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Market Disruption: The Customer is not yet a Winner

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What made firms successful in the past can no longer be relied on for future success. In speaking to wealth management executives, there is a broad understanding that a shift in focus is required to compete in the current market climate. The majority of firms in this survey reported that service excellence, building long-term relationships, and harnessing technology and customers, rather than product centricity, are likely to be key to their success.

In fact, there was no single firm that reported that they were not already or immediately planning to deliver some form of material customer experience (CX) improvement. CX initiatives cited covered a broad spectrum, from providing training for Relationship Managers (RMs) to enable them to deliver holistic advice, to company-wide efforts such as delivering new segmentation models, customer relationship management (CRM) implementations or the end-to-end digitization of the advice process. While less common, 'offline' improvements were also reported, such as customer focus groups and improving the look and feel of the premises where RMs meet their clients. While many organizations are focused on improving the status quo to drive revenues or reduce costs, a growing trend is for wealth managers to embark on truly transformational initiatives designed to create customer-centric and/or digital change from front to back

Increased competition and automation disrupting the traditional value chain

Factors such as the ever-changing regulatory environment, the rise of FinTech and advanced technology such as Artificial Intelligence (AI) driving the development of automated robo-advice continue to disrupt the value chain. The shape of competition is changing dramatically as an increasing number of firms enter the market to compete alongside traditional, established wealth management and long-term savings providers.

Competition has also been increasing on other fronts, as banks reassess the retail investments market following a period of low-risk appetite after the financial crisis, and as blockchain development threatens to radically streamline interactions across the value chain. As these pressures continue to mount, financial advisors will increasingly need to look at ways to attract, engage and retain customers as established ways of doing business begin to deliver reduced returns.

The future is hybrid

The robo-advice model has had significant impacts on the industry, and all signs point to continued evolution in this direction. Fintech robo-advice start-ups entered the market with clarity of purpose, free from the baggage of a heritage business, empowered by agile working practices and offering powerful low-cost digital investment alternatives. Such challengers caused a major splash in the media by grabbing headlines and securing speaking slots at high-profile events. Typically, the offerings provided by these new competitors are characterized by low-cost, digital propositions with an inhouse fund or investment solution range, and tend to appeal to customers looking for an alternative to established brands, a fresh approach to customer engagement and increased transparency.

While initially the more established players eyed pureplay robo-advice firms with suspicion, robo-advisors' lofty valuations and increasing customer interest could not help but have an impact. The Assets Under Management (AUM) for automated investment platforms was estimated at over US$200 billion in aggregate worldwide, and continues to grow at pace. As the model has become more prevalent, this early hesitation has given way to interest and ultimately a desire to be in the game through investment and acquisition. BlackRock's acquisition of Scalable Capital and Aviva's investment in Wealthify are two such examples.

The current race for established players to build, buy or partner to acquire digital advice capabilities has also resulted in new business opportunities for FinTechs. For example, Bambu has successfully brought to market in Singapore a pre-packaged robo-advisory capability for established wealth managers through a partnership arrangement.

Yet all has not been smooth sailing for pure-play robo-advisory FinTechs. There are signs that valuations are now beginning to normalize, such as Wealthfront's valuation dropping by nearly a third from its 2014 valuation. And, despite their first mover advantages, robo-advice start-ups still trail significantly in terms of AUM as compared to their more established competitors' robo-advisory plays.

In response, the propositions coming to market are increasingly hybrid. Hybrid solutions combine the efficiency and low cost of simple algorithmic portfolio management with the personal touch of distribution through a traditional human contact. These propositions seek to strike a balance between the excellent customer service, reassurance and empathy provided by a human manager, while still taking advantage of digital technology to power financial decision-making reduce the cost of information gathering and automate the audit trail. Examples include Vanguard's Personal Advisor Service proposition in the US or Wealth Simple in Canada.

The excerpt was taken from the publication entitled Refocus on the customer: How customer experience is shaping the future of wealth management.

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