Link to Article on website
Link to Event Homepage
Link to Content Summary page
Link to Photos
Link to Video Highlights

Digitalisation and its impact on Asian Wealth Management

Digitalisation is a watchword for the private banks and wealth management firms competing for a share of the rapidly-growing Asian high-net-worth and ultra-HNW client. A panel of experts at the Hubbis Digital Wealth Asia Forum exchanged some vital insights into their experience of the technology revolution washing over the industry.

These were the topics discussed:

- *Are there any notable examples of tangible success in digital wealth management?*
- *How should banks decide what's working? What key performance indicators (KPIs) should the industry use?*
- *Do banks and others tend to focus on the technology without consideration of whether anyone wants to use it?*
- *Digital tools provided to relationship managers (RMs) for advisory - what have the banks experienced regarding the adoption, value-added, and any challenges faced?*
- *How can the culture of innovation and change within Wealth Managers be improved?*
- *What's the impact of artificial intelligence (AI) and big data analytics?*
- *How does digitalisation reduce costs and/or drive revenue?*
- *Do firms prefer to adopt 'build-it-yourself' or 'Plug & Play' protocols?*
- *Platforms and processes - what is the role of digital?*
- *Is China the new home to real innovation?*

PANEL SPEAKERS

- **Terence Tam, Executive Director, Head of Wealth Management Technology, Asia ex-Japan, Global Information Technology Division, Nomura**
- **Werner Schlossmacher Managing Director, Platform Solutions Group, APAC Solutions, Markets, Asia Pacific, Credit Suisse**
- **Alan Luk, Head of Private Banking & Trust Services, Hang Seng Private Banking**
- **Jonathan Ha, Chief Executive Officer, Red Pulse**
- **Bénédicte Nolens, Head of Regulatory Affairs for Asia and Europe & CCO for Asia, Circle**

EXECUTIVE SUMMARY

Digital - driver for cost cutting or revenue generation?

Financial market conditions are now tougher than for many a year, so the wealth management community needs to watch cost-income ratios very carefully. The panel concluded that digitalisation can help with reduction of costs for internal processes, but that the emphasis must be on empowering the client-facing team to build additional, and hopefully more consistent, revenues.

Information as the catalyst for enhancing revenues

An expert expressed his ideal situation of the relationship manager (RM) having constantly updated, highly-relevant market and internal "house" view data delivered to him, through every fixed and mobile medium. Armed with that, the RM can be in more regular dialogue to discuss ideas and leads with the clients, thereby stimulating more of a two-way flow.

Quantifying digital success is essential

The digitalisation initiatives, which are very costly in terms of money and management commitment, must result in carefully-measured, quantified results in terms of cost efficiencies in the front- to back-office flows, as well as greater RM/salespeople productivity and higher customer satisfaction.

Remember the target client

But panellists warned that the Asian wealth management universe still includes a majority of older HNWIs and their families, who are not digitally savvy and who greatly prefer the human approach. Systems and processes might improve internally, but the emphasis must continue to be on serving those 60-year old plus clients on a highly personalised basis. Technology is great, but service and skills are paramount.

Collaboration vital

The wealth management industry should collaborate between themselves, rather than just acquire solutions from the nimble fintech and RegTech providers. In this way, digital becomes more commoditised and the focus returns determinedly to the character, skills and services the wealth providers can offer.

Digital assets and tokenisation rising in visibility

Whether it is cryptocurrencies, initial coin offerings (ICOs), securities tokens or other digital asset manifestations, there is a wave of change emerging that could, and likely will, have far-reaching implications. The wealth industry needs to be prepared for these developments, or risk a Kodak moment, in other words, sudden obsolescence, as technology advances far beyond their imagination. For example, if central banks issue their own digital currencies, what role then for the traditional banks? If security tokenisation takes on, once the regulatory field is clear, what then for traditional securities and the custodians?

The human connection will remain supreme

There was a strong view expressed that the wealth industry’s embrace of digital must not be at the expense of the human connection. While the younger digital natives might be more self-directed and independent, as wealth grows and people migrate to the HNWI world there is a need and a preference for personal connections and hand-delivered ideas and advice.

THE DISCUSSION BEGAN WITH a focus on revenue generation potential for the private bank and wealth sector, following the recent 'easy' years during which financial market conditions were so benign. With the mainstream global and regional indices wobbling or under pressure for much of 2018 and with increased costs related to the proliferation of regulation and the ensuing compliance, digital enhancement of processes and customer experiences are ever more essential.

"It is really all down to solving clients' needs and if we achieve that revenues will flow," opined one senior private banker. "We need to migrate the client thinking from seeing the bank as a transaction house to one that helps the HNW client, as a person, throughout their life. If we can achieve that, the pricing dynamics will shift from transactional in nature to a more stable revenue stream, based on a suite of services provided that add value to the full ecosystem of the client."

Another expert added that it is essential to have a firm fundamental understanding of the clients and that the main touch point for that objective is the relationship manager (RM).

I had a dream...

"Speaking from an IT perspective," he said, "my dream right now is that each morning when they come to the office, the RMs open up their terminals and see continuously updated

ALAN LUK
Hang Seng Private Banking

JONATHAN HA
Red Pulse

information that marries the bank's house view to client portfolios and performance, thereby giving them vital and highly relevant leads for discussions with clients. And for meetings outside, the RM is then able to take a tablet or similar and he has all the information to hand. In my view, the key is the application of the technology, the end user and the effect, not so much the tools themselves."

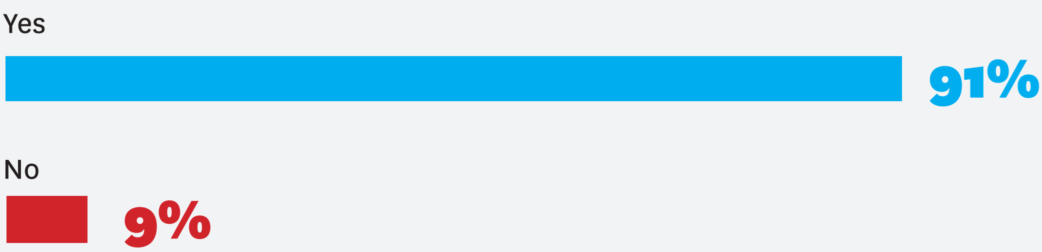
Another private banker remarked that digitalisation is indeed a high priority for every bank, but that the emphasis for his bank is firstly on enhancing communication and secondly on reducing error.

"We have been building our digital capabilities with significant thought and investment," he explained. "We then need to determine how to measure productivity, how to quantify success and in our view, it is extremely important that the business - the sales side - works extremely closely with the platform and the engineering teams to really understand what can be achieved through this digitalisation. Can we reduce the pain points for clients? Can we increase the client experience and at the same time do we bring down the total cost of operations? If we can then it is a great success. If we hear positive feedback from the clients and from internal sources such as the RMs, that is very encouraging."

Another participant remarked that if the total operating cost is rising, even with digitalisation, then something is wrong with the value chain and that needs to be then looked at. "The metric needs to be from user feedbacks, user-friendliness and if at the same time there is a reduction in the total cost of ownership of the platform, then I think you have

BÉNÉDICTE NOLENS
Circle

DO YOU WISH THE REGULATORS WERE MORE PROACTIVE IN HELPING BUILD THE WEALTH MANAGEMENT MARKET?



Source: Digital Wealth Asia Forum 2018 - Hong Kong

done a job well done."

"We certainly need to free up the RMs from the complexity of the operating environment today," remarked another banker. "If they are spending more than 50% of their time dealing with transactional complaints and customer pain points, then they are not freed to be more productive and generate more revenue."

But think about the actual clientele

A panel member remarked that while he is optimistic and energetic about digitalisation many of the typical wealth management clients might be less so, as they tend to be older, in many cases 60 and above. Consequently, they are not so keen on working on mobile, on apps, or interfacing digitally. "I certainly believe that technology really aids the reduction of errors," he said, "as well as accelerating internal processes, helping with combined solutions such as AML, KYC, CDD [customer due-diligence] and general compliance matters, but to compete effectively in the wealth management sphere you need high quality human skills and connections, that is what the core clientele still prefer."

"Yes," came another voice, "we believe this is all about tailoring services to meet the demands of the clients and to do so we do not wish to compromise the level of interaction between the RM and the client, we want to empower the RM with greater knowledge and accessibility of information. Digitalisation must be about driving revenues, not about cost savings. We are aiming to achieve a new business model, or at least an enhanced business model, so we can provide better service to the clients."

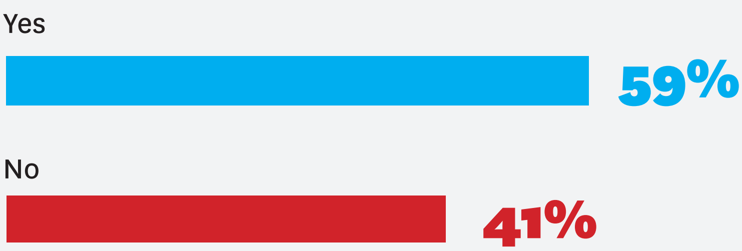
TERENCE TAM
Nomura

"I CERTAINLY BELIEVE THAT TECHNOLOGY REALLY AIDS THE REDUCTION OF ERRORS,"

The final word on the general trend towards digital came from a banker, who argued that the wealth management industry needs to look towards more consolidated solutions, then compete not so much on technology but on service and skills.

"It seems to me that the one thing that is essential is to collaborate," he advised. "If you look at other

DO YOUR CLIENTS ACTIVELY USE A DIGITAL PLATFORM?



Source: Digital Wealth Asia Forum 2018 - Hong Kong

industries, for example, the auto industry, we can see that there was intense collaboration when they went through their early digital revolution. We in our industry need to understand how we can we help each other to make our costs lower. We can also buy innovative solutions from other banks, it does not always need to be through working with the many fintechs out there."

Tokenisation – far from a token idea

The discussion turned to new trends in the financial sector such as digital assets. "We are deeply involved with digital assets including the cryptocurrencies," reported one expert, "as well as the utility tokens and more recently securities tokens, the last of which will likely take more time because we need to work with the securities regulators, firstly the SEC in the US, and after that we can think about that more global implication and rollout."

Another panellist commented on the typical demographics of the buyers that trade digital assets on these types of platforms, being younger, digital natives. "The whole crypto industry, for example, is 100% self-directed trading via the crypto exchanges, although we also have our OTC desk, the second largest globally for these assets, for high-touch clients, although most of the customers are low-touch. These typically do not seek advice, they tend to do things themselves, they like to just place their own orders at their own time for the type of assets that they want."

He distinguished between the nifty type of digital assets service providers that are office-light and the often-immense, and therefore slow to react, organisations such as the global banks. The digital enablers are not the very heavily real-estate based, unlike the very heavy human based model that most of your wealth clients are familiar with. We are focused, for example, on a near 100% digital model that is targeted to the new generation that grew up with the iPhone and that may not actually want that level of 'touch'."

"We are a proponent of tokenisation services," added another panellist. "So, for example, we have taken research credits that people can pre-buy and be able to exchange for bespoke custom research on our platform and through that tokenisation, we have also been able to achieve liquidity through exchanges, as well as through OTC desks."

WERNER SCHLOSSMACHER
Credit Suisse

"The security token market is indeed likely to develop fast in the coming few years," reported another panellist. "Over time, it will present some interesting opportunities, specifically for the private wealth sector as a diversification, but right now we are at a very, very early stage. So far, for example, I am aware of only two real estate assets that I know that have been tokenised with regulatory approval."

Another word came from an expert whose firm is doing a lot of research into the securitisation of assets using the token mechanism. "The question," he posed, "is whether the security tokens issuances or STOs, are just another manifestation of ICOs [initial coin offerings], which had vast interest but that now are viewed simply as unregulated fundraising, with regulators cracking down quite heavily."

His own view is that STOs are in fact not another iteration of ICOs and are actually simpler than regular securities. "They are secured, with ownership registered," he observed, "and therefore the regulatory framework around security tokens issuance should be identical, or simpler, than what we already have for traditional securities. We all need to be prepared for this, especially in the wealth and asset management arenas."

The restricting aspects of regulatory intensification

A senior private banker agreed that digital assets and services around those are of considerable, direct relevance to global banks, noting that his bank provides even more value to clients through digital capabilities via its bankers, investment consultants, and RMs.

"But," he commented, "we live in a world of intensifying regulation, and therefore, as a major global bank, we frankly do not have the latitude to innovate like a fintech start-up might be able to. In the field of tokenisation, there are major developments taking place and we aim to partner with companies who are driving this innovation; they also have a much lower cost base than us to drive this innovation, to understand the market, the clients they are serving. So, this is our response to this question, we seek the right partners then help them become one of the leading players in the sector."

Another panellist added that for the banks to be players in the cryptos market, it will need proper regulation. "I am actually a complete believer in tokenisation," he said, "which I believe will change the industry again, as we can get rid of the custodians when tokenisation allows all secure allocation. But the regulatory side must advance far from where it is, with greater coordination."

China in the innovation driver seat

The spotlight turned to China, with the panel agreeing that, in general, China has become a leader in digital innovation. "China recently surpassed the US in so many areas of late," opined one panellist, "especially in relation to payment systems, peer-reviewed machine learning, AI and other types of advanced technology."

Stay human, stay observant

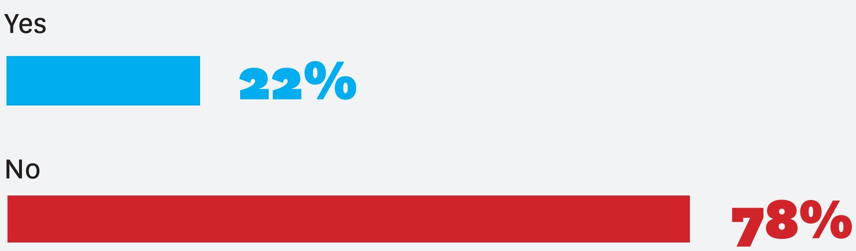
He extrapolated from that market to the broader Asian wealth market, to give these comments relevance. "As a financial research platform that is engaged in using machine learning and AI ourselves, we are an information provider, and from our viewpoint one of the key trends that we have seen over the past couple of years is that there has been overemphasis on trying to automate everything from information collection, from data analysis, but the one thing that does not work well when you try to automate it is customer relationship management, a robot is a robot."

That led neatly to the discussion's conclusion, with one member noting that there are historic moments ahead, for example, if and when central banks adopt digital currencies. "Technology will have an immense impact on our industry," he commented. "We need to be prepared for those historic moments so that we do not have our owns Kodak or Sears moments ourselves. For example, we need to start expecting a world in the next five to 15 years where more and more governments will issue their own central bank digital currencies."

In some markets, he noted, the central banks are thinking about doing that working with specific banks, but in other markets, they may do that directly to the retail customer, so that the individual interfaces with the central bank and their ledger is run by the central bank.

"This is not imminent," he remarked, "but there are at least two governments now considering. When that happens, you will see a lot more disintermediation of payments, in other words, another wave of payments moving out of the banks, which represents another noteworthy and major challenge." ■

DID YOU GO TO THE FINTECH FESTIVAL IN HK?



Source: Digital Wealth Asia Forum 2018 - Hong Kong