



Nick's Corner



Building a Future-Ready Investment Firm

How firms are reinventing their businesses for the next era of investing (condensed and edited)

FNZ, Deloitte, ThoughtLab

The global wealth management industry faces converging megatrends that are redefining investor needs and reshaping the industry. These trends include rapid technology innovation, mounting regulation, heightened competition, demographic shifts, and economic and geopolitical uncertainty. To prepare for the next era of

wealth management, investment firms need a clear view into the changing future expectations of today's diverse set of investors—and how competitors are rethinking their products and services, go-to-market plans, value propositions, and business models to keep them happy. Having an artificial intelligence (AI) and digital transformation strategy will be an imperative.

Making the investor the North Star. Investment firms must put the investor at the centre of their plans. This requires fresh thinking since traditional investor segmentation no longer adequately addresses today's heterogeneous marketplace. With investor demographics shifting fast, creating a mix of investors by wealth, age, source of income, location, gender, and lifestyle, providers need a deeper understanding of their customers and their morphing needs and behaviours. The stakes have never been higher for wealth management firms. To prepare for the future, executives will want to take decisive action to thrive in the unfolding era of industry disruption.

Firms see high returns on major tech investments. Wealth management providers are getting good returns on many of their biggest investments in digital technology. More than half of those investing in them report high or very high returns from a range of technologies, including cloud, digital collaboration, data analytics, **Blockchain**, API architecture, and AI. A large proportion of firms have been investing for many years in these technologies, giving them time to produce returns. "The convergence of these technologies is what will fundamentally reshape the wealth management value chain. Separately, these technologies are powerful. Together, they will change the face of wealth management as we know it," says Matthew McWhirter, Strategy Leader, Wealth Management, with Deloitte Canada.

Missed opportunities. Our analysis shows missed opportunities. For instance, only 15% of firms have so far made major investments in digitized wealth management platforms, even though these investments are showing the highest returns in our survey. API architecture is another area where the returns suggest investment should increase. Fewer firms, on the other hand, have seen good returns from robo-advisory platforms. "Robos have proven unprofitable," argues Tony Wood, Asia Pacific Banking Leader, Deloitte Hong Kong. "They eat into your own revenue base, especially in the higher end of the mass affluent market, and it's very difficult to move clients over to an advisor-led service."

Our research reveals nine critical steps that firms should take now to become future ready:

- 1. Develop tech-enabled advisors to provide higher value support.** As advisors retire, firms will be able to use technology to fill talent gaps and boost the number of investors that advisors can manage. The automation of routine tasks will also free up advisors to concentrate on holistic client management. The winners will be firms that implement cost-effective hybrid approaches that blend high-tech and high-touch elements to meet client demands.
- 2. Take digital customer experiences to the next level.** Customers expect their investment experiences to be on par with those of their favourite born-digital company. To do this, wealth management firms will need to put highly personalized and intuitive interactions in the palm of their hand, through mobile devices, and remotely, through video engagement. Personalization will be critical for providers to ensure that their products, services, and client experiences truly meet the needs of investors. Over 4 out of 10 investors said that digital apps, channels, and platforms, which can help drive personalization, are the most important criteria when picking an investment provider. Twenty-three percent cited frictionless customer experiences.
- 3. Gear your strategy to the new face of investors.** Harnessing technology and data to identify investor needs and behaviours, find market niches, and personalize solutions will be table stakes in the next investment era. Building a diverse advisor base that not only understands but also mirrors investor differences will also be critical.
- 4. Unlock value through digital and process transformation.** As firms continue their digital journeys, they will need to invest more in specialized areas, such as AI, Blockchain, cloud infrastructure and services, cybersecurity, robo advisors, open API platforms, video collaboration systems, and holistic planning tools. Tracking ROI and course correcting when needed will be vital. Democratizing wealth management is only possible if you can bring down the cost to serve through technology. Research shows that end-to-end, third-party technology platforms can alleviate pressures along the value chain, reduce costs, achieve meaningful impact, and create competitive advantage (Hanspeter Wolf Chief Technology Officer, FNZ).
- 5. View your business through an AI lens.** Firms should embrace AI for client-facing activities, such as investment management and financial planning, and for internal operations, such as cybersecurity and fraud detection. To achieve the best results,

underlying data will need to be accurate, integrated, and real time, as well as secure and free of unwanted bias.

- 6. Rethink offerings for the next era of investing.** Higher-value products and services—from alternative investments, IPOs, and customized index funds to discretionary investment, tax planning, and private banking services—will need to be on the menu. To democratize their offerings, firms will need to use digital solutions such as Blockchain to drive down the cost to serve.
- 7. Think about sustainable investing as a practice, not a product.** Low returns and inadequate metrics and standards have impeded the success of ESG products. As financial performance becomes more intertwined with sustainability goals, investors will expect advisors to keep both goals in mind when managing investments across asset classes.
- 8. Preserve a place in the new playing field.** As digital entrants disrupt the industry, the winners will be firms with open, API-enabled platforms that allow them to integrate fintech solutions quickly and seamlessly. The solution for many, will be ecosystem partnerships, rather than competition, between newer and established players.
- 9. Recalibrate pricing and business models.** Unhappiness with fees should be of concern to providers, particularly in an environment of higher living costs and dissatisfaction with returns. "The industry doesn't give money back even if they show consistent underperformance of the benchmark," points out Cambridge's Stein. "They are still making money on the assets, even if they vastly underperform the benchmark." To retain and attract clients, investment firms will need to finetune their value propositions. One way is to reduce, cap, or renegotiate fees for services like discretionary management. Another is to justify percentage of AUM fees by building in value-added services, such as holistic planning.

Client Services

FinSwitch and FNZ have completed the development and testing of the last major functional release and are due to re-run the Parallel test this week. This should be completed within 3 weeks, and we will then finalise the configuration of the Market test environment to allow the Industry to begin their own testing. Clients will have 1 month to test and confirm that their existing business process are operating correctly. Clients are reminded that they will have to test using the correct Currency codes as well as the changes listed below. The Market testing date will be confirmed shortly.

To date, we have only had a 29% login rate to the chain. We therefore urge clients to take this time to login to the chain to get familiar with the environment. This time may also be used to compile a test plan, as there are a few variables to consider and arrange for testing. Herewith is our [market testing guideline document](#) that may assist with creating your plan. If you have any issues accessing the hyperlink, please navigate to FinSwitch and find the testing guideline under "Communications".

The following changes must be incorporated for Market testing and must form part of all Client's test plans:

- Currency codes must be ISO Standards: **ZAR** and **NAD** must be used in TR and CT files
- AA File – heading name change from "**ASISA Fund Code**" to "**Fund Code**"
- Capitalisation – All codes must be **capitalised**
- Confirmation File – Inclusion of "**Cancelled**" status
- Confirmation File – Holding Balances only required for **traded** accounts
- TER File – "**Status**" column included
- Free Format Files will be discontinued

Apart from the above changes, we have been reaching out to specific clients where we have found inconsistent data that the chain will not accept:

- Spaces in numeric values across all file types
- File names exceeding 70 characters
- File extension with file format mismatches
- Missing product codes for holding balances in CT files
- Duplicate holding balances in CT files
- Unmatched "Unit" data between CT and TR files
- Different "Value" and "Cycle" dates in CT files
- Incorrect price type codes for Lesotho and Swaziland funds in PD files
- Certain web services parameters

Best Wishes

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Manager: Client Relations