Dealing with the digitisation of distribution

It's no longer a question of 'if' technology will shape the asset management industry of tomorrow. As a foregone conclusion that fintech will forge and facilitate new models, firms need to focus on the degree of influence they think it will have, and then adapt and evolve to keep up.

"Digital will be a driving force of change in the [asset management] industry," predicts Peter Swarbreck, head of Asia Pacific at Jupiter Asset Management.

His view is one which his peers not only share – but is also forcing them to reassess what it means for their businesses and distribution models in the years ahead.

It is difficult to ignore the impact of robo-advisers on the financial world at the moment. Alongside the broader theme of fintech, they seem to enter almost any conversation about industry trends and outlook.

The success of Chinese money-market funds linked to the biggest internet players has made sure of that. These examples have led the way in the region, and in many cases globally, in terms of the impact and speed of mobile and digital in influencing how investors buy and make decisions.

"We are having a lot more interaction with clients on an average basis per month, but much fewer of those happen in the physical realm."

GONZALO LUCHETTI
Citi

"[Technology] will play a key part in the distribution model, especially for banks… either via mobile apps or an internet platform," confirms Mabel Chan, head of Greater China wholesale and regional global bank distribution at Henderson Global Investors.

In anticipation of the impact of digitisation on their businesses, asset management firms of all sizes are refining their strategies and processes around digital, data and analytics.

While big-data capabilities are less relevant in Asia compared with the US, for instance, BCG notes that the more proactive and forward-thinking managers are pursuing several initiatives around these themes. These include:

using client relationship management systems to track and understand preferences of distributors as well as advisers; continually crunching data from mutual fund and institutional mandates for product insights; and use data-driven insights such as transaction data and interaction history to prioritise products and create messaging for distribution campaigns.

With such changes also come a new way to segment clients going forward.

In this way, technology will open up the industry to more of the 'younger' population or frequent internet users, adds Chan at Henderson Global Investors, as well as to more professional investors who can make their investment choices.

MAKING REAL IN-ROADS

Consulting firm A.T. Kearney forecasts that robo-advisors will manage USD300 billion in the US by the end of 2016, rising to USD2.2 trillion by 2020.

This is unlikely in itself to upset the status quo dramatically.

But the impact can be seen from activity over the past 12 months, with some of the leading fund houses moving into the robo-advisory space. These include: BlackRock's acquisition of US robo-adviser FutureAdvisor; Fidelity's partnerships with Betterment and LearnVest; Schroders' stake in Nutmeg; and Aberdeen Asset Management's purchase of Parmenion Capital Partners.

Lennie Lim, managing director, regional head of Legg Mason in Asia, certainly sees robo-advisers as being more of a disruptor than some other people might. "If it provides a more economical option to our clients in terms of access to investment products, then we think it makes sense," he explains.

Technology will also enable investors to access intelligent information that they didn't have previously.

The US, for example, is getting much more technologically advanced in terms of performance-based ratings and investment advice, explains says Tobias Bland, chief executive officer of Enhanced Investment Products.

"A client can forward-plan effectively with some simple tools, and then opt for that allocation via a pre-selected set of funds that would have been rated, picked over and chosen for their merits."

From his perspective, this is a welcome revolution within the investment landscape for funds. "Investors will be able to choose from a long list of ETFs with all asset classes covered an own bets in breed ETF at the touch of a button."

Despite the flurry of interest and activity around direct fund distribution, and the belief that technology will make the industry more efficient and cut out some of the middle-men, not everyone expects widespread disruption to current intermediary relationships.

Some of the concerns around direct distribution models include a risk of negatively impacting existing distribution partners, a lack of regulatory clarity, and the challenges relating to on-boarding and servicing customers with more complex or tailored financial solutions. Further, there are question-marks over whether many of the emerging players in the fintech and robo-advisory space will achieve the scale necessary to sustain a profitable business.

A NEW CLIENT EXPERIENCE

Alibaba is probably the best example of how to use internet and smartphone technology – both to trade as well as to simplify, rather than complicate, information exchange between companies and customers.

"You can bombard people with too much information because it is so easy to push it at them. The right digital content and connectivity will bring some great results," says Bland.

Inevitably, many asset managers are exploring various new ways to facilitate more access to information for clients, beyond traditional websites and emails. "Given that Asian investors tend to be dynamic and technology-focused, and they operate 24 hours a day, we are always thinking about how we can be more active in expressing what we do," says Lim at Legg Mason.

In Korea and Taiwan, for example, the demographics of a younger age group which is very tech savvy and well-educated means they want different ways to access information, he explains.

More specifically, adopting digital technologies and tools offers firms the potential to increase connectivity by creating investor communities, and providing portfolio analysis and education tools, for example.

In these ways, digitisation will enhance the value proposition of asset and wealth managers, which translates to greater client satisfaction and retention, says Jason Lai, founder and chief executive officer of Thirdrock Group.

"Firms should also leverage technology to drive performance and productivity through the automation and streamlining of processes like client on-boarding and trade execution," he adds.

"Human relationships and robo-advisers can co-exist. The technology helps with client fact finding to ensure investment suitability for each individual client."

RICHARD MAK
Pictet

Ultimately, it is a client journey, explains Lim, in terms of the process that they go through in order to decide what to invest in and how to engage and access that information.

Distributors, too, have been embracing and investing heavily in digitisation as integral to the client experience.

For Citi, for example, this ranks highly among the essential differentiators of the offering to affluent and emerging affluent customers in Asia.

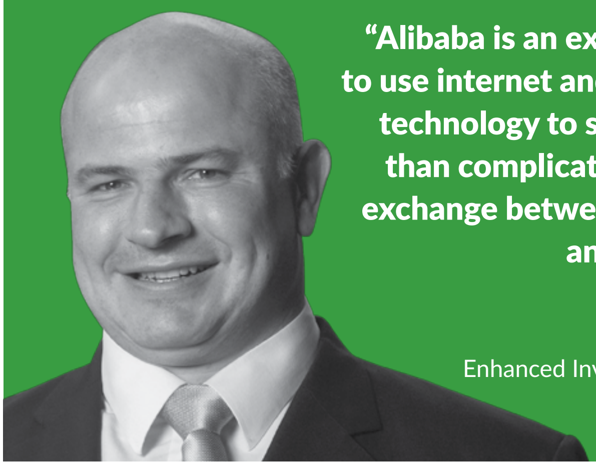
This is in line with the decreasing frequency – and interest – in terms of personal, in-branch engagement among many of these individuals. "We are having a lot more interaction with clients on an average basis per month, but much fewer of those happen in the physical realm," says Gonzalo Luchetti, Citi's Asia retail bank head.

This also ties in to the bank's strategy over the next five to 10 years to gradually change its network infrastructure geographically, including the 'urbanisation' of its retail business towards more specific hubs and a higher concentration of relationship managers (RMs).

Within the private wealth segment, meanwhile, banks are increasingly realising the need to quickly adapt, to deliver a multi-touch point, collaborative approach that delivers a tailored, high-value service.

This is required at the more self-directed end of the spectrum.

"We are aware that low-touch, self-directed clients may not see much value in an advisory service model. Hence, we have enhanced our digital channels, so that RMs can easily access information and execute business quickly,"



"Alibaba is an example of how to use internet and smartphone technology to simplify rather than complicate information exchange between companies and customers."

TOBIAS BLAND
Enhanced Investment Products

explains Luigi Vignola, head of the markets and investment solutions group at Bank Julius Baer in Asia Pacific.

For high-touch clients, the firm's product specialists are able to offer clients more tailored solutions.

The next level, says Vignola, will definitively be an increase in the digitisation of the bank's services – something it is expecting to achieve with the help of the renewal of its IT platform, which is scheduled to complete in 2017 globally and launched first in Asia.

Essentially, giving client advisers the ability to conduct client acquisition, portfolio management and advice through digital means not only relieves them of administration burdens'

It also allows them to focus more effectively on their clients' needs and delivering the right information and advice, adds Lai at Thirdrock Group.

"CRM solutions, in particular, will be key in empowering client advisers with a set of highly synergistic and integrated tools that eliminate a host of tedious and oft-disjointed manual processes," he explains.

"These digital tools will enhance a client adviser's capabilities to track, analyse and manage their clients' portfolios, be it automated trigger alerts, detailed and comprehensive client checks , among others," he adds.

Equally important, says Lai, technology will help improve risk and compliance functions while reducing cost in the face of an increasing complex regulatory environment.

CO-EXISTING

However, although there is little doubt about the ever-growing influence of mobile and digital tools in the delivery of content, products and client service with asset management, it is unlikely to completely replace many traditional ways of interacting with distributors and investors.

Even among those younger groups of end-clients who are of the Facebook and WeChat era, research that Citi has previously done, for example, with both existing and prospective customers shows a desire for some degree of human interaction.

"They don't only want the self-assisted experience," reveals Luchetti.

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MABEL CHAN
Henderson Global Investors

As a result, human relationships and robo-advisers will co-exist.

Certainly within private banking, while digitisation is broadly considered to be an opportunity, this segment is more all-encompassing.

"Technology helps in capturing data to make decisions clear. Humans are good at judgment and emotion but not at repeated tasks. So for me it's complementary," says Vignola. "Julius Baer has an online platform, but it is the private bankers that add value."

For example, explains Richard Mak, head of advisory services for Pictet in Asia, the technology helps with client fact-finding to ensure investment suitability for each individual client. It also increases the efficiencies.

However, he adds, the wealth management industry is a people business; clients are reluctant to trust technology over a human.

According to Lai, the ideal model – which he says Thirdrock is working towards with its digitised platform – will give clients the best of both worlds, providing personalised advice seamlessly across both online and traditional face-to-face channels.

"This high-tech, high-touch approach combines the digital advantages with tailored service and support to give clients both greater choice and control," he explains.

"At the same time, our back-to-middle functions will be fully integrated and digitised, allowing us to reduce operating costs, perform more efficient trade execution, while fulfilling our risk and compliance requirements."