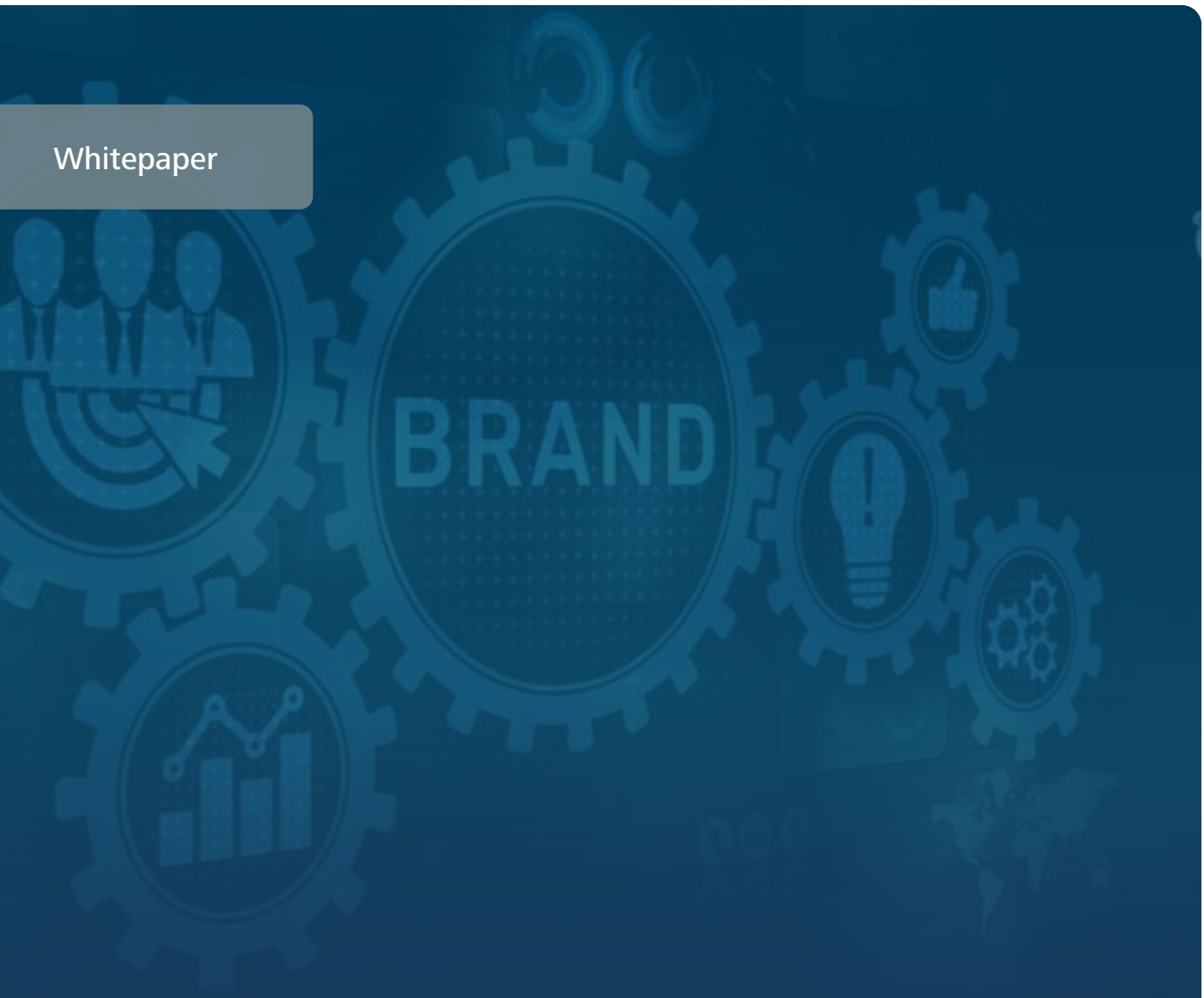
Whitepaper



Modern technology in wealth management

How is it impacting brands?

aixigo
Driving the New Wealth Experience.

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New customer expectations and the demographic shift in the market towards digitally affine generations forces brands to redesign their offerings and marketing strategies towards digital platforms.

70%

of customer interactions will involve new technologies by the end of 2022[1]

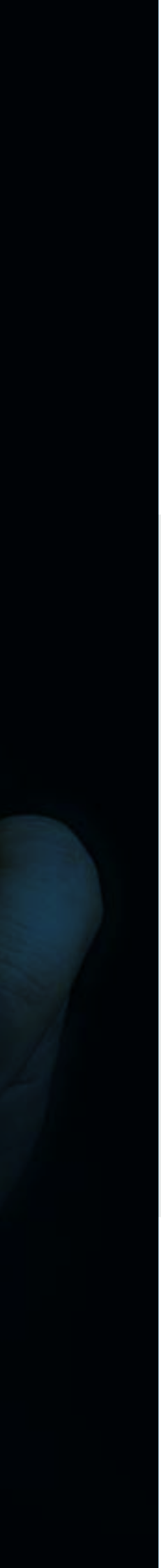
76%

of millennials prefer a fully or partially digital communication with their wealth manager[2]

92%

of German marketers agree or partially agree that digital platforms will significantly change B2B marketing in the next three years[3]

[1] Goasduff (2020): Top CX Trends for CIOs to Watch
[2] EY (2021): Where will wealth take clients next? – 2021 EY Global Wealth Research Report
[3] Statista (2022): Zustimmung zur Aussage: "Die steigende Bedeutung von digitalen Plattform-Geschäftsmodellen wird das B2B-Marketing in den nächsten drei Jahren deutlich verändern"



Executive summary

Digitalisation is reshaping industries all over the world and challenges well-established companies to innovate their business models. While early adopters of modern technology have created some of the most successful brands today, many hesitant companies have irrevocably lost their market position. The demographic shift in the market towards digitally affine generations forces financial and non-financial service providers to redesign their offerings and marketing strategies towards digital platforms. Studies show, for example, that 76% of millennials prefer a fully or partially digital communication with their wealth manager. Also, 92% of German marketers agree or partially agree that digital platforms will significantly change B2B marketing in the next three years. And, these trends do not only affect the B2B market, the B2C sector is also experiencing these substantial transformations.

In the financial industry, Deloitte has identified two main trends to act on and prepare for in the near future: hyper-personalised banking and cross-generational experience. The latter refers to providing different experiences for different customer generations such as baby boomers, tech-savvy millennials and Generation Z, each with different customer expectations. Along with hyper-personalised banking, it is targeted towards digital platforms.

In order to meet these trends and keep up with the dynamic evolution of the industry, banks should partner with FinTech companies that support product innovation through flexible modular software architecture. This allows them to efficiently create tailor-made digital solutions according to their customers' demands and shape their brands successfully in the years to come.

Intro

The rapidly progressing digitalisation of the society has extensively changed our everyday life, both privately and professionally. Artificial intelligence, big data, industry 4.0 – these are buzzwords signalling a generational change that is so significant that we cannot grasp all its consequences, yet. Naturally, this evolution greatly affects industries all over the world. Within the last 20 years, we have seen considerable changes in commerce and trade caused by advances in technology. Tech companies like Amazon and Meta have reshaped customer expectations and purchasing behaviour by offering digital platform services that perfectly integrate into consumers' everyday lives. Their products have been successful beyond measure and made the companies two of the largest brands worldwide.

The tremendous success of tech brands has significant implications for the entire economy. Linz et al. state that digitalisation is affecting all industries by impacting corporate strategies and challenging existing business models.[4] Likewise, Marr notes that every company needs to become a tech company, as the ability of a brand to adapt to the increasingly digital world will make the difference between success and failure.[5] The technological progress forces corporations to be innovative and flexible – not only to keep their product portfolios up-to-date, but also to maintain their overall relevance. The massive popularity of tech companies shows that the customers' perception of a brand nowadays heavily depends on its innovativeness.

This particularly applies to financial service providers, which are typically not well-known for rapid product innovation due to complex regulations and high-security restrictions. However, the recent success of new FinTech companies shows that well-established financial institutions urgently need to innovate to defend their market position and maintain relevance.

[4] Linz, C., Müller-Stewens, G. & Zimmermann, A. (2017): Radical business model transformation: Gaining the competitive edge in a disruptive world, Korgan Page, London
[5] Marr, B. (2022): 9 examples of brands that get the digital transformation right



> The recent success of FinTech companies shows that well-established financial institutions urgently need to innovate to defend their market position and maintain relevance.

This paper discusses the impact of modern technology on brands, with a particular emphasis on wealth management. The first section presents two case studies of companies that either thrived or failed in the context of digitalisation. The second section focuses on the implications of generational change for marketing and customer relations in wealth management. The third section provides a road map for subsequent years, as well as recommendations on how financial service providers can innovate their product portfolio quickly and efficiently in a fast-changing environment. Lastly, the paper closes with some conclusive remarks.

Chapter 1 – Changing brand management in light of digitalisation

A brief history of success and failure

This section contains two case studies of companies from different industries that have either been successful or floundering as a result of digitalisation.

Going digital as a challenge for the publishing industry – the case of Barnes & Noble vs. Amazon

In recent years, the publishing industry experienced only modest growth, and in this setting, technology has altered the existing conditions. While the circulation figures of newspapers and magazines have tended to decline, digital formats such as e-papers partly compensate for this downturn. Nevertheless, this recognisable change comes with consequences such as declining revenues and lower employment figures.

What is the underlying cause? The popularity and access to the web for the broad public were flanked by a massive increase in global internet usage. As a result, the internet permeated every part of the publishing value chain and changed the way books are published, sold, and read. Authors started publishing their material online, new business-to-business (B2B) marketplaces emerged, and online retailers began selling books on the internet.

Digitalisation shaped the industry in multiple ways:



No temporal or geographical limits: Books can be published, purchased, and enjoyed anywhere on the planet, seven days a week and at any time of the day.



Books-on-demand, e-books and the increasing accessibility via smartphones and computers provide instant access to content.



New databases emerged, and the marginal production costs of a book or magazine dropped sharply.

A vivid example of different responses to technological change shows the comparison of the American book retailer Barnes & Noble with the online giant Amazon. Until 1992, Barnes & Noble was printing and retailing books in its own shops and bookstores. The big challenge for Barnes & Noble emerged in 1995 when Jeff Bezos decided to start Amazon and sell books online. Bezos' strategy focused on economic growth and an optimal user experience for the customers. For this purpose, he hired the best employees to build state-of-the-art technology and infrastructure.

Meanwhile, Barnes & Noble paid little attention to the internet and its promising opportunities. The book retailer still relied on hiring new employees for book publishing, distribution, and retail management, instead of hiring tech-savvy internet professionals to rival Amazon's growing online business. Paralleling Barnes & Noble's expanding retail business, the book trade increasingly shifted to e-commerce.[6] This development contradicted Barnes & Noble's traditional philosophy, and the company faced increasing challenges.



Figure 1: Revenue of Barnes & Noble since 2013[7]

As a response to the changing market conditions, Barnes & Noble created barnesandnoble.com to promote online book sales. **But the company still focused on conventional answers to modern questions and simultaneously continued to invest in traditional brick-and-mortar retailing with large bookstores.**

In the end, Amazon established an unassailable leadership position. By 2003, it grew 20% annually, reduced the cost of running warehouses from 20% to 10% of sales, and boosted its inventory turnover 20-fold, whereas fellow retailers managed only a 15% increase. Amazon offered streamlined software that allowed customers to search for different media or scroll through the available books. With the launch of the Amazon Kindle reader, the company also increasingly acquired distribution rights for books directly from authors, which allowed them to sell the authors' works at a much smaller price than retail stores could.[8] Barnes & Noble overslept this digitalisation and consequently forfeited its leading position. **For more than a decade, the former leading bookseller is now stuck in a heavy crisis, unable to ignore e-commerce but still failing to catch up with Amazon's technological superiority.**

[6] Schrape, J.-F. (2011): Der Wandel des Buchhandels durch Digitalisierung und Internet, Stuttgarter Beiträge zur Organisations- und Innovationssoziologie, SOI Discussion Paper 2011-01, Stuttgart: Universität Stuttgart, Fak. 10 Wirtschafts- und Sozialwissenschaften, Institut für Sozialwissenschaften Abt. VI Organisations- und Innovationssoziologie

[7] Statista (2022): Umsatz von Barnes & Noble in den Geschäftsjahren 2013 bis 2019 (in Milliarden US-Dollar)

[8] McCray, J.P., Gonzalez, J.J. & Darling, J.R. (2012): Transformational crisis management in organizational development: A focus on the case of Barnes & Noble vs. Amazon, in: Organization Development Journal, Vol. 30 (1), pp. 39-52



Lego – brick by brick towards digital transformation

The toy manufacturer Lego is another successful case for digital transformation. Founded in Denmark in 1932, it became the predominant player in the market. Especially the years 1970 to 1991 marked a flourishing period when almost every child owned the colourful bricks. However, as time passed by and digitalisation went ahead, the demand gradually decreased in the beginning of the 90s. The peak of Lego's crisis began with the millennium. During 2003 and 2004, Lego recorded annual losses of around 400 million US dollars, compared to a yearly revenue of just one billion US dollars.[9]

Digital content and video games offered far more imposing elements, forcing Lego to reinvent itself. The company initiated a digital transformation during this economic crisis and adapted to the market. Looking beyond selling toys, they sought to diversify their business model by expanding their business with digital offerings. Lego invested both in its own video games as well as in licensing partnerships with well-known brands. With a budget of only 60 million dollars, the first Lego film earned a total of 468 million dollars, and the company returned to its former strength. The latest products offer endless playful possibilities. Lego established, for example, building block constructions that can be created in their web interface "Digital Designer," controlled via an app and used across different media. Instead of fading into oblivion, Lego successfully managed to adapt to the changing conditions and continued to appeal to children. Still today, children are growing up with Legos. In 2021, the LEGO Group generated global sales of about 55.3 billion Danish kroner (7.4 billion euros), which makes it the largest toy manufacturer in the world.[10]

Profound diagnosis, the willingness for reorganisation and diversity, and particularly the use of the (right) technology are mandatory to emerge from challenging periods as a thriving, forward-looking company.

What lessons can we learn from Lego? The games manufacturer was on the brink of bankruptcy but managed the transformation from the analogue to the digital world brick by brick without losing its identity. Profound diagnosis, the willingness for reorganisation and diversity, and particularly the use of the (right) technology are mandatory to emerge from challenging periods as a thriving, forward-looking company.[11] It should be emphasised that Lego partnered with well-known tech companies to innovate its product portfolio. This is also a particularly relevant recipe for success in the financial industry, given the recent popularity of embedded wealth management and cross-platform solutions. Further details are given in Sections 2 and 3 of the paper.

[9] P3RSONALITIES (2020): Top Beispiele erfolgreicher digitaler Transformation: 1. LEGO™
[10] Statista (2022): Umsatz der LEGO Group weltweit von 2003 bis 2021 (in Milliarden Dänischen Kronen/ Milliarden Euro)
[11] Wochagg, C. (2020): Lego: Der große digitale Turnaround

Chapter 2 – FinTech, conversational banking, and more

A generational change

Global brands and the digital natives

Platform solutions are one of the largest drivers of digitalisation with considerable success in recent years. By now, they can be found in industries all over the world. Naturally, digital platforms not only have profound implications for product development but also impact marketing success. Wallace for instance, points out the impact of a company's digital ecosystem on brand perception in the eyes of the customer.[12] The seven most valuable global brands in the Kantar BrandZ ranking are tech companies.[13] Their increase in brand value from 2020 to 2021 ranged between 29% and 74%, whereas the most valuable non-tech company (Visa) only achieved a 2% increase.



However, this does not imply that only pure tech companies can succeed in today's digital economy. Non-tech companies can also adapt some tech-based features and digital services to improve their brands. The Kantar BrandZ ranking shows that non-techs like Gucci and Domino's have successfully implemented this strategy and were able to considerably increase their brand value within one year. The augmentation of traditional services with modern technology provides an important blueprint for success in the future. Concordantly, in 2022, Statista published a study revealing that 78% of marketers in German industry and service companies agree that the increasing relevance of digital platform business models will significantly change B2B marketing within the next three years.[14] A total of 92% at least partially agree to this statement. Accordingly, the majority of marketing departments have already recognised the great importance and value of digital platform solutions for their brands.

Platform solutions

Digital platforms are systems for connecting frontline industrial processes with backend information systems, consisting of both hardware and software, to enable companies to implement new applications. Platform solutions cover the full range of capabilities suitable for a range of use cases and can be implemented very quickly in multiple areas.

[12] Wallace, L. (2017): This is how technology makes your brand image
[13] Kantar (2021): Kantar BrandZ most valuable global brands 2021
[14] Statista (2022): Zustimmung zur Aussage: "Die steigende Bedeutung von digitalen Plattform-Geschäftsmodellen wird das B2B-Marketing in den nächsten drei Jahren deutlich verändern"

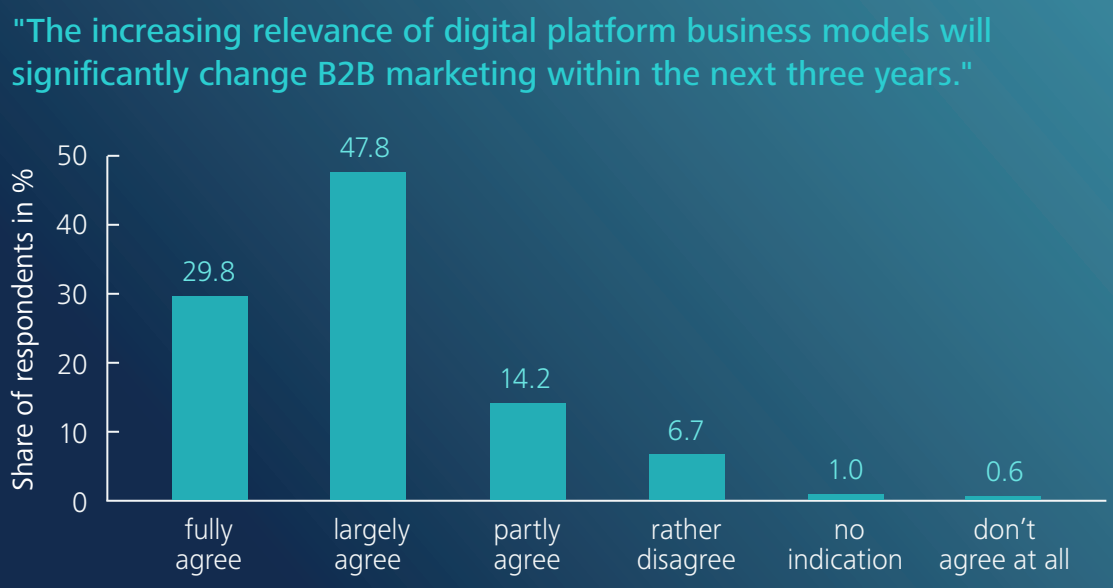


Figure 2: Agreement to the statement[15]

This trend will affect the financial industry as well. In an article by Lyons et al., the authors state that financial institutions can no longer take their loyal customers for granted and must now compete against tech companies with appealing digital products.[16] Many clients became used to the flexibility and convenience that smartphones and digital applications brought to their everyday life. Therefore, they increasingly expect financial service providers to keep up and provide user-friendly digital solutions as well. This particularly applies to the digitally native generations, such as millennials, whose strong digital affinity will heavily influence the industry in the years to come.

The latter gains even more importance in the face of the upcoming wealth transfer. Sohl points out that financial portfolios that are currently held by the baby boomer generation will eventually be transferred to millennials.[17] This generation is used to real-time digital communication and expects financial services to be tailor-made for them. This conclusion is also supported by the 2021 EY Global Wealth Report[18], which shows that 76% of millennials prefer entirely or at least partially digital engagement with their wealth manager over traditional face-to-face consulting. Financial service providers, therefore, urgently need to create suitable digital solutions to keep their clients and maximise revenue in the future.

[15] Statista (2022): Zustimmung zur Aussage: "Die steigende Bedeutung von digitalen Plattform-Geschäftsmodellen wird das B2B-Marketing in den nächsten drei Jahren deutlich verändern"
[16] Lyons, J., Wackerbeck, P. & Zeiter, D. (2021): European bank transformation: banks must accelerate tech innovation to survive
[17] Sohl, E. (2021): Neobanken werden auch Business Banking revolutionieren
[18] EY (2021): Where will wealth take clients next? – 2021 EY Global Wealth Research Report

Keeping up with the BigTech competition

The impact of digitalisation on financial products will be deeper than just medium-term revenue maximisation. In fact, financial service providers may soon have to compete for their market position and overall relevance. The growing incorporation of digital habits in everyday life causes younger generations to demand omni-present, multichannel support even from their wealth managers. Communication should become possible via the platform they prefer, such as WhatsApp, WeChat, or Line. At the same time, millennials demand so-called conversational banking. It provides individual support at any time, while a certain degree of personal interaction with the financial adviser is retained. Neither traditional face-to-face wealth management nor fully automated FinTech platforms can achieve this on their own. Instead, financial service providers will need to adopt a hybrid wealth management approach enclosing elements of both worlds.

Another important aspect are the expectations customers have concerning digital solutions, based on already established market standards. For instance, social media app users are accustomed to flexible 24/7 services that work fast and are intuitive to use. Naturally, they expect financial apps to be just as flexible, intuitive, and efficient – even though the backend of a financial platform is arguably more sophisticated due to very high security and regulatory restrictions. This becomes even more relevant in the case of embedded wealth management, as embedding financial services on third-party tech platforms becomes increasingly common. Thus, FinTech offerings should not only meet tech companies' performance standards, but they also need to be compatible with the latter on a software architecture level. **This places tremendous pressure on banks to establish an efficient and modular basis for their digital platform solutions that is able to keep up with the tech competition.**

Against this background, it is no surprise that also in the financial industry, customer expectations concerning the way of interaction are quickly and dramatically changing. Most of the engagement will soon take place via the customer's electronic devices. While this trend has been observable for several years now, the Covid-19 pandemic has further accelerated it. A study by Gartner predicts that by the end of 2022, 70% of customer interactions will involve new technologies like machine learning, chatbots, and mobile messages.[19] Back in 2018, the respective share was only 15%. This impressively emphasises the dynamics of the market.

[19] Goasduff, L. (2020): Top CX trends for CIOs to watch

Simplicity, transparency, customisation – new paths to customer retention

The described trends considerably affect the customer experience and require a rethinking of opportunities to invoke customer retention. A 2020 study by the Lucerne University of Applied Sciences states that despite the strong trend toward digital solutions, 66% of investors still highly value personal contact with their wealth manager.[20] Hence, financial service providers find themselves in a complicated position. On the one hand, they must innovate their product portfolio toward digital solutions to ensure their relevance and market share in the future. On the other hand, they cannot abandon traditional wealth management services entirely because of the need to maintain their current client basis, which still includes a substantial share of non-digital natives. Further, the study showed that even among tech-affine millennials, in-person interaction with the wealth manager is still highly valued. Hence, tech innovation should not be used as a replacement for traditional wealth management but rather as an augmentation or enhancement.

Simplicity, transparency, and customisation are essential in this process. For example, Agnesens et al. find in their research that simplicity and transparency in the cost structure of wealth management services are the main criteria, especially for millennials, in choosing FinTech solutions.[21]

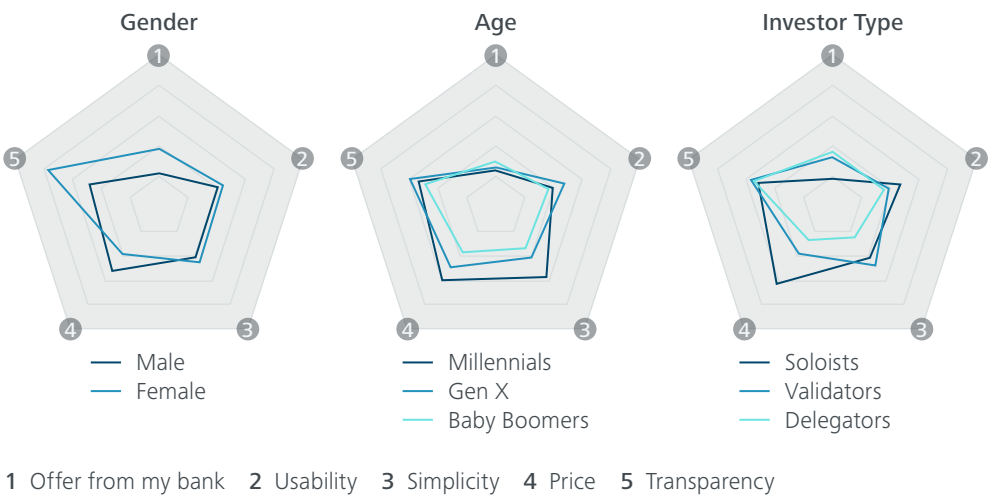
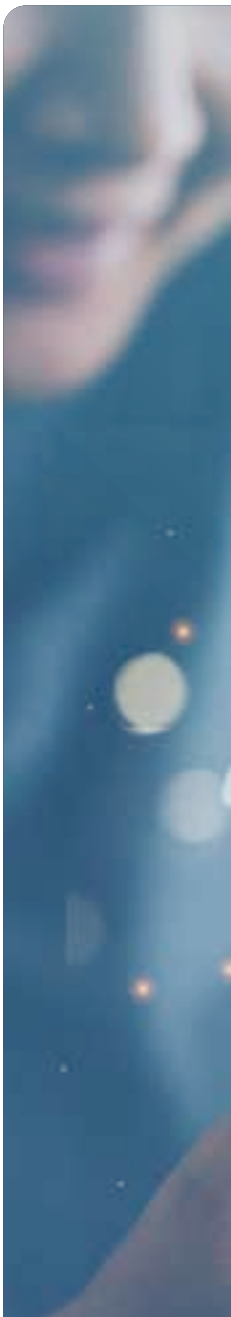


Figure 3: Top 5 criteria for FinTech provider choice, segmented by sex, age, and investor type[22]

EY's Global Wealth Report further found that 80% of millennials are willing to pay more for individualised wealth management services. Examples include financial literacy training tailored to the client's risk profile as well as customised content for their individual portfolio, which means that suitably modulated information and features are provided for the individual client's positions in the portfolio.[23] Advisory communication via channels the client prefers represents a further good opportunity to provide custom experiences based on digital platforms. When considering insights from behavioural finance, findings suggest that FinTech features should be customer-oriented and that habits should be utilised as



[20] Dietrich, A., Agnesens, T. & Wernli, R. (2020): Digitales Anlegen in der Schweiz – ein Markt mit Potenzial
[21, 22] Agnesens, T., Dietrich, A. & Rüttimann, S. (2022): Entwicklungen des Schweizer Markts für das digitale Anlegen
[23] EY (2021): Where will wealth take clients next? – 2021 EY Global Wealth Research Report

an aid rather than perceived as a hurdle. If the offered product easily integrates into the client's everyday life, the chance is high that he or she will stay loyal to the brand.

Against this background, it is plausible that Agnesens et al. identified customisation as the currently dominant strategy in digital investment and pension services – both for fully automated as well as hybrid wealth management providers.[24] However, increasing customisation also comes with increasing sophistication. That is to say, to achieve a high degree of customisation, the technological complexity of the service necessarily grows. Nevertheless, the authors reassure that even the most complex solutions can still be offered at lower prices compared to traditional wealth management, making them attractive to younger generations.

Customisation as an innovation focus may seem counter-intuitive given that the industry is heading towards automated digital solutions, which require a substantial degree of process standardisation. **However, customisation and standardisation are not mutually exclusive when the architecture of the digital platform is modular. If the tech infrastructure is naturally designed for adding, swapping, or modifying features, tailor-made services for customers can be easily implemented.**

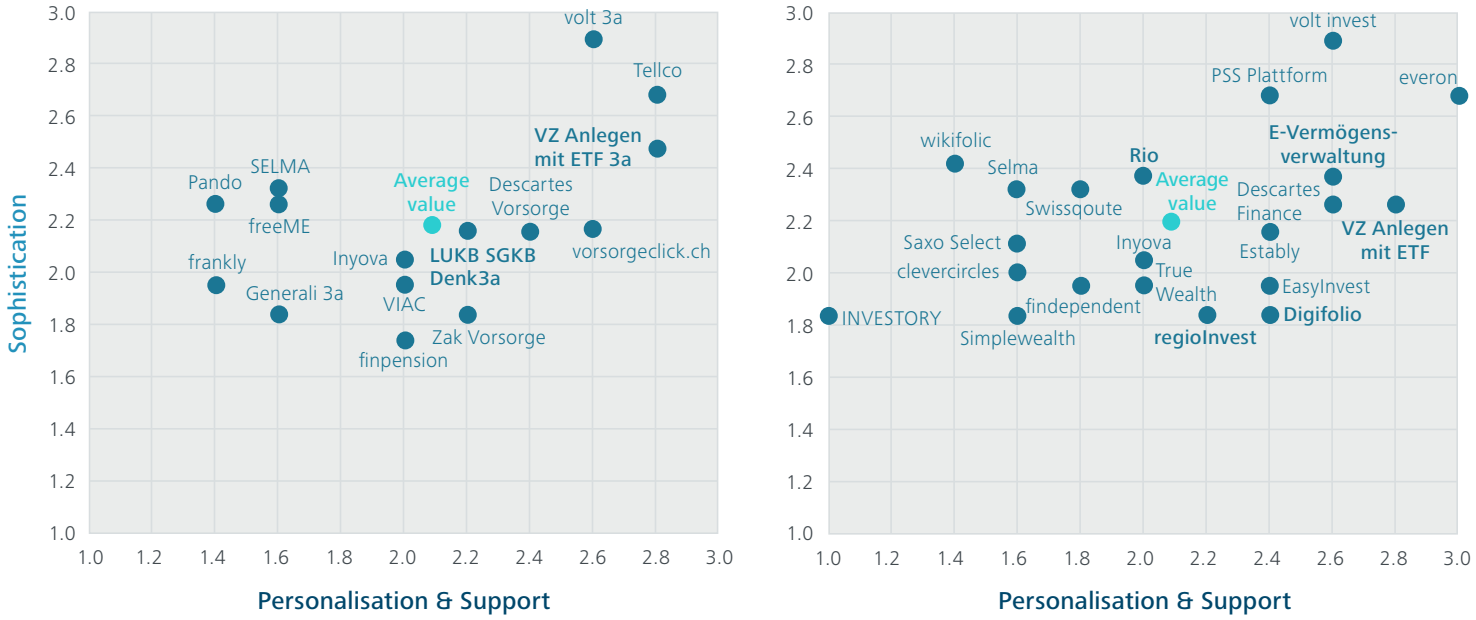


Figure 4: Digital investment (left) and pension (right) solution providers, allocated by sophistication and customisation[25]



[24, 25] Agnesens, T., Dietrich, A. & Rüttimann, S. (2022): Entwicklungen des Schweizer Markts für das digitale Anlegen

Chapter 3 – Wealth management in the industry 4.0

The road ahead and need for action

The future is now – immediate trends to obey

The financial industry is currently reinventing itself. Tech giants like Amazon, Apple, and Google are providing their own payment services. PayPal's E-Wallet program is digitally offering immediate loans for consumer financing. Machine learning algorithms are used in Robo-Advisors to make investment decisions for customer portfolios automatically. The pace of innovation is fast, and it will likely further accelerate in the future. Traditional financial institutions must therefore keep pace. In a report published by Deloitte, the authors identified two main trends that need to be considered and that will be important for the industry.[26]

Cross-Generational Experience

Behind this term hides the challenge that the wealth management sector currently needs to serve different generations of customers who have very different expectations and habits: older generations who prefer traditional face-to-face advice and younger generations who are more inclined towards digital solutions. Those who adapt to this trend early on implement cohort-specific marketing strategies on platforms and channels that the respective generation prefers. In addition, many banks have diversified their product portfolios to meet the needs of different target groups by offering varying products. According to Deloitte, the demand for digital platforms will increase in the next few years, and they will dominate the mainstream in the next two to four years. Therefore, it is extremely important for financial service providers to adapt to this trend.

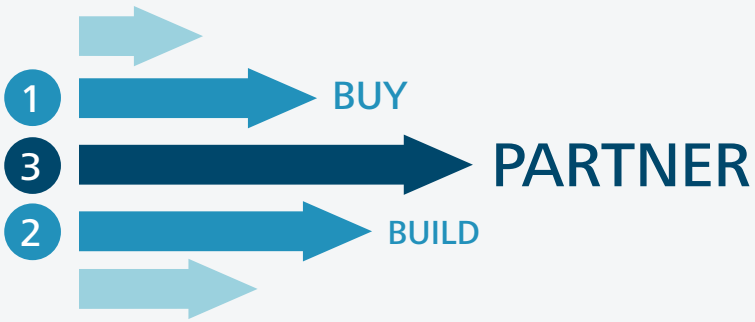
Hyper-Personalised Banking

To be able to use wealth management services flexibly in their daily lives, clients are increasingly demanding a high degree of customisation. Brands reacting to this early on give customers the opportunity to design parts of a product themselves. As an example, they can modify the user interface of their FinTech app or add features from an offered set to their profile. These modifications increase the identification of the client with the product and therefore support customer retention. Deloitte predicts that this trend will greatly influence the industry over the next four to six years. Therefore, it advises banks to prepare for corresponding changes today to be able to react to future developments quickly.

[26] Deloitte (2021): Europäisches Banken-Trendradar 2021 – Ausgabe 1: Kundenperspektive

The smart way to product innovation

Given these upcoming trends and the increasing relevance of digital platforms, how can banks innovate their offerings efficiently in this fast-changing environment? How can they reshape their brand and improve their market position in the years to come? According to aixigo's thought leader Delia Steiner, there are three potential strategies to create innovative digital offerings: buy, build, and partner.



1 Buying pre-built solutions for new products is indeed the fastest approach. However, this forces banks to stick to off-the-shelf solutions that leave little opportunity for customisation. Institutions can hardly shape the product according to their customers' needs. Such digital products can meet cross-generational requirements to a certain extent but are insufficient to provide hyper-personalised offerings.

2 On the contrary, building new solutions in-house provides the highest flexibility. Financial institutions can design their products perfectly suitable for their own infrastructure and client demands. Although, banks often need to build upon a legacy environment and may have to hire new developers with the required technical expertise. This can drastically slow down the innovation process and increase the innovation costs considerably, which may prevent banks from being timely to the market.

3 The third option (partner) is a combination of buy and build based on a collaboration with a FinTech company. This strategy represents a resourceful path for banks towards efficient product innovation. It allows developers to design new products by assembling modular third-party components quickly. In other words, the institutions have the freedom and flexibility to be creative in developing their new offerings, while the necessary technical building blocks are provided by the FinTech company. To realise such a fruitful innovative infrastructure, it is especially important to have a solid IT basis with modular well-thought-through separations. The entire customer journey must be anticipated in advance while simultaneously allowing for customised processes.

When the technical basis is implemented correctly, the average development time for new digital solutions can be shortened between 50% and 75%. Banks can innovate their services in months instead of years. This saves significant resources and allows them to adapt to latest trends quickly. aixigo has created an innovative wealth management architecture that supports banks in the efficient realisation of new digital solutions. The modular structure allows for the customisation of digital products and services, which directly benefits customer retention. Once implemented, it also facilitates further innovation by reusing existing components.

Conclusion

The fast-paced technological progress changes the financial industry at an unprecedented speed. In combination with a generational change towards younger digitally affine clients, financial service providers are under pressure to compete against specialised tech companies with attractive digital products. The significant success of digital platform solutions forces banks to find new ways to invoke customer retention. Customisation is critical in this endeavour, both for fully automated and hybrid wealth management providers. If the digital solution allows customers to shape it according to their preferences by offering additional features that can be adapted to the users' needs, this increases the identification potential with the brand.

However, a high degree of customisation also comes with increasing technological complexity. This makes it challenging and resource-intensive for banks to innovate their product portfolio completely on their own. Instead, partnering with a FinTech company that offers a modular software architecture provides a fruitful basis. This enables financial service providers to efficiently develop new, high-quality products tailored to their customers' needs. Such cooperation gives banks the ability to stay close to their clients and keep their brand relevant. The objective quality of the product and the customer's emotions are the essences that ultimately determine the strength of the corporate brand.

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