Beyond automated advice

Our fifth global FinTech survey found asset and wealth managers to be complacent about the threat from innovations such as blockchain.

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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.

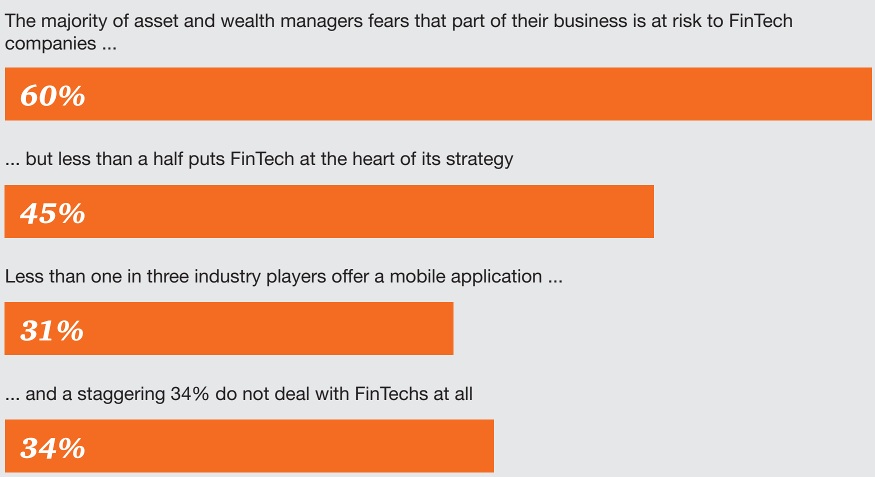
In reality, these new competitors commoditised trade execution, significantly dropping the price that companies can charge per trade. Eventually, they introduced new pricing models by splitting advice from transactions – full service brokers started to charge on a fee per asset under management (AuM)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

History could repeat itself 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, robo advisors create an opportunity for asset managers to target the mass affluent who are looking for cheaper ways to manage their assets.

Participants in PwC's first global FinTech survey view AWM as the 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.

Figure 1: Highlights from PwC's Global FinTech Survey 2016



Source: PwC Global FinTech Survey 2016

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Too relaxed about FinTech disruption

Even though many believe that asset and wealth managers will be disrupted by FinTech, industry players believe that they are immune to potential disturbance from new entrants. Banking and payments industries show how FinTechs can disrupt the financial sector by offering new solutions.

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. They believe FinTech will have only a limited impact on their businesses. Some 61% of respondents expect increased pressure on margins, while 51% have concerns around data privacy and 50% fear loss of market share.

Not yet ready to address changing needs

AWM customers increasingly use applications and they are pushing to go mobile. Instead of following the wave of digitisation, asset and wealth managers frequently offer little more than a website, believing this should meet their customers' expectations.

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

Focusing on data analytics and automation

Those asset and wealth managers investing in new technologies are focusing on data analytics and automation of asset allocation.

A clear majority (90%) of the asset and wealth managers we surveyed found data analytics 'very important' or 'important'. Being able to capture, transform and analyse data is now integral to asset managers' ability to compete.

Data analytics also helps manage risks and compliance, and improve trading efficiency.

Automated asset allocation innovations under the umbrella of robo advisors are also becoming more sophisticated. 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.

Additionally, blockchain could have a profound effect on post-trade settlement through streamlining, mutualising and cutting costs of the process. By using distributed ledger technology, 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.

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 clear 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.

This article is an extract from PwC's Global FinTech Survey 2016.

For more information about the global asset & wealth management marketing programme, please contact Maya Bhatti on +44 (0) 20 7213 2302 or maya.bhatti@uk.pwc.com.

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