Transforming wealth management THROUGH Technology

Wealth managers can see the potential benefits of rapidly evolving mobile technology and are taking steps to significantly enhance interaction with their clients and transform the way information is presented and shared.

By Vineet Malhotra

Global private financial wealth grew by 15 percent in 2013 to reach a total of US$152 trillion, compared to a growth of 8.7 percent in 2012.[i] The Asia Pacific region (excluding Japan) represented the fastest growing region worldwide, continuing the trend of high growth in the 'New World'; and it is estimated that its 'New Wealth' will account for about half of global growth by 2018.[ii]

Technology today is providing opportunities for investors to make it more convenient and efficient to manage wealth. It is not uncommon to see people speculate about stock markets and property prices, more often than not using a mobile phone to instantly check prices, indices and the like. They manage their investment portfolio online and have Skype sessions with their relationship manager—but the digital wave has not yet swept through the wealth management space. Although computers have been around for many years, it is the smartphones and tablets that are having a real impact in the way clients interact with advisors and brokers, as well as how information is shared. The combination of Big Data and increased storage capacity, along with the ability to deliver information rapidly to smartphones, has provided a great platform for firms to enhance the experience of their clients. The paradigm for mobile is changing from 'always on the go' to 'always active', which means that the phone is not just for receiving and making calls, but a device being actively used to see alerts and take action instantly.

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The use of mobile technology in service industries has been growing rapidly over the past five to six years—in retail, travel and entertainment—and more recently in health, education and financial services. The lines between the physical and digital worlds are blurring with the availability of 'augmented reality'—a live, direct or indirect, view of a physical, real-world environment whose elements are enhanced by computer-generated sensory input such as sound, video, graphics or global positioning system (GPS) data. Though still in its incipient stages, the trend is clear: these smart devices will continue to get smarter.

In Asia, the emergence of next generation investors—the Millennials (also known as the Millennial Generation or Generation Y)—have created the demand for sophisticated mobile-based tools to manage wealth. Low-cost online brokers (for trade execution) and specialised firms that manage money online are targeting a demographic segment of households with liquid assets of US$100,000 to US$1,000,000. At the same time, high net worth individuals are also reacting positively to changes in technology and the prospect of online client servicing. Whilst consumers are spoilt with the choices available, mobile technology businesses are competing fiercely for a share of the market. Customisation and personalisation of mobile solutions have gained importance and are seen as a competitive advantage.

Whilst the focus of this article is on the use of technology in wealth management, I often compare and contrast this with trends in the world of banking. Among financial institutions, banks have been the early adopters of mobile technology, and wealth managers can glean important lessons and best practices from their experiences. When looking back over the last 10 years in banking, I see that 2004 was all about managing customers, knowing them better and segmenting broadly to identify a suitable pricing model. Five years later in 2009, the focus was on optimising the channel mix between online and high touch branches/relationship managers with a clear focus on maximising profitability. The next five years leading up to 2014 have been about deeper customer analytics (Big Data), investment in technology and attempting to personalise and customise the client experience. Will the wealth management function follow the same trends? What new developments and what changes do we anticipate in the mobile wealth management space over the next five years?

Trends

There are some interesting trends to keep in mind. First, multi-tasking is a reality (for example 50 percent of users who watch TV also look at their mobile phones) and attention spans are short—so financial information that is used for decision-making needs to be succinct and targeted. Second, emails continue to be important. The question often asked is whether or not emails are breathing their last gasp in the face of social media. Not really... Analysis of data from 2013 on emails, with a focus on mobile preference and consumer purchase behaviour, shows that the number of mobile orders went up by 58 percent from Q3 to Q4 2013. Mobile revenue increased by 52 percent, whilst desktop/laptop revenue grew by just 18 percent. Half of subscribers interact with emails exclusively on a mobile device.[iv] Third, a potential disruption in distribution models is taking place at a rapid pace today, as seen by some of the online players such as Alibaba (refer to the box story below). A large number of online money managers have emerged in recent years, such as Personalcapital, Wealthfront, Betterment, Mint and Nutmeg, to name a few. These are in addition to online brokers like eTrade, Charles Schwab and others that have been in existence for decades. For Internet-based sellers who have established scale (think Amazon), it is also tempting to progress from eCommerce to ePayments to eFinance.

ALIBABA'S FORAY INTO ONLINE WEALTH MANAGEMENT PLATFORMS

In 2013, Alipay launched an online money market fund, Tu'E Bao that now makes Tianhong Asset Management Co. the second largest asset management company in China. It was successful, in part, due to the strong trust of the general public, to being an affiliate of a technology company and in providing a tailored product. Assets gathered ballooned to approximately US$95 billion within a year.[v]

Alibaba has also launched an online wealth management platform using an online app called Zhaocai Bao that pairs tailor-made wealth products with individual investors. It believes investors' demand will grow transactions to the RMB1 trillion mark (US$162.49 billion) within the next two to three years. Five fund managers are involved in the development of the platform, and this points to a very important trend of strategic partnerships being formed between technology firms and fund managers. While most products sold at banks and insurance companies require an investment of at least RMB 50,000 (US$8,125), Zhaocai Bao has a minimum investment of just RMB100 (US$16).

Challenges in a highly regulated industry

The regulatory framework in banking and asset management may be a barrier for some technology companies seeking to enter the wealth management and fund distribution space. After all, selling music on iTunes is not the same as selling a fund on iTunes.

A report this year from Pricewaterhouse Coopers (PWC) warned that fund managers could face competition from social media or tech companies. It went on to say:

"More than a quarter of asset managers were not sure whether the use of mobile technology for distribution or communication would play a critical role in their business. We believe that the expectation gap between customer needs and asset managers' slow take-up of technology could provide opportunities for further new entrants to come into the industry. The most likely source of disruption will come from social media or technology companies, which may combine their reach, knowledge and influence with banking alliances to provide compelling asset management (AM) propositions. A social media firm such as Google, Facebook and Twitter or product providers like Apple (through iTunes) or Amazon could, for example, provide front-office services, and partner with, or even buy, a back-office servicing firm to create an integrated AM."[vi]

Given this direction, the regulatory framework will also need to evolve. A regular dialogue with regulators can build an environment that creates pragmatic regulations to manage risks effectively. With the rapid adoption and rise of social media, data privacy and reputational concerns will need to be addressed through a practical and reasonable legal framework. I do not expect rapid transformation on the regulatory front—but as success is demonstrated in some markets, regulators will talk to one another and there will be lessons learnt before we see widespread evolution of regulations over the medium to long term.

In the short term, we should expect specific opportunistic moves to get the first movers advantage in some markets in Asia, and Alibaba is a case in point here.

Ultimately the consumer will see cheaper, faster, better delivery of information and products; and tech companies will have to get used to higher costs of regulation—more than they have been used to before. With such huge amounts of information about customers available to tech giants, they can play a critical role in using this collective knowledge to provide better solutions for their clients. Over the years, banks and payments companies have sought to understand spending and saving habits and the like in order to develop customer profiles, which can then be targeted with tailor-made solutions. There may, however, be some scepticism about the feasibility of sharing data relating to personal investments and wealth obtained from peer groups, and creating greater transparency and validation through a social community. Again I think, over time the benefits of this approach will be something that will influence regulators to facilitate such interaction. Regular dialogue between the industry and regulators is essential in the short term if we are to create a suitable regulatory environment in the medium to long term.

There are other risks like cyber security and data privacy that continue to present challenges across companies and industries. Recognising these challenges from the start (irrespective of the scale of the organisation), having robust procedures, frequent penetration tests, and use of specialists to certify readiness is important.

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What is the 'secret sauce for success'?

There is no a silver bullet here but there are a number of areas to focus on. With the explosion of information on the Internet, digital clutter frustrates users just like physical clutter. Hence the more successful companies know that the **quality of content**

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is absolutely critical, irrespective of the technology used. There does not seem to be a single golden source for people to find information on mutual funds they wish to purchase. Investors resort to all types of searches on the Internet and get confused with lots of information about performance, size of the fund, fund manager's track record and so on. They often seek an independent source to compare funds across a standard set of parameters, which is not always available. Some investors focus too much on returns in the past without considering the underlying securities in the product and associated risks. Hence one of the important ingredients to success is to have 'elevator pitch' style sales material that is factual, short and objective. Providing tools that show the impact of adding a fund to an existing portfolio are well received by financial advisors, but are not easy for individual investors to understand and use.

Adhering to a **core set of objectives that include solving the existing problems of clients** rather than going for the latest fad to create a new experience is another factor to keep in mind. While avoiding the 'me too' bandwagon of apps and offerings and creating a differentiated offering is stating the obvious, in practice that is not the case. For example, companies launch apps with some form of a 'game' because they see it as a good way to engage prospects and clients. Some digital agencies have also created a gaming platform and want to generate revenue by bringing as many clients as possible to the gaming platform. Such games have a finite life and are expensive to maintain and enhance, which means the value generated is questionable in the absence of clear calls to action. A good mobile app is one that solves a real need, for example providing regular fund price updates on request; or alerts when new thought leadership material, or events with far-reaching implications like a downgrade of a country rating, is posted on the app.

We have to look at the Internet and mobile transformation in the context of an organisation's **overall contact strategy**. Companies should grab opportunities to transform the customer engagement model given the unique functionality offered via mobile. For example, with travel within Asia Pacific being high, seamless interaction across locations for employees and synched-up data across all devices are very useful. Sounds simple—but not all companies can offer this to their sales staff who interact with customers across the region. Typically, financial advisors who travel across the region should have the ability to see data in real time, as well as create portfolios and simulations for their clients using mobile-enabled tools like a searchable repository of fund data and thought leadership along with a modelling tool on a tablet. I have seen some companies provide iPads to sales staff, but few of them have a programme to centrally create content and tools in an efficient and scalable manner. Often it is left to each sales person to use a tablet the way he/she deems fit and the experience of their clients can vary. Insurance companies across Asia have been active in providing tablet-based tools to their sales-force to assist with client interaction whilst they are on the move. There may be a lesson for wealth managers here.

Benchmarking your offering against non-financial services best in class offerings provides a refreshingly different perspective. I am fascinated by the connection between mobile and health, using sensors in phones that record movement and physical activity. There is an opportunity to connect mobile devices with financial health too. Understanding the characteristics of each market and creating solutions that are suitable for each market is better than implementing the same solution across all markets in Asia Pacific. For example, some markets are highly intermediated and advisor-led whilst customers in others may be more self-directed. Finding this next generation of advisors and creating a

The key is to use technology to offer targeted and personalised client solutions.

connection with them is a winning strategy over the medium to long term.

Millennials are the demographic cohort following Generation X. Whilst there are no precise dates as to when the generation starts and ends, researchers and commentators use birth years ranging from the early 1980s to the early 2000s. These Millennials want to work with innovative firms that can **personalise their experience** with them. Collecting information about advisors from a variety of sources, including tracking social media activity to create targeted marketing content and tools to assist them, will go a long way. A recent report from Kasina on 'What Advisors Do Online' states that three out of five financial advisors in the U.S. say the digital capabilities of asset managers affect how they perceive the brands, hence asset managers must increasingly focus on their Web presence.[vii] Financial Advisors seek a customised experience with their asset managers.

As the impact of technology shifts from improving efficiency to enabling transformation of business operations and the client experience, there is a **blurring of lines between technology and marketing functions in organisations**. What I mean by this is that the way technologists deliver solutions is different today—they think in an integrated manner and look at the client experience as well, sometimes creating and adhering to high standards of usability and design. Traditionally this has been a marketing domain.

In any solution development there ought to be a significant amount of time and money invested in **user experience and design**. Social input on beta versions of solutions is often a good way to get some early input and test ideas in a very cost effective manner. The trick for large organisations is to build once and deploy many times across the world by creating scalable solutions across markets, whilst maintaining local relevance. Mobile applications and websites are being built as a collection of components by technologists and these components can be assembled to create a journey with input from marketers.

I have been involved in many test-and-learn type projects and having the **courage to determine a failed project** is also very important. There is more of a test-and-learn approach when developing mobile applications and more willingness to change offerings rapidly. For example, a mobile application developed for retail clients was adapted for use by commercial, small or medium enterprise clients, and the usage pattern was very different. Commercial organisations often need multi-layered authorisation, large transaction limits, etc.—which

were not really built for retail clients, and the application had to be re-created from scratch. Constant optimisation accompanied by a drive for greater return on investment (ROI) should be part of the implementation philosophy. Most innovative organisations have a tolerance for failure as long as the learning is applied in future projects. I have also seen wealth management and fund price-tracking apps removed from the App Store as they failed to achieve any critical mass in terms of the number of users, and so did not justify the cost of maintaining the app. Thus, the principles of managing a product range (for example, any consumer goods like television sets) also applies to wealth management tools, and firms are looking for real ROI on their technology spend.

Lastly, I would say there is sometimes a **fear of technology** amongst non-technology functions. Here, increasing technology awareness of staff across the organisation also helps. There are many free courses available, and today, children are writing code and developing applications the way some of us solve crossword puzzles or Sudoku.

Wealth managers are now on the cusp of further innovation, where they can glimpse the potential benefits of mobile technology. Some early adopters are taking the lead. The key is to use technology to offer targeted and personalised client solutions. Finally, acting fast is important, as the cost of waiting is too high.

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Views expressed by the author are his own and do not represent those of his organisation.

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