



It got so late so soon

Wealth and asset managers
awake to the new digital age

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December is here before it's June

Incumbent WAMs have much to lose by continuing to ignore the fundamental changes being effected in the sector. The coming-of-age "millennial" generation expects everything to be possible on their smart devices and holds every business up to Silicon Valley standards for online visual web designs; these clients are not going to be walking into branches any longer. These same clients also still harbor a lot of mistrust of yesterday's traditional financial institutions, coupled with a view that these institutions are old and stodgy and won't be the firms providing innovation in tomorrow's financial sector. Add on to that the fact that many of today's "best and brightest" would rather be working in tech firms than on Wall Street, and you have an almost perfect storm of disruption on the horizon for today's incumbent advisors and managers.

Enter the rise of the fintechs, start-up firms looking to provide alternatives to traditional business models – firms like Betterment, Personal Capital, Wealthfront and others. They are well-funded and are growing in number and attracting real talent. They have grasped the opportunity smart devices have provided by lowering the barriers to entry, capitalized on the

recession values and mistrust of incumbents, understood the appeal of flat-fee pricing and the unbundling of advice from management, and ridden a wave of powerful investment to arrive quickly on the scene. The truth is that Silicon Valley is already here and looking to provide technology-driven products and services at a fraction of what incumbents are pricing. According to *The Economist* and *CB Insights*, more than US\$12 billion in global investment was poured into fintechs in 2014, with roughly US\$300 million of that directly into the "robo-advisor" model alone. Though their share of the market is small at the moment, today's incumbent advisors are quickly awaking to the fact that this is a portent of an important channel and business model to come that demands a response.

It's not just the WAMs who need to worry. As large tech firms make strategic forays into financial services, the asset management sector will not be excluded. The likelihood is strong that tech firms will move into fund distribution soon (though unlikely, they will enter the management arena). It's not that farfetched to imagine a Silicon Valley tech giant putting the "buy" button out there for mutual funds.

Something digital this way comes

In the space of less than a decade, the retail banking sector has started to emulate the technology-driven operations of Silicon Valley, with new innovations spreading from the transactional back office to the web-based front end. Today, the majority of transactions are available online 24/7, while just a few short years ago customers were trudging to local branches to complete these same activities. While banking is adapting to an increasingly digitized world, where are the wealth and asset managers (WAMs)?

The short answer is that WAMs have been much slower to embrace digital transformation than their retail banking cousins. Whether this was attributable to the "white shoe" culture in the sector, where the relationship with the client

was viewed as all-important and a "relationship business," or perhaps the growing financial burden of complying with the waves of regulation hitting the sector's shores, historically, WAMs have been the financial industry's late adopters when it comes to improving aspects of their businesses with the application of technology.

However, in the last couple of years, the sector has experienced the business equivalent of a bucket of cold water being thrown, and today's WAMs are being startled awake to find themselves in a changed world where digital is rapidly transforming the sector. Many are asking, just like Dr. Seuss did, where the time has flown and how did it get so late so soon. Many more are asking what to do about it, and quickly.



So what's an advisor or manager to do?

Today's wealth and asset management firms are rapidly waking up to the need to focus efforts in three areas to successfully synchronize with the rapidly evolving digitization of the sector. If digital transformation refers to the application of technologies and process changes to improve aspects of the business, today's incumbents must quickly formulate strategy and align capital investment to concentrate on three critical areas for long-term growth and profitability:

Improving the client experience: at every interaction point, a reputation hinges

Wealth and asset management clients will increasingly demand seamless, coordinated, visually stunning, rich, easy digital access to their providers. Firms need to concentrate on the following aspects:

- ▶ Smart devices provide ubiquitous access to a deep array of anywhere, anytime online and mobile transactions. Clients want the same level of technology sophistication from their financial advisors that they see from firms such as Google, Uber and Amazon. The "digital client experience" is going to be "daily bread" for advisors and managers.
- ▶ Interactive access allows enhanced, interactive access to advisors, product experts and educational tools and research.
- ▶ Advisor tools provide advisors with digitally enhanced workstations and tools to enable them to develop closer intimacy and relationships with clients, and understand the health of the relationship at a glance. Clients expect it.
- ▶ Data analytics: Firms should invest in visualization of data analytics to deliver enhanced real-time access to portfolio information, reporting, and virtual portfolios in a fluid, visual and intuitive way via secure online channels.
- ▶ Social media enables exclusive, specialized access to peer groups to share investment information and other shared interests – either through proprietary platforms or existing channels such as Twitter, Facebook and LinkedIn.

New investments in digital technologies can help WAMs more effectively engage digital clients at every touchpoint in the client experience life cycle; they are tomorrow's imperative.

Transforming operations: struggling to maintain profitable growth

Of course, financial services firms have been applying technology effectively for many years to streamline operations and reduce costs. Digital transformation is merely the current-day expression of this strategy with a key difference; that is, the tipping point being to have reached the stage of adoption by clients and the opportunities that lie therein. With the downward pressure on pricing combined with the threat from digital entrants and the crushing cost of regulatory compliance, many WAMs are reinvigorating their operational improvement agendas. There are several focus areas:

- ▶ **Reengineering:** WAMs can use digitization to reengineer existing processes, such as deploying workflow and online portals to improve client onboarding, freeing up time for financial advisors and reducing the overall hours associated with the process. WAMs have made significant investments in this and met with great success.
- ▶ **Lower-cost service models:** Digital interaction with the client can also reap dividends in terms of freed-up advisor time, by leveraging online chats and video-enabled conferences. Enhancing advisor workstations can also make wealth managers more productive, using fingertip access to client information, automated alerts and other tools to help advisors at all levels more effectively manage their books of business.
- ▶ **Compliance:** Digital when applied to risk and compliance processes can dramatically counter the rise in these costs since the financial crisis, primarily by automating checks, pre-post trade compliance, concentration monitoring and intelligently using alerts that reduce the human burden of performing the same.

Revamping the business model – if you can't beat them ...

Most profound for the industry is the potential for digital to help WAMs fundamentally revisit the way in which their businesses are conducted. We are witnessing a tidal wave of focus on the mass affluent segment, whether by traditional private banks or new entrants. Digital is providing a potential means to successfully reach this rapidly growing segment and profitably service this low-AUM group by enabling a lower cost-to-serve platform. We have witnessed advice going virtual with the emergence of digital-led firms and automated advice, as "robo-advisors" such as Betterment and Wealthfront in the US and Nutmeg in the UK have disruptively entered the traditional marketplace. This has led many to make comparisons to the travel industry of the 1990s, where the traditional players lost ground to Expedia, Travelocity and Orbitz. Beyond debate is the fact that everyone has taken notice of these entrants, particularly the significantly lower pricing.

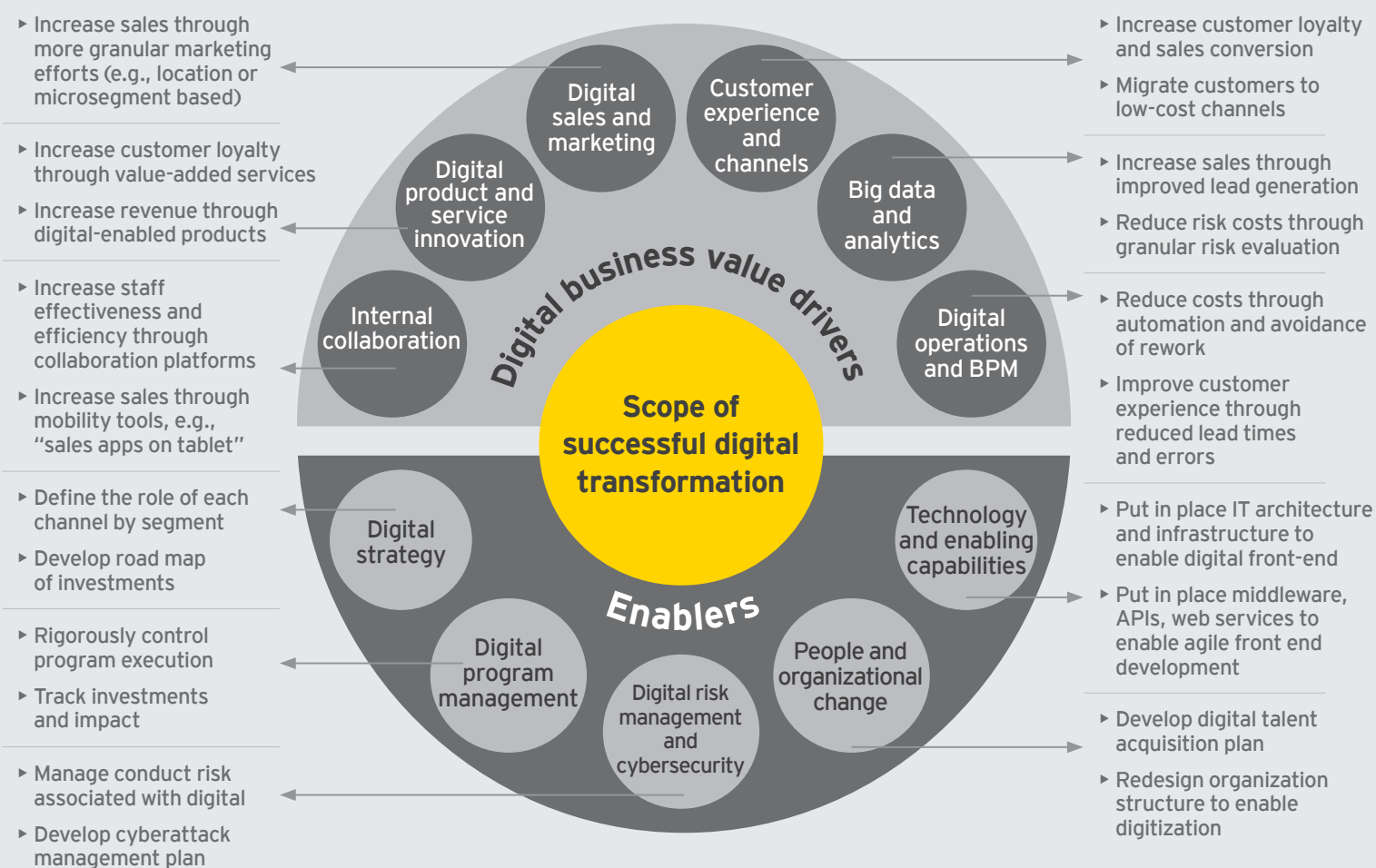
Players should also take note of some of the movements of retail banks (particularly in Australia and the US) to bring together digital banking and digital wealth offerings. This channel cross-subsidization has been found to be a successful way to drive assets on the banking and credit side, as well as leading with financial planning and driving assets to the investment side.

If you're an incumbent, you are worried about this trend, compelled to provide what clients are asking for, but worried about channel conflict and mass departures of your talented financial advisors and managers. However, most are realizing that the deployment of a lower-cost, digitized channel must offer the growing segment of self-directed clients – who are more comfortable acquiring advice but making the majority of their own portfolio management decisions – an alternative to human financial advisors. Today's traditional WAMs will need to roll with the tide on this trend and offer their own digital channel offerings or be swept out to sea in the long run.

Where do you start?

Digitization is here, and while it may be unevenly distributed ... and we are really just beginning, the time to act is now, as digital is set to become one of the leading CEO agenda items this year and in the years to follow.

But while everyone seems to agree that while having a coherent digital vision and strategy is essential, many clients just don't know where to start, or have made investments and are struggling to achieve the benefits they seek. We believe that successful digital transformations require organizations to transform all aspects of their businesses.



To achieve a clear vision, WAMs should start with the following:

- ▶ Identify and understand client needs/expectations
- ▶ Build a shared client experience vision
- ▶ Conduct an organizational digital maturity assessment
- ▶ Evaluate competitive threats
- ▶ Identify enabling technologies
- ▶ Construct a road map

Wide awake now and playing catchup

The WAM sector is changing. Innovation and branding will be the deciding factors in a gradual and then sudden disruptive shakeout. Today's WAMs must accept that the future has arrived and that the face-to-face models of old will be passing quickly into history. Digital immaturity is a death knell of sorts to those who will insist on late adoption of the digital agenda in the long term. The majority of WAMs are now realizing the transformational aspect of digitization and are aggressively following suit with programs and investments. They know that it's a critical time to act and that waiting will prove costly. WAMs have finally awoken in the digital age and are making up for lost time. Expect digital to be a CEO-level priority in the coming years and for substantial, multiyear capital investments to follow.

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