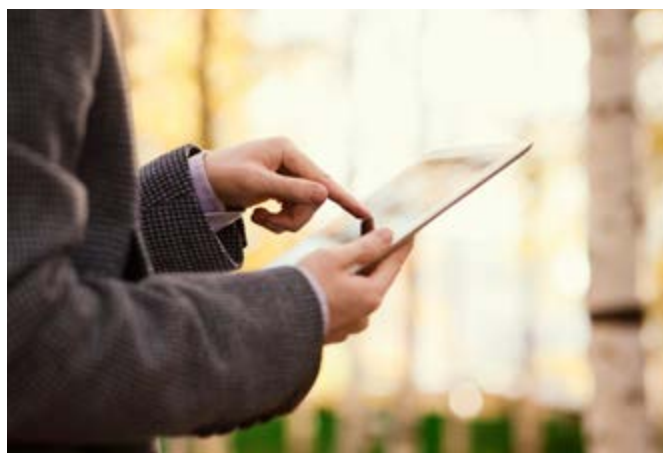


# *Beyond automated advice*

## How FinTech is shaping asset & wealth management

Global FinTech Survey 2016



**60%**

*The majority of asset and wealth managers fear losing part of their business to FinTech companies*

**34%**

*Yet many still do not engage whatsoever with these new entrants*



## Contents

History can repeat itself	3
Too lax about the FinTech disruption	4
Not yet ready to address changing needs	5
Focusing on data analytics and automation	6
The FinTech mind-set is still in its infancy	8
Conclusion	9
Appendix	
Participant profiles	10
DeNovo	10
Summary of the FinTech-related trends	11
Contacts	12

## Key messages



*The main FinTech-related concern of asset and wealth managers (61%) is pressure on margins*



*Asset and wealth managers who do engage with FinTech (69%) expect to see their costs reduced from doing so*



*But many incumbents (17%) underestimate the disruptive potential of new entrants, believing they pose no risk*



*Asset and wealth managers lag behind other financial industries in their online offering – only 31% have a mobile application*



*Over a third of asset and wealth managers (34%) do not engage with FinTech companies at all*

## History can repeat itself

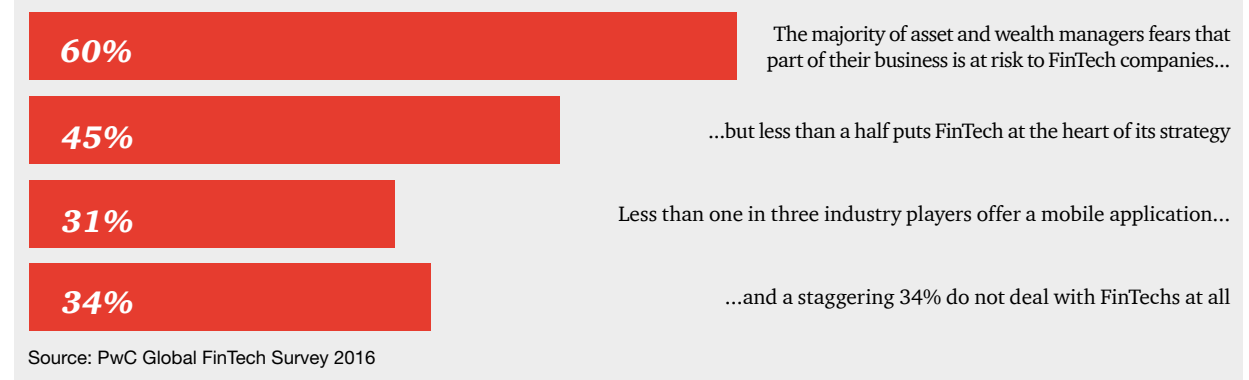
**Asset and wealth managers should watch FinTech companies closely and adopt a responsive digital strategy. Otherwise, they face losing part of their business to new entrants.**

After leading the way with technology in the 1980s, asset and wealth managers (AWMs) have become dismissive of technology innovations and disruptions to their industry. During the emergence of online brokerages, wire houses gave the upstarts pejorative titles, such as “discount brokers”, holding the belief that these new business models would fail to take off, and the risk they posed to businesses was low.

In reality, these new competitors commoditised trade execution, significantly dropping the price that companies can charge per trade. Eventually, they introduced new pricing models by splitting advice from transactions – full service brokers started to charge on a fee per asset under management (AuM) basis versus fees per trade.

History could repeat itself again with the ongoing disruption caused by FinTech companies. Much like online brokerages, “robo-advisors” have been disparaged as less valuable than human professional wealth advisors, and so far have been focusing mainly on low balance accounts. But the innovations under the umbrella of “robo-advisors” are becoming more sophisticated and, thus, enable advisors to service higher net worth accounts. In fact,

Figure 1: Highlights from the PwC Global FinTech Survey 2016



“robo-advisors” create an opportunity for asset managers to target the mass affluent who are looking for cheaper alternatives to receive advice on how to manage their assets.

Participants in PwC’s global FinTech survey view asset and wealth management (AWM) as the third most likely field to be disrupted (35%), while 60% of asset and wealth managers think that at least part of their business is at risk to FinTech – lower than most other financial sectors.

By being too complacent, investing mainly in self-serving automation and ignoring the imminent technological revolution, asset and wealth managers might lose touch with their core clients. Additionally, they might miss the opportunity, already tapped by FinTechs, to win the mass affluent market. Keeping abreast with how FinTech is reshaping the industry seems like the most reasonable way forward.

## “The organisation is not quite sure what to make of FinTech yet”

CEO/Board at a global asset manager

1

# Too lax about the FinTech disruption

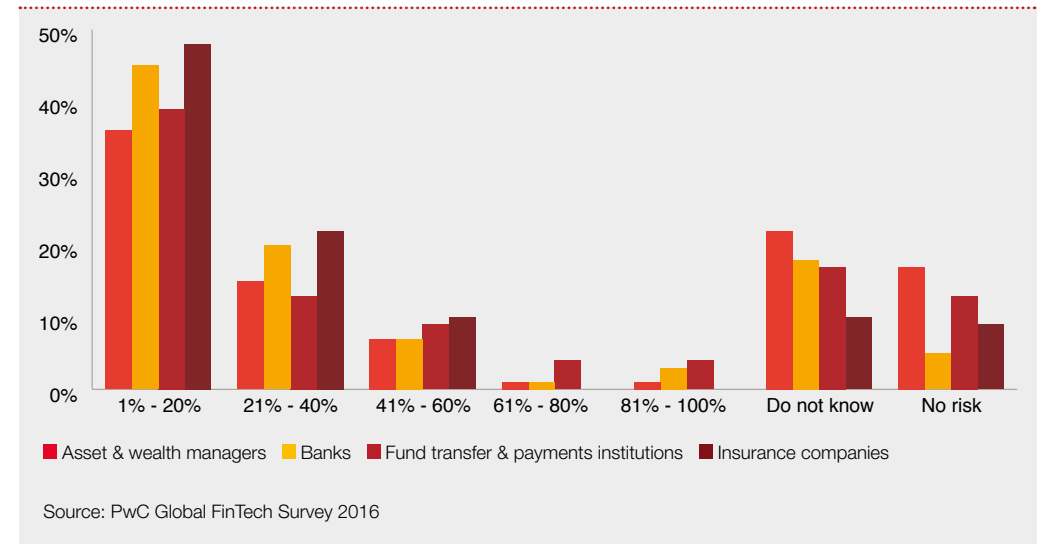
**Even though many believe that asset and wealth managers will be disrupted by FinTech, industry players hold the belief that they are immune to the disturbance potential of new entrants.**

Banking and payments industries offer palpable examples of FinTechs changing the financial sector by offering new solution that are visibly disturbing traditional players. AWMs are next in line to experience the game-changing impact that start-ups have on the financial industry.

This should be an eye-opener, but AWMs underestimate the threat. The highest proportion of AWM respondents (17%), compared to other industry respondents, believe FinTechs pose no risk whatsoever to their industry (figure 2).

When asked about any type of threat, AWMs were the least concerned. The surveyed industry players believe FinTech will have only a limited impact on their businesses with 61% of respondents expecting an increased pressure on margins, followed by concerns around data privacy (51%) and loss of market share (50%).

Figure 2: What percentage of your business is at risk of being lost to standalone FinTech companies within 5 years?



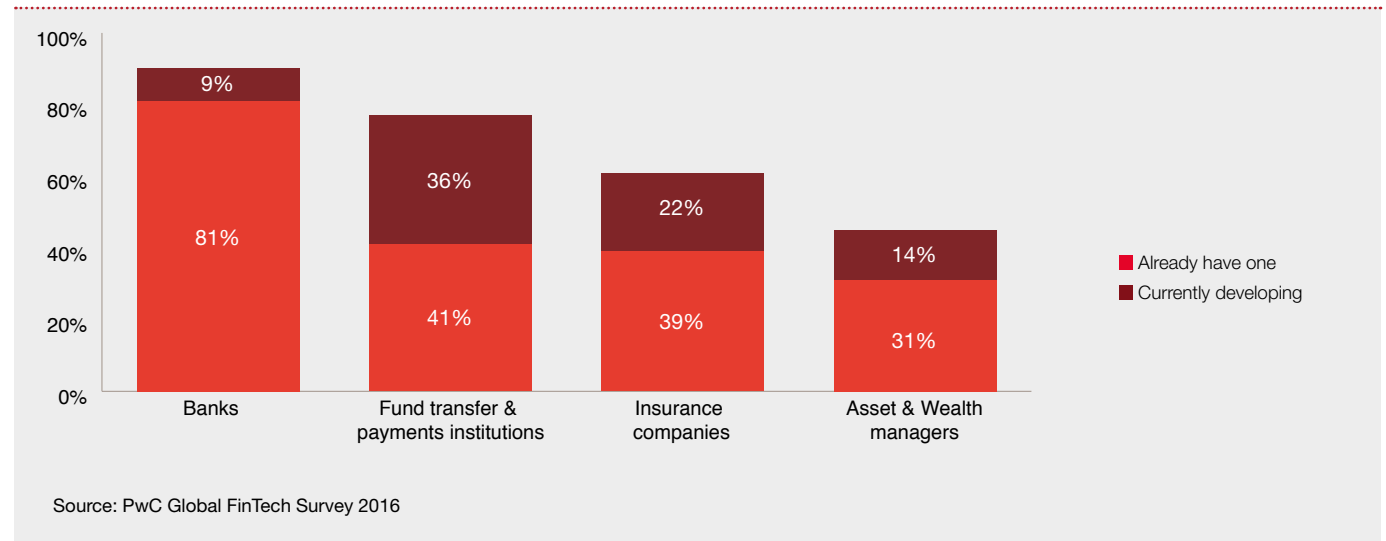
## Not yet ready to address changing needs

*The growing popularisation of mobile access to diverse services is reshaping market expectations regarding asset and wealth management. FinTech is impacting client relationships, and the industry must adapt to this new ecosystem.*

AWM customers increasingly use applications and they are pushing to go mobile. Instead of following the wave of digitalisation, asset and wealth managers overestimate existing digital offerings; frequently they offer little more than a website, believing this should suffice to address their customers' expectations.

AWMs lag behind other financial sectors in the development of mobile applications: only 31% of AWMs already have one, and just 14% are currently developing one (figure 3). Notwithstanding, while currently the majority of respondents (58%) contend that not more than 20% of their clients use their mobile applications, 78% believe that over the next five years, more than 40% will be using one at least once a month to access AWM services.

Figure 3: Do you already offer or plan to develop a mobile app?



**“We want to be customer-centric, but we don't know how and where to start”**

Head of IT/Digital/Tech at an asian asset management company

3

## Focusing on data analytics and automation

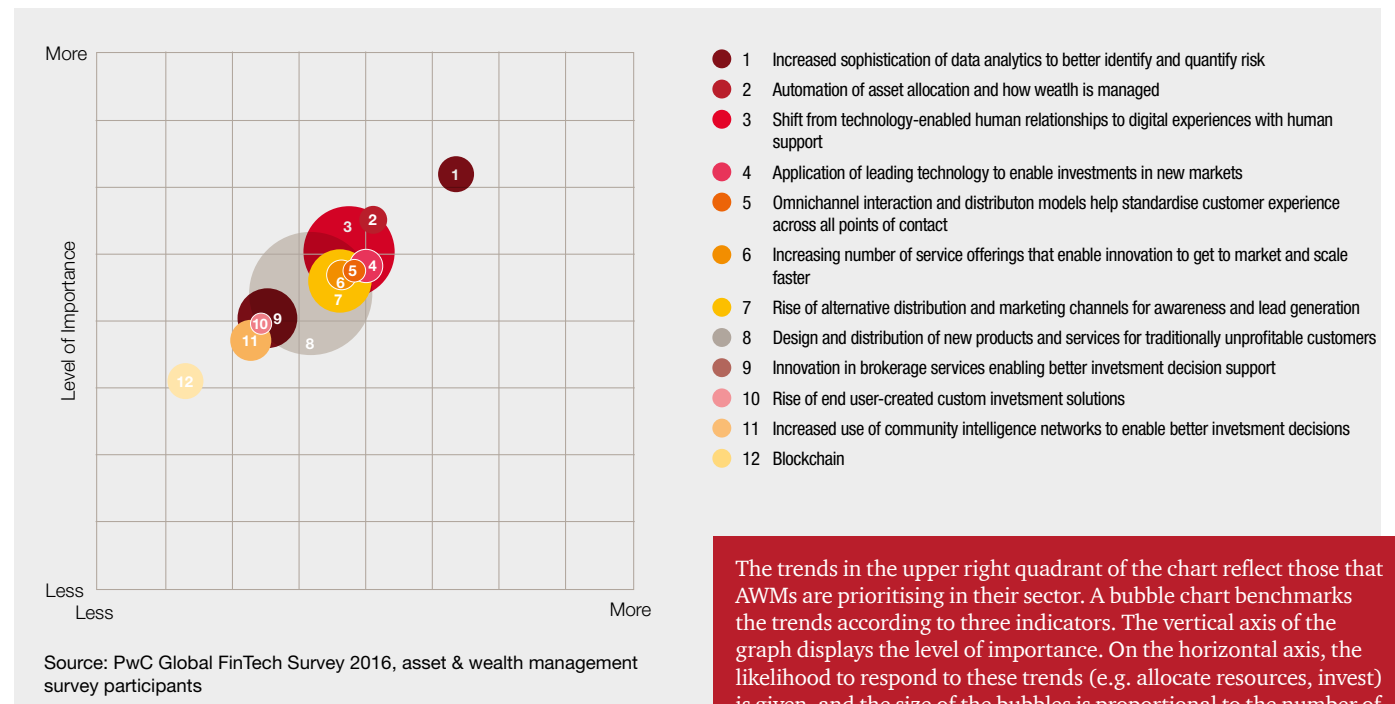
**While sceptical, asset and wealth managers are investing in new technologies. Their interest is focused on data analytics and automation of asset allocation.**

A vast majority (90%) of the asset and wealth managers we surveyed found data analytics to be a “very important” or “important” trend. Being able to capture, transform and analyse data is now integral to asset managers’ ability to compete (figure 5). Data analytics also helps manage risks and compliance, and improve trading efficiency.

### **Increased sophistication of data analytics**

Machine learning technology is transforming risk management by enabling computers to identify patterns in market behaviour and analyse transactions almost in real time. This, in turn, is reducing the asymmetry of information between small and large financial institutions and investors. Alternative data pools are also increasing AWMs’ usage of accurate predictive analysis supported by innovative data and opinion mining, imagery analytics, machine learning and artificial intelligence techniques.

**Figure 4: Trends in the asset and wealth management industry ranked by importance and likelihood to respond to them**



The trends in the upper right quadrant of the chart reflect those that AWMs are prioritising in their sector. A bubble chart benchmarks the trends according to three indicators. The vertical axis of the graph displays the level of importance. On the horizontal axis, the likelihood to respond to these trends (e.g. allocate resources, invest) is given, and the size of the bubbles is proportional to the number of related FinTech companies associated with the trend.

### ***Automation of asset allocation: “robo-advisors”***

New accelerated online platforms and applications improve the retail customer experience by providing bespoke but affordable services to help investors set their investment goals, choose the right product or service and manage their investment portfolios.

A secondary by-product of automated customer analysis is a lower cost of customer onboarding, conversion and funding. This creates a challenge for AWMs who have struggled for years to figure out how to create profitable relationships with clients in possession of fewer total assets. Some AWMs, as well as retail banks and insurers, have already reacted by acquiring such platforms or by building up their automated advisory solutions.

### ***Digital experience with human support***

The innovations under the umbrella of “robo-advisors” are becoming more sophisticated, and many start-ups are pivoting to enable a digital experience.

Advisors create the stickiness, but the digital experience and the technology become the enabler to provide an omni-channel experience with the right amount of professional support. This can have a large impact on the economics of the industry as technology can reduce the friction causing high attrition rates and putting the market share of incumbents at risk.

Those who are ready to embrace the FinTech disruption could go a step further and become first-movers in incorporating broader and multi-source data sets and forming a more holistic view of the

customers. In particular, AWMs could become data custodians as they are already deemed highly trustworthy data collectors. By leveraging the entrusted data, they could offer comprehensive solutions that address client needs based on life goals and expectations<sup>1</sup>.

While defending and improving the core elements of their operations through automation and sophisticated analysis, AWMs have also noted the emergence of alternative business models and technologies. These have, for the time being, a lower propensity to elicit a response, although this might soon change.

### ***Alternative business models***

Innovative business models, such as marketplaces and investor networks, are changing the way investments are made, e.g. crowdsourcing platforms are encouraging users to benefit from the collective wisdom of the communities they nurture. Users exchange insights, information, and even investment algorithms to leverage collective investing intelligence.

Likewise, communities of investors are emerging as new social networks. They provide user-generated financial content and tend to improve interactions and facilitate investment decisions. These innovative business models aim to create value through connections among a variety of a platform’s users: investors, financial advisors and asset managers.

### ***Blockchain, a disruptive potential in AWM***

When viewed as a Distributed Ledger Technology (DLT), the blockchain could have a profound effect on post-trade settlement through streamlining, mutualising and cutting costs of the process. By using the DLT, the need for reconciliation of proprietary databases is eliminated. Also, embedding business logic in the code of a smart contract could impact the AWM value chain in terms of augmenting, streamlining or possibly completely reinventing current processes.

Other projects aim at reinventing how money is managed and allocated. For example, the use of the so called Distributed Autonomous Organisations (DAO) is being explored. This, if properly implemented, could lead to decentralised and autonomous investment vehicles that operate through the blockchain technology and smart contracts.

---

<sup>1</sup>PwC, Sink or Swim: Why wealth management can’t afford to miss the digital wave, 2016.

**“Given the volume of FinTech companies, the big challenge is sorting through them to find an appropriate fit”**

Head of Innovation at a global asset manager

4

## The FinTech mind-set is still in its infancy

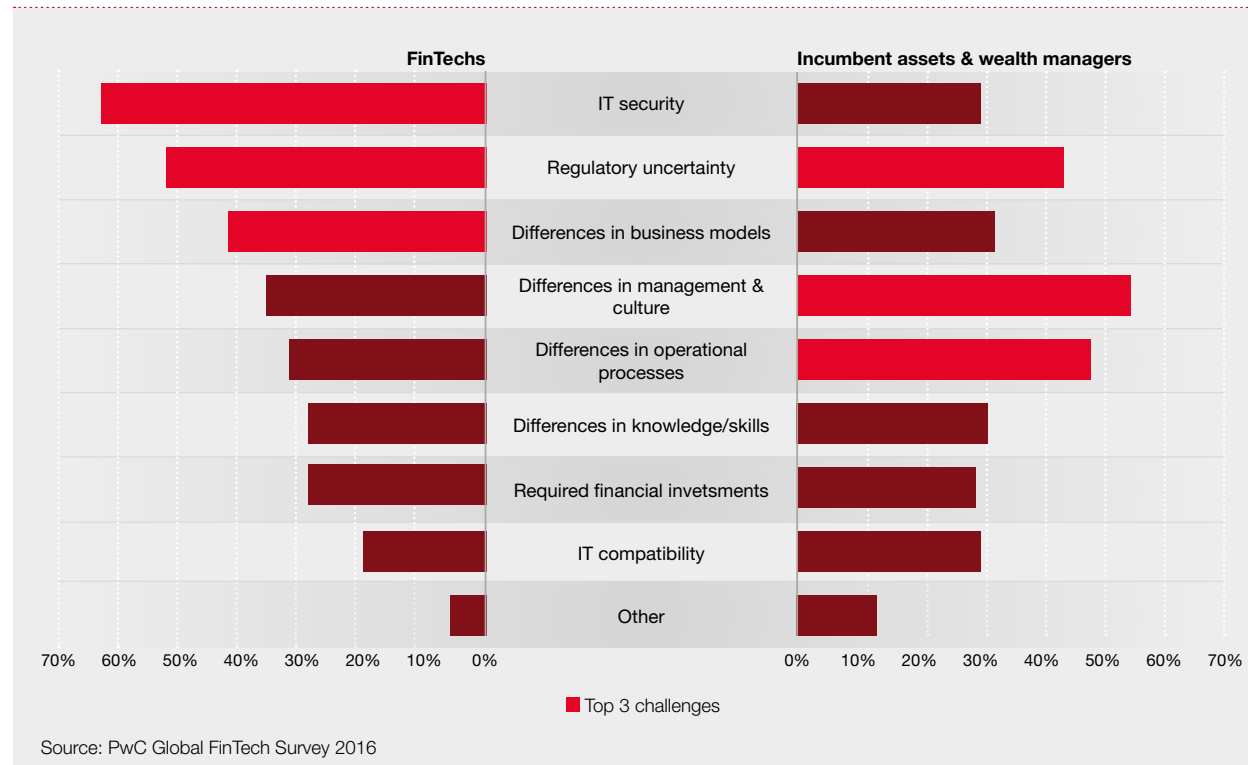
**Incumbent asset and wealth managers and emerging FinTech players need to work together to “win” in this new paradigm. In order to do this, traditional players have to be more open towards engaging with the new entrants.**

FinTech-oriented AWMs agree that technologically advanced solutions bring substantial opportunities. Cost reduction is the number one gain expected from FinTech (69% of respondents). Differentiation (60%) and additional revenues (43%) are also high on incumbents’ lists. Forward thinking AWMs will be able to find the right mix of technology and personal touch for a given customer segment and take the advantage of creating the kind of client experience that customers receive from their other, financial and non-financial, service providers.

However, over a third of AWMs (34% versus 25% for the global financial sector) does not deal with FinTech companies at all. Those who do only rarely engage in joint partnerships with new entrants (20% versus 32%), and they are not particularly keen to acquire FinTechs (10% versus 9%).

From FinTechs’ perspective, there is a need to overcome cultural and organisational differences should both parties choose to work together in the future. For asset and wealth managers, the most solemn concern is IT security (figure 5).

Figure 5: What challenges did/do you face in dealing with FinTech companies and vice versa?





## Conclusion

***AWMs who want to win in the redesigned market must find the right mix of technological improvements coupled with an adequate pricing structure.***

Conversely, turning a blind eye to shifting market expectations and ignoring the quick and imminent rise of innovative products, services and business models can be dangerous. Those who cling to business as usual, focusing on manual operations, pure investment management and siloed client data, should expect their market share to diminish at an increasing pace.

But with threats properly addressed, AWMs who adopt a technology-focused strategy and incorporate FinTech solutions will visibly strengthen their market position. A vast majority of AWMs view the impact of FinTech predominantly as the need to adapt to changing customer needs, and half of the survey participants—more than in any other financial sector—think new entrants can enhance interactions and help build trusted relationships.

Collaboration with FinTechs is crucial and will be the only way for the traditional firms to deliver technological solutions at the speed expected by the market. New entrants create tangible opportunities for incumbents to improve their traditional offerings. Going forward, traditional players need to prioritise these types of investments.



# Appendix

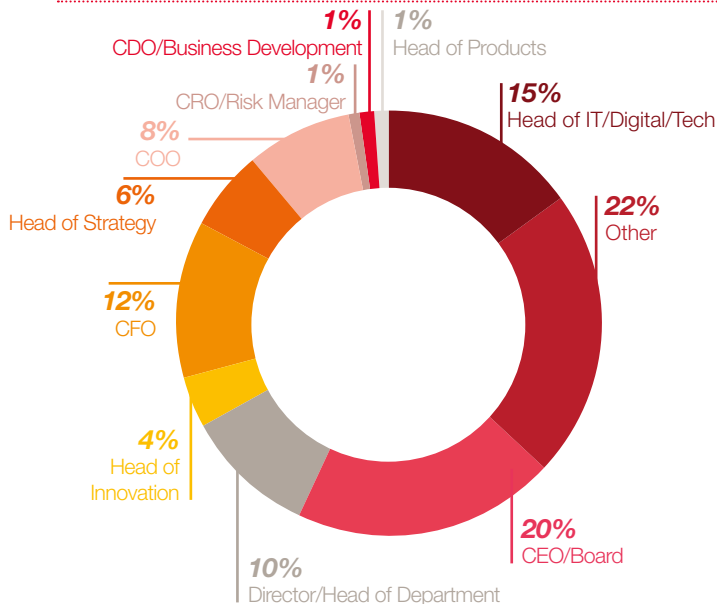
## Participant profiles

The 2016 PwC Global FinTech Survey gathered the views of 544 respondents from 46 countries, principally Chief Executive Officers (CEOs), Heads of Innovation, Chief Information Officers (CIOs) and top management involved in digital and technological transformation, distributed among five regions.

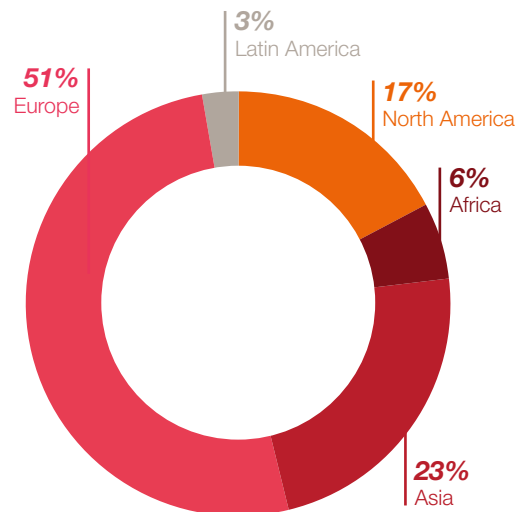
The asset and wealth management-focused cut is based on the responses of 112 respondents from the asset and wealth management sector around the globe.

### Breakdown of asset and wealth management survey participants

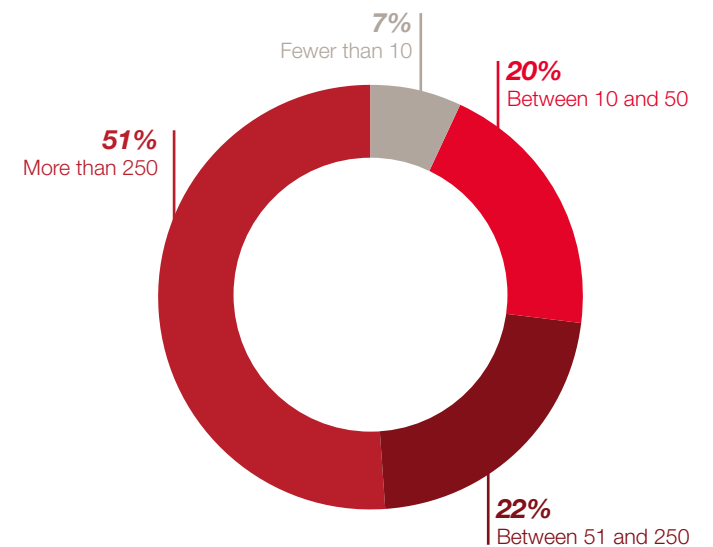
by type of respondent



by geographical location



by company headcount



## Summary of the FinTech-related trends

DeNovo's Team is tracking emerging trends in FinTech to explain which start-ups, technologies, trends, and new market entrants are relevant to the asset and wealth management industry and more importantly, why. The trends highlighted below are a snapshot of the most relevant ones for the sector. For an updated view, please subscribe to the DeNovo platform.

1. <b>Technology to enable investments in new markets</b>	Leverage new technologies to gain competitive edge and accelerate growth in new and emerging markets.
2. <b>Automation of asset allocation and wealth management</b>	Automated advice solutions (e.g. "robo-advisors") are changing the asset management landscape in many ways, including asset allocation.
3. <b>Products and services for traditionally unprofitable customers</b>	Alternative distribution models and sophisticated risk quantifying techniques are helping insure previously unexplored/uninsured customer segments.
4. <b>Better identification and quantification of risk</b>	New models and use of broader data sets are being used to more accurately analyse risk.
5. <b>Community intelligence networks leading to better investment decisions</b>	The use of technology and data from social networks in order to improve investment decisions.
6. <b>Innovation to get to market and scale faster</b>	Increased product offerings and/or synergies among existing products increases market differentiation and challenges traditional techniques, most notably in the investment banking industry.
7. <b>Innovation in brokerage services enabling better investment provide advanced decision support</b>	Innovations enabling advanced analytics and improved interface enhance decision support. Enhanced brokerage services that provide new data sources and tools provide advanced decision support analytics, portfolio and market information to enhance investment decision support.
8. <b>Standardisation of customer experience across all points of contact</b>	Enable similar functionalities for end users across multiple devices to create streamlined user experience.
9. <b>Alternative distribution and marketing channels for awareness and lead generation</b>	An increasing number of companies are leveraging new distribution channels, such as social media and mobile phones, to reach and engage more customers, and lead generation resulting in a different economic model for new customer acquisition.
10. <b>End user-created investment solutions</b>	Customer-centric investment products are enabling investors to create personalised investment strategies.
11. <b>Shift from technology-enabled human relationships to experiences with human support</b>	Rather than maintaining a human relationship with the support of technology services, clients are now directly using the technology with little to no human digital experiences with human support interaction. Human interaction only comes into play when there is a need for customer service.
12. <b>Blockchain</b>	Use of distributed and decentralised ledger technology in which transactions are recorded in order to improve payments, clearing and settlement, audit or data management of assets. There is also the possibility to create a so-called "smart contract" using blockchain technology. This is essentially a contract that is translated into a computer program and, as such, has the ability to be self-executing and self-maintaining.

### What is DeNovo?

DeNovo represents the next generation of strategy consulting – a new platform powered by Strategy&, PwC's strategy consulting team that is focused on FinTech. The rapid emergence of disruptive technologies and new business models requires a modern way of delivering strategic advice when and where you need it. Whether you are in the board room or on a phone call with your CEO, DeNovo provides you with answers in real-time. Relevant content and insights are delivered to you via web, mobile and direct interaction with our team of innovation strategists.

<http://www.strategyand.pwc.com/denovo>

# Contacts

**Julien Courbe**

Principal, PwC US  
+ 1 646 471 4771  
julien.courbe@us.pwc.com

**Steve Davies**

EMEA FinTech Leader  
Partner, PwC UK  
+44 131 260 4129  
steve.t.davies@uk.pwc.com

**Manoj Kashyap**

Global FinTech Leader  
Partner, PwC US  
+1 415 498 7460  
manoj.k.kashyap@us.pwc.com

**Michael Raneri**

Managing Director, PwC US  
+ 1 415 519 4906  
michael.raneri@us.pwc.com

**John Shipman**

Partner, PwC Australia  
+61 8266 0198  
john.shipman@au.pwc.com

**Acknowledgment**

We would like to thank Dariush Yazdani, Gregory Weber and the PwC Global Research Team for their involvement in the development of this report, as well as Áine Bryn and the Global FS Marketing team for their contributions.

**[pwc.com/fintechreport](http://pwc.com/fintechreport)**

At PwC, our purpose is to build trust in society and solve important problems. We're a network of firms in 157 countries with more than 208,000 people who are committed to delivering quality in assurance, advisory and tax services. Find out more and tell us what matters to you by visiting us at [www.pwc.com](http://www.pwc.com).

This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, PwC does not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.

For more information about the global Financial Services marketing programme, please contact Áine Bryn on +44 (0) 20 7212 8839 or [aine.bryn@uk.pwc.com](mailto:aine.bryn@uk.pwc.com).

© 2016 PwC. All rights reserved. PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Please see [www.pwc.com/structure](http://www.pwc.com/structure) for further details.