Capgemini Consulting

Digital disruption in Asset and Wealth Management

Asset and Wealth Managers will not set aside from the digital revolution.

The groundswell that is today impacting massively retail banking is now impacting all banking businesses. Opportunities offered by new digital technology such as Big data & analytics have not been fully explored yet by Asset & Wealth Management actors, and new technologies are mainly confined to improve shared platforms and reporting flexibility. But the turn might come soon now with the aggressive launches of Fintechs investing all parts of the banking business, including its most exclusive territories. Asset and Wealth Management might be the next targets, facing the up-rise of new Robo-Advisors quickly gaining market share on their devoted playground until now.

Traditional Asset and Wealth Managers should anticipate and react, building on their knowledge and assets in order to contain this new trend but this will require that they adapt and probably more globally rethink their business model, to avoid the commoditization of their activity.

The aim of this document is to present how Asset and Wealth Managers can take advantage of the digital revolution / emergence of Fintechs to become more competitive and attract more clients.

Robo-Advisors are starting to win market shares at the expenses of traditional players thanks to an attractive value and a lower cost offer

Robo-Advisors are winning ground in the portfolio management industry. They are currently under the limelight. Venture Capitalists, as well as some Asset Managers, are heavily investing in some of those start-ups to the extent that people are talking about a Robo-Advisors bubble, and financial institutions are monitoring them very closely, sometimes with amazement, wondering whether they represent a threat or an opportunity.

The 'pace of growth' of Robo-Advisors assets under management is impressive. Pioneers like Betterment and WealthFront launched respectively on 2010 and 2011, already manage around 2.5bn dollars of assets each. The global US market concerns between 14 bn and 16 bn dollars of AUM as of end of 2014. **Market specialists anticipate this rise to continue and even to amplify over the next years.** However there is no clear consensus on the level of this increase. From our point of view, and considering a small slowdown in the momentum this year, we estimate that AuM should target between 1 to 2 Trillion dollars in a time horizon of 5 years.

Even though those automated investing services are more established in the US, Robo-Advisors are only entering the French market: both discretionary portfolio management and advisory Fintechs have been launched in the past 2 years.

1. Robo-Advisors: from production to direct distribution

The traditional investment value chain, from the creation and management of funds to their distribution and associated services (i.e, reporting), is being reshuffled by the Robo-Advisors' approach which therefore are impinging on most of the blocks of this value chain, and threatening Asset Managers, as well as insurers or retail and private bankers.

Traditionally, the value chain is divided up between several stakeholders:

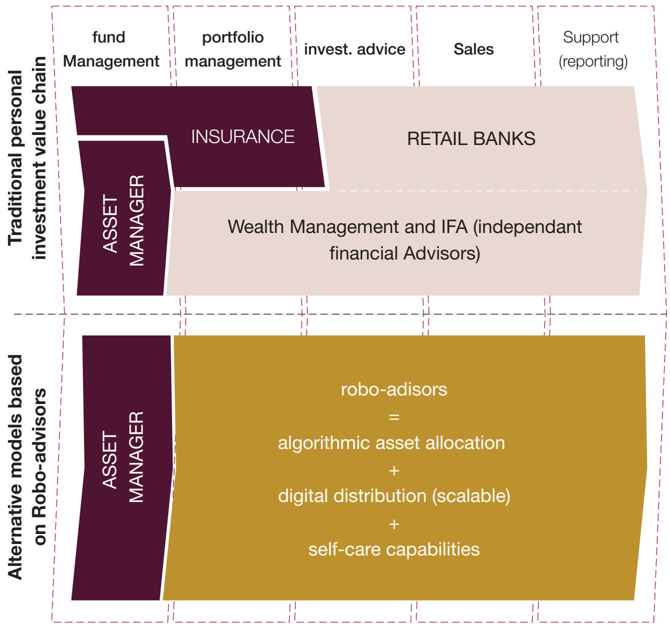
- Asset Managers & Insurance: creating funds, managing portfolio in order to obtain the best performance and partnering with distributors in order to reach an enlarged number of clients
- Private, Retail bank and IFA: ensuring the distribution of funds to retail clients by providing them the best advice on their project vis-à-vis their risk appetite

> *Everyone talks about how robo-advisers can't connect with clients. I actually believe those kinds of tools are like an ATM machine. We are all going to have it.*
>
> ***- Larry Fink, Blackrock, August 2015.***

Robo-Advisors are new players in this value chain. **They provide automated, algorithm-based portfolio management advice without human financial planners or advisors, and with a best in class customer experience.** By offering services going from investment facilitation to portfolio management, they allow distribution of funds directly to retail clients together with automatic advices. As a consequence, they are mainly in competition with funds distributors (private, retail banking & CGPI). Nevertheless, to quickly gain market share, Robo-Advisors are required to set up partnerships with banks/brokers. Indeed, they could not be as competitive in the market on a stand-alone basis.

> *The robo-advice tool, which is an asset-allocation tool, is kind of talking common sense and putting it into a very user-friendly model. If places like us don't have that capability, we should have that capability, whether we built or buy, we should have it.*
>
> ***- James Gorman, Morgan Stanley CEO, November 2015.***

Figure 1: Personal Financial Investment Value Chain



2. The value added of Robo-Advisors relies mainly on a low cost offer and an enhanced client experience

a) Robo-Advisors have an aggressive position on pricing

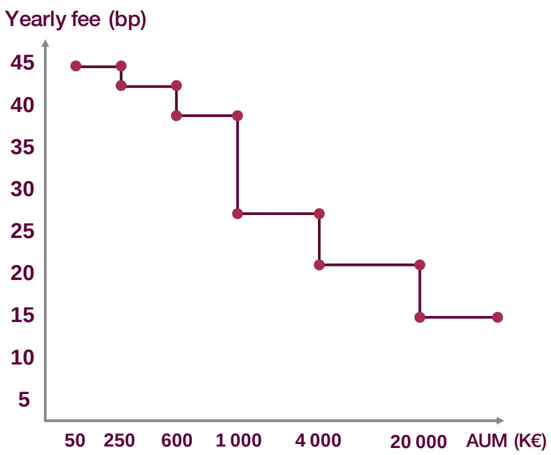
Robo-Advisors management fees are low, and that is one of their main attractive points. In fact, for Top 10 Robo-Advisors on the US market (the most advanced one), annual management fees are less than 89 bp[1], depending on the company and the size of the account.

This is due to the fact that they mostly propose to invest on low cost index funds and exchange traded funds (ETF). Indeed ETFs are cheaper than traditional mutual funds for 2 main reasons:

- Tracking an index is inherently less expensive than active management
- Process in Buy /Sell requires less work (done instantaneously while mutual funds require a heavy process)

Most of Robo-Advisors even offer a declining fees structure to their clients. For instance, one of the Top 10 US Robo-Advisors offer is rather straightforward and regressive according to the invested amount:

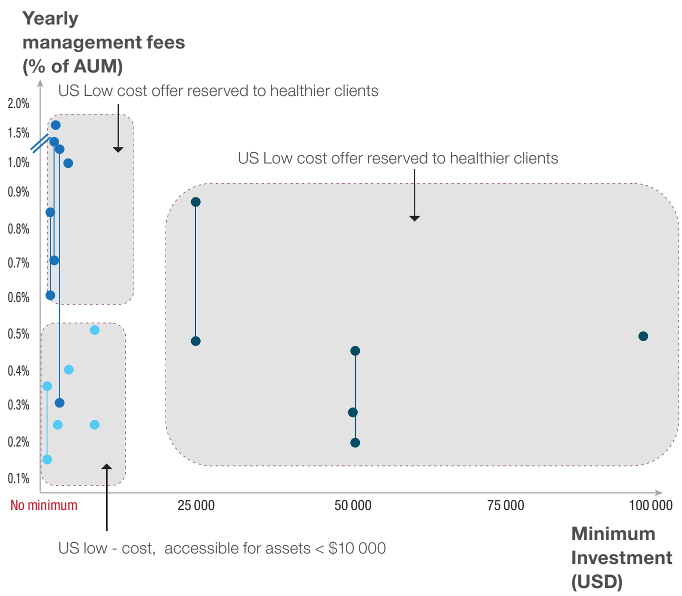
Figure 2: Regressive fees according to amount invested



Some Robo-Advisors do not request any minimum invested amount (such as Betterment) but other do so and first deposit amount range from a small ticket, $500 for Wealthfront, to a much larger one, $500.000 for Vanguard Personal Advisor Services[2].

Regarding the French market, the launch of Robo-Advisors is still recent and they are not mature enough in order to draw any conclusions on the pricing strategies. Some start-ups are still waiting for their regulatory approval and do not want to communicate about their pricing policy. However, concerning the "early birds", we can observe that Yomoni which obtained the first AMF agreement as a management company in August 2015 and Advize (AMF agreement as CIF and ACPR agreement as insurance intermediary) are to apply higher annual fees than their US counterparts. Minimum invested amount is very low with € 1000 for both players. On the other hand, Fundshop and Marie Quantier have chosen alternative business models, as they charge a monthly service fee not depending on the assets under management.

Figure 3: Robo - advisors' relative positioning – management fees[3]



Source: Institutional websites

[1]*In % of Asset under Management*

[2]*Based on our peer Group of Top 10 Robo Advisors in US Market (2014/2105 data)*

[3]*Observed in the top 10 US Robo Advisors + 5 European Robo-Advisors in AUM*

In addition to management fees, most Robo-Advisors display ETF (Exchange Traded Funds) fees, when those financial instruments are part of the investors' portfolios proposal. Those fees are rather low (usually 5 to 40 bp)[3].

Usually, no trading, custodian or exit fees is charged, which is the case for Wealthfront, Betterment, Personal Capital or Vanguard. This is a major strategic positioning for Robo-Advisors that therefore do communicate actively on this competitive advantage in comparison with traditional players whose withdrawal, custodian and transaction fees represent a significant part of their revenues.

Nevertheless, additional fees may however be charged by some Robo-Advisors:

- Operating costs
- Custodian fees
- Trading fees
- Brokerage fees
- Performance fees

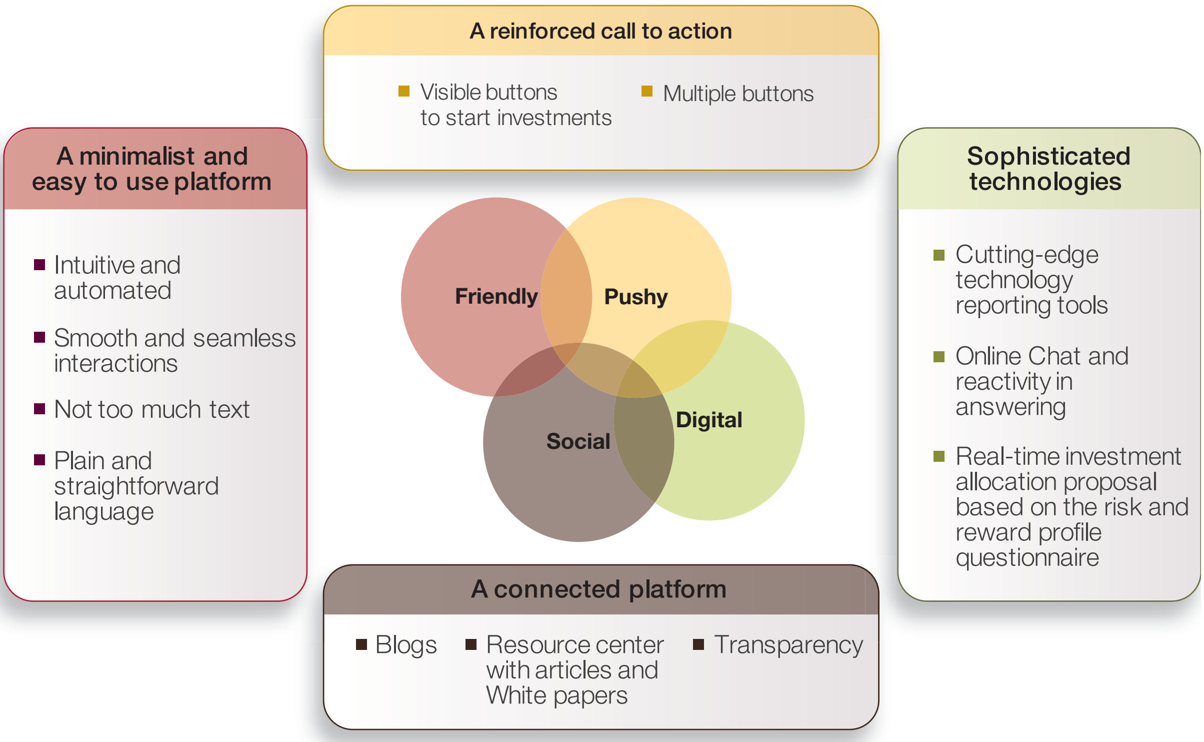
b) A revolution in customer experience?

On the top of competitive prices, Robo-Advisors are building on their direct interface with clients and **have developed cutting-edge technology platforms offering for some of them a unique client experience, mostly inspired by what the digital revolution is offering to its clients in retail banking.**

Betterment is one of the most advanced platform in this regard, "the Apple of finance" has developed a very sleek and minimalist platform using a plain and straightforward language, a compelling call to action through multiple and visible buttons which trigger surfers to start investments, inspired by the innovative disruption the technology firms have brought in interface devices during the last decade. These apps are often connected to other social platform providing blogs or resource centers, with integrated sophisticated technologies and functionalities, such as best-in-class and interactive reporting tools, online chat, etc.

Real time data and simulation displays are also a new interesting development provided by those platforms. For instance, once the risk and reward profile questionnaire is answered, Wealthfront displays, on a real-time basis, an asset allocation proposal based on the risk tolerance of the investor and on the purpose of the investment (taxable or retirement investment). Those parameters can then be monitored by the investor on a real-time basis.

Figure 4: Best in class in Customer Experience



3. Robo-Advisors: mirage or revolution?

The high value offered by Robo-Advisors at significantly lower costs compared to traditional industry players (traditional advisor, discount brokerages, online investment platforms) is attractive for investors. **But one should probably remain careful, as the track records on Robo–advisors performance is still short to give a full and realistic feedback at this stage on performance for clients.**

Although they faced their first major market downturn in August 2015, it did not represent a definitive test and they have not yet faced any violent and unexpected turnaround on markets so no one know how they can handle major market paradigm changes, and how their performance might react. Any comparison with human advisors performance on the long-term might be irrelevant for the time being.

This lack of track record is probably their major weaknesses.

In addition, as of today, most Robo-Advisors' algorithms are based on financial theories that can be fragile (some of them rely upon historical returns and volatility and do not take into account the current market conditions) and may not be flexible enough to cope with major changes.

4. Opportunities for Wealth and Asset managers

Real threat or not for the actual Asset and Wealth Managers, it is difficult to say at this stage. Nevertheless, what is sure is that investing or partnering with Robo-Advisors could bring a competitive advantage, a new way of doing business and of attracting clients.

For Wealth Managers, it could be the opportunity to:

- Create new business models: Private Banks could propose a new service fully automated through a "Best in class" application for clients who prefer to manage their investments directly. It can also help making profitable the mass affluent segment, traditionally expensive to serve with tailor-made services, by drastically limiting the cost to serve them. It can be seen as an add-on rather than a replacement of the relationship with the customer.
- Provide sales with a new tool helping them to propose more accurate allocation to clients. Integrating / working with a Robo-Advisors system is indeed a way to increase sales by granting access to advisors as done by Fidelity and Charles Schwab. Advisors will have a tool helping them to provide the best possible advice to their clients, which should lead to an increase in the client satisfaction.
- Finally, help in the implementation of new regulatory requirements regarding KYC processes, for instance MIFID II: automated services can facilitate the recovery of the needed documentation; it could help mitigate the risk of mis-selling through the set-up of appropriate risk frameworks, and ensure a complete audit trail.

According to our latest publication of the World Wealth Report[4], Wealth Managers seem to underestimate High Net Worth Individuals interest in using Robo-Advisors: only 20% of the Wealth Managers do believe in the inclination of their clients to use those services, while almost half of them do have an interest in such automated advisory services.

From an Asset Manager perspective, the emergence of Robo-Advisors is the opportunity to re-think their business model creating a new channel of distribution in B to C.

As of today, Asset Managers distribute their funds in BtoBtoC mode, meaning that they set up partnerships with distributors (private banks, retails banks and IFA) in charge of distributing their funds (usually against inducement). They do not have any direct relationship with final retail clients. Developing or buying a Robo-Advisor will allow them to change this by selling their products to retail clients with no intermediary and therefore managing their investment on a discretionary basis.

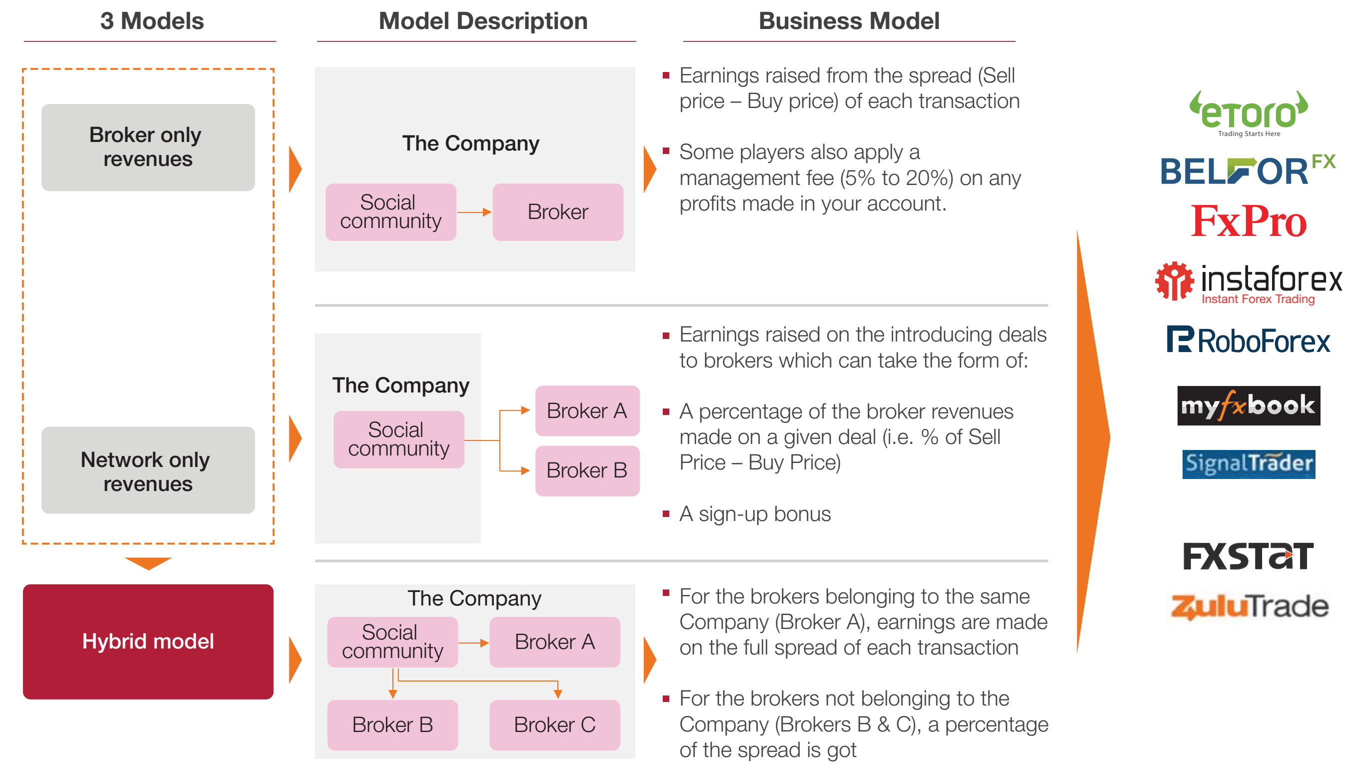
Not only, it is a way to target new type of clients and increase sales, but also a way to have more detailed information about their final clients (who they are, level of subscription redemption,..) that they can analyze in order to get a better knowledge of their investors, and therefore propose more adequate services.

Even if Robo-Advisors are not a real threat for Asset Managers as seen in the value chain description, they must decide what positioning adopt in front of these new players. 3 scenarios are possible:

- Continue business As-Is by ignoring Robo-Advisors and continue working exclusively with distributors to sale their products.
- Integrate a new type of “distributor” by partnering with a Robo-Advisors that will propose their product to the final clients
- Set up a BtoC distribution channel by buying or developing internally a Robo-Advisors in order to sell products via a B2C channel

Threats seem rather limited on a short term, as the assets managed by Robo-Advisors will remain very small compared to the AuM in the rest of the industry, but the development of Robo-Advisors is clearly pointing out the obligation for the investment industry to benefit from the actual digital disruption they are facing to enlarge their service offer and review their business model, in order to face the impact this disruption will have, sooner or later, on traditional banks’ margins.

Overview of social trading networks Business Models



[4] The World Wealth Report is an annual publication from Capgemini and RBC Wealth Management offering detailed insight into HNWIs across the globe and the shifting dynamics of the wealth management industry

How to use new digital technologies in Asset and Wealth Management areas?

The financial services sector has been slower to adopt new digital technologies than other industries and, within this sector, Asset and Wealth Management are some of the most resistant parts. Yet, stakes are high, even for the wealthiest, as for instance, 63% of European HNWIs would consider leaving firm for a lack of channel integration[5], and even 80% for the younger ones (<40 years).

With the emergence of new players focused on customers, Asset and Wealth Managers are now looking in how these technologies can help them increase their revenues.

Digital technologies could add value for them on three aspects:

- Improving their exposure/visibility in the market by using social media tools
- Adding value to the customer experience by providing better services & reportings through mobile devices and Big Data
- Increasing sales or optimize cost structure by using predictive analytics

1. Improve company exposure / visibility in the market by using social media tools

Today, social media are key in the customer's attitude, also for their investments[6]. Nearly a third of asset owners have made an investment decision based on social media output and 36% have looked for Asset Managers on these social platforms, mainly on LinkedIn, which is used by 86% as a source of information.

Even demand from HNWIs for digital services is taking off under the pressure of demographics, competition, technology and regulations. Perhaps the most important driver is the growing prominence of HNWIs under 40, **a tech-savvy group amongst which 40% cite social media as important for accessing information but also 36% for engaging with Wealth Managers and firms and 33% for executing transactions**[7].

While these platforms cannot be considered as direct distribution channels, they need to be used by Asset and Wealth Managers to increase their exposure and thus increase revenues. They can actually build closer relationships with individual investors by sharing data and interacting with them. By doing so, Asset Managers can gather feedback to adapt their products or their investment strategies.

Hearsay Social, a leading social business platform in the financial services industry, outlines a social media strategy includes four core pillars:

- Be findable, by clients but also centers of influence and potential talent recruits
- Grow networks, in order to achieve a critical mass of participants
- Listen, to act on key triggers and opportunities
- Communicate, ideally on a real-time basis.

However, one must keep in mind that regulation is still unclear over what can be done or not through digital media, and therefore must remain prudent.

In order to build a full leverage of social media potential we recommend to go through 3 steps:

- build social media presence
- react & engage
- monitor the social media KPIs

Buid Social Media Presence	React and Engage	Monitor the Social Media Kpis
▸ Create awareness about the brand and the connect with the end consumers on a regular basis	▸ Help solving customers issues	▸ Measure the effectiveness of social media initiatives and marketing campaigns

[5]*World Wealth Report 2014, Capgemini*
[6]*According to Greenwich Associates research*
[7]*World Wealth Report 2014, Capgemini*

2. Improve customer experience by providing better services & reportings through mobile devices & Big Data

Customers are more and more demanding on reporting content, frequency and device. Exit the paper report sent once a month, **customers want real time data crossing different axis / level of information to be visible on mobile devices.** In addition, they want to be able to play themselves with their data and benefit from real time simulations in return. Current IT infrastructure is not agile enough to answer these requirements whereas the integration of Big Data technology will help these companies being more flexible and therefore improving their services.

Big Data technologies allow to collect easily different types of data (multiple sources, multiple format), aggregate and report them in many ways (by customers, by assets, by most recent positions,..) without having to set up dedicated datawharouse / datamarts for each specific type of reporting.

Additionally to dynamic reporting, Big Data is a way to get more customers insights (what do they like, how do they take their decisions, on which website do they go before taking their decisions,…) and therefore to **customize companies' services or to create new type of products/services with regards to clients expectations.** Better understanding client behaviors could also help sales to better identify when to contact the client (seasonality of investment,…) or through which media (mail, chat, phone).

3. Increase sales or optimize cost structure by using predictive analytics

a) in the Wealth Management area

Wealth management can benefit from Big Data analysis to have a complete vision of all the types of interactions the firm is having with clients and a clear sense of how effective those touch points are in both meeting client expectations and achieving the financial goals of the firm. Therefore, those data may provide the ground for adequate predictive analysis in order to assess the needs of clients and the best way to answer to those needs.

Client profiling, for instance, is key in Private Banking to adapt/develop an offer in line with client needs but also profitable and predictive analysis enhances dramatically its potential. A complete customization of the offer is possible, generating a very high level of intimacy. But the most astonishing added value probably concerns the capacity of predictive analysis to anticipate the needs of clients, by allowing behaviors comparisons amongst peer groups, spotting specific trends, even before they appear, and therefore being able to generate more revenues.

On the cost side, benefits are also real for Private banks, with the new possibility to use massive calculation technologies previously very expensive and therefore reserved to retail banks, and now affordable and very powerful.

What can you do with Big data & Analytics ?

b) in the Asset Manager area

Asset Managers can also benefit from Big Data & analytics to increase sales, anticipates customers behaviors or forecast fund costs. Indeed, by analyzing the hundred of data held by the company on transactions, sales or advisors, Asset Managers may be able to define predictive scenarios that will help them take key decision (ex: launch of a fund) or improve their communication towards external parties.

For instance, **one of the largest asset management companies has recently launched a tool to follow advisors' history.** On the basis of the data collected from its third party distributors (investment products historics, the advisor's firms, market share, information about the advisor's sales practice, its broker – dealer information….). Its analytic tool can point out key product recommendations, leading to more efficient sales practices. Additionally, the tool also helps to predict the behavior of its advisors, which allows sales to better target their communication towards advisors. For instance, sales know which advisor to contact by phone or mail, when to contact him and for which events.

Another example of use of the predictive scenarios may be the definition of the expected cost structure of a new fund to be launched based on existing funds. Indeed, analyzing all data related to internal fund history (as subscription/redemption, number of transactions, management fees, others fees, AuM,…) will provide a predictive pattern of how the new fund should behave once launched (by type of fund, country of distribution,…) and therefore make possible estimation of future costs.

4. Digitalize processes in a Front to Back perspective to increase efficiency while maximizing client experience

Asset and Wealth Managers still lag behind retail banks in their process digitization efforts, and still have many manual, paperbased and non-STP processes whereas powerful solutions have emerged

They have to put in place key enablers such as

- Electronic signature, both online but also in face to face situations
- Electronic content management (ECM)
- Business process management (BPM)
- Process automation, alongside with switching from proprietary IS to softwares when appropriate

Not only have these generally allowed as much as 20-30% efficiency, but they also allow improving:

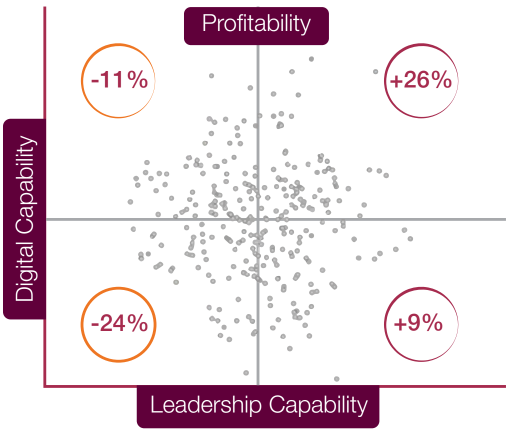
- Client interaction: smoother UX, new potential offerings such "digital vault"
- Compliance, audit trails, operational risks, KYC,… in a more and more regulated landscape
- Sales working environment, with more time allocated to value added selling / distribution, removing paper-based administrative tasks, enabling self-care from clients

Conclusion

Today the question for Asset and Wealth Managers is how to prepare the ground to benefit positively of this new digital revolution.

Technology is necessary but transformation is essential. It is not about dramatically changing a business model from one day to the next, but more about adopting a clear strategy and having a detailed and operational roadmap. A study conducted by Capgemini Consulting with the MIT Center for Digital Business shows that to succeed in a Digital transformation, one needs not only to realize the adequate technological investments but also to combine these with a high commitment to transformation from the management. The research shows that firms possessing both high digital intensity and high transformation management intensity are 26% more profitable than the average firm.

Figure 5: Level of companies' profitability according to their digital capabilities8



basket of Indicators:
• EBIT Margin
•Net Profit Margin

- Business mindset needs to be shifted: digital shall no longer be viewed as a specific and additional channel but should be fully integrated into a global vision of the customer experience. In order to succeed Asset and Wealth Managers should anticipate the needs of their clients, both BtoB and BtoC on the way they want to interact with them. Digital should be seen as an enhancer of the relationship rather that a competitor.
- Wealth Managers should think about how they can best leverage their personal relationships with clients, to provide the best of both digital and physical interaction ; providing new and related services can also be a way to nurture relationships with clients (as for example "the little book of wonders" of Barclays)
- Adapting capabilities appear to be key, to build the change on solid foundations:
  - Capacity to integrate the digital issues, eventually by putting in place adequate trainings and seminars, as well as new co-construction processes
  - Big Data and analytics capabilities set up, to gain meaningful intelligence in order to drive strategic decisions
  - Ensuring personal data protection
  - Operational processes digitalizing, to improve Front-to-back interactions
  - IT system adaptation, integrating bimodal developments, allowing to make agile improvements while continuing to maintain the IT legacy

Becoming a high-performance Asset or Wealth Manager is not only about immediate ROI, but also about the engagement and commitment of the management to build strong Digital vision, governance and foundations.

Authors

Marie Caroline Baerd
Vice President,
Financial Services
marie-caroline.baerd@capgemini.com

Marie Garnier
Principal,
Financial services
marie.garnier@capgemini.com

Lilia Baccour
Senior consultante
CET
lilia.baccour@capgemini.com

Capgemini Consulting contacts

Global
Jean Coumaros
jean.coumaros@capgemini.com

Norway
Jon Waalen
jon.waalen@capgemini.com

United States
Scott Tullio
scott.tullio@capgemini.com

France
Stanislas de Roys
stanislas.deroys@capgemini.com

Germany/Austria/Switzerland
Christian Kroll
christian.kroll@capgemini.com

BeNelux
Robert van der Eijk
robert.van.der.eijk@capgemini.com

Spain
Christophe Mario
christophe.mario@capgemini.com

United Kingdom
Keith Middlemass
keith.middlemass@capgemini.com

India
Natarajan Radhakrishnan
natarajan.radhakrishnan@capgemini.com

Sweden/Finland
Johan Bergstrom
johan.bergstrom@capgemini.com

Asia
Frederic Abecassis
frederic.abecassis@capgemini.com