Whitepaper

Future wealth management

Why digital solutions are not just an option



aixigo
Driving the New Wealth Experience.

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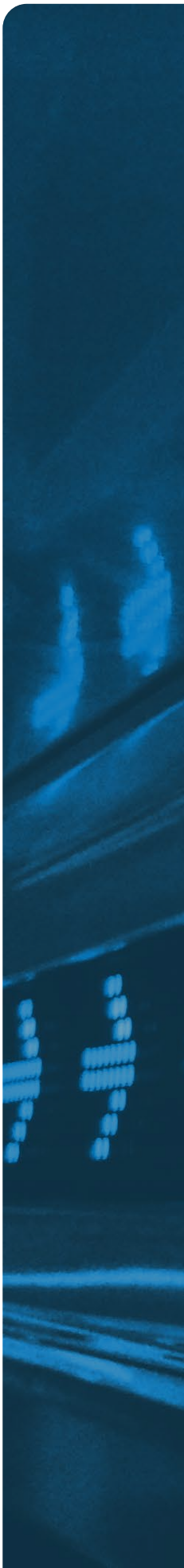



If implemented correctly, hybrid advice allows financial institutions to improve their wealth managment service quality and efficiency by 30% while simultaneously reducing expenses by 25%.



66%

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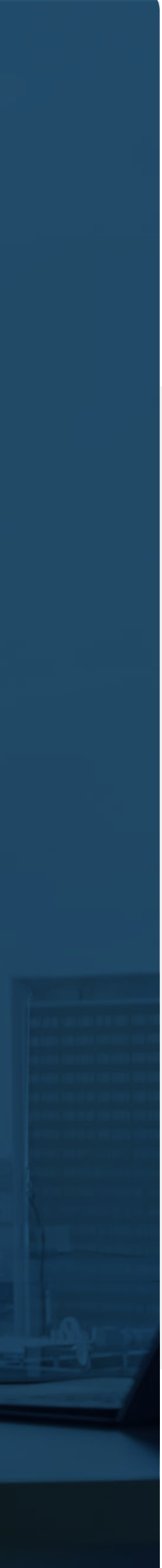
of investors are willing to pay extra fees for experience-related features in wealth management[2]

[1 and 2] Study of the Lucerne University of Applied Sciences in Switzerland

Executive summary



More and more FinTech companies are offering digital applications for automated wealth management. Due to rapidly changing customer preferences, they have been highly successful in recent years. As a result, traditional financial institutions and service providers must innovate their offerings in order to defend their market position in the years to come. However, wealth management is not bound to be all-automated anytime soon.

A study of the Lucerne University of Applied Sciences in Switzerland shows that 66% of investors value the personal contact to their wealth manager very much. Moreover, 53% of investors are willing to pay extra fees for experience-related features in wealth management.

Accordingly, a smart innovative product should possess virtues of both, digital platform solutions and traditional wealth management, for maximal success.

Hybrid advice is an approach that combines the best elements of both worlds. On the one hand, it offers great efficiency and scalability through automated standardised processes. On the other hand, it facilitates customer retention through personalised experiences and direct interaction with asset managers. If implemented correctly, hybrid advice allows financial institutions to improve their service quality and efficiency by 30% while simultaneously reducing expenses by 25%. Moreover, the approach allows to explore new target groups for wealth management since many services can be offered at considerably lower cost. This enables financial institutions to diversify their income sources and extent their market share.

aixigo has developed a smart wealth management platform that helps financial institutions to develop their own hybrid advice solutions in short time and with minimal effort. Once implemented, the modular structure of the platform further allows for efficient product innovation in the future.

Chapter 1 – Transforming wealth management

For many years, financial institutions and service providers could rely on the cross-generational trust of loyal customers as their main selling point. Banks have been a well-established choice for wealth management all around the globe for centuries. However, this paradigm is now changing rapidly. More and more FinTech companies successfully offer digital applications as an alternative for the traditional face-to-face advice. The global COVID-19 pandemic has accelerated this trend even further. But what are the main drivers of this development?

First Driver – New standards and expectations

> **"Banks are now competing with nimble tech innovators with lower costs and appealing products and can no longer take their customers' loyalty for granted."[3]**

BigTech and FinTech companies have reshaped costumer expectations significantly. Platform providers such as Amazon established new offering standards by allowing customers to make consumer decisions anytime via computer or smartphone. In the subsequent years, many complex e-commerce solutions emerged in all industry segments and quickly became the benchmark for good customer-oriented service. Accordingly, customers now expect financial institutions to "keep up" and employ corresponding solutions as well.



[3] 2021, PWC, John Lyons, Dr. Philipp Wackerbeck, and Daniel Zeiter, https://www.strategyand.pwc.com/de/en/industries/financial-services/transforming-eu-banks/tech.html

Second Driver – Increasing wealth of digital natives

The Generations Y (born 1981 – 1996) and Z (born after 1996) are cohorts that are typically referred to as digital natives. Its members grew up with computers, mobile phones and the world wide web.

As of today, these generations already represent a large share of the working population, and it will only grow over time. Likewise, they possess significant purchasing power, which makes them an important target group for many industries. Digital natives are much more technologically affine compared to previous generations. Therefore, they appreciate well-made digital solutions in all areas of life. As a result, they are more likely to use applications for wealth management than their elders.



Third Driver – Flexibility and self-service

Smartphones and their applications have transformed our everyday life significantly. We can check the news, write messages or do online shopping wherever and whenever we choose. These devices have given customers great flexibility in managing both their professional and private lives. Naturally, customers increasingly expect this degree of flexibility in the management of their financials as well.

On average, customers of wealth management maintain five different financial relationships simultaneously, such as current account, insurance, savings account, investment advice and trading. Smartphone applications have made the management of these relationships very easy due to self-service. The user can make all important decisions at any time with just a few touches. As a result, the market for financial applications has grown tremendously in the past year. A total of 5,867,378,000 downloads worldwide in 2021[2]. This underlines how far the mentioned paradigm change in wealth management has already advanced.

5,867,378,000

downloads worldwide in 2021[4]



[4] 2021, App Annie, State of Mobile 2022, https://www.data.ai/en/go/state-of-mobile-2022

42%

of investors remain concerned about hidden costs when working with their wealth manager

Fourth Driver – Price and transparency

A study shows that 42% of investors remain concerned about hidden costs when working with their wealth manager.[5] This number clearly underlines the need for improving transparency in wealth management overall. In addition to that, many customers believe that the price of their wealth management service is too high. Financial applications contain a high degree of automation and standardisation. Therefore, they are typically considerably cheaper than in-person services, which is why more and more people choose them.

However, customers also criticise that they can't properly evaluate traditional wealth management services due to unclear pricing structures. The driver for taking professional advice is often not the price itself, but a clear and easily understandable pricing structure. Examples of a transparent pricing structure are the subscription models of the streaming entertainment market. Here, the user exactly knows what he or she is getting at a fixed cost. The providers of financial applications have adapted this principle for their products. Users are always informed about potential service costs and can decide themselves whether to accept or not.

It can be concluded that more and more customers wish for digital financial services with transparent pricing that give them the flexibility to make financial decisions within a personalised experience. As of now, the well-established financial institutions and services still enjoy a trust advantage over new FinTech companies. However, they need to comprehensively refine their current product portfolio to defend their market position in the future.



[5] 2021,EY, Global Wealth Research Report, S. 14, https://assets.ey.com/content/dam/ey-sites/ey-com/en_gl/topics/wealth-and-asset-management/ey-2021-global-wealth-research-report-optimized-for-web-v2.pdf

Chapter 2 – Hybrid advice in wealth management

Financial applications and robo advisers are by now established on the market. However, despite their recent success, this does not imply that wealth management is bound to be all-automated in the future. A recent study of the Lucerne University of Applied Sciences in Switzerland shows that around 66% of investors value their personal wealth manager very much[6]. Instead of an entirely automated solution, the favourited path for future wealth management lies within a hybrid advice

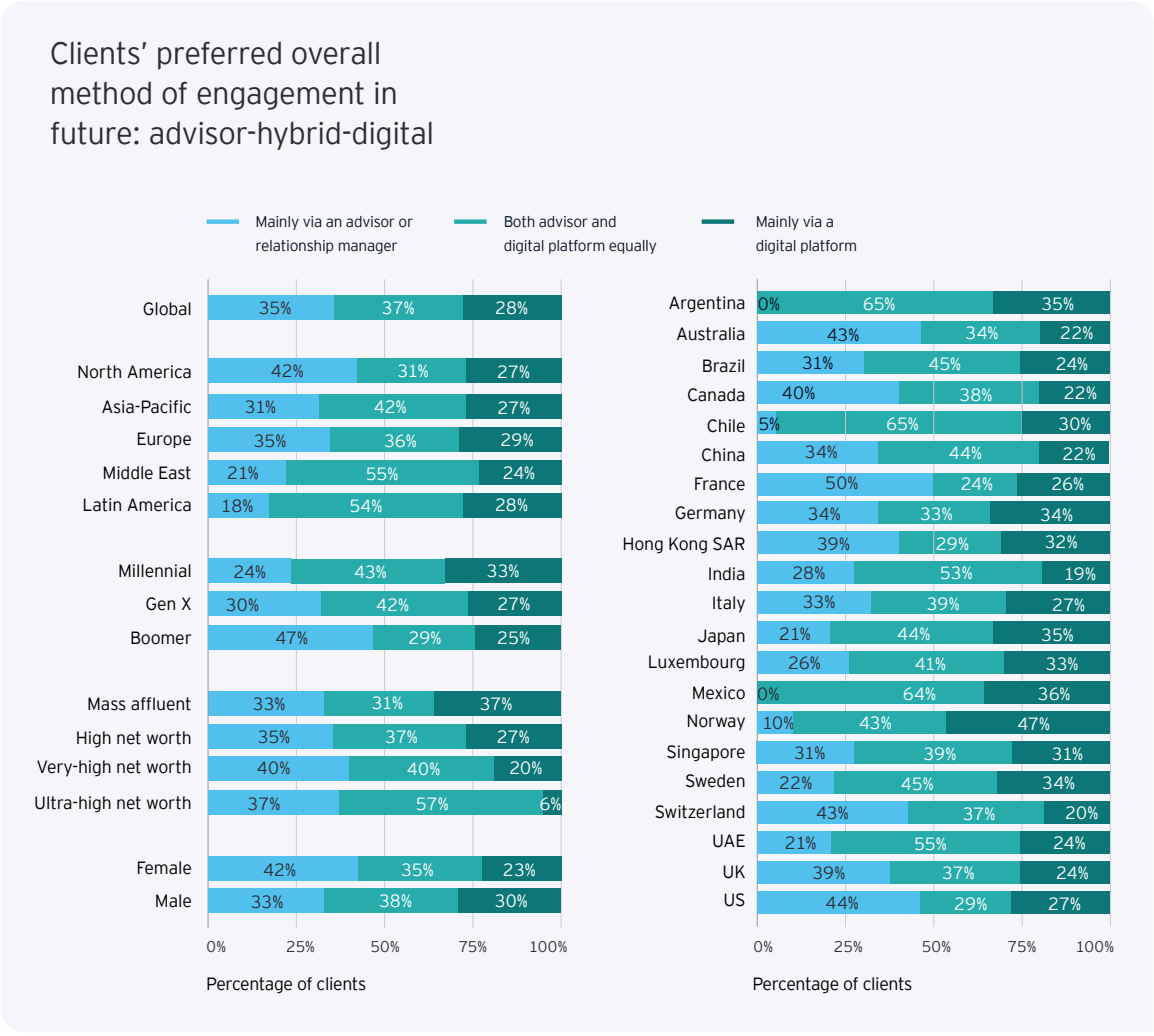


Figure 1: Clients' preferred overall method of engagement in future: advisor-hybrid-digital
[Source: 2021,EY, Global Wealth Research Report, p. 30, https://assets.ey.com/content/dam/ey-sites/ey-com/en_gl/topics/wealth-and-asset-management/ey-2021-global-wealth-research-report-optimized-for-web-v2.pdf]

[6] 2020, Dietrich, A., Agnesens, T., Wernli, R., Digitales Anlegen in der Schweiz – ein Markt mit Potenzial. https://blog.hslu.ch/retailbanking/files/2020/11/202011_Studie-Digitales-Anlegen_DE.pdf

approach that encloses both, digital platforms as well as in-person advisers. These findings are further supported by the 2021 Global Wealth Research Report by Ernst & Young. They found that a hybrid approach equally consisting of in-person advisers and digital platforms is the globally preferred engagement method for wealth management in the future.

Another key finding is that many customers appreciate experience-related features in wealth management. Experience-related features are, for instance, exclusive digital services, tailor-made financial education, and high-quality advice, as well as a membership that connects them to other financial services. Ernst & Young found that 53% of customers worldwide are willing to pay their wealth manager more for corresponding features.

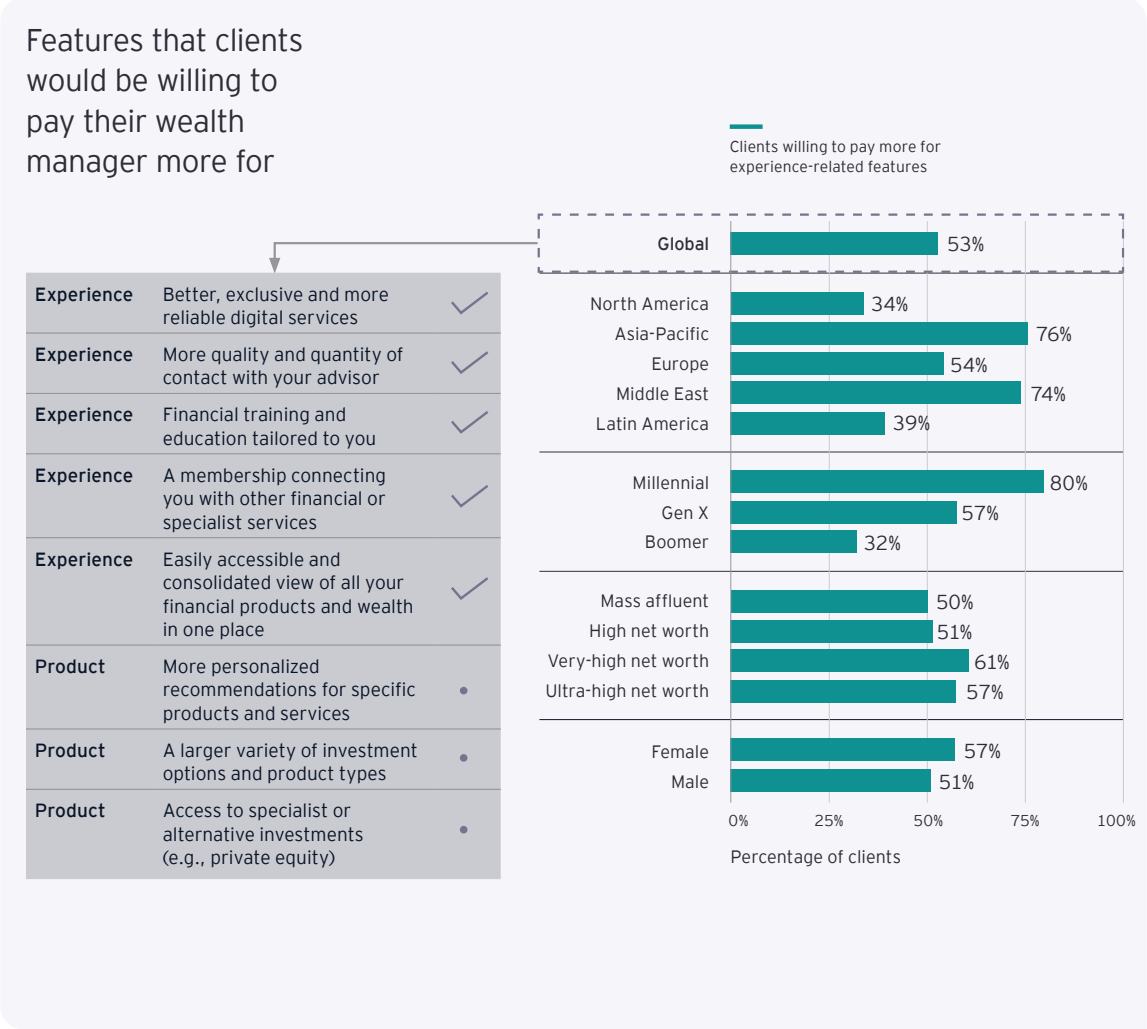


Figure 2: Features that clients would be willing to pay their wealth manager more for
[Source: 2021,EY, Global Wealth Research Report, S. 16, https://assets.ey.com/content/dam/ey-sites/ey-com/en_gl/topics/wealth-and-asset-management/ey-2021-global-wealth-research-report-optimized-for-web-v2.pdf]

Against this background, how should a hybrid advice approach be characterised in order to be successful? Traditional wealth management is typically very complex due to non-standardised processes, manual controls and sophisticated regulations. Thus, translating it into the digital realm is very challenging. Moreover, hybrid advice should be structured along the new customer preferences mentioned in Chapter 1. An essential learning from the mentioned studies is that digital platforms are not supposed to replace advisers, but to create free space for personalised high-quality investment advice. Accordingly, in the development of a hybrid advice approach, the subsequent questions should be addressed:



How can customers experience personal closeness and build up trust in their wealth manager while using a digital platform?



How can investment through an application be personalised and experienceable?



How can usability as well as transparency of costs and services in such a complex environment be guaranteed?

aixigo has developed a hybrid advice approach by means of an application called Volt® in collaboration with Vontobel. It combines the best of both worlds: automated and regulation-compliant processes as well as personalised empathic services. It has a broad range of attractive features that distinguishes it significantly from typical robo advisers and existing digital platforms.

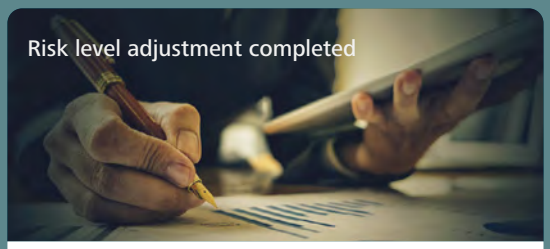
Timeline – Important information in a compact feed

Similar to social media feeds, the application features a timeline that gives customers constantly new information regarding their investments, important changes to their portfolio, as well as news from different industries. This provides users a comprehensive digital experience and allows them to explore all relevant market developments by themselves.

Exclusiveness – Digitalised investment philosophy

A financial application makes the investment philosophy of the institution experienceable for the customer. On the one hand, users can personalise their portfolio with their own investment decisions. On the other hand, the application suggests new investment opportunities based on past user choices. At the same time, the application only displays contents and values that the institution wishes to embody. This ensures that the company is correctly represented while the customer is flexible through self-service.

12 Jan

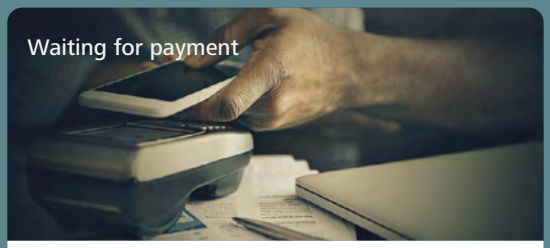


Hello Christian, your portfolio has been rebalanced to match your current risk attitude.

Your risk level has been reduced from 4 to 3. The rebalancing of your portfolio has been successfully completed to match this change. You will find all transactions related to the rebalancing in the corresponding transactions section.

Bank

10 Jan

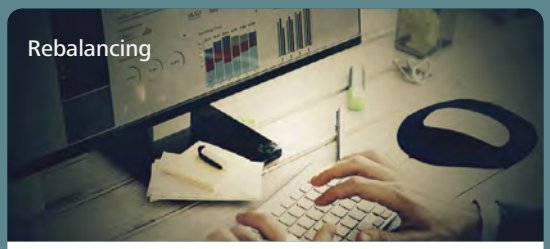


Hello Christian, please submit your deposit

The amount we have agreed upon is expected to be deposited in your reference account (details here). Once this is done, your fonds manager will start to develop your portfolio. We will inform you as soon as we have received your payment.

To-do's

3 Jan

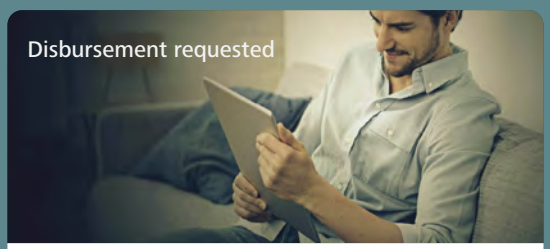


Your fonds manager has optimised your portfolio.

Changes were made to the following modules: Cybersecurity and German Industry. You can find all transactions related to the rebalancing in the corresponding transactions section.

Bank

19 Dec



Hello Christian. You have requested a disbursement of €5,000.

As soon as the amount of €5,000 is booked to your reference account, it will be ready for disbursement. We will inform you as soon as the transaction has been successfully completed.

Bank

Individuality – High-quality expert reports

Customers have permanent access to high-quality asset manager reports to inform themselves in detail over all important market dynamics. In addition to that, clients can examine the wealth managers' profiles to learn more about their expertise if desired. This provides transparency for customers and helps them to build personal trust towards their advisers. Users are also able to contact the managers proactively regarding reports. This allows for personal interaction and leads to the preservation of the perception and appreciation of the human adviser.

Personality – Content according to competence

If a customer has made an investment into a chosen industry, the wealth manager regularly supplies curated corresponding content containing comprehensive insights on all current industrial trends. With this information feed, the customer is always up to date and can proficiently evaluate investment decisions.

Increased profits – Exploring a new target group

Wealth management and other financial services are no longer a privilege of wealthy customers. Through consistent automation of formerly manual processes, a lot of cost can be saved. With the hybrid advice approach, a single manager can supervise a significantly larger number of portfolios. This allows less wealthy customers that had formerly been out of the provider's business scope to also benefit from its services. Accordingly, the target market of the service provider is greatly enhanced, and its income sources are greatly diversified.



With these features, the implementation of the hybrid advice approach is a product innovation that allows for a unique customer experience through exclusive and personalised services. The service quality can be increased up to 30% by relieving the financial adviser and directly involving the asset manager. The service efficiency is improved up to 30% while ensuring transparency in all aspects. And finally, the approach has great scalability and allows for a cost reduction of 25%.

30%

improvement of service quality



Chapter 3 – The smart way to technological innovation



Over the last five years, there have been intense discussions on how financial institutions can leverage technology for innovation within their companies. According to the recently published Swiss Report, Delia Steiner, aixigo's thought leader, described the options for financial institutions for implementing a new solution. You can find the full article here. In what follows, the contents of the article are briefly summarised.

There are three essential strategies for pursuing an innovation project.



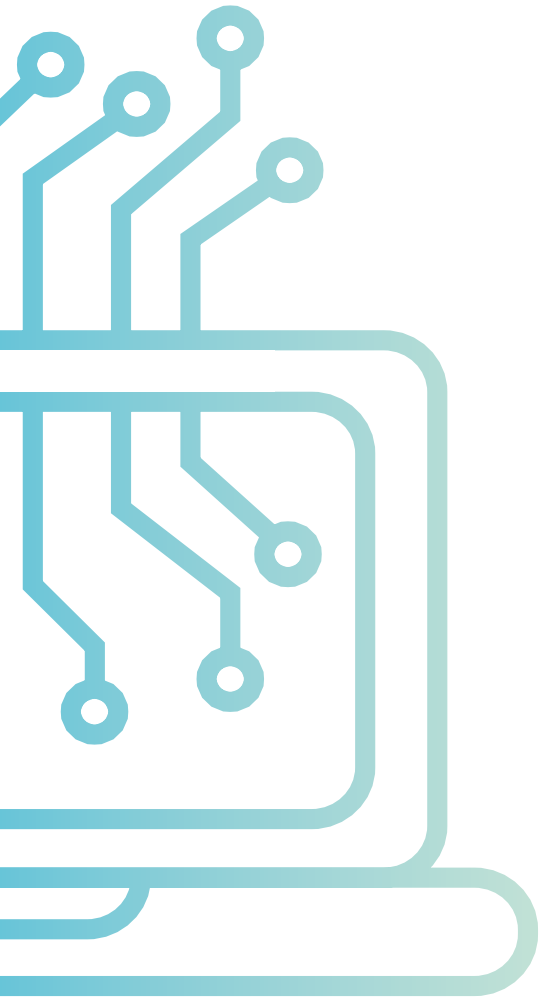
First strategy – Buy
This is the most common approach. The institution buys a ready-to-use solution and offers it to its customers as a label or white-label product. In this case, the solution is already completed and there are no further modifications on design and functionality.



Second strategy – Build
This approach implies that the institution builds an own solution internally. In doing so, it builds upon an existing infrastructure, most likely as part of a legacy environment.



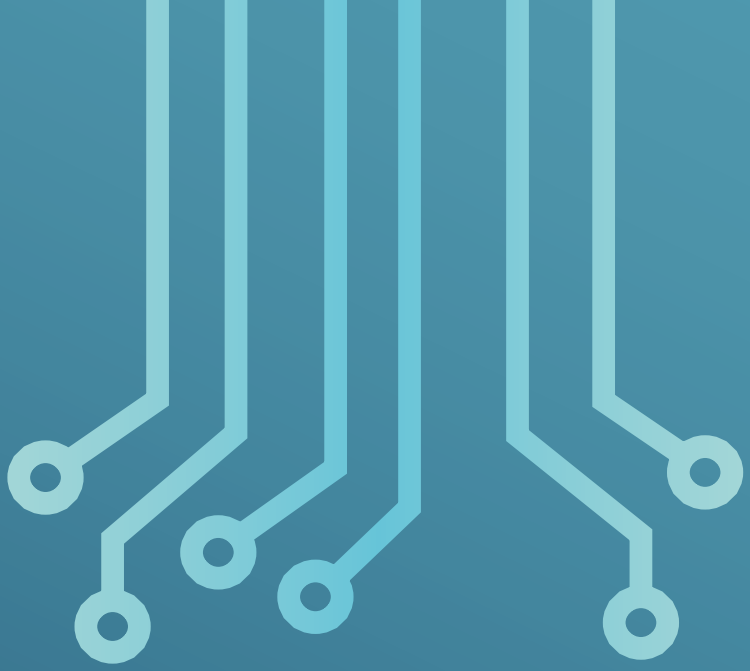
Third strategy – Partner
This approach means that an institution either invests in or collaborates with a FinTech company to develop a solution that is tailored to the company's requirements.



Each strategy has its advantages and disadvantages. Buying is indeed the fastest approach for launching a new innovative product. The financial institution doesn't need to perform extended in-house development and can present the final solution to its customers very quickly. However, the drawback is that the solution is off-the-shelf, implying that there is little room for customisation. The institution can't modify the product according to its own work flows as well as its customers' demands. The latter may ultimately lead to a rejection of the product at the client base in light of the new customer preferences addressed in chapter 1.

Against this background, the build approach seems far more attractive. The financial institution can tailor the product completely according to its requirements. Moreover, it doesn't depend on a third-party company at all. However, the realisation of an innovation project is usually quite challenging for financial institutions. In addition to employees usually having to build around a legacy environment, they often have limited resources, need to compete with FinTech companies over talented new developers and must be quick to market while meeting risk as well as compliance requirements. Furthermore, financial institutions are usually slow at building. This makes the realisation of any innovation project a very resource intensive endeavour.

Therefore, the question is how can financial institutions build their own solutions without wasting too many valuable resources? The short answer is to combine buy and build. A hybrid system that links third-party components to internal development is a smart approach to utilise the advantages of both strategies. It allows developers to quickly assemble creative and customer-oriented products without struggling with issues like debugging and stabilisation.



In order to build a custom product based on third-party components, two critical components must be included in the solution. First, it needs a sophisticated API layer to allow for a flexible integration with existing systems. Second, the solution must contain a Business Process Model and Notation (BPMN) engine that allows for the implementation of individual processes. Thereby, based on process and workflow templates, the institution can easily tailor processes to its needs.

Getting the basis of the solution right is very important for all subsequent developments. Only with modular well-thought-through separations, the institution can efficiently create individualised products. The solution needs to facilitate thinking in complete customer journeys and simultaneously allow for customised processes. This empowers the institution to put its own DNA into the customer interface and create the product to represent their company.

The buy-and-build approach is a very fruitful path to innovative customer-oriented financial offerings. The average development time declines from approximately one year to 3 to 6 months. Without compromising on the core features of the institution's products, this implies saving between 50% and 75% time. The modular nature of solutions makes it possible to easily reuse past developments to create new products with minimal effort. This allows the company to be agile and quickly react to new trends in market dynamics and customer preferences.

Chapter 4 – The new ecosystem of future wealth management

The success of digital platforms and the rapid change in customer preferences have created an environment in which the requirements for innovative offerings become increasingly complex. On the one hand, customers expect wealth management solutions to be intuitive, cost-efficient and transparent. On the other hand, they seek for personalised offerings, experienceable features and personal interaction with their managers. This forces traditional financial service providers to considerably innovate their products in order to defend their market position against the new FinTech competition.

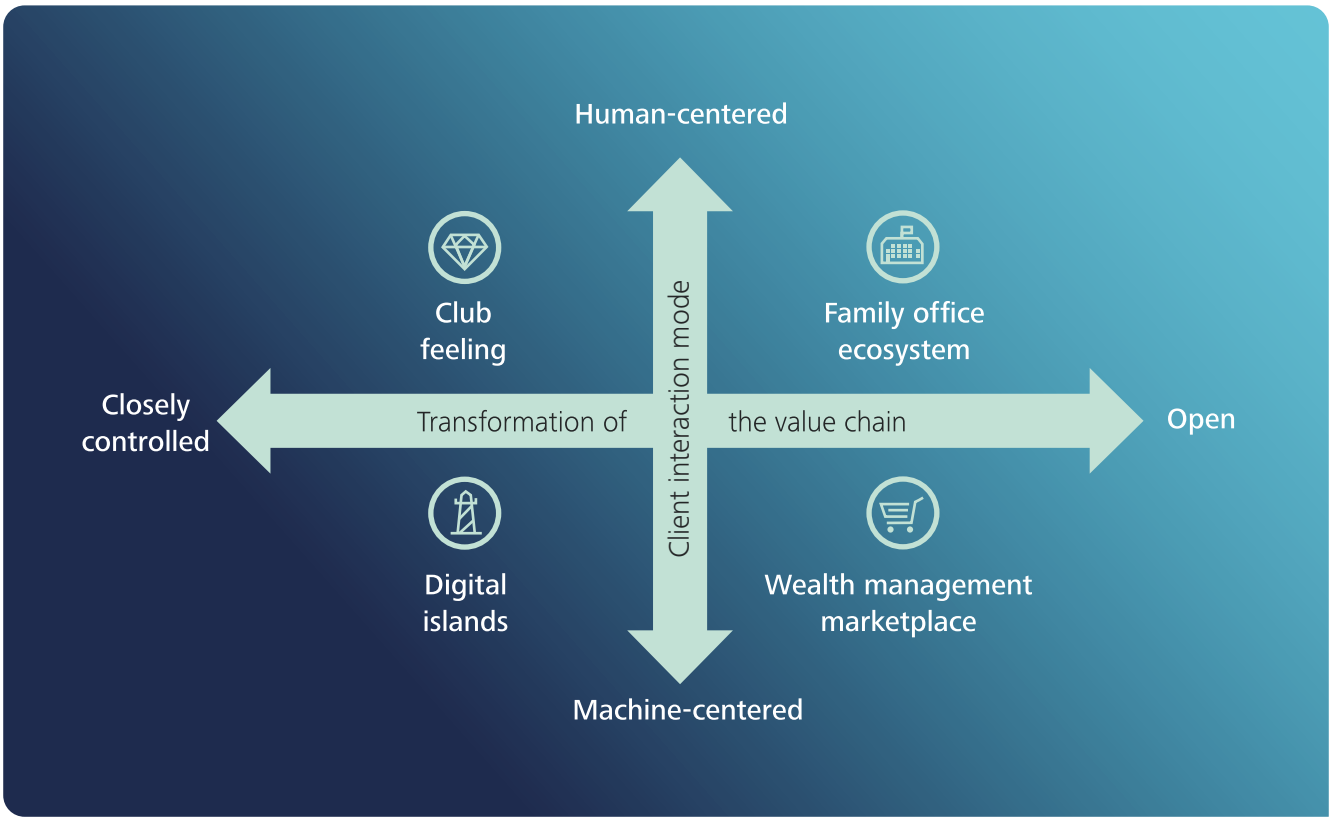


Figure 4: [Source: 2019, Deloitte, Banking Blog, https://blogs.deloitte.ch/banking/2019/06/scenarios-for-wealth-management-in-2030-an-executive-perspective-.html]

This development will likely lead to extensive changes in the general ecosystem of wealth management. Financial services must be flexible and easily integrable in the customer's everyday life. This requires at least a basic set of services to be available 24/7, which can only be achieved via digital solutions, such as web platforms and mobile applications. Moreover, new channels for the interaction between customers and wealth managers should be explored. As an example, push messages could be sent via mobile applications in which the wealth manager makes suggestions to the customer, for instance a rebalancing of his or her portfolio. At the same time, it should be guaranteed that customers can have bilateral communication with their manager if required. This could be achieved through e-mail, comment, or chat features in the digital solution.



There are many possibilities how financial institutions may design their new products to react to the new situation in the wealth management market. It is important to emphasise that these market dynamics bear a massive potential for companies. **According to the data portal Statista, 79% of US citizens in 2021 used their smartphone at least three hours a day.** A total of 57% even used it five hours or more[7]. With the introduction of well-designed wealth management applications that suit the new customer preferences, the usage of corresponding offerings could become a daily habit. In that case, the financial institution has succeeded to become an institutionalised part of the customer's digital set.

Against this background, hybrid advice is a great vehicle for the transition into this new ecosystem. It allows for scalable and cost-efficient offerings that can be easily integrated into the customer's life. At the same time, it facilitates custom products, personalised experiences and direct human interaction to strengthen the customer's trust and loyalty. The flexibility of this approach further allows to address many new clients by creating offerings that are affordable for a significantly larger target group. With this, hybrid advice has the potential to not only secure the relevance of traditional financial institutions and service providers, but to also increase their profits.

The buy-and-build approach is a smart and resource-efficient method to innovate financial product portfolios accordingly. It allows developer teams to be creative by giving them the freedom to quickly design product features that perfectly fit their company's requirements and customer's demands. The modular nature of a buy-and-build product development infrastructure allows for a high degree of customisation to ensure personalised user experience. In addition to that, the flexibility arising from the modular nature makes future product developments very easy. Implemented features can be handily modified or substituted by new features. This allows financial institutions and service providers to innovate their offerings whenever necessary.

[7] Statista, 2022, https://www.statista.com/statistics/1224510/time-spent-per-day-on-smartphone-us

Conclusion

The wealth management industry is dynamically changing. More and more FinTech companies are successfully offering digital applications to perform wealth management via standardised automated processes. Many financial institutions and service providers solely rely on traditional wealth management with face-to-face advice, which in its current form may become a phase-out model soon. In recent years, customer preferences have shifted to digital solutions that can be easily integrated in their everyday lives while offering personalised features. As a result, these companies need to innovate their product portfolio to defend their market position in the future.

Hybrid advice is a new approach to wealth management that is likely to change its ecosystem permanently. It combines the best elements of both traditional wealth management and technology solutions. A high degree of automation is used to efficiently handle standardised processes. At the same time, it allows for customisation and personalised features according to the clients demands. These features allow financial institutions to improve their service quality while reducing their operating costs and expanding their customer target groups.

In order to develop hybrid advice products, companies should adapt a build-and-buy strategy to build applications that suit their internal requirements while meeting their customers' demands. aixigo has developed a wealth management platform that allows financial institutions and service providers to design their own hybrid advice products quickly and resource efficient. Its modular infrastructure facilitates the creation of attractive and cost-efficient features to that can be fine-tuned according to all requirements.

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