Wealth Management - Responding to the Competitive Environment in the New Norm

It only takes a quick scan of any banking publication to realise that there is genuine change coming in the wealth management space. Surveys show a consistent growth trajectory in AUM and one of the latest reports that the segment will expand by USD319 billion during 2021-2025[1]. The triggers are economic growth, and technology, but Covid-19 has exposed some fundamental cracks in how the industry works.

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Any well-versed observer of this space appreciates that wealth is a high touch people business, and banks loudly defend that digitisation is not universally beneficial to the HNW and UHNW segments. Such arguments focus too much on the ultra-wealthy and ignores a vital segment. It's difficult to argue against the notion that wealth is a people business. Money at its core is an emotive topic, and the more you accumulate the more you require tailored reassurances. But what about the other end of the spectrum? The masses.

While the points above are equally true for this segment, banks frequently struggle with customer volumes and relying on their current operating model of adding headcount to counter the volume of clients tends to quickly erode margins and is not a winning strategy. Yet the mass segment is often the bedrock of the basic banking business – deposits and loans, so not serving them with mutually attractive wealth management seems a missed opportunity.

What must a bank do to profitably capture the masses?

Observing behaviors is fascinating, banks often start their thinking from what they have - arguably a traditional style of thinking, maximising what's in place be it technology, user journeys, governance, and people, just simplifying the offering in line with regulations - let's call this a top-down approach. Agile competitors however don't have anything to reuse, so start from what customers want and build a lithe way to achieve this 'bottom-up' if you will, maximising all the new tools available to them. This seemingly small but fundamentally significant starting place points to the differing fortunes we are observing and will likely decide the changes we can expect to see ahead.

When it comes to digitisation the established banks tend to renovate, and new entrants will want to innovate, and here lies the crucial difference. Often the establishment's digitisation is akin to a 'new coat of paint' adding a snazzy consumer frontend app and ample marketing fanfare, but behind the scenes the infrastructure is often the same, i.e., the same tech, same maintenance, same support, same Target Operating Model (TOM) etc. Any 'problems' that were there before are merely covered up,

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for now – in this construct the net gains are often measurable if not always meaningful. Courage has been explored but tamed.

New entrants however have a fearlessness about them. They recognise that customers come first, but costs must be kept in check, thus their entire model is one that scales with their business. Their TOM is materially different and typically comprises of components from other firms, i.e., utilising SaaS and BaaS over cloud services and API enabled subscription services as key componentry. This asset and infrastructure lite proposition gives new entrants freedom to focus on differentiating their customer experience to best capture their needs, a factor not missed by incumbents; a recent survey highlighted that 'four in five bankers believe banks will seek to differentiate on customer experience rather than products'[2], the same survey points to a number of other trends amongst the establishment. According to 65% of respondents, new tech will have a profound impact on banking, with 81% citing AI as a key to winning. But to 'win' one needs to firstly capture clean data and know how to monetise it – utilising AI alone won't guarantee survival.

I have previously written of the opportunities of digital banks[3], but maybe the clearest example of the structural advantages of newcomers in wealth is to

look at robo-advisors, whom with little infrastructure have built enviable franchises. Often expanding their offering into Wealth Management-as-a-Service (WMaaS) B2B2C platforms capable of consuming and offering 3rd party services. An enviable position especially when the above mentioned report states that 47% of bank executives expect their businesses to evolve into ecosystems in the next two years.

These executives have sensed what's coming, or arguably already arrived. Already Goldman Sachs, BBVA and Standard Chartered have modularised their capabilities and take this BaaS approach. Viewed through a parallel lens, robo-advisors are simply tech providers that have acquired their own license to distribute. However, such licenses too can be consumed 'as-a-Service', further reducing infrastructure barriers to those wanting to introduce wealth to their customers. This opens the door to super-apps, (e) commerce, insurers and existing banks with either no wealth management or arcane tech supporting their wealth offering. So long as the desire exists to provide wealth management, a solution can be created.

Embedding Wealth Management

This highly economically viable asset-lite, low cost and open source opportunity presents options to quickly embed wealth management (as-a-Service). Such a service is readily offered by tech providers who can efficiently orchestrate an e2e solution for these entrants to wealth and package all necessary capabilities. The diagram below (figure 1) nicely depicts this visually – at the lower level are BaaS providers, principally comprising regulated entities such as brokers, custodians etc, to this one can add 'cutting edge' tech services. In the central platforms are firms like **additiv** that provide the essential orchestration layer, the single integrated architecture coordinating and, through sophisticated API's, connect the required channels and services with scale economics. While the top layer represents distributers, be they banks, insurers, asset managers, financial/social planners or e-commerce/super-apps etc, seeking to monetise their client base, profitably embed wealth services and drive demand with their customer base or open new markets agnostically via mobile, tablet or desktop.

Wealth was once a horribly complicated and expensive strategy, now entry is a tangible reality. At **additiv** we are already seeing the strategies of firms with the ability to distribute wealth management for the first

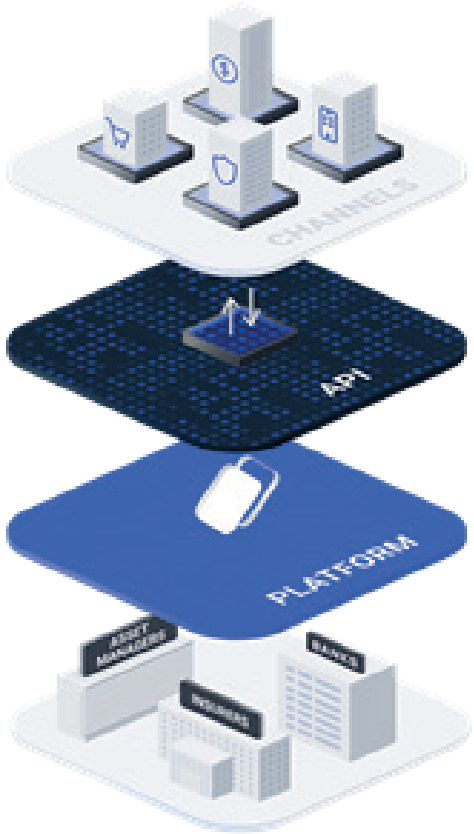

Figure 1: The embedded wealth stack
Source: additiv, June 2021

time beginning to seriously engage – for these firms the opportunities are real. Recent research suggests that the embedded wealth opportunity is worth USD100 billion per annum in revenues globally, with Asia Pacific representing almost 1/3rd of this total[4]. No wonder new entrants are mobilising.

Presented with the above how can bank compete?

Strategically there are quite a few options to consider, but in the interests of time I list two:

1. **Adapt**, headlines are full of firms digitising or embracing partnerships with nimble firms to deliver improved client experiences. In Asia the growth of digital banking has triggered established banks to quickly adapt. Standard Chartered launched Mox, CIMB went digital in the Philippines and BCA has launched BCA Digital, and its surely only a matter of time before they find an agile way to expand into wealth.

2. **Acquire**, globally robo-advisors and digital wealth advisors have quickly blossomed and its long

been the intent of some firms to 'watch then acquire'. In Singapore Bento was bought by Grab, an acquisition from a new to wealth super-app. After a short partnership, JP Morgan moved to acquire the GBP3.5 billion AUM robo-advisor Nutmeg in the UK to complement its digital presence. We also see firms continuing to participate in funding rounds and consolidation, e.g. Personal Capital at USD19 billion in AUM bought by Empower Retire, UBS investing in EndowUs and Betterment acquiring Wealthsimple US.

Its once again an exciting time in wealth management as the relentless tides of change trigger action among both incumbents and new entrants, and there is certainly space for both to thrive to the mutual benefit of the firm and the consumer. At **additiv**, we are genuinely excited to see how firms respond to the opportunities presented to them and the innovative developments yet to come. ■

About Kevin Hardy

Kevin is an ardent believer in change and an accomplished driver of strategic business growth in Asia. He has worked within the region since 2008, and has held a raft of senior positions in the wealth and financial services industry for over 25 years. Before joining additiv in July 2020, Kevin worked for many years in fund management, starting his career at Legal & General and then at State Street Global Advisors before joining Northern Trust where he headed up Asia Pacific for Northern Trust Global Investments. More recently, Kevin was Managing Director, Head of Southeast Asia and Head of ETF and Index Investments within Asia Pacific for BlackRock. Kevin Hardy's appointment earlier this year underlines the importance of the Asian market to additiv. Asia is additiv's second-largest market after Europe and it is investing strongly to take advantage of the growth opportunities in the region.

1 - Technavio - https://www.prnewswire.com/news-releases/wealth-management-market-to-grow-by--318-95-billion-during-2021-2025-rising-demand-for-alternative-investments-to-boost-growth--technavio-301286463.html

2 - Economist Intelligence Unit survey "Branching Out: Can Banks Move From City Centers to Digital Ecosystems?" of 300 banking exec's 2021)

3 - Growing opportunities for digital banks in wealth management

4 – aperture analysis, June 2021