Global investment platform convergence

How should Asia’s wealth and asset managers respond to a global phenomenon?

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In June 2014, EY’s global Wealth & Asset Management Platforms specialist, Jeroen Buwalda, held forums across Asia to discuss the future of investment platforms in the region. In this frank Q&A, he discusses how next generation investment platforms are influencing buying behaviors in traditional Asian markets, and the opportunities and risks this presents for Asia’s wealth and asset managers.

Q: Jeroen, you have called investment platforms a “global phenomenon.” Why do you say that, and what does the international investment platforms landscape currently look like?

A: The global demand for investment platforms has never been stronger. All over the world, the pools of financial and non-financial investment assets are growing rapidly – particularly in Asia. Investment platforms have played a critical role in this growth, helping wealth and asset managers’ clients to build, manage, protect and transfer their wealth effectively and efficiently. Platforms have simplified asset management; they have made it easier for individuals to invest in a range of asset classes and have helped them to optimize taxation.

Right now, if we look at the geographies where wealth platforms have been in play for a while, the US still holds the world’s largest investment asset pool. In this region, Australia’s superannuation system has given it an extraordinary accumulation of investment fund assets for its population size. Its investment asset pool is the third largest of any country in the world.

However, the size of Asia’s investment asset pool is already very significant, and set to become more so over time. Because, when it comes to investment platforms, the metric to watch is not the current asset pool size, but the growth in wealth per adult.

According to Credit Suisse,1 in Asia-Pacific, excluding Japan, household wealth has increased from US$17.7 trillion in 2004 to US$40.3 trillion in 2013 – that’s a compound annual growth rate of close to 7.5% for the whole decade, and the momentum is continuing to build. Right now, wealth per adult is growing at two to three times the rate in the US and the UK. The region is catching up with the rest of the world at speed, powered by its burgeoning middle class. By 2030, Asia-Pacific will have more than twice the number of middle-class consumers than the rest of the world combined.

That’s the most important indicator. It’s why Asia will be the market to watch as investment platforms start to converge.

1 Wealth estimates by country (end-2000 to mid-2013), Credit Suisse Global Wealth Databook 2013.
Q: What are the starting positions for that convergence – and what do you expect to see at its end point?

A: Worldwide, we’ve seen the evolution of three clusters of investment platforms, each with a different proposition influenced by traditional regional distribution networks.

The first cluster is in the UK, Australia, New Zealand and South Africa. In these geographies, the vast majority of customers get their investment advice from insurance brokers that have evolved into financial planners. Therefore, investment platforms in these countries have developed to support financial planners in meeting the needs of their clients.

The second cluster is in the US, where investment products are largely sold by stock brokers. Here, wealth discussions are almost always around equities, so the starting position for these platforms is equity-centric. They have a strong emphasis on trading and portfolio management.

Whereas, the third cluster, which we see here in Asia – as well as in Europe and South America – focuses on private bankers. Traditionally, in Asia, the distribution of investment products has been controlled by the banks, so the wealth platforms have evolved to support multi-asset class and multi-currency investments. They’re designed to help customers to invest in domestic and international listed securities, managed funds, derivatives, fixed income, and alternative strategies.

For a time, these three clusters were evolving separately. But now, as technology is maturing and enabling more functionality, we’re starting to see them come together. For example, platform software that originated in New Zealand or Australia is suddenly emerging in the UK. And functionality we’ve only previously seen in Asia and Europe is becoming popular in Australia.

Effectively, the software providers are conquering the world – and the result is global platform convergence. In terms of where this convergence will end, we expect unified, highly complex platforms that can handle multiple asset classes, not just listed instruments, with all of a customer’s liabilities and assets (funds, stocks, property, cash and alternatives) on a single platform.

Importantly, this platform convergence means the future of wealth management will no longer be account-based. Instead it will be about a unified, managed household, with a holistic wealth package designed to meet the desires, preferences and life stage of a particular family.

The next generation of platforms will wrap around investment, retirement, insurance, lending and deposit products. They’ll be used by bankers, financial planners, accountants and brokers – even direct end users themselves. In fact, we expect customers to be increasingly in control, as the new platforms simplify the complexities of asset management, by automatically applying investment rules and preference settings.
Q: What drivers are influencing these next-generation platforms?

A: Aside from technological developments, wealth platform evolution is being driven by three factors: information, regulation and choice.

Despite privacy regulation, social networks like LinkedIn and Facebook are increasing consumers’ capacity and willingness to share personal and private information. Sometimes, people are unaware of how much they are sharing – and we expect a backlash of regulation to address this issue. Regardless, the generation of platforms will be able to leverage increasing amounts of personal information to shape preferences and adjust for life cycle events.

At the same time, regulation is addressing conflicted remuneration issues in favor of the customer. Whereas traditionally brokers were paid commission on trades and financial planners received commission on sales, governments around the world are now moving to make these intermediaries act in the consumer’s best interests.

Part of the role of this new breed of wealth advisor will be to help consumers navigate through the almost unlimited universe of investment options. Open architecture has enabled platforms to offer choices from multiple product providers, to the point where some platforms are now hosting 10,000 funds. In fact, we’re now at a point where there is simply too much choice. Consumers will need advisers, researchers and platform providers to help them filter the multitude of options into manageable decisions.

Q: What trends are you seeing in the next generation of wealth platforms?

A: We’ve identified seven trends we expect to emerge in Asia in the next 12-18 months.

1. The increasing adoption of goals-based planning will provide a more inclusive and engaging client experience, and better advice. Goals-based planning takes into account each client’s unique attitudes towards risk, and their life goals and aspirations, leading to better asset allocation strategies and improved customer satisfaction. It moves away from the goal of simply accumulating as much wealth as possible over a lifetime, instead taking a pragmatic view of a client’s wants and needs at different stages of their life. Financial planners and advisers will help clients to think about what they’re saving for – a child’s wedding, a second home, a sabbatical – how much money they will need, when they’ll need it and what sort of investment assets will best support these goals.

2. Because goals-based planning encourages a lifestyle, rather than a financial discussion, we also expect an increasing focus on financial well-being. Many global financial institutions are already talking to their clients about driving measurable improvements in their “financial fitness.” Financial fitness takes into account emotive issues. It asks questions such as, “Are you happy with your current income? How much money will you be happy to retire on? Do you have enough?”

3. In the face of increasing regulation to protect consumer interests, investment platforms will become indispensable compliance tools. Already, institutions are being required to check that any advice is suitable, in the best interests of the client and not conflicted. Currently, they tend to check this type of compliance after the advice is given – which is both expensive and exposes the institution to unnecessary risk. Whereas next-generation platforms will have built-in rules to prevent advice compliance issues before they arise – and allowing more resources to be devoted to relationship-building with the client.
4. We also expect investment decision-making to move out of the office and into the everyday lives of investors through mobile devices, cards and wearable technology. Already, we have mobile apps that enable shoppers to scan a grocery item’s barcode and invest in the company that makes it. Equally, companies like Simple and Moven are providing consumers with new banking experiences. For example, as a Moven customer pays at the cash register using their PayPass sticker on the back of their phone, they get real-time feedback on how the purchase impacts their financial health on their phone’s screen. Moven customers also use personal financial management tools, including an app that charts spending over a month to identify unconscious purchasing habits that may be hurting their savings plan.

5. Investors will become socially connected, supporting a trend toward disintermediation in both lending and investing. This phenomenon is well known in the lending market, with the rise of peer-to-peer lending sites, like Prosper and Kickstarter, introducing a potential challenge to the large institutions. Now, we’re seeing the rise of online investment communities, such as eToro, where consumers are trading currencies, commodities and indices on the world’s largest social trading network. With free account opening, no dealing desk and the opportunity to track other investors’ performance and replicate winning portfolios, such sites are cutting out brokers and fund managers and changing consumers’ view of and expectations about investing.

6. Technology will also continue to lower barriers to entry, leading to potential disruption from new entrants. For example, China’s Alibaba will soon be the biggest ecommerce market in the world. Expanding on this success, 12 months ago, Alibaba launched a Chinese internet money market fund (Yu’e Bao), which now has more investors than the country’s equity markets and US$92 billion in deposits. As of 30 June 2014, it was the fourth-largest money market fund in the world.2

7. Aging populations and the need for sustainable retirement incomes also present a significant opportunity for investment platforms. As more countries adopt similar models to the Australian superannuation guarantee system, and retirement saving becomes mandatory, as in Hong Kong and Singapore, a new market will emerge for consumers wanting to take control of their superannuation contributions.

Q: You just returned from a tour of Asia. In your opinion, how are next-generation investment platforms influencing buying behaviors in traditional Asian markets, and what does this mean for the wealth and asset managers in Asia today?

A: Traditionally in Asia, most wealth management has been dealt with by the big banks, with more than 80% of funds sold face-to-face, in formal meetings through these large institutions. At the same time, buying behavior has been purely performance-focused, with people chasing high returns.

However, in the future, the high adoption rate of mobile technology in Asia suggests this traditional delivery mechanism is likely to be disrupted. Already, 83% of Chinese customers use mobile apps to bank online and 73% use apps to invest online.3 China is really leading the way in this area, to the point where we might expect it, and other Asian countries, to leapfrog the US and Europe. There’s clearly latent demand for clients to use more digital channels to interact with financial services institutions. The only question is, will Asian banks pursue this exciting avenue, or will the market be disrupted by alternative distribution models, as we’ve seen with Alibaba? The decisions the banks are making now about digital interfaces will determine how this market evolution will play out.

In tandem with the digital uptake of wealth management products, we also expect buying behavior to change. There’s a real opportunity for wealth management participants to develop platforms that enable clients and financial planners to interact differently. We expect to see the rise of financial well-being as a wealth management focus, with goals-based planning becoming common. Already, we’ve talked to many participants who are keenly interested in going down this road. Our counsel is that this is a “one-way street” meaning; once customers experience this very different approach to wealth management, there’s no turning back. Just as once customers have a good online banking experience, they won’t go back to banking at the branch. Once you start down this path, the only thing you can control is the pace at which you go down it.


3 Scorpio Partnership and SunGard
Q: From your time spent in Asia, what should wealth and asset managers be wary of where the investment platform landscape is concerned?

A: I think there are three things. Firstly, they need to prepare for a strong consumer pull toward next-generation wealth management. In our connected world, consumers in Asia will be aware of and start demanding some of these wealth management innovations. They won’t wait for traditional institutions if alternative providers step up first. Secondly, they should be wary of underestimating the level of competition that will come from nontraditional financial services providers. And third, I think they could potentially be caught unaware by the speed with which such nontraditional providers might enter the market – especially since we know it will take time for policy settings to catch up.

Q: What advice can you offer to organizations interested in exploring the potential benefits of implementing a next generation investment platform?

A: In his book, *The Road Ahead*, Bill Gates said: “We always overestimate the change that will occur in the next two years and underestimate the change that will occur in the next ten. Don’t let yourself be lulled into inaction.”4 This advice has never been more applicable than in Asia’s investment platform market. However, we strongly recommend that when organizations take action – whatever that looks like – they focus on “evolution” not “revolution.”

In the last few years, EY has used its insights and experience to support global financial institutions to execute their platform strategies. We’ve learned it’s vital for wealth management participants to step back and articulate their vision and their ambition in this evolving space. Institutions need to decide: What do they want to achieve, and in what timeframe? Are they going to protect the past, or accelerate into the future? Embrace change, or fight it? Will they take a holistic approach or embark on a lower-risk, test-based transition journey?

We believe there are currently too many unknowns to take big steps – and a lot of work to do behind the scenes to align organizational capabilities with the future vision. Currently, many wealth management participants are not talking to their customers about financial well-being, or supporting goals-based planning or embracing mobility. You need all these capabilities – and more – before you can execute on the converged investment platform strategies and develop innovative propositions to attract a new breed of customers. 

Once those capabilities are in place, then an organization is ready to find innovative ways to distribute wealth management products; protect, enhance and extend its brand; and increase client engagement – and with it share of wallet.

Q: In your opinion, what will the investment platforms landscape in Asia look like in 2020?

A: By 2020, digital will no longer be distinct from the general customer experience. Technology will be invisible – merged with the fabric of our lives – as customers seamlessly move across multiple on- and offline channels to pursue their wealth management goals.

We’ll also have had a strong regulatory response to the emerging trends. We anticipate policy setting that will enable omnichannel propositions while also protecting consumers from misinformation and poor quality advice.

Jeroen Buwalda is a specialist in global wealth management platforms, with more than 17 years’ experience driving innovative change for wealth managers, funds and banks across Europe, Asia, Australia and New Zealand. He leads EY’s Asia-Pacific Wealth & Asset Management Advisory practice focusing on corporate strategy, enterprise architecture and large-scale IT-enabled transformation programs. Jeroen previously led advice and private banking merger integration and transformation at Westpac, one of Australia’s largest banks and wealth managers.

Contacts

Jeroen Buwalda
Asia-Pacific Wealth & Asset Management Platforms Specialist
+61 2 9248 4644
jeroen.buwalda@au.ey.com

Graeme McKenzie
Asia-Pacific Wealth & Asset Management Leader
+61 2 9248 4689
graeme.mcKenzie@au.ey.com

Julie Kerr
Asia-Pacific FSO Business Development Leader
+852 2629 3262
julie.kerr@hk.ey.com

Brian Thung
Singapore Wealth & Asset Management Leader
+65 6309 6227
brian.thung@sg.ey.com

Joyce Xu
China Wealth & Asset Management Leader
+86 21 2228 2392
joyce.xu@cn.ey.com
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