THE GOLDEN KEY TO DIGITAL WEALTH MANAGEMENT

BY DAILY FINTECH ADVISERS

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Executive Summary

Wealth management is in the early stages of digitization, with multiple innovations being launched by fintech start-ups, financial institutions, and Internet platforms.

The golden key to digital wealth management will belong to the platforms that integrate all customer needs by providing relevant, customized, and compliant insights and tools.

Digital wealth management is in a nascent phase. However, the same forces that drove fintech innovation in payments and consumer banking – 24/7 digital delivery, compliance, contextual relevance, and transparency on fees – are now driving changes in digital wealth management.

In this white paper we describe the early days of digital wealth management innovations coming from fintech start-ups, financial institutions, and Internet platforms across the Asia region. We are clearly in the phase during which new services and innovations focus on doing one thing and only one thing, better, cheaper, or faster.

During the next phase, we foresee a movement towards integration. These separate services will eventually be integrated onto customer-centric, global platforms by using open APIs. These integrated platforms are the ones that will be holding the golden key that will unlock value in digital wealth management.

Introduction

The digitization of wealth management is being adapted at different speeds and through different platforms in three regions: U.S., Europe, and Asia. In the developed markets, there is pressure to change existing business practices because of low-cost competitors, and in the underserved emerging markets, new business practices are being implemented with few legacy constraints. Three very different types of companies are competing to win customers – fintech start-ups, financial institutions, and Internet platforms.

We define **wealth** broadly as any amount of capital (small or large) that is allocated to financial assets. A lot of the digital wealth management innovation is targeting people who have been excluded from the traditional wealth management business, such as the unadvised and the under-banked. The core existing wealth management business is not yet seeing a lot of this disruption because the traditional high-net-worth (HNWI) client (mostly older, living in America and Europe) is not demanding so much change, but this is just the normal trajectory of disruptive change. However, the demographic time bomb (when the wealth transfers to the truly digitally native next generation) is ticking, and there is a lot of debate on the optimal strategy to prepare for this.

These trends are driving the transformation for service providers in the wealth management business, including exchanges, brokers and dealers, investment banks, asset managers, private banks, retail and commercial banks, and the entire world supporting these service providers (e.g., research, custody, and compliance).

In this white paper we look at the main drivers behind the digitization trend, originating from increasing regulation and from changing customer expectations. The resulting innovations are classified as three main categories:

- New tools for investment research, risk management, trade processing, compliance, and reporting
- New business models offering better, faster, cheaper variants of existing services in investment management and brokerage
- New marketplaces, new managers, and new financial products that are changing the way capital and risk are allocated

CUSTOMER- AND REGULATORY-DRIVEN TRANSFORMATION

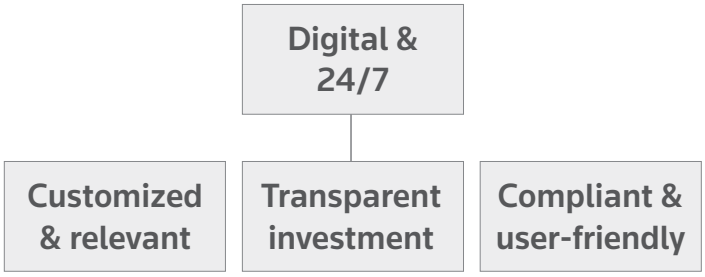
Digitally savvy end customers are the new cross-generational norm across all geographic regions. They have already driven change in consumer banking and now they are driving change in wealth management. One can see breakdowns by age, sex, geography, and other cohort analysis, and this nuance matters for specific campaigns, but the big picture is that we all live on mobile devices that are connected 24/7 and this changes customer behavior and expectations.

There is a domino effect in play that starts from the end-user expectations and travels through the B2B2C value chain. End-customer expectations are shaping up new business practices for those serving them. A customer-centric approach is replacing a product-centric approach.

There are four main end-customer expectations driving change:

- **Digital** & 24/7 delivery of services
- **Compliant** and user-friendly service
- **Content** that is customized and relevant
- **Transparent** fees and performance data

Digital & 24/7 is a broad trend that is universally affecting all financial services. Wealth management has no choice but to respond and adapt to this universal driver. The need for digital & 24/7 does *not* exclude the need for human-delivered service, and much of the innovation includes an appropriate mix of automation and personal service. Digital & 24/7 is the core driver that enables innovators to meet other expectation drivers:



The second driver, compliant but still user-friendly, relates to the multiple fast-changing regulations around capital markets and investments. Wealth management is one of the most heavily regulated financial services sectors. End customers have to be compliant within their tax-residency jurisdiction but also to be cross-border compliant as a global trader/investor. The entire life cycle of a customer relationship, all the way from onboarding to serving the client, is affected by the expectation of a seamless but compliant service. *Customers expect an army of compliance officers working for them personally.*

The third driver, customized and relevant content, originates from the democratization of services that were previously only available to institutions and ultra-(UHNWI) family offices. Customers expect a tailored service to create wealth that is designed based on their personal investment objectives, life stage, risk profile, location, and compliance jurisdiction. They expect access to thorough and relevant investment insights to all asset classes and geographies.

> *"Customers expect an army of financial analysts working for them personally."*

The fourth driver, transparent fee and performance data, also relates to the democratization of services and originates from the fact that customers expect higher investment returns by paying lower fees and having online, real-time access to investment performance. Customers increasingly will not tolerate hidden fees and want to be able to monitor their risk/return net of fees; in many jurisdictions this is now the regulatory baseline. *Customers expect an army of risk managers working for them personally and full disclosure of compensation for all those involved in producing investment products.*

Luckily, technology can replace the need for most of these armies of financial analysts, risk managers, and compliance officers. Technology is an enabler to cater to all these needs of customers, provided that those involved in the value chain adapt their services and, in some cases, change their business model.

The advisory model, for example, is already challenged in the West due to the low-cost offering of the first generation of Robo Advisors, the fee and performance transparency expectations, and regulations. At the same time, financial advisors have tremendous opportunities to rebundle and integrate the fragmented, best-of-breed fintech offerings to meet the new customer needs and expectations.

Keeping the end customer engaged through any of the digital channels is pushing financial professionals to broaden their offering to serve the diverse needs of end users (research, execution, risk management, passive and active investing, beta, smart beta, and alpha).

Technology is enabling such integration through open APIs and the democratization of proprietary tools that can now be delivered via the cloud to a mobile device. This is creating new sources of value that we describe in the *Three Categories of Innovation* section.

This reordering of the value chain is also driven by the partnerships among the three innovators: fintech start-ups, financial institutions, and Internet platforms. The combination of fast-paced innovation launched by fintech start-ups (or from intrapreneurial subsidiaries of financial institutions that operate like start-ups) and the scale of Internet platforms is shaping the next wave of wealth management digitization.

" The fintech convergence will result in platforms that are serving end users in a better, faster, and cheaper way."

These partnerships also blur the lines between a fintech start-up that grew up and became regulated and a bank that became more digitized and automated. This is what we call the fintech convergence. You can start from fin or you can start from tech – the destination will be a platform service that is better, faster, and cheaper for end users.

"Keep your existing customers on your platform" will continue to be the motto of all the platform providers that are shaping this wave of wealth management digitization. These platforms will grow by enabling cross-selling of diverse services. Even compliance, typically viewed as a cost, is already becoming a new source of top-line growth, by reducing friction in the onboarding process. A one-stop shop is the vision, and this process has just started towards the integration of all customer needs on one platform.

Although wealth management is in the early stages of digitization, the transformation will accelerate as it can leverage earlier fintech innovation in other verticals such as payments.

Digitization is also beginning to blur the lines between retail bankers, private bankers, asset managers, brokers, family offices, and self-directed investors. End users increasingly use all financial products and all investment strategies, and want to be served at the same point of sale. The same individual can be passive and active, conservative and opportunistic, long-term and short-term, conservative and innovative – often on the same day. Customer-centric thinking does not pigeonhole people into pre-defined product categories. As a result, we will be heading towards **an integration of capital markets** that will focus on serving the demanding expectations of an increasingly tech savvy and tech empowered end user. **The complex capital markets industry, with all services around wealth creation, faces a critical integration challenge.**

THREE CATEGORIES OF INNOVATION

We classify the innovation into three categories:

1. **New tools** include all the tech-enabled capabilities for investment research, risk management, trade processing, compliance, and reporting. These tools can serve any of the market players – fintech start-ups, financial institutions, and Internet platforms – and some seek to serve end users directly.
2. **New business models in investing and brokerage** that are partly commoditizing the advisory, asset management, and execution process by offering better, faster, cheaper variants of existing services.
3. **New marketplaces, new managers, and new financial products** are challenging how and where capital and risk are allocated. This results in the creation of new value chains, network effects, and distribution channels.

All innovations are forcing the various stakeholders in the wealth management space to offer more value to their customers for less! All innovations are benefiting primarily the end customers. These innovations are travelling from one region to another, as bridges are being built between regional hubs. Fintech is a global trend. An innovation that starts in Asia may move and be adapted in the West or vice versa. Service providers everywhere are under pressure and, in some cases, threat. At the same time, they are presented with new opportunities.

NEW TOOLS

B2B2C tools

Welcome to a world that is offering new, cheaper, digital 24/7 tools for professionals (asset mangers, financial advisors, etc.) and end users (DIY traders):

- WeInvest is a Singaporean fintech start-up for DIY investors. The platform can be used for discovering the best investment opportunities across real estate, mutual funds, and deposits in the Asia region.
- Canopy is a Singaporean bank account aggregation start-up for HNWIs with an overlay of portfolio analytics; anonymous with or without linking to bank accounts (by Mesitis).
- Simply Wall St from Australia offers visual fundamental analysis tools. Their Snowflakes, a graphical interpretation of live stock data, provides an X-ray of the most relevant aspects of the investment.
- Hekyl is a start-up from India that serves researchers, traders, and investors and integrates sentiment analysis, market analysis, and predictive analytics for the Indian market.
- AnalytixInsight is a Canadian-domiciled start-up run by an Indian entrepreneur that uses XBRL technology to offer real-time fundamental analysis, predictive analytics for stocks, and content generation based on analytics. The company is covering stocks in North America, Europe, and India. Their technology powers a consumer-facing with real-time fundamental analysis of 40,000 stocks called CapitalCube.
- ExtractAlpha from Hong Kong serves insights for institutional investors by curating unique, actionable data sets and quantitative equity models from TipRanks, Estimize, Alpha-DNA, FactSet, EidoSearch, AlphaSense, AlphaLetters, and TIM Group. This is a good example of value creation through partnerships across the value chain to rebundle/integrate a customer-centric service.
- Amareos is a Singaporean start-up that uses sentiment analytics and crowd-sourced intelligence. It is another that can be integrated with fundamental and other types of investment analysis to improve alpha generation. Amareos differentiates by generating heat maps with highly granular sentiment analytics.
- Sentifi is a Swiss start-up with a global presence that leverages an artificial intelligence algorithm parsing millions of unstructured data and financial market voices on the Internet, to assist in making better financial decisions via a freemium service; their Asian focus currently is in India.
- Kensho is a U.S.-based start-up that has been likened to a Siri-style service for investors, analysts, and traders. Users are impressed by the simplicity in which they can phrase a complex inquiry. Kensho has a partnership with CNBC PRO, a subscription-based service for active investors.

B2B TOOLS

We also see many tools with a B2B focus (they sell to existing financial institutions) as well as B2B2C ventures that work through channel partnerships. Big Tech firms are also active in this vertical market. For example, Salesforce, the cloud pioneer, has moved into the wealth management vertical and has been offering software suites for professionals to lower their customer acquisition cost.

"New tools empower financial professionals and end users. Some are used for CAC and others to offer better value."

- Lean Work is a Shanghai-based B2B start-up, focused on offering cloud-based risk management, back-office, trading and brokerage solutions.
- Quantifeed is a B2B fintech company from Hong Kong targeting online brokers, wealth advisors, and consumer and private banks to offer them access to the quantified platform through revenue sharing.
- Dragon Wealth is a Singapore-based B2B2C fintech, focused on serving the digital needs of financial advisors from onboarding and content marketing to portfolio management.
- Scaled Risk is a French start-up offering real-time risk management, trade analytics, and fraud detection on the cloud.

Another significant tool category that is mushrooming mostly in the West includes software and apps that lighten the regulatory burden (aka RegTech). These range from KYC, AML, and ID authentication to full GRC suites. Start-up examples from Asia include Indian-based Jocata (focused on KYC and AML); Australian examples include Kyckr and Identitii (using blockchain for KYC, AML, and fraud).

NEW BUSINESS MODELS IN INVESTING & BROKERAGE

Online brokerage was the '90s disruptor in wealth management and is now being disrupted by freemium brokerage services, such as Robinhood and 8 Securities. Digitization of wealth management makes the stand-alone brokerage business increasingly unsustainable. Brokerage businesses are reinventing themselves by integrating additional capabilities into their "execution only" service such as investment discovery tools for long-term investors, DIY tools for traders, and a variety of cross-selling financial services for customers. Revenue-sharing partnerships are being formed, and platforms are emerging that enable the integration of multiple services in the wealth management value chain via open APIs.

"Brokerage businesses are being reinvented by integrating investment discovery tools and a variety of cross-selling financial services."

8 Securities from Japan and Robinhood from the U.S. are both aggressively going after U.S. citizens in Hong Kong and Chinese citizens in mainland China (with their $50,000 allowance per person for investments in the U.S. market).

8 Securities launched their free-trading app in Hong Kong, a very different market than Japan, with an artificial intelligence feature, Chloe, that can educate and help users in their investment discovery process. The AI integration to the freemium brokerage is one differentiator.

Robinhood launched their Chinese app, named Luobin Xia (罗宾侠), earlier this year for U.S. citizens in mainland China. In addition, they formed a partnership with Baidu in order to tap into this mass market of Chinese citizens without having to get Chinese government approval.

Another example of the trend towards integrations on platforms and the creation of new business models is the Chinese partnership of two Asian fintechs and an established global financial service provider originating from Europe. The online trading platform WEEX of WallStreetCN has partnered with Saxo Bank, the Danish-origin multi-asset trading business, and fintech start-up Lean Work to tap into the mass market of Chinese speaking users. The 15 million monthly users of the WallStreetCN financial media business (a three-year-old financial content start-up) will gain access to over 30,000 instruments via this integration.

"Partnerships of fintechs, global financial providers, and Internet giants are new business models, creating customer-centric platforms."

It all started with the US Robo Advisor start-ups, such as Betterment, Wealthfront, and Future Advisor, that reached some noticeable scale, and it continues to permeate the sector with retail banks, investment firms of all sorts, private banks, investment banks, and financial advisors, all adapting to this new business model in different ways.

The first wave of low-cost passive asset allocation, now coined "first-generation Robo Advisors," scaled up when Vanguard, Charles Schwab, and BlackRock stepped into the market, the latter with an integration on the B2B level. Europe and Australia are following the U.S. lead, albeit with a lag. Macquarie Bank launched Owners Advisory, their in-house digital portfolio advice portal. The National Australia Bank followed suit, counting two out of the big four banks already buying in to what appears to be an unstoppable trend. In Europe, we see retail and investment banks driving change; ING-DiDa and Deutsche Bank are two of the many examples.

"Incumbents are leapfrogging fintechs by adapting and integrating their offerings."

In Asia, the oldest stand alone Robo Advisor business is the Australian fintech, Stockspot. More recently, out of Singapore we note Smartly and Bento (by Mesitis).

Second-generation Robo Advisors are those allocating investments not only to ETFs, but to more asset classes (e.g., stocks, mutual funds, private equity) and are focused on risk management for re-balancing. These businesses may also allow for partly discretionary management (i.e., 100% auto asset allocation) and partly DIY (non-discretionary management), and some offer limited human advisor capabilities. Others may have brokerage licenses.

Examples in Asia are Hihedge from Taiwan that uses machine learning for risk management and Money Design, a three-year-old Japanese fintech that provides advanced algorithmic asset management services. In the beginning of 2016, Money Design launched a smartphone app, THEO, that uses their algorithms for optimizing portfolios and offers discretionary investment management not only for yen-denominated assets but also for foreign. Money Design also signed a partnership agreement with GMO Click Securities, the fastest growing Japanese broker.

Hedgeable from the U.S. expanded into Asia by opening their API on the programmable Web. They are the first U.S. Robo Advisor to offer investors capabilities to invest in equity crowdfunding (in partnership with CircleUp) and in Bitcoin.

"Second-generation wealth management services are launched and the open API platform approach has been initiated."

Similarly, OCBC Bank is the first Southeast Asian bank to launch an open API platform – their Connect2OCBC platform. The announcement in May 2016 is in line with the government's Smart Nation initiative, the Monetary Authority of Singapore's (MAS) vision to create a Smart Financial Centre. At first, its focus is on consumer banking data (branch and ATM location, FX rates) but more will be rolled out.

Bambu Life is a Singaporean fintech, offering B2B Robo Advisory modules and customization through their platform. They have recently formed partnerships with four firms: Thomson Reuters (for data), Tigerspike (for business integration), Eigencat, and Finantix (two fintechs in wealth management and insurance).

Mesitis, that we already mentioned with their account aggregation offering via Canopy and their Robo Advisor, Bento, has also launched Conduit Securities, a broker for equity and fixed income in Asia. Conduit Securities is, of course, in partnership with Canopy.

We foresee that the second-generation Robo Advisors will continue to enhance their value proposition. Platforms will offer more flexibility in wealth management (partly passive, partly active), broaden their asset offerings, and eventually integrate more services to cover additional customer financial needs ranging from basic consumer banking functions to the more sophisticated wealth creation tools and services. Much like brokers are no longer "execution only," financial advisors aren't only for HNWI, and private bankers aren't only for alpha generation. Technology is being used as an enabler for the reshaping of financial services. We are seeing early evidence of platforms integrating customer needs through partnerships and revenue sharing.

NEW MARKETPLACES, MANAGERS, AND FINANCIAL PRODUCTS

The emergence of platforms continues in areas beyond brokerage and investing. In Asia, there are thousands of lending platforms catering to consumer and business needs. As of the end of 2015, China alone had over 2,600 P2P lending platforms and processed four times more volume of transactions than in 2014 (approximately $150 billion in 2015, according to Xinhua). Despite the troubles with Ezubao and other bad news in the sector hurting consumer confidence, the funding of the sector is accelerating, and one mega-deal (Shanghai-based Lufax raised $1.2 billion) in the P2P sector brought fintech funding for Q1 2016 to $2.6 billion, surpassing the $1.8 billion in the U.S. and the £348 million in Europe).

In Australia, one of the big four banks, Westpac, partnered last year with fintech Prospa to offer small business loans. DBS bank signed partnerships with the two Singaporean SME marketplaces, MoolahSense and Funding Societies. China has numerous stand-alone lending platforms, in addition to the consumer lending portals of Ant Financial, Tencent, JD Finance, and Baidu.

Lending on any of these portals is a high-yielding, short-duration investment alternative for retail and for financial advisors or wealth managers to consider in their fixed-income allocations.

"P2P loans as an alternative investment in the fixed income part of your portfolio."

In the West, the secondary market for such loans is starting to emerge (e.g., Orchard, Orca Money) and various investment vehicles are being offered for financial advisors to consider or for accredited investors (Funding Circle SME Income fund listed on LSE, Blue Elephant funds private funds for accredited).

Traditionally, opaque private equity markets are starting to be disrupted. This trend is democratizing access to private markets that clearly offer value to equity investors, especially as the trend for corporations to stay private longer becomes the new normal. The U.S. is leading the democratization in this area by passing legislation that opens up the access to invest in these markets, through the JOBS Act, Title III. AngelList and SyndicateRoom are two of the many fintechs disrupting the traditional VC model and opening up the opaqueness of the market.

"The democratization of the traditionally opaque private equity investing has started."

In Asia, the regulatory settings are being adapted as we speak to accommodate the equity crowdfunding trend. Malaysia, Thailand, and Singapore are revising regulations. Crowd.co from Malaysia is taking the role of the equity crowdfunding hub for Southeast Asia.

Lending and equity crowdfunding marketplaces are platforms that are creating new investment alternatives. At the same time, social trading platforms are allowing a new breed of asset managers to obtain a performance track record and offer alpha performance at a lower cost than traditional hedge fund or active managers. eToro and Zulutrade are two European-origin social, copy, and mirror trading platforms that are global and have grown from currency platforms to options and equities. Do-it-yourself investors are the audience for such platforms, and day traders, quant traders, and active style managers are a new tested breed. ShareIt is the Singaporean social trading network that is looking to partner with brokerage businesses, and ChaoTrade, is a newly launched social trading fintech.

Whether the next Soros will emerge from such platforms is yet to be seen. Quantopian, in the U.S., created the first crowd-sourced hedge fund by filtering investment algorithms and funding those selected in one hedge fund vehicle. All these platforms are challenging the traditional selection process of asset managers. Motif Investing in the U.S. is a brokerage fintech focused on thematic investing. They are providing their platform to the new asset manager candidates to showcase, test, and fund their thematic investments. At the same time, investors can choose from Motifs that are real-time transparent and low cost; this is challenging the thematic investment approach of incumbent wealth managers.

Asia has traditionally been a user of structured products to gain exposure to various investment themes. Contineo is a fintech whose value proposition is to lower the cost and reduce the opaqueness of structured products, offering a platform where one can discover structured product ideas and price them to secondary market capabilities, like pricing of existing structures from multiple dealers.

From the supermarket for equity-structured products, to investing in fully transparent, low-cost Motifs, to diversified P2P loan portfolios and a well-balanced, low-cost, private equity allocation, financial service providers can offer new sources of alpha at lower cost.

"New sources of alpha from the crowd on transparent platforms, at a lower cost."

Disruption is threatening traditional financial service providers (loan originators, asset managers) but at the same time, creating new possibilities in terms of financial products and distribution channels.

Conclusion – Towards Integration

Digitization of wealth management is happening, and although it is scattered, we are starting to see bridges being built between fintechs; between established financial providers and tech companies and fintechs.

There is a domino effect in play that starts from the end-user expectations and travels through the B2B2C value chain. End-customer expectations are shaping up new business practices for those serving them. A customer-centric approach will gradually be replacing a product-centric approach.

Fintechs are solving one problem at a time, and by doing so, they are offering a significantly *better, faster, cheaper* service in that one single domain. Customers, however, need a more integrated service.

Now the challenge for financial institutions with an established customer base is to offer better, faster, cheaper *plus* a more integrated service. This has become possible through the cloud, mobile, and APIs. Incumbents are well placed to win this race because of their existing outreach, but fintech scale-ups are competing fiercely.

The golden key to digital wealth management will belong to the platforms that integrate all customer needs by providing relevant, customized, and compliant insights and tools.