

## The digital future within wealth and asset management

Digitalization is a strategic cornerstone and has become the top priority for many financial institutions, replacing regulatory compliance as primary concern. According to several surveys published within the last year, around 50 % of financial institutions cited digital as their highest priority for the next five years, to satisfy the demands of an increasingly digital customer base.<sup>1</sup>

Retail banks are facing difficult times as non-banking companies enter the market with smart and lean solutions for payment processes. It is expected that profitability will decline as more fintech companies start to focus on plain vanilla banking solutions like payments. By investing in technology and talent, retail banks can counter this trend by providing clients with a much more interactive and personalized experience. This might not make up for the profitability pressure around standard banking solutions, however offers the chance to keep clients and offer additional profitable products and services.

Wealth and asset managers have been the financial industries' late adopters when it comes to improving aspects of their businesses with the application of technology because the personal client relationship was viewed as highest priority. The digital revolution, however, is transforming this sector too. Younger generations expect a higher degree of technology involvement and the possibility to interconnect with their bank through technology. Fintechs start to provide technology-

driven products and services at a fraction of what today's wealth and asset managers are pricing. Furthermore, there is a strong likelihood that these so called «disruptors» will move into the distribution sector of financial products. The development of omni-channel digital services, obtaining better customer insights to provide customized client services and transforming distribution operations is a necessity for institutions wanting to keep up the pace of the market.

Neither customers nor digital developments are likely to wait for firms to catch up and clients are likely not to accept outdated service offerings. Financial institutions need to understand, that digitalization of their business model is a must if they want to keep up and certainly if they are looking for competitive advantages. Once a credible digital banking value proposition exists, customer adaption will be extremely fast and digital laggards will be left behind. However, it needs to be said as well, that trust will remain the most important factor when it comes to wealth management in classic private banking. Financial institutions combining their brand in wealth management built over decades with newly arising technologies are putting themselves in pole position.

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<sup>1</sup> AT Kearney (2015): Banking in a digital world;  
Temenos (2015): Priority for retail banks shifts to digital from regulation

**Digitalisation: More than just a front-end tool solution**

Current digital offerings within financial services are focusing on client experiences when providing basic client services. But digitalization is much more than providing just stand-alone front-end applications such as mobile apps, mortgage comparison or portfolio composition visualization. Today’s clients expect more informed, more personalized, more transparent and more collaborative service offerings which are delivered more quickly, efficiently and effectively than ever before.

To answer these new client demands, financial institutions need to enhance their digitalization throughout the front to end processes including their value proposition within their digital journey by reviewing their business and operating model. A promising approach might focus on the following three pillars:

**Client focus:** The development of a client-centric business strategy is key. Enabling/ empowering the client to choose the time as well as way of business interaction and offering at the same time an even more personalized client service based on the client’s needs and characteristics. The development of omni-channel client interactions with a consistent client experience is the main requirement to remain relevant to current and future clients by building new value.

**Advisor capabilities:** Advisors need to be equipped with corresponding tools to support their client interactions based on new client collaboration and personalized client service offerings. Equipped with the right tools, the advisor productivity can increase significantly and enhancing the client but also the advisor experience and therefore enabling a more collaborative relationship with clients. At the same time, employer attractiveness is enhanced. One simple initial step may be the possibility to sign contracts and agreements with clients digitally.

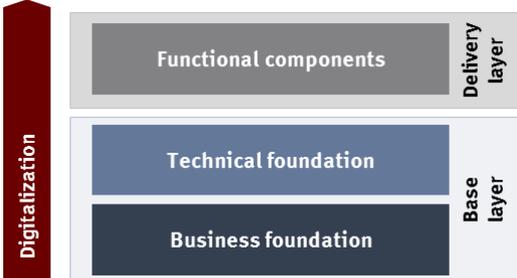
**Business efficiency:** Through the streamlining of systems and the automation of processes, manual interventions can be reduced, thus leading to lower time and cost per task completed. Well-structured work-flow tools based on a consistent data architecture may be the first step to increase the efficiency and effectiveness of business operations.

The digital journey is an ongoing process where the business model will be adapting on a continuous basis, based on the new digital environment. Financial institutions that stay agile and are able to adapt change faster than others will clearly have an advantage to incorporate the constant transformation triggered by the digitalization.

**Components of digitalization**

The digital journey is coupled with a lot of opportunities and challenges impacting the core of the financial industry’s businesses. Therefore, this process of change need to address a core set of components that consider the heart of the business.

Digitalization requires adaption of the financial institutions’ base (business and technical foundation components) and delivery layer (functional components). While the base layer delivers value to the business, the delivery layer delivers value to the clients and advisors.



The business foundation (first layer of foundational components) contains a group of core soft factors. It defines the overall vision and needs to be reflected in a corresponding strategy, leadership and buy-in, a digital methodology, culture of learning and communication as well as client insight and engagement.

The technical foundation (second layer of the foundational components) contains a group of technical components. Standardized infrastructure, effective data management, a flexible integration layer (engaging the back end to serve up to the digital front end) and a user experience layer (fundamental for driving digital engagement across the organization and all user groups) are the main elements.

Based on this foundational components, the digital toolkits (functional components) of the delivery layer can be developed. The potential applications of this layer are broad, and depend on the financial institutions' current business and technical status as well as their business needs.

At the moment, the focus of the functional components lies within applications which directly impact the relationship between the advisor and the client (client experience). Therefore, firms are primarily implementing digital tools for CRM, communication, client onboarding, advisor workstations, client reporting as well as trading and transactions.

Other components of digitalization may be in the (near) future tools supporting automated investing and advice, document management, financial planning, investment research and advisory, portfolio management, compliance and regulatory («RegTech») as well as data analytics.

With regard to the focus and strategic development of these functional components, different points need to be addressed.

**Integration:** Solutions need to be easily integrated in the firm's environment and systems.

**Multifunctionality:** Firms are looking for multifunctional tools, covering multiple functional components.

**Flexibility:** These components need to have the ability to serve all three pillars of the organisation (client, advisor and business).

## Goals and challenges of digitalization

We think it is fair to say, that the future of banking will be highly digitalized, it is however impossible to predict how exactly and to what extent the digital business will look like.

To get there, individual goals need to be defined across the mentioned three pillars – clients (remain relevant to clients), advisors (empower the front to build stronger relationships) and business (save time and money). The details of these defined goals will highly depend on the digital strategy of each financial institution. Quick wins cannot be the anticipated goals.

Moving into this new and unknown digital environment, financial institutions will likely face a range of various challenges, including but not limited to the following:

- **Organizational legacy:** infrastructure, business processes, culture, leadership and talent
- **Organizational complexity:** competing interests across different departments, like internal structure, different geographies, products, services and client domiciles
- **Organizational inertia:** long standing development methods do not match the digital progress and change is slow
- **Cost pressure:** digitalization can help to save costs, but it is also a challenge due to its novelty
- **Talent and knowledge:** financial institutions are not digital natives and need to adapt from a technical, generational and cultural perspective

## Results of digitalization

Changes within each of the three pillars will lead to specific results, based on the planned roadmaps and the corresponding building blocks. The future of the financial industry may look completely different from what we know today. Clients may receive investment suggestions based on their lifestyle, cash payments will no longer be needed or interactions with the financial institution will be without any human counterparty.

Clients will have different interaction channels with their financial institutions, based on their needs. New tools offered to the empowered clients will serve their increasing demand in managing their finances autonomously. Last but not least, the digital developments and tools will serve to deliver a more personalized offering.

The digital transformation will empower the client and advisor at the same time and increase the productivity of the advisor by freeing time to focus on revenue generating activities with clients and prospects. Although the client gets empowered and takes a greater role within the advisor-client relationship, digital tools allow the advisors to more readily respond to client's needs. Moreover, the frequent interaction through digital channels allows for the gathering of extensive information on the client. This data can be the basis for the development of artificial intelligence, which continuously screens huge sets of data to match products and investment ideas with clients.

The business will benefit from streamlining and automation of processes, which will replace predominantly manual tasks. Based on the streamlined infrastructure, new products and solutions can be developed faster and more efficient to meet the client expectations (without asking the client the same questions all over again). Automated investment or relevant product suggestion («robo advice») are good examples. Digitalization will also enable

financial institutions to penetrate new markets based on less expensive digital solutions. These new solutions enable financial institutions to offer their services in territories without opening a physical representation (lower entry costs) and grant access to a younger, more digital generation.

## Conclusion

Digitalization will change the traditional business model of financial institutions. The good news is, that there are plenty of opportunities for those firms empowering clients and advisors, adapting their business models and driving innovation. The bad news, on the other hand, is that change is coming whether or not financial institutions are ready, and in times where other factors are influencing margins within the industry. Financial institutions not adapting their business model to the new environment may survive but will face increased operational complexity and costs compared to their digital competitors.

The digital transformation is characterized by a constant evolution. Therefore, financial institutions must be open minded towards new developments and act agile. Continuous development, release, re-development and re-release is expected from financial institutions.

As already mentioned, digitalization is more than just building a fancy-looking front-end tool. Depending on your client needs, you may focus on the digitalization of your internal processes. Digital is all about data and therefore it is a good start to development a clear and sound data strategy and architecture. Based on this data architecture you will be able to build step by step your individual digital solution being it small operational improvements or sophisticated client centric sales channels.

## **How we may support you**

As Weisshorn Consulting, we strongly believe in the ongoing digital transformation within the financial industry and the chances this transformation offers to each market participant. Therefore, we are closely following the various digital developments and trends to support our

clients on their digital journey. We not only offer support around data strategy and management, but also by supporting the development and implementation of a sound digital strategy and corresponding solutions. We would be pleased to support you on your digital journey by evaluating your current situation, map out the need for action and define together your specific digital strategy.

## **Contact us:**

If you would like to receive more information about Weisshorn Consulting's expertise around the areas discussed within this article or if you have any other questions related to our PANORAMA newsletter, please contact us:

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