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Wealth and asset management 4.0

How digital, social, and regulatory shifts will transform the industry

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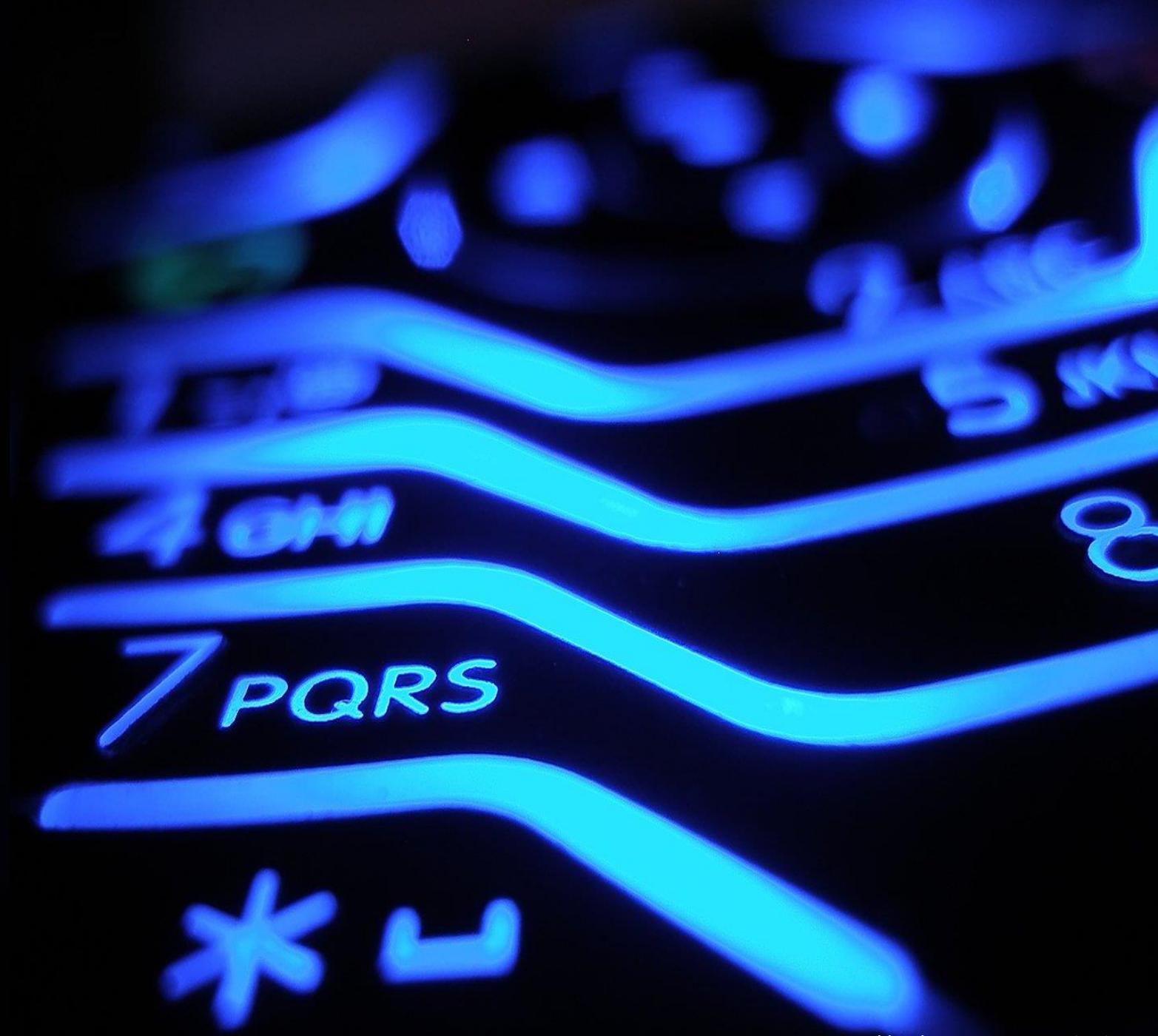

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Case study: Charles Schwab

Leveraging tech and humans to provide an end-to-end investor experience

Andrew D'Anna
Head of Retail Experience
Charles Schwab

For Charles Schwab, the pandemic has been an inflection point enabling the firm to advance its long-term strategy.

"There has been a massive increase in retail investing over the last year, as the industry has removed barriers and driven down costs, ensuring you don't need to be wealthy to get access to markets at a reasonable price," says Andrew D'Anna, managing director of Schwab's retail client experience. This, combined with the financial impact of the pandemic and lots of extra free time, got clients thinking about alternative sources of income and trading. It resulted in 10 million new clients entering the market in a year.

These investors tended to be younger and more diverse, with a real hunger for advice and information. "For us, this is a really critical moment to take advantage of this influx of interest and engagement that we're seeing from clients by helping them mature as investors," says D'Anna. "Helping them shift to thinking about their goals and long-term plans, about building a portfolio to align with those long-term plans, is both the opportunity and the challenge that we see as a firm. And it will be what defines whether this was a one-time spike in engagement or a trend that we can continue to build off in growth."

For a firm as heavily geared toward digitally enabled investing as Schwab, one of the most important developments during the pandemic has been the way that clients have been willing to use digital tools even for important life changes and "moments that matter." This has been encouraging for Schwab's strategy of expanding up and down the investor spectrum to offer what D'Anna calls an "end-to-end" experience covering multiple gradations between robo-advice, a human sounding board for clients, and completely advisor-managed portfolios. He believes that there is a growing convergence in the wealth management arena, and an expectation that one firm should be able to handle all aspects of a client's financial life. "I would argue we are fairly advanced in getting to that end-to-end experience, beyond many of our competitors," he says.

A "bionic" human-digital model

Schwab is expanding not only at the retail end of the spectrum but also at the high end, starting from its premier position as an electronic discount brokerage, then adding human relationship-based advice. "We've had a lot of success building off a very large set of high-net-worth clients who came to us looking to manage a portion of their portfolios themselves at a low cost," he says. "We are now beginning to win a bigger share of their wallets because of the relationship we have built with them on that side of the business."

Schwab is looking to build a "bionic" human-digital model at a low cost that gives clients the flexibility to engage with the firm the way they want, leveraging the best technology and people. "We will do it in a Schwab way, which will be based on value, a high degree of digital enablement, and great service," says D'Anna. "It won't be a high-fee, full-management relationship with low digital accessibility—that model doesn't meet the expectations of today's investor."

In the Schwab model, he says, clients have the independence to invest on their own, but always with the confidence of a having a human backstop when needed. "As clients adopt more technology and digital tools, the space for the human is going to increase, allowing our teams to spend even more time on the interpersonal and emotional aspect of the relationship—but using scalable solutions that we can deliver at a low cost."

Case study: Killik & Co.

Digitally re-imagining a 30-year-old wealth management business

Paul Killik
Partner
Killik & Co.

Killik & Co. may be a wealth management firm with a more than 30-year heritage, but that has not prevented it from going digital—something that its founder, partner, and senior executive officer Paul Killik believes all firms will need to do to survive in the post-pandemic era.

"The traditional wealth management industry is being rather slow to embrace the possibilities of fintech or digital technologies," he says. "And there is still too much paperwork. If the industry isn't careful, it could well be overtaken by fintechs." To avoid that fate, the London-based firm recently launched its own robo-advisory platform, aimed chiefly at engaging the children of its current clients. However, for the longer term, the firm is developing an expanded version that will likely become the main method for communicating with all its clients.

"The future is digital, and in the future, our platform will take over from the traditional, paper-based approach most of our peer group is still working on," says Killik. "It's amazingly scalable, which the traditional way of doing things is not." Killik believes that his firm's robo platform has an edge over those of start-up fintechs because Killik is a full-service firm with a history. "There's a legitimacy that comes with that. Clients understand that we have real people and advisors sitting behind our firm, so as their needs become more complicated, there will be people who can help them both with planning and investment management. But equally if we don't stay up to date in technology, and rival platforms advance more quickly, we will lose out."

A roadmap for the future

The firm has plans to transfer the bulk of its client business onto the new platform in time, but it still has work to do before getting to that point, says Killik. "It will need much more sophistication to replicate our old-fashioned, bespoke service on a digital platform." Killik says more of its older clients are coming around to using digital channels, especially since the pandemic. So far, they tend to use desktop applications more than mobile, but he expects that to change.

In the meantime, the firm is moving to put more of its client communications online, including webinars and videos on market developments. "We are using these tools to educate clients and help them to understand what's going on, particularly during periods of market volatility," he says. It is also transforming its back office, both for the robo platform, but also to support the entire business. After an initial experiment with using blockchain, it went with a more conventional setup, says Killik, but he is still enthusiastic about the idea. "It's the perfect record-keeping mechanism, and we may at some stage go back to it, but it wasn't properly scalable in our environment," he says.

His future roadmap includes the use of AI, which will support building global thematic portfolios, in which the firm specializes. "AI can indicate where you are overweight or underweight in certain themes, and helps in customizing portfolios for clients," he says, for example, in avoiding sectors they don't want to invest in. "It's a new world, and it's all evolving," says Killik. "But this has the potential to become a digital version of our whole business, even if it takes us five, or even 10 years to get there. And these things can move faster than you think."

Case study: BTN Advisory

Bringing private investing into the digital age

Jeff Egan
Partner
BTN Advisory

For BTN Advisory, digital innovation has done more than improve efficiencies and financial performance; it has transformed th e private equity industry and how business is conducted.

For family offices like BTN Advisory, the digital revolution has made investing and operations both much easier and more fluid, according to partner Jeff Egan. The firm has taken full advantage of this in ways that would not have been possible in the past, offering a lesson to other firms. "The access that exists today is unparalleled in history," says Egan. "While there is a lot of talk about Robinhood and other platforms for retail investors, for the ultra-high-net-worth investor, the velocity of deal flow with one another has increased."

BTN works with other family offices on investments, chiefly in the private markets, where many family offices focus. Digital helps make this kind of collaboration work. "You can just set up a virtual data room and share it with someone, whereas in the past, there were a lot of in-person meetings and phone conversations, and you had to send items back and forth," Egan says. "It was all very cumbersome, and it didn't get done as quickly as it does today." Virtual data rooms are cloud-based digital platforms where all the documentation and data associated with an M&A or other type of transaction is gathered in a secure environment. Deal sponsors, investors, advisors, lawyers, accountants, and others can collaborate on this documentation, since it allows simultaneous access to as many people as necessary, with different levels of permissions.

The freedom of digital

The digital age has given family offices like BTN much more independence from Wall Street. "Years ago, everything ran through investment banks," says Egan. Technology has facilitated the rise of non-affiliated private market deal sponsors—largely Wall Street-trained people—who are able to hang out their own shingles. "Digital has been transformative, giving people the ability to reach an exponential number of people at once by setting up one data room—and showing it to say, 500 investors with a snap of the fingers. That's something that didn't exist in the past," Egan says. "These independent sponsors are not investment banks, they aren't private equity funds, they are just smart people who know an industry and understand how to get deals done."

While family offices can go through these independent sponsors or deal aggregators to find deals to invest in, these groups generally take hefty fees, without necessarily doing due diligence for investors. This has led many family offices to use the same kind of technology to club together on deals themselves. "As part of our operating company and tax and insurance structuring, we have access to other families, groups of families that have a lot of capital."

This has accelerated as abundant private equity capital chases fewer opportunities, shifting the focus down-market to smaller firms. Family offices often have better access to these opportunities than big private equity firms. "Family businesses all over the country are now getting knocks on their doors asking if they are interested in selling," says Egan. "Where we live, we know a lot of these business owners through the family office circuit, and they often decide they prefer to deal with groups like ours. It's created a whole cottage industry just among family offices."

Meeting personal needs

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Case study: State Street Global Advisors

Closing the data gap for ESG investing

Brie Williams
Vice President
State Street Global Advisors

State Street Global Advisors is convinced that for wealth managers—and for companies worldwide—proactively addressing environmental, social, and governance issues (ESG) is becoming more critical for long-term competitive success.

Brie Williams, vice president and head of practice management for the global SPDR business at State Street, notes that the industry faces a wave of external pressures towards ESG, including client demand, changing government policies, and regulations pushing for corporate disclosures. She cites research from Bloomberg Intelligence that shows that ESG AUM could reach $53 trillion, a third of the global total, by 2025. As a result, it is affecting all segments of the wealth management value chain, from investment analysis to product distribution, fund selection, manager due diligence, and financial advice.

"We see that ESG will impact companies in different ways and sustainability is a good management practice. So, it's inextricably part of how the company does business," says Williams. State Street is building its presence in ESG in several ways. One is through its stewardship activities, working to influence companies toward adhering to ESG principles. "Aside from the ethical implications, if a company fails to consider financially material ESG issues, they could have catastrophic effects on its financial health." She says the implications go well beyond appeasing institutional shareholders or creating a good PR story. "When a company takes an authentic, comprehensive approach to ESG, it can open up access to large pools of capital and build a stronger brand."

A second way is through its products. State Street has built a broad range of ESG investment strategies designed to help investors meet their specific ESG objectives. A third way is by providing support to advisors on working with clients on ESG investing. "Education is critical," says Williams. "Advisors in the retail intermediary market are in a unique position to be change agents." She says advisors are seeing an increase in demand from individual investors to make an impact with their investments without having to sacrifice returns.

A new approach to ESG scoring

A key challenge for ESG investors is getting the right data. "Clear and standardized ESG reporting is essential," says Williams. "But we can't make the perfect the enemy of the good." Currently, there are more than 150 providers offering ESG metrics, but lack of industry standardization and transparency create problems for investors, resulting in sharply differing ratings for a single company. Since different ESG data providers use varying sourcing, research, and scoring methodologies—and treat those methodologies as proprietary—investors essentially must align themselves with a data provider's ESG investment philosophy and weightings without fully understanding how it arrived at those conclusions, Williams points out.

State Street's solution is to build its own transparent ESG scoring methodology, R-Factor. It starts with the Sustainability Accounting Standards Board's widely accepted financial materiality framework and map, as well as regional, public governance codes, and draws on data from multiple ESG data providers to generate a unique ESG score for listed companies. State Street currently scores over 7,800 issuers. "State Street shares R-Factor scores with companies and helps guide them toward resources on how to improve their ESG practices, and ultimately their scores," says Williams. "Over time, the aim is to bring better ESG data into the market—helping to build more sustainable companies."

Case study: Investec

Meeting investor needs for more holistic and customized advice

David Gurtner
Senior Manager & Member, Management Board
Investec

For Investec, taking a more holistic approach to wealth management is a core strategy that will help the global investment firm keep its competitive edge with its wealthy client base.

Based in South Africa and the UK, with locations in Switzerland, the US, and Hong Kong, among others, Investec Wealth & Investment specializes chiefly in discretionary portfolio management. Many of its clients are entrepreneurs looking for bespoke service from their provider. "One area in which we are looking to introduce more digitalization is combining portfolio management with wealth planning, tax planning, and inheritance planning," says David Gurtner, senior manager and a member of the management board at Investec in Switzerland. "In the past, firms have done this by bringing in outside experts with the appropriate skills. While we have always had strong teams with people with different areas of expertise, we are looking to bring them together in the technology layer."

He says each part of a multifunctional team has been using different technology tools that suit their needs, but they don't necessarily interface. "There are good packages available in the market, but they are more standalone solutions. We need to integrate them into one solution that meets all those different needs, says Gurtner. This involves both data management and automation. "We need to streamline data capturing and sharing, but also the understanding of the client's needs," he says. "We are looking to automate certain solutions, offering support for the advisory process, rather than just presenting raw data to experienced investment professionals for them to come up with answers. It's a hybrid approach."

Coping with regulation

Currently, the firm is running a pilot program to automate holistic advisory solutions. However, it is still analyzing results and working on ways to roll it out worldwide. "One challenge lies in making it jurisdiction-specific," says Gurtner. "Things like tax planning are very jurisdictionally based." The firm is working out the right methodology, one which will work regardless of the local tax rules and other regulations. "We are still testing that out," he says.

The system needs to be able to cope with not only different tax regimes, but also varying privacy rules. "Between GDPR, Switzerland's own regulations, South African data rules, and those in other markets where we operate, we see an increasing emphasis on privacy," says Gurtner. For wealth managers and other financial institutions, it's a balancing act between the obligation to know clients and the obligation to respect their privacy. "Understanding clients can involve a lot of deep profiling to properly service them, but we have to ensure that we don't ask questions that go beyond what is needed for offering our services," he says.

Onboarding clients is another area of digitalization for Investec where Gurtner also sees jurisdictional challenges—particularly around rules for identity checks, contracts, and signatures. However, the firm is looking more toward buying in technology in that area, as example currently using Appway's solution for international client onboarding in the Swiss office, with some in-house customization.

Targeting markets

Leveraging the rise of the millennial investor

Yoni Assia
Founder and CEO
eToro

Since its inception, fintech eToro has been riding the crest of the digital investment wave, taking advantage of the rise of millennial investors.

In March 2021, after a year of phenomenal growth, eToro announced it would be going public through a merger with a SPAC called Fintech Acquisition Corp V. (Nasdaq: FTCV) in a deal that gives the born-digital company an equity value of $10.4 billion. "It took us 14 years to become an overnight success," says CEO Yoni Assia, referring to the company's 2007 founding. "2020 was a significant year for eToro. From 2007 to the end of 2019, we added half a million funded accounts, and in 2020, we added another half million. We added a further million funded accounts in the first two quarters of 2021." Thanks to rapid growth in digital investment since the pandemic, eToro now has over 23 million registered users.

eToro is known for its creation of "copy trading", which allows users to shadow the investments of other investors on the platform. Users can also invest directly in equities, commodities, currencies, and cryptocurrency, or invest in a tailor-made portfolio. Currently, the offering in the US is limited to crypto, but eToro will be launching stocks in the US late in 2021. "We've seen an acceleration of interest in financial markets from retail investors all around the world," says Assia.

March 2020 was an inflection point for eToro and online retail investing generally, especially in cryptocurrency assets. "It was a generational buying moment," Assia says. "With zero interest rates, government grants, and an unprecedented amount of money printing to fund them, it led to a discussion by an entire generation about what is the value of money." As a result, people began buying bitcoin and other crypto assets. Meanwhile, the shift to fractional shares and free stock investing led to a new mindset. "Suddenly an entire generation realized that with new technologies and mobile apps, they could open an account in five minutes with $50 and start investing in fractional shares," says Assia. "The friction to buy stock or crypto was significantly reduced from what it was before."

The power of millennials

The result is what Assia calls a "magnificent manifestation" of the democratization of wealth management and the growing power of millennial retail investors. "Over the next 10 years, a huge cohort of people is going to amass tremendous amounts of wealth. They started realizing that their voices could actually be heard in the markets." He cites not only stories like GameStop, but also, AMC, the movie theater chain, which saw its stock dumped by financial institutions and professionals because of the pandemic. Retail investors, however, thought otherwise, on the premise that they themselves would be going back to movie theaters at the pandemic's end, Assia points out. AMC raised $1.1 billion and saw its stock price rise by 10 times—and its investor base shift to more than four million retail investors. This trend has created a need for an entirely new type of investor communication—for both companies and wealth managers.

"The future is mobile, digital, and social," says Assia. "Firms that do not know who their customers are, that do not have the data on what their customers want, and that do not engage with their customers through mobile, digital, and social channels, will not be those managing over a trillion dollars 10 years from today. Those firms must either transform or die."

Case study: Invesco

Capitalizing on new opportunities in emerging economies

Henning Stein
Global Head of Thought Leadership
Invesco

Long seen as underdeveloped economies with limited wealth, emerging markets are now a prime area for expansion among wealth and asset management firms like Invesco, which see the rising affluent middle class as a major opportunity for growth.

Invesco is particularly well positioned to capitalize on markets like China and India, where they have developed their presence over many years. Unlike for many other wealth management firms, global expansion has been a long-established priority for the Atlanta-based company, which operates in 26 countries.

The affluent middle class in the emerging markets is quickly becoming integral to the strategy of the wealth management industry. In India, for example, the middle class constituted around 18% of the population 10 years ago, but this number is expected to rise to 46% by 2025. The segment of high-net-worth individuals is also expected to climb, from only 2% in 2010 to 17% by 2025. Invesco is one of the few remaining foreign asset managers in India, which has developed a strong domestic wealth management industry.

"We have a very regionalized approach to how we serve our clients, but then there are overarching strategic goals," says Dr. Henning Stein, global head of thought leadership for Invesco. The advancement of technology, and particularly of digital payment systems, has also given rise to the interest in wealth management and investing, a trend that Invesco has leveraged more than many other global players in emerging markets.

David Chao
Global Market Strategist
Invesco Asia Pacific

China as a case in point

"China really went from cash to cashless and effectively skipped the credit card," says David Chao, global market strategist at Invesco Asia Pacific. "Consumers can readily access almost all products and services in China by using Alipay or WeChat pay." According to Chao, this shift to digital money propelled the digital economy forward, while spurring e-commerce and digital investment.

The Chinese government has also embraced digital solutions more than its counterparts in the US or Europe. This offers a great opportunity for companies like Invesco to provide more services to domestic investors in China's growing market. "The wealth management industry is very much at an inflection point," says Chao. "Successive waves of reform are leading to a transformation in the market characterized by the shift of funding from the retail to institutional segment and the opening up of distribution channels that allow customers to directly invest their savings digitally."

Invesco operates a leading fund management joint venture in China, Invesco Great Wall, which launched in 2003 as the first Sino-American investment management joint venture for onshore investors. "We were among the first foreign asset managers to foray into the Chinese domestic asset management industry," says Chao.

One way that Invesco looks to appeal to China's younger and more tech-savvy demographic is with content on livestreaming platforms. "This younger cohort of Chinese people is now being readily exposed to the different investment and asset management options that the older cohort was not previously exposed to," says Chao. "This can be very powerful."

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