Making digital solutions count in Asia

For vendors looking to tap the growth in demand for digital across various Asian markets, catering to different needs and tastes is crucial to be able to provide something relevant and of value to each type of institution, says Michael Stemmle of additiv.

As the next generation of wealthy Asians increasingly look to divest family businesses, they are expected to demand more from their wealth managers in terms of quality of service.

To succeed under this spotlight, institutions inevitably have to turn to digital ways of doing business – just as their counterparts have been doing elsewhere in the world. If they don't, they risk losing out to the competition.

For technology firms engaged in building digital offerings for banks and wealth managers on a global scale, therefore, this presents new exciting prospects.

Yet there is no one-size-fits-all solution for the Asian landscape, plus the region's markets are all at quite different stages of development.

As a result, these vendors must understand and cater to the crucial differences in terms of why banks want to leverage technology, depending on where they are located.

For example, at the crux of it, digital strategies in Europe are driven by a desire to cut costs and ramp up profit.

By contrast, in Asia, digitisation is for the most part led by the need to reach out to as many people as possible, and quickly. Local markets across South-east Asia, for example, are a case in point – with wealth management in its infancy, a large chunk of the population lacks access to traditional banking services.

"In Asia, it depends on the market and territory. If you look at the Philippines, there is a huge segment that is underbanked, so digitisation helps to solve those particular problems," says Michael Stemmle, founder and chief executive officer of additiv.

In the more developed wealth hub of Singapore, meanwhile, the drivers for

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digitisation are competition, cost and differentiation, he explains. Banks also need to meet customers' growing demands for an enhanced experience.

RETAIL VERSUS PRIVATE

Further, Stemmle says the approach to going digital differs depending on whether he is talking to a retail bank or a private bank.

In most parts of Asia, the goal for a retail bank is simply to provide banking services over mobile devices and tablets in a bid to capture market share, he adds.

"The digital channels are the future for retail banks," confirms Stemmle. "A mortgage is a mortgage, so regardless of which bank you go to, there isn't much scope to differentiate. It is more a question of how you deliver the service."

Plus, the difficulty in finding enough qualified wealth managers means there is a greater case for more automation.

DRIVING EFFICIENCY AMID TRANSFORMATION

Change is clearly afoot in the delivery of wealth management products and services. And Stemmle believes the competition is only going to intensify further. "Digitisation as part of the transition of the industry will continue," he predicts. "We are going to see completely new ways of delivering financial services. The traditional bank as we know it today is going to be challenged."

This will lead to a different way to access investment information and services, within which he believes that new value chains and new methodologies will emerge. "This is the bigger threat," he says. "It isn't that fintechs will capture a share of customers, but that the bank becomes economically irrelevant."

"We are going to see completely new ways of delivering financial services."

It's a different story for private banks. They tend to be more inclined to see digitisation from a point of view of retaining their competitive edge.

"When you look at the overall cost the customer has to carry, there is not much left for the customer in the end," says Stemmle. "This [segment of the] industry needs to find much more cost-efficient ways of doing business."

One way digitisation can help is to enable banks to achieve efficiency through merging overlapping operations. "Banks will get more competitive in-between and along the value chain."

Against this backdrop, starting now, his focus is innovation via platforms that make asset management and wealth management more efficient for all stakeholders – the banks, the investment houses and the customers.

More specifically, additiv is working on ways to reduce the cost of managing mutual funds to help firms pass on the ability for wealth managers as well as clients to generate higher returns.

For example, he explains, doing away with the need for a wrap account is one approach, with there being less of a need today for brokers to continue to provide investors with access to a pool of mutual funds for an annual fee.

"In the past, wealth managers had to collect money within a wrapper and then apply strategies," says Stemmle. "Today, advisers can apply the strategy directly for any customer, wherever they are. This cuts out the middle-men."

In short, the asset manager, wealth manager or portfolio manager – wherever they sit in the world – can deliver strategies and services directly to the deposit account of a customer at any bank. "That cuts two-thirds of the cost of the whole value chain," explains Stemmle. "It is good for the investors and therefore for the banks and asset managers as well."

Finding a role for fintechs

In assessing fintechs and their sustainability in the context of competitors within the wealth management industry, Stemmle says there is a need to separate them – those which already have assets like a customer base and provide some value-add; and those which are the start-ups.

For the latter, the landscape looks tough. With players like Vanguard directly entering the robo-advisory sector in the US, for example, the chances for most fintechs look slim.

"Many fintechs will either be bought or will disappear," he says, "with some becoming B2B service providers to existing players."

He is much less optimistic about those fintechs with a B2C model.