the option of being white labelled."

"We are very different from your normal traditional Swiss bank or Swiss private bank," Hitchen added. "We are a fully digital bank offering a global banking, trading and custody platform that is purely online."

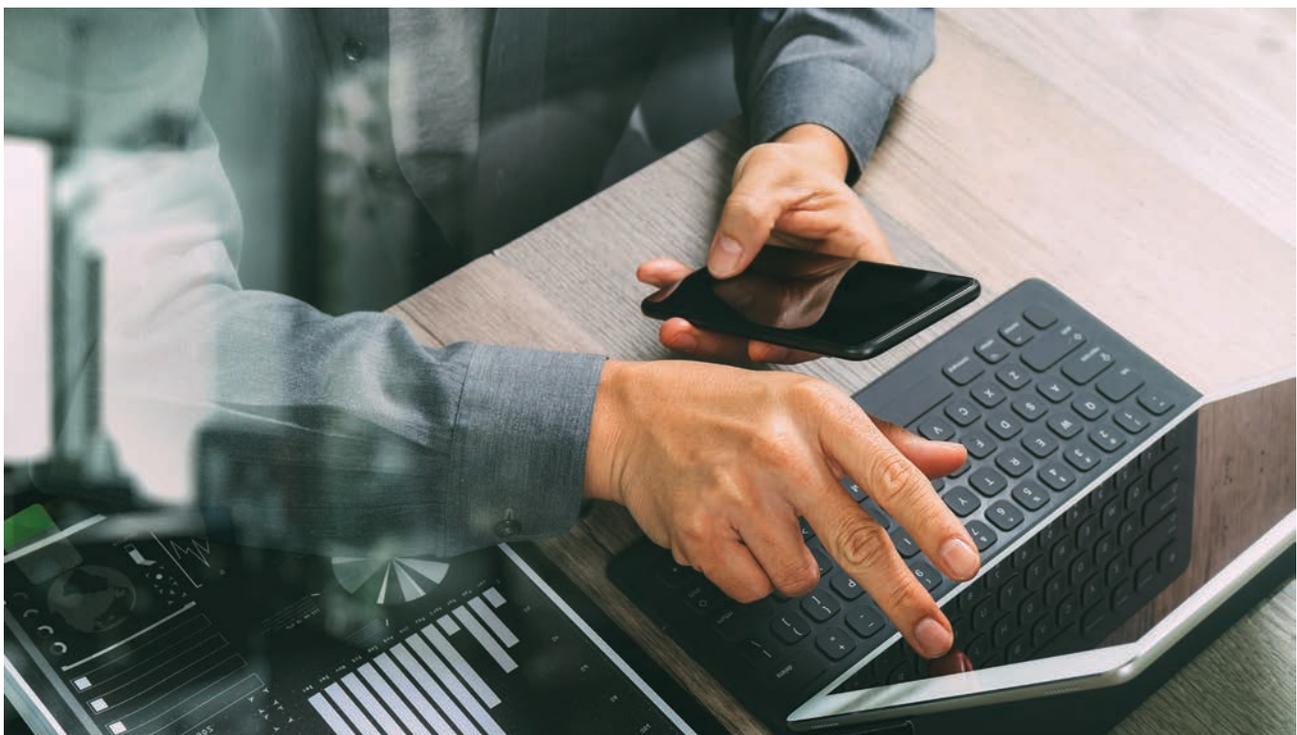
### **Direct access for B2B clients**

Hitchen also explained the biggest USP for Swissquote is the direct market access and control it gives to independent

wealth managers. The mission, therefore, is to provide the EAMs access to a global custody and trading platform on which they can control their trading activity directly, rather than having to use the traditional model of a relationship manager desk from the global custody banks for the execution of their clients' trades.

"We essentially give our platform back to our institutional partners," he continued. "We say that once you onboard it as our B2B partner, we will teach you how to use it, we will show you where you can make your different revenue streams, but they have it directly and have direct access for instant action in the markets."

"Our platform," he added, "is effectively theirs to work with their end clients, as they require and at their convenience - effectively removing the 'middle layer' of the EAM RM desk,



speeding up transactions and reducing the amount of manual work for all parties.”

**First-class partnership**

Hitchen further explained that Swissquote’s largest partner globally is Post-Finance (the Swiss Post Office), which is in fact also a bank. “They have numerous branches across the length and breadth of Switzerland and people used to have savings with them in the old days, so they bank millions of customers.” Swissquote and Post Finance several years ago entered a partnership to provide the wealth management platform for their customers with billions of assets and savings.

Hitchen explained that the Swissquote platform can be specifically tailored to the B2B partners’ needs and the universe of investments they want to be included. “For Post-Finance,” he reported, “we have made

our platform modular, and we allowed them to build their own bespoke universe for their client. And we white labelled it under their brand, so clients of theirs can then log in to their online banking and access their chosen investment universe and are then able to execute directly on the platform. Our platforms provide middle and back office services, and with PostFinance we took it 1 step further and built the front-end for them, via both a branded web-based platform but also by building their smartphone App on both Apple & Android - so if required we can provide front-middle and back-office services.”

He then highlighted how easy it might be for a B2B client to build a multi-asset class “portfolio” strategy using functionality on the Swissquote platform. “You can then sell that to your clients and offer to rebalance on whatever time interval and investment strategy you prefer. In

short, we are also providing our B2B partners with functionality and the right services to allow them to do what their clients are asking to do in the marketplace.”

**Wealth management plays catch-up**

Hitchen closed by reiterating that wealth management, asset management, and insurance to some extent is behind the retail banking and payments side of the industry and that it must improve quickly. “The right partnership with a firm such as Swissquote can solve this dilemma for many of today’s players. “To fast-track change, work with a partner who knows what they are doing, a specialist, and plug and play into that platform, that solution. So, start thinking about partnerships, we are here to stay in Asia, we have just opened our smart new office in Singapore, and we want to work closely with you and help transform your businesses for the future.” ■

