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Wealth Management Technology – Digital Revolution or Evolution?

What technology vendors to the wealth industry need to know....

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There are some aggressive statistics being bandied about wealth management just now. Apparently, social media and mobile technology is about to transform the industry as we know it. So are we really on the cusp of a technical revolution?

The rapid uptake of mobile devices and demand for instant information defines much of today's world. But these developments are passing wealth management by. There are notable exceptions in new firms: Nutmeg and Money on Toast, for example; but established firms aren't catching on to the advantages to be gained, and the software firms that support them don't seem interested in showing what new technology can deliver.

Why is innovation being stifled in our industry where others are leaping ahead? What are the risks of continuing to resist that innovation? And how do technology firms ensure they keep adding value and stay current?

There are four main reasons why technology advances are slow to permeate through to wealth managers:

1) We're busy: - Regulation

It's been said time and again that the changes in, and emphasis on, regulation has been unprecedented over the last few years.

In 2013, wealth managers' average spend on technology was 13% of revenues. Not so surprising? But consider that 80% of that 13% was spent playing catch-up with regulatory requirements[1], and it's not hard to see why discretionary spend on innovation is scarce.

Not to heap gloom on gloom, but only 20% of managers think their technology can keep up with regulatory changes to come. This outlook is unlikely to improve in the short term.

The impact of this regulatory burden is far-reaching: innovation is constrained not just by resource and budget, but by a creeping, bunker mentality that stifles intellectual capacity for change. Once entrenched, short-termist, reactive thinking is hard to overcome.

[1] Compeer

2) We're busy: - Mergers and acquisitions

Schroders/Cazenove; Bestinvest/Tilney; Old Mutual/Quilter-Cheviot; Rathbones/Jupiter/Tilney; Stonehage/FF&P…..and on and on.

M&A continued apace in 2014, and doesn't look like slowing down this year. We still see buyers outnumbering sellers[2].

At best, for a wealth manager, an acquisition distracts from innovation in the short/medium-term. Generally, the executive team will be under immediate pressure to begin payback on the deal by efficiency gains. This usually means consolidating two (or more) businesses with shared services and platforms.

It's rare for a wealth manager to go out and find a totally new technology platform during a merger. The choice is usually between the incumbent technology vendors (and/or service providers) and the focus is on consolidating, not enhancing. Strategic thinking about future propositions, services and customer experience is most often an initiative that begins once this is done – if there's time before the next acquisition….

3) We're outsourcing: - Innovations will follow

2013 saw increases in wealth managers' revenues and improved profit margins, but this was mainly driven by buoyant equities markets. It means profitability remains a hostage to the rising costs of regulation. Efficiency, then, is still the key focus for improvement initiatives and it drives an increasing need to "commoditise" back office activities.

Rising cost of regulation has led to commoditisation of the back office

48% of firms now outsource some or all of the back office[3]

For many, this means outsourcing.

In Knadel's 2014 survey[3], 48% of UK wealth firms questioned already outsource some or all of their back office activities; and of those still in-house, 50% of them would consider outsourcing in the near future.

When done well, outsourcing non-core activities provides headroom for thinking about innovation and differentiation. It shares the burden of responding to regulatory change between a number of firms and the service provider, so releases budget and resource. Managers can begin to focus on client service and investment product/processes – the things that matter most to the investor.

A third of outsourcers cited a need to leverage service providers' technology as a driver for outsourcing [3]

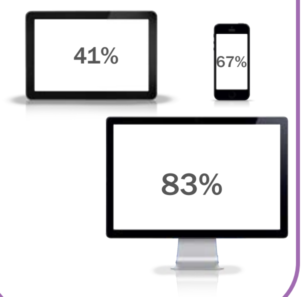
Outsourcing is an increasing trend, but it's still a relatively immature market – it takes effort to settle into a new business operating model and to get used to managing a service provider. But there is evidence[3] that managers are leveraging the service provider's technology to get ahead, and yet further evidence that managers are spending more on front office and client service tools.

4) Demand for technology

It's true that HNWIs increasingly expect a mobile offering with instant access to investment details 24/7 [4], but in wealth management, investment performance will always be king.

44.5% of HNWIs want 24/7 access to their portfolios [4]

HNWIs own multiple devices [5]



Brand and reputation come second with little mention of technology as a driver strong enough to make someone swap managers.

So high performing managers can rest on their laurels then?

Not really. Taking a relaxed view is risky. Not having online web access for clients already puts you behind the times. Whilst it won't be an investor's sole reason to move, a lack of technology does affect your brand. It casts doubt on your firm's culture and makes it look like you don't invest in business improvement – On-line is now a must-have.

Conversely, managers who are ahead of their peers, who have web-access but also have good mobile device apps, and who embrace social media in a two-way conversation, build a brand perception of being up to date and in-touch – if they use it well. This becomes a positive selection factor if performance is at least no worse than their peers.

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[2] Knadel network
[3] Knadel Wealth Manager Business Barometer survey 2014

[4] Cap Gemini Worldwide Wealth report 2013
[5] Scorpio

End-investors have been relatively undemanding until now. Complacency has been built upon the supposition that the next generation with be the driver for technological change, but that the money is still with their parents and grandparents. However, the post-retirement demographic are picking up tablets more readily than they ever did PCs. The interface is far more intuitive, with apps re-packaging market and investment information to offer insight that was once the exclusive preserve of direct subscribers to Bloomberg and Reuters. Sharing advice and experiences with friends and family through social media builds an end-investor's awareness, confidence and knowledge across all ages.

If the industry doesn't welcome this change it will only further alienate investors.

But it's hard to bring about a revolution if we can't deal in specifics. The demand for "something" is getting stronger but we can't say exactly what that "something" is. Your clients won't tell you what it is, but they will know when they see it somewhere else. In the meantime, the wealth management industry appears moribund and reactive - a sloth who needs to be poked in the side to decide he is uncomfortable enough to bother to move.

It's not all doom. The notable exceptions I mentioned earlier have much to teach us. They've taken a different approach to designing their customer interfaces. They have used talent, not from the finance industry, but, in Nutmeg's case: the betting industry. No traces of irony there, or indeed, with 7 Investment Management's new app[6] designed by a gamer –it looks great and it makes you want to play.

It's not exactly revolution but the signs are there and the stakes are ratcheting up - The sloth may be about to fall off the branch.

Impact upon financial technology vendors

So what does this mean for technology vendors to the industry?

Along with managers, the existing software application vendors have also been dragged into the melee that is regulation. They too, have found it hard to focus on things other than fixing business-as-usual.

Mergers and acquisitions, have added strife for suppliers – destabilising loyal client bases and polarising the technology market. In time, consistent losers will find themselves in a vicious circle of revenue erosion with even less to invest in the research and innovative development that makes them attractive.

Outsourcing is potentially the largest threat to technology suppliers. Those that provide only back office systems face a diminishing number of prospective clients. Those providing front office solutions see a mixed trend – an increase in demand for a front office only solutions to sit upon an outsourced services model; and competition against the outsource service providers own, integrated software solutions.

More doom and gloom? Not quite. Some financial technology vendors have built lucrative relationships with service providers, leveraging joint investment and experience to develop exciting, modern technology.

Other technology vendors are finding new ways to provide software (modular components, or software as a service, as examples) reducing costs to managers and making products appeal to a wider range of firms with a multitude of business models.

Yes, sometimes this comes about from a defensive strategy, but vendors know they must also differentiate. Give them a client sponsor and they will be developing their socks off, but to get ahead they also need to be proactive – invest and *show* managers ways to use technology. Many managers are not equipped with the time or knowledge to reinvent the industry by themselves.

Wealth Technology vendors who will succeed in the long-term will be those that:

- Find ways to deliver more cheaply, and to standardise software across their client base to allow them to implement regulatory change more efficiently;
- Embrace the tech-savvy, rapid response world of social media, mobile apps and instant data.
- Are not afraid to bring in talent and fresh ideas from more technically dynamic industries, to complement their hard-earned industry knowledge and experience.
- Ring-fence resources and budget, and hold forums for innovation – they need to bring their own investment and ideas to the table – show us the art of the possible.

The age of the behemoth financial technology vendor has gone; and the sloth is an endangered species - if ever there was a time to think outside the box, this is it.

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[6] 7Imagine