Connected Strategy for Asian Wealth Management

Leveraging the power of connectivity to deliver superior, personalized wealth management experiences at scale

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Introduction

CONTEXT, OBJECTIVES AND SCOPE

Wealth management in Asia is a large, profitable and highly competitive industry. Wealth in Asia is a $45-50 trillion market[1] that has been growing nearly twice as fast as global wealth. Competition continues to increase as a slew of newer industry entrants such as fintechs, superapps and neobanks compete with incumbent wealth managers, asset managers and insurers who are doubling down on this business.

However, the industry's current paradigm remains analog, 'disconnected' and lacks scale. While Asia's wealth managers have improved the experience of their advisors and clients, the basic paradigm remains largely the same. The higher the level of personalized

1 BCG annual wealth management market size estimates of personal wealth in Asia Pacific-ex Japan (2009-2020)

advice and service desired by a client, the higher the cost to the firm. The model is reliant on people for most aspects of the customer journey and firms have little institutional, data-driven insight into their clients. Driving profitable growth now requires newer, scalable business models both for incumbents to defend their market share and for newer players to disrupt the norm.

Connected Strategies have the potential to help wealth managers build competitive advantage and gain market share. A firm's connected strategy is its strategic, operational and technological choices that fundamentally change *how it connects with customers* and *what connections it creates with and among ecosystem players* i.e., the two key elements are:

- *Connected customer experiences:* How frequently and with what level of digitization does a firm connect with its customers in the customer journey to deliver what target experience?
- *Connection architectures:* What connections does a firm choose to create with or between various ecosystem participants and why?

Connected strategies have allowed firms in a range of industries to break the traditional trade-off between superior customer experiences and lower costs. In the past, firms could provide an outstanding customer experience but they could only do so at a higher fulfillment cost. However, in multiple industries from ride hailing, media, to meal preparation, firms with connected strategies *now deliver superior experiences at lower fulfillment costs.* This makes connected strategies one potential way to disrupt the current wealth management paradigm, especially given the macro forces at work such as the rise of the 'digital native' consumer, a multi-trillion generational wealth transfer, and the readiness of the requisite technologies.

Our objectives in this whitepaper are to describe connected strategies in the context of wealth management, analyze their applications in the industry and synthesize the implications for wealth managers.

In terms of geographic scope, the paper focuses on Asia[2] or, more specifically, *Asia ex-Japan.* This said, we see Connected Strategies as the path forward for wealth managers beyond Asia as well. Our knowledge of and experiences in other geographies as well as data on common threads of customer needs and pain points across markets lead us to believe that the perspective and analyses presented here and many of the applications

2 For the sake of brevity, all references to Asia in this paper refer to Asia ex-Japan

of Connected Strategies discussed here will also play out in other markets such as North America and Europe.

In terms of industry scope, while we focus primarily on the perspectives of wealth managers, in Asia, traditional players such as asset managers and insurers as well as new players such as superapps and roboadvisors all compete in "wealth management," i.e., the right to perform related 'jobs to be done' by the client vis a vis saving, growing, protecting and transferring their financial wealth.

The main channel for wealth management services today is a human advisor. As such, we use the term 'advisor' throughout the paper to represent any individual, typically a licensed or certified *employee* of a wealth management firm, who forms a relationship with a client to help manage their wealth often till the advisor or client attrite. There are many designations in Asia that perform this role, including: private bankers, relationship managers, investment advisors, financial planners, investment advisors. In contrast, we use "wealth manager" or "firm" to refer to the *institution*. A relatively common organization structure in Asia is for a wealth management firm to have multiple teams of geographically dispersed advisors as part of a sales organization that tends to be the commercial nerve center. This *distinction between the firm as an institution and the advisor as an individual, sales-oriented employee* is one we believe is important vis a vis the client relationship.

HOW THIS WHITEPAPER IS ORGANIZED

This whitepaper is organized into five sections. Section 1 takes stock of the current state of play in wealth management in Asia, starting with a client's perspective vis a vis their needs, goals and investing behaviors. In Section 2, we describe the concept of a Connected Strategy and its rewards. Sections 3 and 4 elaborate on *Connected Customer Experiences* and *Connection Architectures* respectively, the two main components of a Connected Strategy. Finally, in Section 5, we synthesize the implications going forward for wealth managers and highlight key topical trends in wealth management for which Connected Strategies offer a powerful exploratory framework. In these five sections, we seek to address a range of questions, including:

- What are the dominant customer needs, behaviors and journeys in wealth management in Asia?
- What is the industry's current paradigm and efficiency frontier?
- What is a Connected Strategy and what are its outcomes?

- How do Connected Strategies enable shifts from transactional interactions to personalized, connected customer relationships?
- Which players in Asia are already implementing such experiences? What are their results thus far?
- What are the new, innovative connection architectures that are emerging?

IMPLICATIONS

Our analysis leads us to the following seven implications for wealth managers.

1. Connected wealth managers will **augment their digital channel experiences and capabilities for advice and decision making**, going beyond transactional convenience.
2. Connected wealth managers will **redefine the role, skillset and economics of advisors**.
3. The channel mix will change materially, **reducing share for traditional bank-based wealth managers**.
4. Connected wealth managers with **automated, data-driven advice** capabilities will gain operating leverage and progressively reach a 'Turing Test' moment.
5. The industry's ecosystem will broaden further as connected wealth managers adopt a **'string of pearls' partnership approach along the entire customer journey**.
6. Connected wealth managers will **blend skillsets and client experiences from technology-led firms with new ways of delivering unbundled, personalized solutions**.
7. Connected wealth managers will **partner with regulators to shape tomorrow's rules of engagement**. ■

1. Wealth Management in Asia — Current State of Play

Wealth management in Asia represents a $45-50 trillion market size[3] and has been growing twice as fast (10-12% CAGR) as global wealth (5-6% CAGR). Wealth growth from Asia is projected to account for a third of total global wealth growth over the next five years. Of the total $65 trillion in new financial wealth that will be created by 2025, a third ($22 trillion) is projected to come from Asia. Moreover, wealth advisory and managed assets are under-penetrated at 15-20% of the total personal wealth pool, allowing for significant growth headroom.

CUSTOMER NEEDS AND JOURNEY

From a client's perspective, wealth management is about meeting a set of key needs such as making their current wealth work harder for them, funding their children's education, ensuring sufficient income for retirement, preserving their wealth, and eventually transferring their wealth[4] (see Figure 1). Customers in most major markets[5] in Asia see these as their top five goals. Clients in Asia are typically segmented based on their level of wealth from mass market and mass affluent through to ultra-HNW[6]. As investible assets increase through these wealth bands, the scope, sophistication and range of wealth management services needed increase.

Wealth management services and advice are often generated and delivered by a human advisor while trade execution for clients is increasingly automated. There are three broad behavioral types of clients in Asia based on the degree to which they rely on an advisor (see Figure 2[7]). Those who are self-directed or "do it yourself" (DIY), those who are advice seekers and those who are delegators. While precise estimates of these segments vary across markets in Asia, most consumer studies[8] indicate that the two largest groups by far are the self-directed (30-50% of consumers) and the advice seekers (40-65% of consumers). A relatively small group (5-10% of consumers) are delegators. Particularly

3 BCG Global wealth reports, 2009-20; Includes cash, deposits, bonds, stocks, funds, insurance, pensions and select other assets

4 "One step forward, half a step back: Meeting financial goals in Asia", Manulife Asset Management, 2015

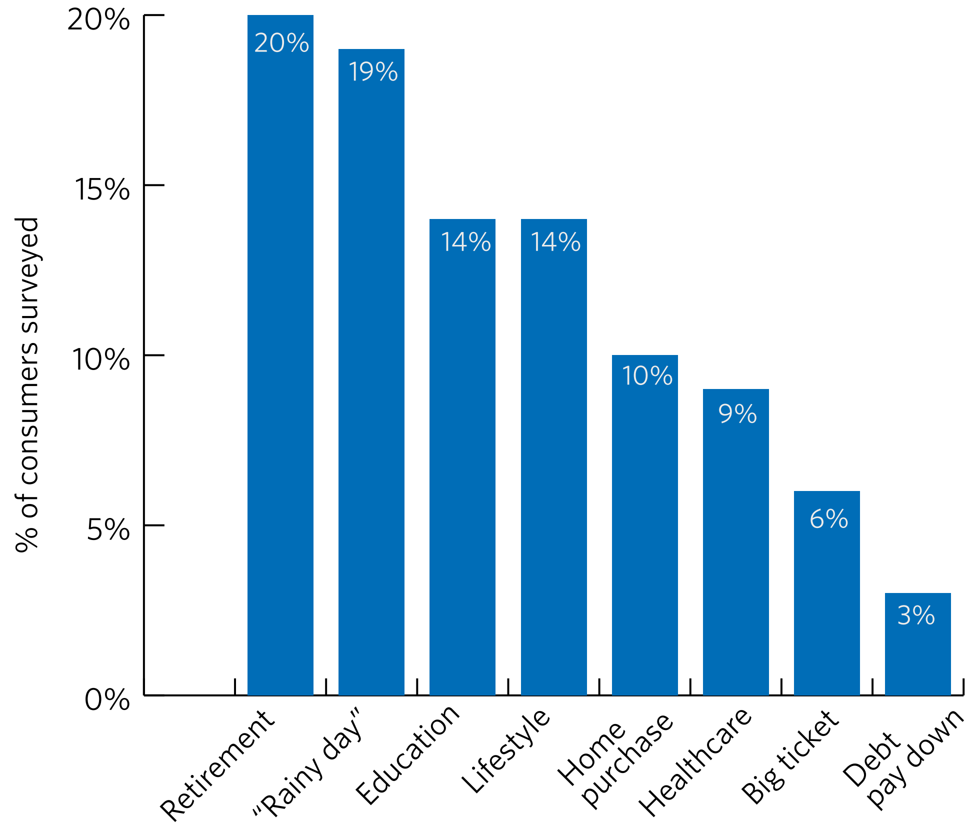
5 Based on survey results in China, Hong Kong, Indonesia, Japan, Malaysia, the Philippines, Singapore and Taiwan

6 Investible assets per client: Mass <$100k; Mass affluent $100k-250k; Affluent $250k-1m; HNW $1-30m; Ultra > $30m

7 "Asia: Hong Kong FinTech company launches roboadvisor app", RFI Group, 2017

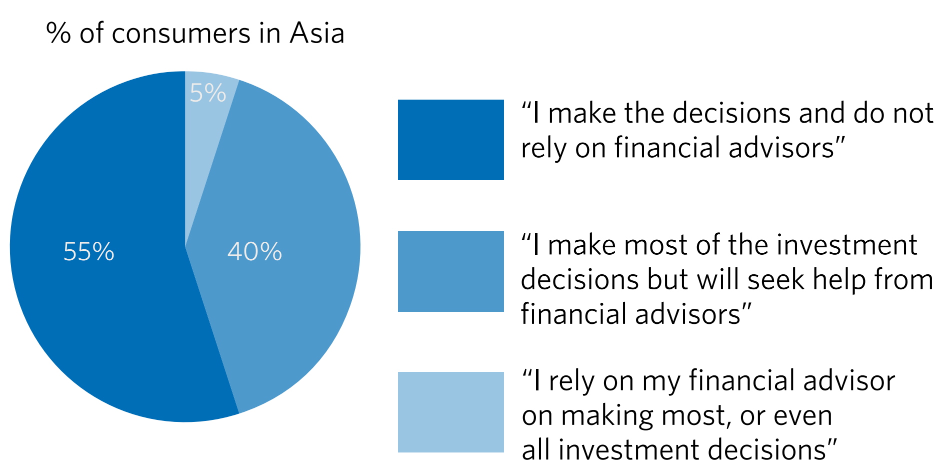
8 Triangulated across Deloitte, Accenture, RFI

Figure 1: Asian consumers' wealth management goals



Source: Manulife Asia research, 2015

Figure 2: Do clients in Asia rely on financial advisors?



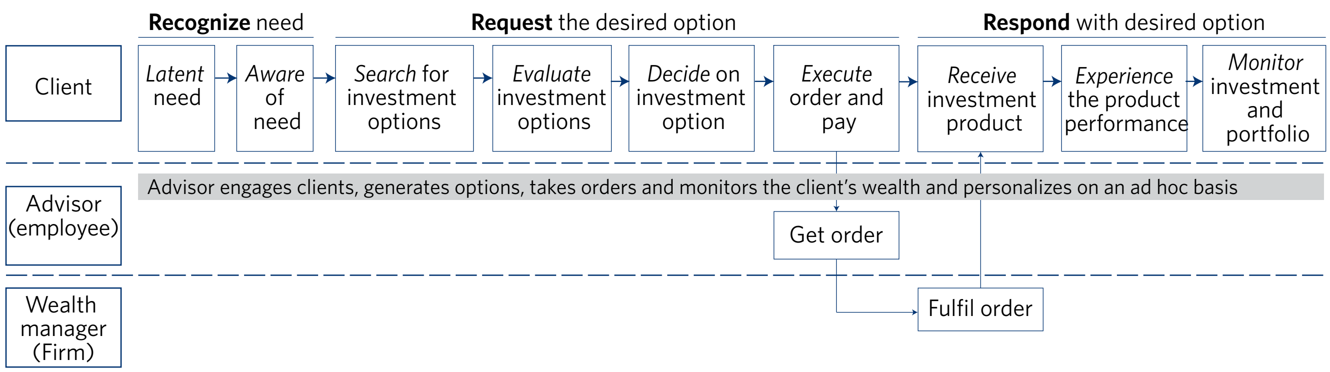
Source: RFI research, 2017

in Greater China, self-directed trading is popular with transactional revenue making up c.35% of revenue generated at Hong Kong-based wealth managers.

Importantly, nearly 70%[9] of emerging affluent and high-net-worth (HNW) consumers say they prefer *hybrid* approaches that leverage digital, self-directed capabilities and access to human advisors when needed e.g., at critical life stages and / or for major investing decisions.

A typical wealth client's current customer journey is illustrated in Figure 3. We distinguish three phases of the journey: ***recognize*** — the part of the journey where a latent wealth need of the client arises and either the client or the firm becomes aware of the need; ***request*** — the part of the journey where the need is translated to a specific request for wealth management products and services; and finally ***respond*** —the part of the journey where the client receives and experiences the specified products and services from the wealth manager.

Figure 3: Three phases in today's client journey



Source: Authors' analysis

A few insights on the current client journey are worth noting:

- **For self-directed investors,** most steps of the journey are initiated and executed by the client who relies on the wealth management firm mainly for order placement that is cheap, fast and reliable. There are traditional economies of scale in the self-directed journey, wherein once a direct investing platform is built, the larger the volume, the lower the unit cost for firms. These customers are served mainly through digital channels such as mobile apps for trading stocks, funds, foreign

9 Based on Deloitte and Accenture estimates

exchange (FX) and options. However, beyond simple digital marketing, the use of clickstream data to better understand clients, remains low.

- **For advice seeking investors, a human advisor drives most steps of the journey** from *client engagement, needs identification, generation of advice, delivery of advice, trade execution to post-purchase product and portfolio monitoring.* There are few scale economies in this model, which is economically viable only for high-value clients where the value of the wealth transaction and relationship exceed the advisor's cost to engage and personalize at each step. But since repeating the cycle is people reliant, *the model does not scale beyond a limited number of clients per advisor.*
- **The advisor plays an important role in helping clients build wealth** Multiple studies have found that advisors add value to their clients. For example, the Vanguard Group's Advisor's alpha framework c.2001, and repeated in 2016, found that advisors add "about 3%" net of taxes and fees[10]. The added value is generated by focusing on relationship-oriented services such as financial planning and behavioral coaching and not from trying to beat the market with investment product selection. Similar research in Canada[11] also arrived at a similar conclusion concerning the importance of financial advice in helping clients grow their level of affluence and that "employing the services of a financial advisor could significantly boost retirement readiness" for both early and late savers.
- **The advisor's data-driven client insight is limited for most of their clients.** This is due to several reasons: the advisor's limited time and incentives, which tend to be focused on quarterly sales. Clients also tend not to disclose all data to an advisor till a trust-based relationship is built, which takes time. In the non-HNW segments, each advisor manages several hundred clients and cannot maintain granular, on-going client insight. And relationships are often in flux with double-digit advisor attrition[12].
- **While human advisors add value for clients, advisors are "error prone and inconsistent".** A recent research study by a behavioral science firm[13] found that for the same profile of clients, different advisors give quite different judgments on how much investment risk would be suitable, what allocation would be optimal (even

10 "Quantifying your value to your clients", Vanguard Advisor's Alpha, 2016

11 "Saving for the Future: Impacts of Financial Advice on the Canadian Economy", The Conference Board of Canada, 2020

12 Relationship Manager attrition in Asia is c.20-25%

13 "Under the Microscope: 'Noise' and investment advice", Oxford Risk, 2021

when they agreed on the risk level, the allocations recommended were inconsistent). As such, while advisors help clients, the advice generated tends to be inconsistent.

- **The firm's insight into clients is even less than that of the advisor.** This is so since the firm's client insight is predicated on the advisor's willingness and capacity to fully capture and maintain insights into every client they manage. At the firm level, there are also often data challenges such as data fragmentation across systems[14] that limit the firm's ability to drive data-driven insight. The firm's main role tends to be to provide the sales and distribution network — mainly the advisors and their service staff — supporting resources, materials and products to facilitate sales. But the firm's direct connected, engagement with the client tends to be limited.

Current paradigm

Taken together, these observations describe the status-quo: an analog, human-reliant and relatively commoditized model with limited data-driven insight into most clients i.e., the current paradigm lacks ongoing "connectedness" with clients or scale. For upper tiers of the client spectrum — HNW and ultra-HNW — this model works well and is economically viable. Given the scope and complexity of the wealth, insurance, tax and estate planning needed, a credentialed expert advisor remains a superior, preferred alternative for clients compared to what could be delivered via an app. However, for most clients in the mass, mass affluent and affluent segments whose jobs to be done are relatively simpler, the current model is ripe for disruption to improve access, client-centricity and better client outcomes.

CURRENT BUSINESS MODELS

There are five main business models in Asia today that operate along different stages of the client journey, targeting specific client segments and at specific price points. These are as follows:

- **Private Banks** that provide wealth management services led by a relationship manager supported by a team of specialists spanning investments, credit facilities, trust services, estate planning and insurance. This is available to clients with assets over $5m since the firm's fulfillment cost is economically viable only for the largest-AuM clients. The cost income ratio, defined as the total cost divided by total revenue, of private banks tends to be 70-80%. The largest private banks in Asia include UBS,

14 Data challenges in wealth management, Deloitte Consulting, 2016

Credit Suisse, and Citi and operate from Asia's two main offshore wealth centers, Singapore and Hong Kong.

- **Bank-owned wealth managers** that provide wealth services with a generic banker assisted by a shared pool of certified advisors, offering simple wealth products such as mutual funds and life insurance and leveraging the bank's branch network and client base. Advisors curate offerings based on inputs from clients such as a risk profile score or the client's stated preferences. Products are sourced from internal providers or through an open-architecture platform. The typical cost income ratio of an international bank-based wealth manager is 60-70% while that for a local bank is 40-50%[15].

- **Direct investing platforms** that cater to "self-directed" or "order execution only" clients who invest with no advice. This model is commoditized with offerings between 0-10 basis points ("bps") per trade. In key Asian markets such Singapore, Hong Kong, Taiwan and India investors conduct their stock and Exchange Traded Fund ("ETF") trades through this channel. Professional consumers or day traders, are their most profitable clients[16] given the higher levels of investment activity and transactional fees.

- **Roboadvisors** that have emerged in the last few years and seek to make simple, systematic investing accessible often direct-to-consumer. They have high marketing acquisition costs of $300-500 per client and an average revenue per client of ~$100, similar to the 3-to-1 ratio experienced by their European counterparts. In Asia, their market share is <0.5%[17]. This exemplifies that being new is not enough for new entrants, particularly if incumbents can easily copy what has been developed. There are several direct to consumer players such as Stashaway, Fount or Aqumon competing with incumbents' solutions often powered by B2B players such as Bambu or Quantifeed.

- **Superapps** that also offer financial products have grown rapidly in China. Ant Financial, Tencent and Grab's superapps have become dominant players in the last decade. For transactional, daily consumer services such as ride hailing and food delivery, they have proven scale and economics. In wealth management, China's superapps have achieved similar success while south east Asia's superapps — Grab and Gojek — have only recently made forays in wealth management.

15 Investor relations and public disclosures of universal banks and Asian regional and local banks

16 Interview with the CEO of Zerodha, India's largest online brokerage

17 Analysis based on 2018 data from Statista on Asia's roboadvisor AuM and Credit Suisse' global wealth report

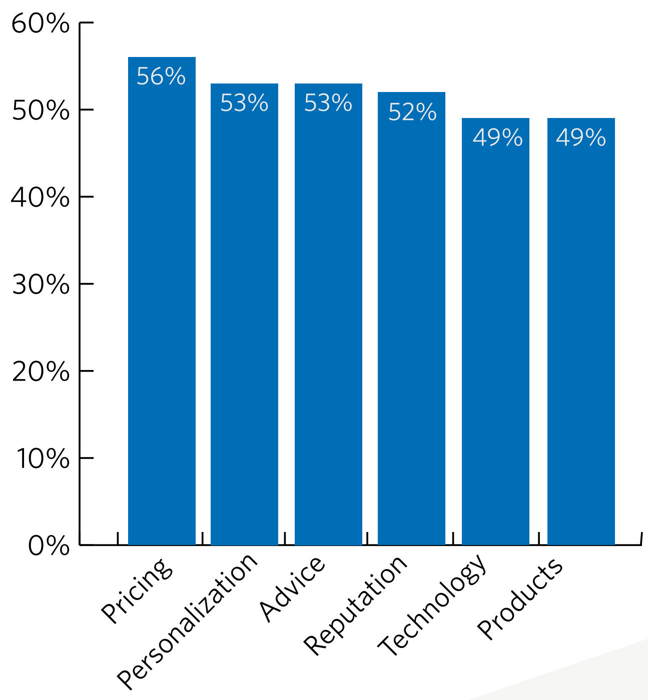
In addition, in Asia, insurance companies also meet important wealth management needs as they have tended to focus on savings and retirement offerings and wealth protection and transfer solutions. They have also started to play a growing role in fund distribution with investment-linked products (ILP).

ECONOMICS OF CURRENT MODELS — THE EFFICIENCY FRONTIER

To quantify the economics of current business models, let us consider the relationship between two variables — "willingness-to-pay" and "fulfilment cost":

Willingness-to-Pay: There are many dimensions that drive how much investors like the wealth management service they receive. Figure 4 gives us a sense of which aspects of a wealth management relationship are important to clients: *pricing, personalization, advice, the wealth manager's reputation, technology and products*. The importance of pricing suggests the relative commoditization the industry has been experiencing. And, notably, personalization and advice are key for most clients.

Figure 4: Which aspects of a wealth management relationship is important to clients



Source: E&Y, 2021

While there is no single, 'correct' answer to which measure fully captures 'willingness-to-pay', in our analysis, we use average annual revenue per user as it is a function both of the wealth assets that a client chooses to hold with a given firm and the fees on those assets the client pays. The table below provides a more comprehensive outline of the drivers that affect a client's willingness-to-pay.

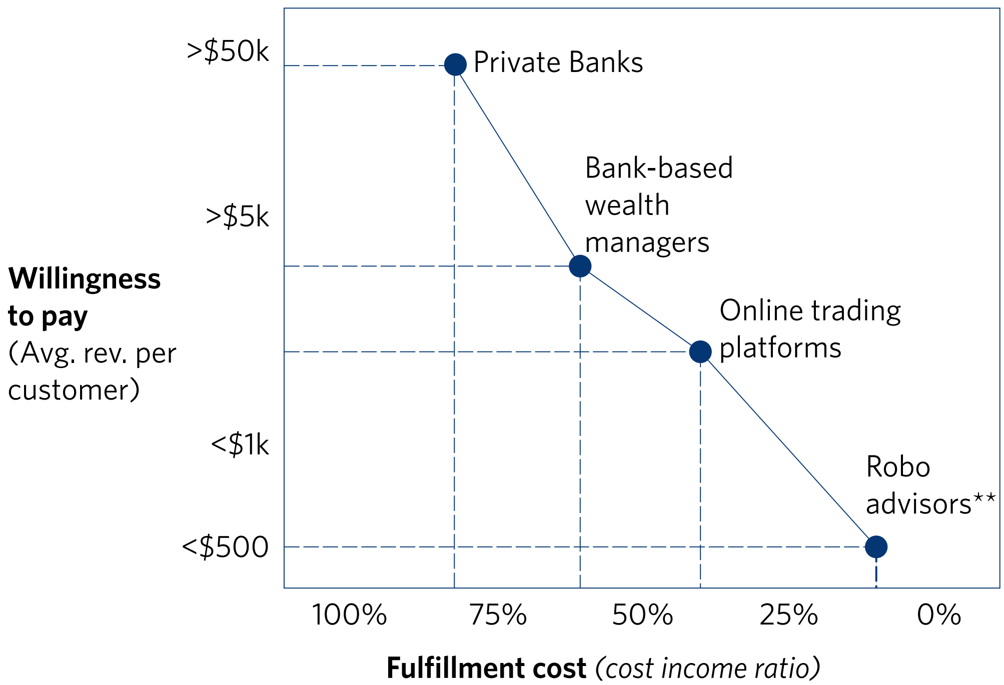
DRIVERS			**VARIABLE**
Utility	Tangible	Performance	• Absolute investment performance • Likelihood to solve financial goals and needs
		Fit	• Breadth of functionalities
			• Choice of options
			• Level of personalization (behavioral, value)
	Intangible	Performance	• Relative to peers (social)
		Fit	• Relative to personality (emotional)
Accessibility		Location	• Mono-channel to omni-channel
		Timing	• From booked in advance to on-demand
Costs		Perceived cost-per usage	• Level and type (transaction fee or asset-based fees)
		Maintenance	• Level of ongoing custody fees

Fulfilment cost: The total cost to deliver the firm's target client experience is the fulfilment cost, which is made up of the cost of *acquisition*, the cost of *engagement and advice* (advisors, investment office, product management), the cost of *execution* (transaction platforms, operations) and *functional costs* (e.g., technology, compliance, support functions). We use the total cost income ratio as a proxy for fulfilment cost for our purpose since it includes all key cost components and is normalized per dollar of revenue.

Efficiency Frontier: An efficiency frontier is the plot of a client's willingness-to-pay against a firm's fulfillment cost. Figure 5, the efficiency frontier for wealth management, depicts that the industry today faces a typical trade-off between quality of the client experience and the cost to provide the experience. Superior, personalized experiences in today's analog wealth world come at a commensurately higher cost. Wealth managers who break this trade-off will gain market share and scale.

It is important to note that since our whitepaper is an analysis at the industry level, we depict the efficiency frontier across a range of industry sub-sectors and customer segments, ranging from private banks for HNW clients through to roboadvisors for mass market clients. We also believe that capturing the full range of potentially competing offerings makes individual firms more alert to developments in and new competitors from adjacent sub-sectors in the industry. A variation of this approach would be to consider a client's willingness-to-pay for wealth management services that are in practice available to her. For example, a mass market client would also appreciate the brand and services of a private bank but may simply not have the Assets under Management ("AuM") to be able to become a private bank client. As such, the efficiency frontier could be created for a specific customer segment such as, say, only HNW individuals and players focused on that segment.

Figure 5: The current efficiency frontier for wealth managers in Asia



**A typical roboadvisor's cost income ratio is estimated on a marginal basis

Source: Authors' analysis

In the next section, we describe the concept of a Connected Strategy and make the case that it offers wealth managers a solution to break from the current efficiency frontier, enabling competitive differentiation and scale.

2. Connected Strategy

In many industries, new technologies are enabling frequent, seamless client interactions underpinned by data-driven personalization. Companies in sectors as diverse as e-commerce, education, media and insurance are building *deeper and more frequent connections with clients at scale* in ways that were previously not feasible. Instead of waiting for clients to come to them, firms can now also anticipate and address clients' needs proactively. These are outcomes of the increasing use of a Connected Strategy. For an in-depth treatment, other case examples and worksheets, we refer readers to the book *Connected Strategy* by Nicolaj Siggelkow and Christian Terwiesch (HBR Press, 2019). For more information, see also connected-strategy.com.

WHAT IS A CONNECTED STRATEGY

A firm's connected strategy is its set of strategic, operational and technological choices that fundamentally transform the client experience as well as the firm's economics. A Connected Strategy has two main elements:

- **A connected customer experience:** This relates to the firm's choice on how and how frequently it connects with its clients, at what stages in the client journey and to deliver what target experience.
- **A firm's connection architecture:** This design choice addresses what connections a firm chooses to facilitate with or between the industry ecosystem participants.

Types of connected customer experiences

There are four distinct connected customer experiences, as follows:

1. **Respond-To-Desire:** This works best when clients know exactly what they want and the firm's job to be done is to provide it quickly and reliably at the lowest price point. The firm's key capabilities are fast delivery, flexibility, and exact execution. 'Do it yourself' clients like a respond-to-desire experience.
2. **Curated Offering:** This approach works best for clients who do not know exactly what they want. A firm can delight its clients by finding them a product or service best suited to their needs, facilitating the discovery and evaluation of options. The key firm capability here is the recommendation or curation process. Clients often like to make the final decision but value a Curated Offering experience.

3. **Coach Behavior:** This is most useful for latent needs that clients are aware of but do not pursue proactively due to lack of expertise, inertia or other reasons. To deliver such an experience requires a rich information flow from the client to the firm via digital devices (e.g., mobile, wearables). Clients who do not mind sharing their data if they see a clear payback in terms of being able to achieve their goals are willing to engage in a Coach Behavior connected experience.

4. **Automatic Execution:** This should be the target experience only if a firm understands users so well that it is objectively better positioned to make purchase decisions for the user. It requires a context in which mistakes are not too consequential or can be reversed. Clients who are comfortable with a continuous data stream from themselves (or their devices) to a firm and who trust that the firm would use the data to fulfill their needs at a reasonable cost would be the most open to automatic execution.

Types of connection architectures

To design its connected strategy, in addition to defining the target client experience, a firm needs to define its connection architecture, i.e., what connections it wants to facilitate between or with other industry participants and the rationale for these connections. While all connection architectures start with information flowing from customers to firms, connection architectures differ in how the firm connects back to the customer.

There are five main archetypes of connection architectures:

1. **Connected producers:** This is the most basic of connections wherein the firm that produces the product or service connects directly with the client.

2. **Connected retailer:** Connected retailers are intermediaries that connect to clients and to a range of producers. They add value through the vetting of producers, aggregation of customer bases, curation of offerings and processing purchases and sales for clients.

3. **Connected market makers:** They facilitate connections between producers and clients. Transactions occur between buyers and sellers, within the ecosystem created by the market maker.

4. **Crowd orchestrators:** A crowd orchestrator creates new connections between customers and individuals as opposed to between customers and firms. Here, a customer is connected to a freelancer or a group of freelancers who provide the product or service previously only provided by a firm.

5. **Peer-to-peer networks:** Peer-to-peer network creators facilitate connections between large groups of individuals where an individuals' roles of 'client' and 'producer' swap frequently.

Bringing together connected customer experiences and connection architectures creates the Connected Strategy Matrix, a framework to think through and design a firm's Connected Strategy (see Figure 6).

Figure 6: Connected Strategy and its components

Connection architectures

Connected customer experiences	**Connected producers** Make and deliver the product or service directly to clients	**Connected retailers** Curate, showcase and deliver from a range of suppliers	**Connected market maker** Bring together clients and a range of suppliers	**Crowd Orchestrator** Connect individuals with other individuals who serve as producers	**P2P network creator** Connect individuals who serve as clients and producers

Respond to desire
Provide clients their desired product or service in the most convenient way possible

Curated Offering
Help customers search for, evaluate and decide on options

Coach Behavior
Proactively identify needs and help nudge clients to take action, addressing behavioral biases

Automatic execution
Automatically analyze client's needs and fulfil them on behalf of the client

What is your current connected customer experience?

What is your current connection architecture?

What are the target experiences and architectures of competing firms?

What connected customer experiences and connection architectures are proving most successful?

How should you evolve your target experiences and connection architectures?

Source: *Connected Strategy*, HBR Press, 2019

Rewards of a Connected Strategy

A Connected Strategy helps firms break the trade-off between superior client experiences and lower costs. In the past, firms could provide an outstanding client experience (i.e., a higher willingness-to-pay on the part of the client) but they could only do so at a commensurately higher fulfillment cost. However, in multiple industries, ride hailing, streaming movies, meal preparation etc., firms with a Connected Strategy *can now deliver a superior experience at a lower fulfillment cost.* They do so by *changing the way they connect with clients ("creating bigger information pipes")* and *creating new connections in the ecosystem ("creating new information pipes"),* helping push out the efficiency frontier and opening a competitive gap with other players.

Consider the example of Netflix which connects to consumers, collects precise, real-time clickstream data on client activity and platform engagement over a long period of time and uses intelligent recommender systems to deliver personalized experiences at scale for millions of clients across multiple markets. This has allowed them to drive rapid growth from less than 10 million subscribers in 2007 to over 200 million subscribers in 2021. This has also allowed them to transform their role in the industry from being a connected retailer, distributing content produced by others, to also becoming a connected producer, leveraging insights from their platform.

WHY CONNECTED STRATEGIES FOR WEALTH MANAGEMENT

There are several macro forces at work that offer wealth managers in Asia the opportunity to realize the rewards of a connected strategy.

First, the technological capabilities needed to deploy connected strategies exist and are proven: In 2011, Marc Andreesen coined the prescient phrase "software is eating the world'[18]. In the decade since, connectivity (mobile), data analytics (Artificial Intelligence), new interaction models (social networks) and increased computing power (cloud computing) have collectively disrupted entire industries such as retail, media, and transportation. Newer entrants in wealth management who are leveraging tech-enabled models are already disrupting the industry – we will elaborate on Ant Financial in this context later in the paper. Connected strategy is not just a technology transformation but fundamentally a business model innovation, given that the technologies needed for success have often been proven already in other sectors.

18 "Why Software Is Eating the World", Marc Andreesen, 2011

Second, Asia's consumer demographics and consumer expectations are changing. By 2025, younger cohorts of clients — Gen Z and Millennials[19] —will account for half of Asia's consumers[20]. Many customers in these cohorts are 'digital natives' in Asia and demand direct engagement on digital channels, greater personalization and holistic advice along their wealth journey[21]. Their experiences in other industries where firms offer customization and connectedness are shaping their expectations of how to interact with their wealth manager. Their high digital literacy, easy access to information and reliance on social channels suggests that they will behave differently in their investment decision making process. This impact will include the broadening of media forms including video and audio, as they consume information and make investment decisions.

Third, the newer cohorts present a large, profitable opportunity for the industry as these clients will be the beneficiaries of a significant inter-generational wealth transfer. They will inherit an estimated $15 trillion by 2030[22]. Moreover, over 40% of this demographic already say they are unlikely to stay loyal to their current wealth managers. This is likely to create a significant money-in-motion opportunity for new wealth managers to capitalize on and for incumbents to have to defend.

And, finally, there is a growing imbalance between the demand for and availability of wealth advisors who currently form the main delivery 'channel' for wealth services. Given lower returns in retail banking[23], Asia's wealth management profit pool has become a competitive turf for traditional players such as HSBC and Citi who have embarked on ambitious growth drives in wealth management[24] as well as newer players such as Ant Financial looking to bulk up their advisor base. Advisor attrition rates in Asia, which are already double digits[25] will likely further increase given the surge in demand for advisors. This will mean more client relationships in flux and the need for firms to build connected customer relationships as opposed to a predominant reliance on an ever-changing base of intermediary salespersons and advisors.

Given these macro forces, wealth managers need to develop new strategic business models to defend market share and achieve profitable growth. As such, our perspective

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19 Gen Z includes individuals born between 1996 and early 2000's while millennials include individuals born between 1980 and 1995

20 "What makes Asia−Pacific's Generation Z different?", McKinsey, 2020

21 "WM top trends", Cap Gemini 2021

22 "Navigating wealth transfer challenges and opportunities of succession planning in Asia", Asian Private Banker, 2019

23 "Citi to exit consumer business in 13 markets", The Business Times, 2021

24 "HSBC pumps US$3.5b into Asia wealth drive", The Standard, April 2021

25 "Asia wealth management post-covid-19: Adapting and thriving in an uncertain world", McKinsey 2021

is that a Connected Strategy is *not only nice to have but will be required for competitive advantage.* Firms now require connected technologies and business models to personalize engagement, advice, insights and experience at scale. Wealth managers who commit to this agenda are also likely to achieve such client outcomes in superior ways than a typical advisor does for most of their clients in the mass, mass affluent and affluent segments. Furthermore, firms that do so will build competitive moats that may be harder for latecomers to overcome since most wealth clients typical form their main wealth manager relationship in their mid-30's.

In the subsequent two sections we address connected strategies specifically for wealth management, starting with elaborating on Connected Customer Experiences for wealth management in the next section. ■

3. Connected Customer Experiences

Connected customer experiences are characterized by a shift from episodic, transactional interactions to a connected customer relationship. Episodic interactions in wealth management in the current model *for most customers* are human-led, infrequent, data-light and generic while a connected relationship is digital-first, more frequent, data-rich, and personalized.

In the wealth management context this is the precise shift that clients say would drive their willingness-to-pay. According to a recent report[26], 50% of clients surveyed expect that in the future basic elements of a wealth proposition will be provided at zero cost but nearly half (49%) are ready to pay more for personalized products and services. Also, 73% of those surveyed in Asia would pay more for experience related factors such as more engagement, content and digital services. These data suggest that wealth managers who differentiate on customer experience will benefit disproportionately from clients' increased willingness-to-pay.

We describe below the relevance and application of each Connected Customer Experience archetype for wealth management. We also outline what capabilities are needed for wealth managers to develop each type of customer experience and discuss case examples to illustrate the current state of industry best practices.

RESPOND-TO-DESIRE

Archetype and total addressable market ("TAM"): In a 'respond-to-desire' experience, a wealth manager provides clients with wealth products and services that the clients explicitly request on a transactional basis. Direct investing platforms deliver such an experience. Clients want the firm to execute the specified transaction quickly, reliably and cheaply — *a clearly defined outcome and one whose quality can be perceived by the customer instantly* ("Did my trade go through fast, at the price I was quoted and did I receive the investment product on time post-settlement?"). An example of such a customer request would be when a client wants to purchase a specified number of units of a stock, say Apple (AAPL), for a specified trading commission.

The onus for recognizing the need to invest, searching for investment options, deciding on an option and placing the order are all on the client (see Figure 7). This experience resonates with self-directed investors who make their own investing decisions and place

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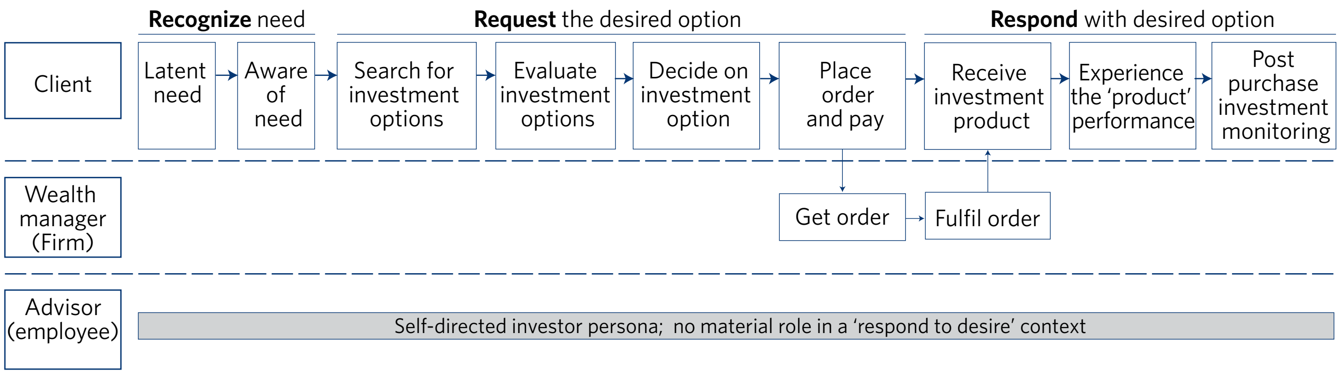
their own trades. Importantly, the desired outcome is clearly defined and one whose quality can be perceived by the customer quickly. However, this also makes the experience easier to replicate, creating a challenge for creating a sustainable competitive advantage. A few large players can succeed due to scale benefits. The addressable market in Asia is large (~55% of wealth management consumers in Asia) and growing with the increasing range of DIY digital wealth tools available to consumers.

Figure 7: The Respond-to-Desire connected customer experience



Source: Authors' analysis

Wealth manager capabilities: The key capabilities here relate to the platform's technology enablers and the cost of execution, speed of execution and reliability of execution for the client.

Our belief is that wealth managers delivering a "respond-to-desire" connected experience need to balance the push for frictionless, seamless experiences with the notion of "UI-NX" (designing User Interfaces for Non-eXperienced users). In a consumer product context — think books, movies, food delivery or other such services — the elimination of friction in the purchase process is almost always beneficial for consumers. But a "respond-to-desire" investing context is similar to self-medication, wherein it may be prudent to *introduce friction by design in particular steps* to limit imprudent investing choices by inexperienced users. Of course, many steps in the journey such as trade execution would benefit from the frictionless goal of respond-to-desire strategies.

In Asia, free stock trading apps are relatively new. However, the experience from North America with players such as Robinhood is instructive for counterparts in Asia. While Robinhood makes the most visible part of the DIY investor's experience — the price per trade — zero, they have likely not benefited most of their users overall. A recent study[27] found that "large increases in Robinhood users are often accompanied by large price spikes and are followed by reliably negative returns", reinforcing prior research that day traders under-perform benchmarks and/or lose money net of their transaction costs. In addition, Robinhood has also started to dial back some of its features that gamify investing for DIY traders such as celebratory digital confetti[28]. All this has been against the backdrop of a historic run-up in the US equity markets. If market conditions become more challenging and a large proportion of new investors build self-directed, higher risk positions, this may have an adverse impact on their financial circumstances and their willingness to participate in equity markets over time.

Furthermore, a business model geared mainly towards self-directed trading or financial speculation is likely to run into the challenges of its "addictive and harmful" aspects[29] for consumers as well as the earnings volatility associated with a revenue stream reliant on a high level of transactional activity that, in turn, relies on the continued upward movement of markets. For example, in the case of Robinhood, its customers did an average of 30 trades each or over 120 on an annualized basis, roughly twice the rate at Charles Schwab[30].

Criteria to test the efficacy and connectedness of a firm's 'respond-to-desire' experience

- ☐ Is the execution frictionless? (e.g., lowest time to place a trade, # of clicks to trade, # of fields to fill)
- ☐ Is the execution the lowest cost? (e.g., cost per trade, cost vs. other players, % human involvement)
- ☐ Is the journey tuned to the sophistication of the user or 'one size fits all'? (e.g., UI-NX considerations)
- ☐ Is the journey constantly enhanced by learning from the user's behaviors? (e.g., continued optimization of the number of steps and sequence in the journey based on the usage analytics)
- ☐ Is there a connected data feed on the users' preferences and behaviors to build a data moat?

27 "Attention-Induced Trading and Returns: Evidence from Robinhood Users", Brad Barber et. al., Oct 2020

28 "Robinhood is removing its confetti celebrations ahead of its IPO", The Verge, 2021

29 "The conceptual and empirical relationship between gambling, investing, and speculation", Jennifer Arthur, et. al., 2016

30 "What is Robinhood?", Marc Rubenstein, 2021

Impact on efficiency frontier

- *Raises willingness-to-pay:* In a respond-to-desire context, the journey is controlled almost fully by the client and they typically want the fastest, cheapest, most reliable way to meet their explicit need. In addition, by facilitating access to a broader ecosystem of related interests for the investor, the range of 'requests' can also be more broadly surfaced and met. For example, a client may start out 'requesting' stock trades from the platform but progressively expand to other product categories such as funds, bonds, FX, which would broaden the range of requests that a firm can 'respond' to.
- *Reduces fulfilment cost:* By attracting more clients, the unit cost per trade is reduced. This is the traditional scale economies effect. The 'respond-to-desire' experience is relatively commoditized and is trending towards zero commissions in Asia.

Case example

As an example, consider Zerodha, India's largest DIY investments platform with over five million clients, which has built a connected ecosystem of services around its respond-to-desire experience. Unlike traditional brokerages, Zerodha delivers its 'respond-to-desire' experience with several new aspects (see Figure 8). First, they offer a broad range of 'respond' wealth services: stocks, mutual funds, futures and options trading. Second, they forged a series of new connections with clients and 'suppliers' (e.g., with its community of learners and investment experts from other wealth managers). Third, they pioneered new connections with external software developers allowing a rapid expansion of relevant capabilities to its client experience, going beyond the traditional industry partnerships such as with asset or risk managers. Finally, while they started out with a respond-to-desire experience, they have since expanded to include a Curated Offering experience as well.

CURATED OFFERING

Archetype and addressable market: In a curated offering connected customer experience, wealth managers start helping clients at an earlier stage of their investing journey: *after the client has become aware of a need but before she has decided how to fill that need* (see Figure 9). In Asia, this is a large addressable market with 40-65% of consumers seeking high quality advice or curation. Moreover, most clients (71% of those surveyed) are willing to share more personal data with their wealth manager in exchange for greater personalization[31].

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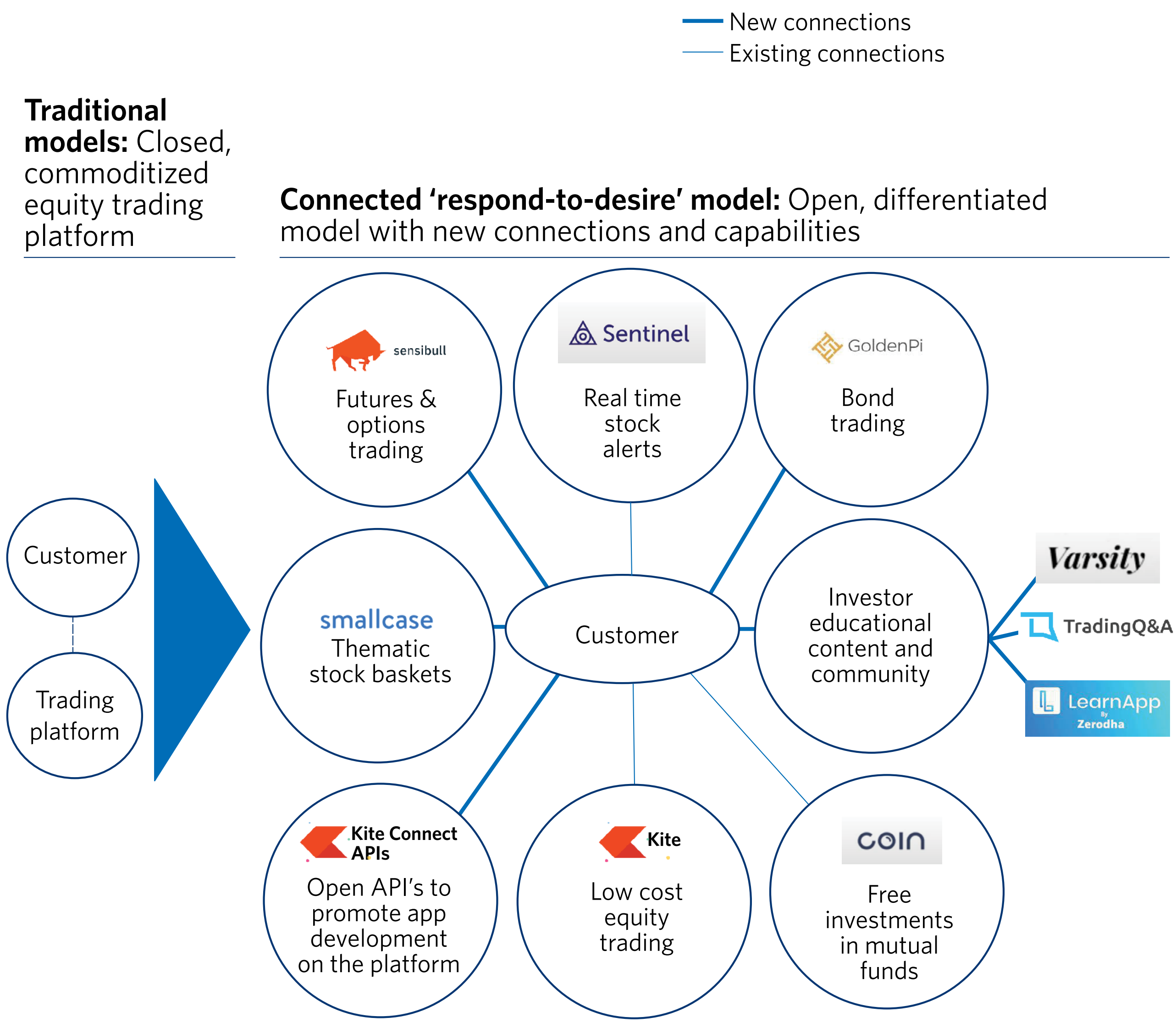
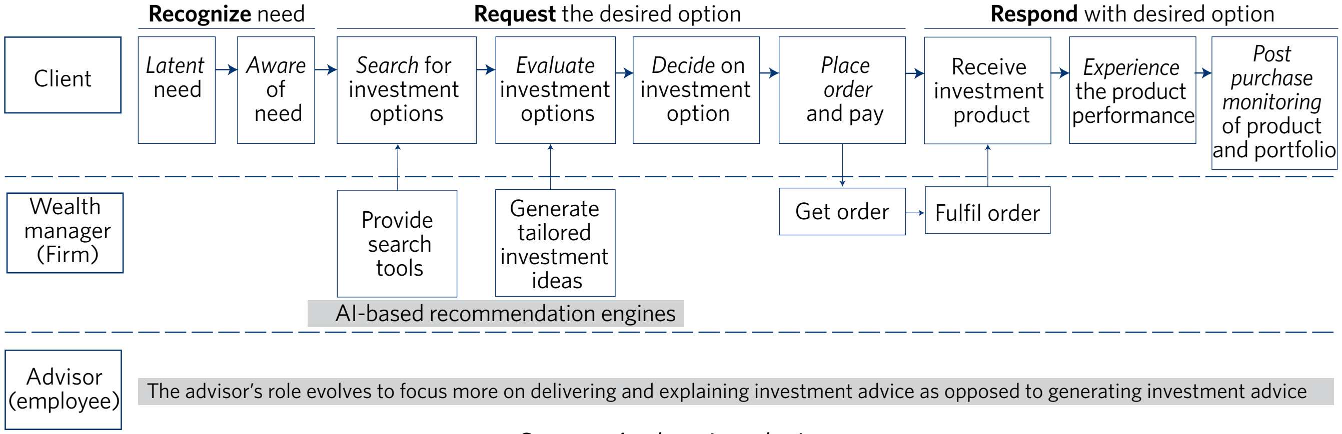
Figure 8: Zerodha's "Respond-to-Desire" connected customer experience



Source: Authors' analysis

Figure 9: Curated Offering connected customer experience



Source: Authors' analysis

Wealth manager capabilities: The key capability here is a *data-driven, connected and scalable recommender system* that can personalize and curate relevant investment ideas instead of relying on individual advisors to do so client by client. Amazon's "Recommended for you", Netflix's "Suggestions for you" or Spotify's "Discover weekly" are examples of data from connected experiences being used to achieve distinctive curation for clients. The use of Artificial Intelligence (AI) based recommender systems in wealth management is nascent but leading wealth managers are increasingly investing to test, learn and scale such capabilities.

Criteria to test the efficacy and connectedness of a firm's curated offering experience

- ☐ Does the firm have the digital wealth capabilities to facilitate creation of a large, relevant data set? (i.e., can a client perform many of their "jobs to be done" digitally — account opening, risk profile creation, accessing research, viewing portfolio and trade information, placing trades, interacting with advisors — allowing a richer data set to be tracked and built)
- ☐ Does the curation rely on a frequent, ongoing data feed from the clients?
- ☐ Are investment ideas curated client-by-client or automated at scale?
- ☐ Does the curation process use personas and cohort-based curation (e.g., "Investors like you...")?
- ☐ Is the curation personalized to each client based on their stated and revealed preferences?

- ☐ Do clients see the recommendations as relevant and timely?
- ☐ Does the curation process learn from and improve with each subsequent decision made by the client?
- ☐ Is there a connected data feed on user preferences and implied behaviors?
- ☐ Is clickstream analytics employed to enrich the client's profile on an ongoing basis?

Impact on efficiency frontier

- *Raises willingness-to-pay:* The targeted driver is utility, in particular the tangible aspects of performance and fit. Personalization and advice are among the highest-rated drivers of willingness-to-pay. Firms that deliver a connected curated experience would therefore raise willingness-to-pay.
- *Lowers fulfilment cost:* A connected recommendation engine has low marginal fulfilment cost and significantly lowers fulfillment costs over time. It is in effect limitless in the number of requests it can concurrently address and answer and is scalable with the supporting technological infrastructure.

Case examples

There are a small but growing number of wealth managers in Asia and globally who have started to offer connected curation experiences (see Figure 10). This is still in an early stage of development in the industry.

- **DBS' Intelligent Banking is a nascent example in Asia:** DBS has undertaken a methodical approach to building a cohesive, connected client experience, enabling a range of digital capabilities on mobile via their iWealth mobile App[32]. They use their connectivity with clients to automatically curate a range of FX and stock investment ideas via iWealth and "Smart Triggers" for equity and FX investments. By analyzing customers' portfolio holdings and prior investment activities, the iWealth app alerts customers to curated equity and FX ideas generated by its investment experts. This creates an information loop leveraging their digital app and the customer in a repeatable manner for millions of clients in a way not feasible without a connected customer experience.
- **Globally, Morgan Stanley's Next Best Action is an example of connected curation:** As one of the largest incumbent wealth managers with its ~16,000 financial advisors,

32 DBS iWealth was named the #1 wealth mobile app, Cutter Research, 2020

Morgan Stanley rolled out their AI-based recommendation engine Next Best Action in 2018. The platform drives personalized client engagement with clients and AI-based recommendations for financial advisors to discuss with clients.

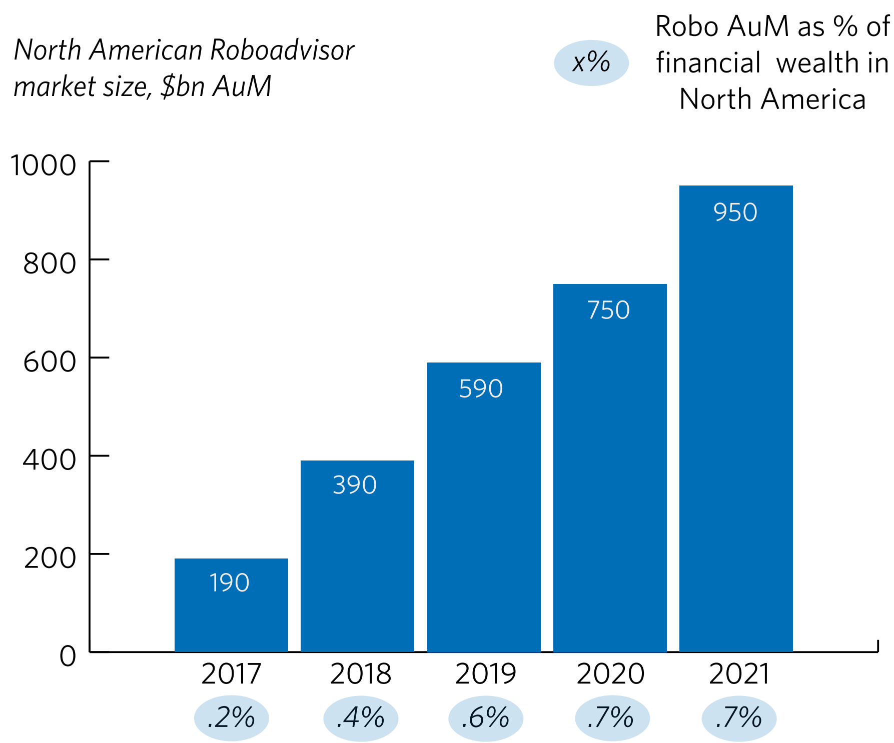
Figure 10: Leading wealth managers are investing in Connected Curation engines

	蚂蚁金服 ANT FINANCIAL	DBS BANK	Morgan Stanley	UBS
Recommendation engine / app	**"Ant Fortune"**	**"DBS' Intelligent Banking"**	**"Next Best Action"**	**"UBS Advice"**
Description	Computational tools available to users of Ant Fortune, the wealth platform of Ant Financial, as the number of individual investors in non-money market funds grew due to AI	Leverages predictive analytics, customer-centric design to transform data into personalized, intuitive – and unintrusive – insights that simplify the way customers manage their wealth	Next Best Action (NBA), is a platform for personalized client engagement and an AI-based recommendation engine for investment ideas that advisors can present to their clients	It analyzes and provides insights on investments, even those outside UBS. It blends UBS' investment philosophy and views with Intelligent technology—customized to preferences
Selected results	❑ 80 fund firms with virtual stores; ~5,000 funds for 600 million end users ❑ Outcome: #1 in sales of non money market mutual funds in Q 2021 (~$140bn) ❑ Outcome: 70 percent growth in number of users	❑ 'Advice': 13 million insights generated per month ❑ Adoption: 30 million insights delivered to clients ❑ Outcome: 3X increase in investment transactions ❑ Outcome: Revenues from these capabilities have more than doubled	❑ Adoption: System used 11 million times in first two months of pandemic ❑ Efficiency: From 45 minutes to generate a personalized investment idea for clients to instant ❑ Outcome: 5-6X increase in outbound calls per day	❑ Not disclosed

Source: Authors' analysis

- **Roboadvisors provide a basic curated offering experience:** Based on responses to a set of questions, a portfolio of funds or ETFs is curated. The core offering is built on well-known portfolio management theories with low entry barriers. Adoption remains low globally and in Asia. While market size estimates vary, North America is acknowledged to be the largest roboadvisor market, accounting for 75-80% of the global roboadvisor-managed AuM. Figure 11 shows that while the roboadvised AuM have increased, their share of the overall wealth market remain less than 1 per cent.

Figure 11: Roboadvisor AuM in North America has grown but their share remains small



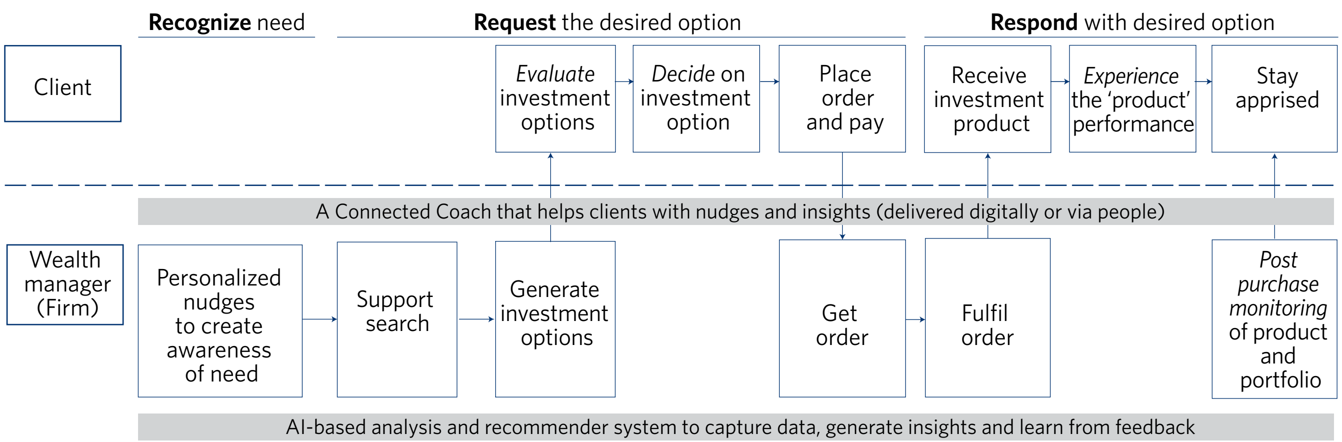
Source: Authors' analysis

COACH BEHAVIOR

Archetype and addressable market: While the previous two strategies *require clients to identify their needs, a Connected Coach Behavior strategy proactively reminds clients of their needs, nudges them to take steps to achieve their wealth goals and shepherds them through the curation and decision-making* (see Figure 12). This is particularly impactful in wealth management given client inertia to act — because the client may lack the expertise, time or both. A coach behavior connected experience can help address the knowledge and intention-action gaps experienced by many retail investors.

Wealth manager capabilities: As described earlier, traditionally, a human advisor plays the role of a coach for clients but there tends to be inconsistency in the advice and coaching provided to clients due to varying levels of the advisor's experience, expertise, diligence, and biases[33]. The advice provided to a HNW client served by a senior advisor who has been with the client for many years is more personalized, timely and trusted versus the advice that a new, mass affluent client gets from an advisor with less tenure and higher attrition[34].

Figure 12: Connected Coach Behavior customer experience



Source: Authors' analysis

Therefore, the quality of coaching and frequency of engagement for most clients is currently low. Moreover, analog advisors provide episodic advice due to lack of '24 x 7' connectivity with the client. A connected coaching capability overcomes these issues by connecting directly to the end client; this also ensures consistency of coaching based on best practice heuristics and algorithms. Coaching practices can be institutionalized and controlled to ensure high quality coaching for all clients, regardless of their AuM. Digital coaching could be critical to make a material difference to key wealth needs such as retirement planning[35].

33 "Under the Microscope: 'Noise' and investment advice", Oxford Risk, 2021

34 Asia: Inconsistency in Advisory Financial Experiences but Demand for Advisors Rising, Asia Advisors Network, 2016

35 "How digital tools and behavioral economics will save retirement", by Shlomo Benartzi, Dec 2017

A Coach Behavior model also presents an opportunity to build and apply behavioral science capabilities. There are many steps along the wealth client digital journey where cognitive errors or emotional biases lead investors to sub-optimal decisions or, what could be worse, to no decision at all. In the traditional model, it has been the advisor's role to engage the client and address these biases, shepherding the investor along the journey. As wealth managers develop hybrid and fully digitized solutions, they will have to go beyond simply digitizing their existing process and create digital equivalents to the key coaching function. Behavioral sciences go beyond the utilitarian analysis of wealth management and integrate emotional and expressive benefits. They now provide many key learnings and tools that could inform and be incorporated in each step of the design and development of digital wealth management solutions and journeys. We believe that successful wealth platforms will start systematically applying behavioral sciences in real world investing contexts.

Criteria to test the efficacy and connectedness of a firm's coach behavior experience

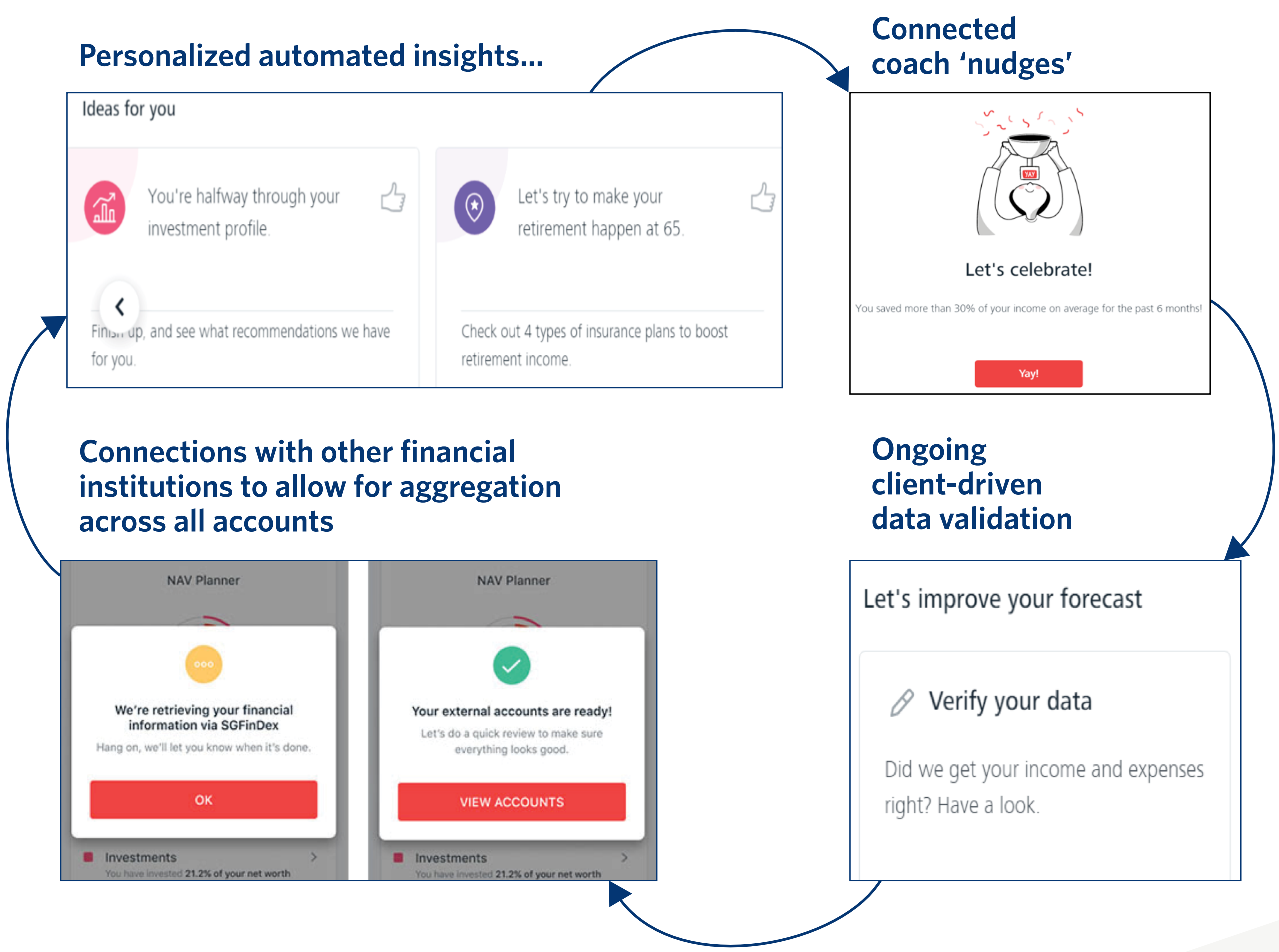
- ☐ Do the coaching recommendations and nudges depend on frequent, ongoing data from clients?
- ☐ Are the recommendations and nudges generated manually or are they automated?
- ☐ Does the engagement level of the "connected" client increase versus control groups?
- ☐ Do clients act upon recommendations and nudges more often than do control groups?
- ☐ Is the client's level of satisfaction with their investments higher than that for control groups?
- ☐ Do cohort curves demonstrate increasing engagement for the connected clients?
- ☐ Do the coaching nudges learn from and improve with each subsequent decision made by the client?
- ☐ Is there a connected data feed on user preferences and behaviors to build a data moat for coaching?

Impact on efficiency frontier

- *Raises willingness-to-pay:* Coaching is a key driver of willingness-to-pay for clients and a role that advisors play today. Firms that serve as a connected coach would therefore raise willingness-to-pay since the firm helps clients make more timely, informed and precise investment decisions. A 2016 study found that on average people provided with financial coaching reported an increased sense of confidence in their finances and reduced feelings of financial stress[36].

- *Lowers fulfilment cost:* A digitally delivered coach behavior experience would dramatically reduce fulfilment costs by reducing the need for clients to call advisors or vice versa for basic behavioral follow throughs (e.g., regular portfolio reviews, coaching not to sell immediately following market declines)

Figure 13: DBS Nav Planner delivers a Coach Behavior connected customer experience



Source: DBS Nav Planner; Authors' analysis

36 "Financial Coaching: A Strategy to Improve Financial Well-Being, Consumer Financial Protection Bureau, 2016

Case examples

- There are few Asian wealth managers who currently offer a Connected Coach Behavior experience. DBS is one of the leading incumbents that started to develop such an experience since 2018 with its proprietary NAV Planner digital wealth capability, targeting emerging affluent clients (see Figure 13). It gathers data from clients, uses algorithms and heuristics to generate tailored insights to coach clients on their wealth needs. With data captured on the client's financial position, investments, insurance and banking deposits and other variables, Nav Planner generates bite-sized "nudges" to help consumers along in their financial journey. It is powered by more than 100 AI models and serves as a connected coach for over two million clients[37] in Singapore and has converted over 30k clients to net savers[38].

Our perspective is that the Curated Offering and the Connected Coach experiences offer wealth managers significant opportunities to create competitive advantage, lower their costs and build for a large total addressable market in Asia.

AUTOMATED EXECUTION

Archetype and total addressable market: In an automated execution connected experience, clients allow their wealth managers to anticipate and meet the client's needs automatically (see Figure 14). Consider the following scenario. A HNW client with excess cash empowers her wealth manager to make investments up to a specified threshold and in specific asset classes and the wealth manager automatically places trades when there is excess cash in the client's account in line with guidance from the Chief Investment Officer's investment views and the client's preferences.

This saves the client time, grows their wealth more effectively, lowers the fulfilment cost with automation and ensures healthier client portfolios for clients. Therefore, automated models can be beneficial for clients and firms. However, the addressable market is currently small, with only 5-10% of Asian consumers willing to cede control on investment decisions.

Firm capabilities: The essential elements for such an experience would be: *a trust-based relationship with the client, continuous connectivity to a client's financial information and the ability to use it to anticipate what the client needs and wants.* Clients most open to automatic execution would be comfortable having their financial and other data stream from

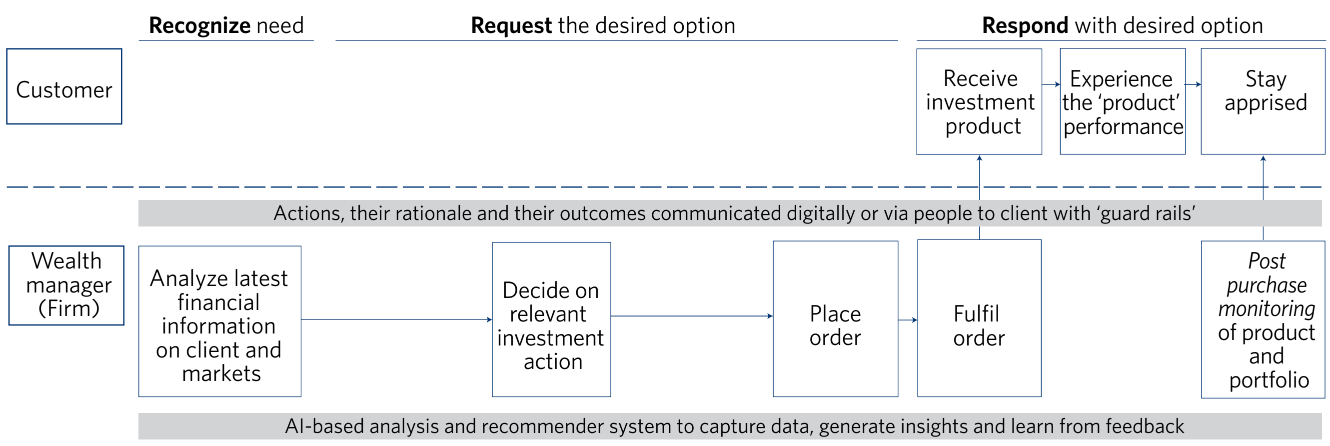
37 "What can a one-year-old do? More than you think", Straits Times, 2021

38 "DBS doubles down on intelligent banking amid still surging digital adoption", DBS Press, Sep 2020

devices to wealth managers and have faith that those wealth managers will use their data to fulfill their needs at a reasonable price and without compromising privacy.

There are few, limited contexts where such "auto" execution operates today in the analog wealth world. Discretionary portfolios, auto deductions in 401(k) retirement plans, automated rebalancing and tax harvesting features in US roboadvisors are some examples. Though in each of these cases, the scope of 'automated execution' is limited in that the client sets precise guard rails within which the automation operates. And in the case of discretionary portfolios, these are managed by professional portfolio managers and so are not "connected" experiences. We see this as an opportunity for fiduciary players such as traditional asset management companies to explore new business models. A variation of the traditional Regular Saving Plans with variable amounts may also be another place to start testing such an approach.

Figure 14: Automated Execution client experience



Source: Authors' analysis

Criteria to test the "connectedness" of your automated customer experience

- ☐ How do you score on digital trust from your clients?
- ☐ How much of your activity is conducted through digital discretionary mandates?
- ☐ What per cent of automated decisions (trades) ex post delight clients? (e.g., high transactional NPS[39])

39 Net Promoter Score

- ☐ Are you able to anticipate investment needs of your clients, before your clients are aware that these needs have arisen?
- ☐ What per cent of decisions or trades ex post are deemed errors from a client perspective?
- ☐ What is the library of investing 'jobs to be done' that can be progressively automated?

Impact on efficiency frontier

- *Impact on willingness-to-pay unclear* since clients in Asia prefer having agency over their investment decisions. In fact, depending on how many "wrong" decisions are made, this could lower willingness-to-pay. One would expect clients to start with a limited portion of assets until they build trust. Providers would also need a revised regulatory framework to be put in place with clear criteria to check the prudence of their decision-making models.
- *Lowers fulfilment cost:* An automated experience would lower fulfilment cost by minimizing human involvement in many parts of the value chain.

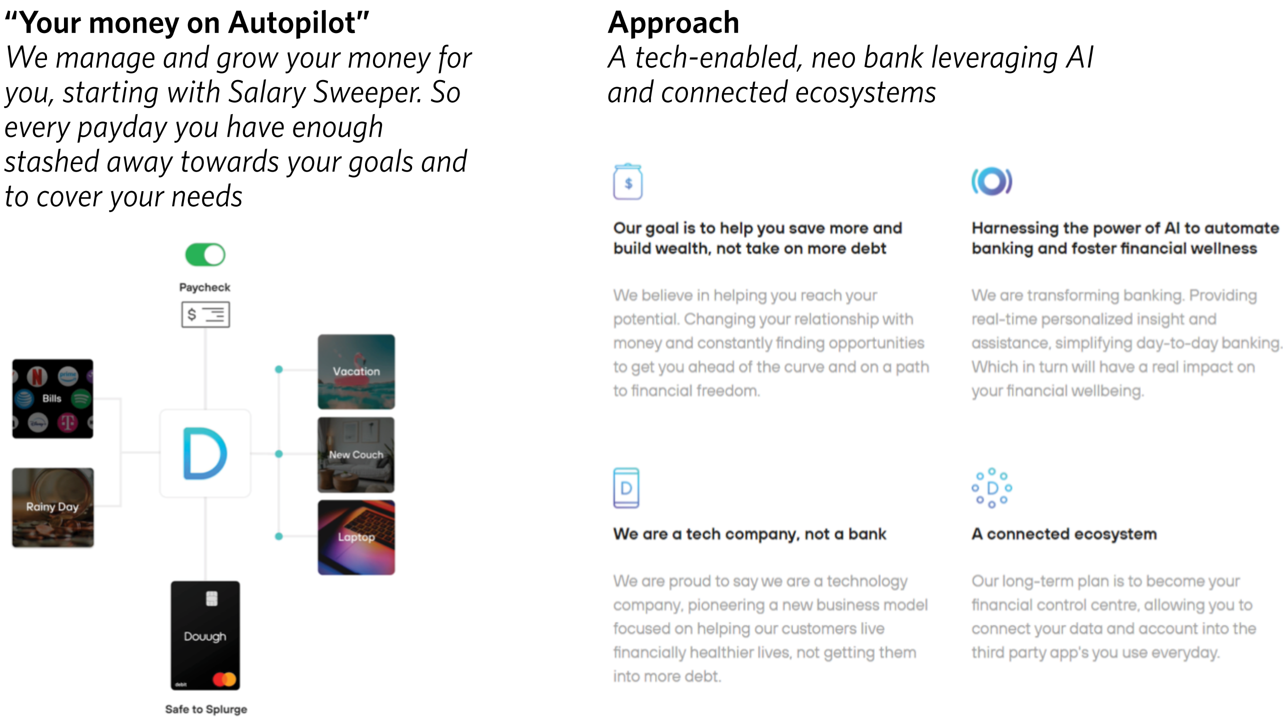
Case examples

In Asia, there are no material examples of "automated execution" experiences in wealth management that we are aware of. However, globally, there are at least two firms building these out in wealth management.

- **Australian neobank Douugh** is attempting to build an automatic execution experience. According to its CEO: "We are building full automation in money management, so when you pay your salary into Douugh, we will automate your money management practices — paying your bills, making sure you can cover them, putting money towards your savings goals and investing money, and holding you accountable through a budget so you're living within your means" (see Figure 15).
- **US-based Acorns** offers an app to democratize saving and investing *automatically*[40]. Their success is evidenced by their subscription service in financial services, which has 4 million subscribers. Their Net Promoter Score is in the 93rd percentile and their retention rate is close to 99%, illustrating the efficacy of such experiences for many clients (see Figure 16).

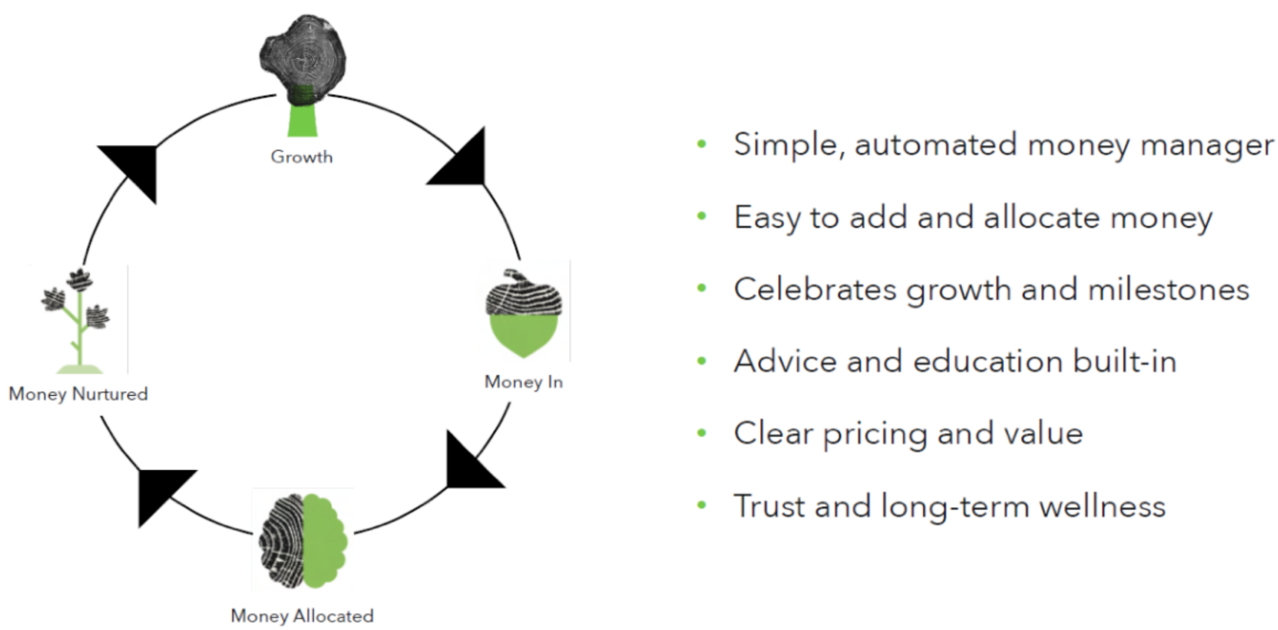
40 "Acorns in a Nutshell", Acorns, May 2021

Figure 15: Douugh seeks to automate saving and investing



Source: https://douugh.com/

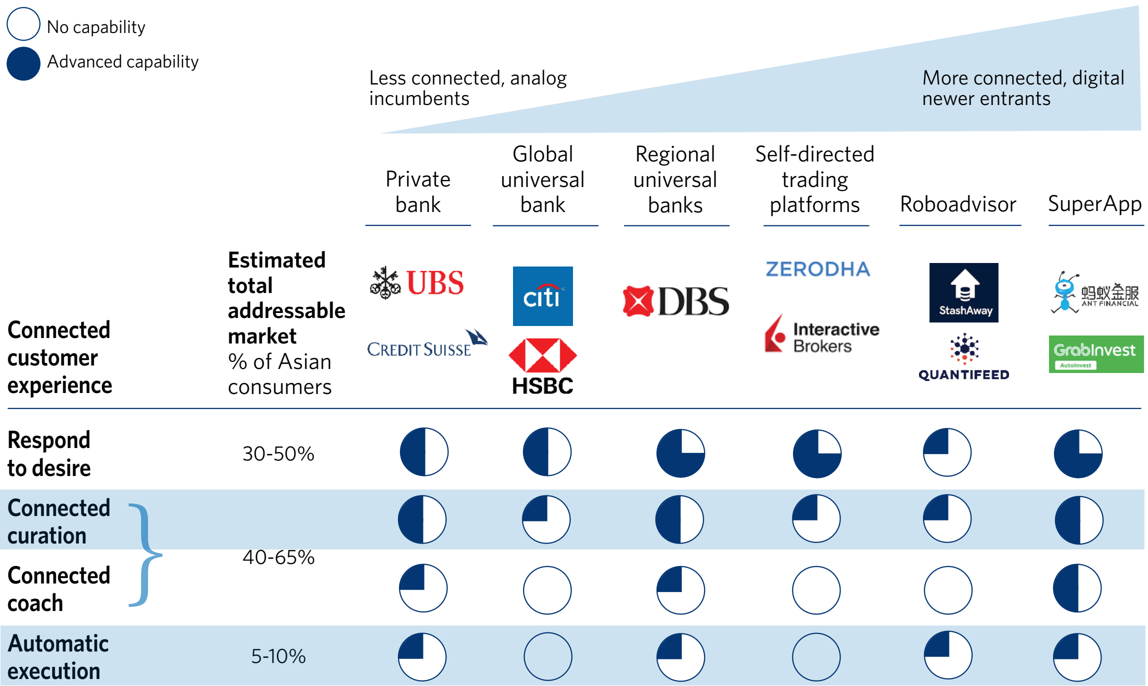
Figure 16: Acorns offers an automated execution connected experience



Source: https://www.acorns.com/investor-relations/

Figure 17 provides an overview of connected customer experiences offered by wealth managers in Asia. This shows that many leading players are experimenting with connected experiences and are progressively building out relevant capabilities to strengthen these experiences. We expect higher investment levels and capability build outs in the "connected curation" and "coach behavior" segments given their large addressable markets and nascent stage of development.

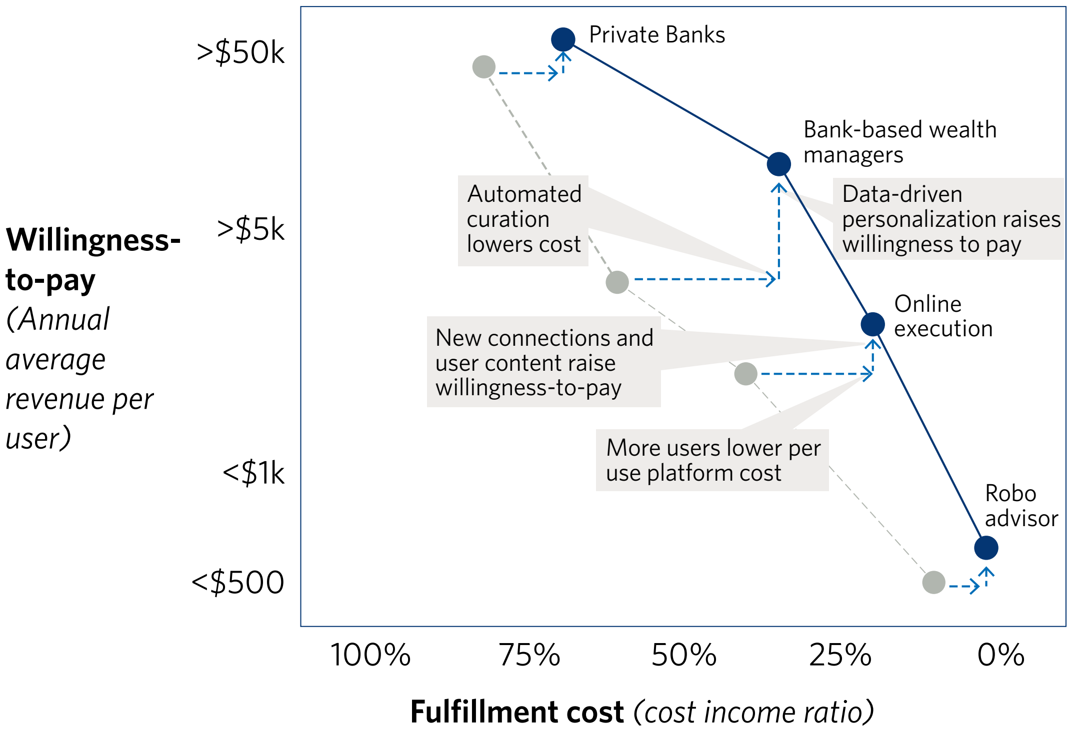
Figure 17: Connected Customer Experiences offered by wealth managers in Asia



Source: Authors' analysis

The impact this could have on the efficiency frontier is visualized in Figure 18. Overall, the entire frontier is pushed out toward the top-right, as connected experiences raise willingness-to-pay, while simultaneously lower fulfillment costs. Our perspective is that these effects are most pronounced for mass affluent and affluent-focused wealth managers and online execution platforms. They are less impactful for private banks since the advisors already focus on fewer clients enabling stronger relationships with frequent engagement. At the other end of the spectrum, the "delegators" who use a roboadvisor want less agency in their investments so extensive "connectedness" with them is likely not desirable and would not raise willingness-to-pay.

Figure 18: Potential impact of Connected Customer Experiences on the efficiency frontier



Source: Authors' analysis

REDESIGNING INFORMATION FLOWS

At their core, connected customer experiences require firms to *strengthen current information flows, create new information flows and use data exchange "repeat" loops* to form connected relationships over time.

Current information flows in wealth management

Wealth managers today rely on a human advisor to string together siloed transactions from a relationship and a data perspective (i.e., addressing the client's question of "As a client, is the recommendation and suggested course of action personalized to me based on prior transactions, my preferences and my behaviors?"). In order to personalize engagement and advice for a client, an advisor needs to have a relatively complete understanding of a client's financial situation, knowledge and experience, risk and behavioral traits, preferences and attitudes. Without this information, the advice for a client tends to be irrelevant at best and potentially counter-productive. Figure 19 outlines the type of data generally collected, who collects it, and how this data is used by the wealth manager.

Figure 19: Illustration of the current, analog information flow[41]

Client jobs to be done	"Open an account"	"Create a financial plan—needs, goals & context"	"Get investment ideas and place a trade"	Implication
Engagement frequency	Once at the onset of a wealth relationship	5-10 times in a wealth relationship	Once in six months	Infrequent interactions
Channel	• Advisor	• Advisor	• Advisor	Advisor-reliant
Firm learning about client (Data collected)	• Client identity • Demographics • Declared assets	• Risk profile score • Basic financial plan (manual, ad hoc inputs)	• Risk profile score • Order details • Payment info	Ad hoc, transactional data collection
Firm's application of data (Data usage)	• Compliance (KYC) • Account set up	• Advisor uses ad hoc judgment to tie goals to (current) products	• Risk checks for pre trade compliance • Trade execution	Compliance focus on data usage

Source: Authors' analysis

However, clients are generally unwilling to give up their information to an advisor right away since they tend not to see any obvious benefit at the outset to do so as they don't yet have a trust-based relationship. This concern on disclosing most of their information is due to privacy concerns as well. Studies reveal that clients interact with greater honesty and confidence on connected platforms *in private than with an advisor*[42]. This creates a connectivity 'priming' problem wherein wealth managers resort to generic marketing and clients then see little differentiation between players. As a consequence, for most clients, the "relationship" devolves to episodic transactions with little institutional insight progressively built up about the client.

New information flows in connected wealth customer experiences

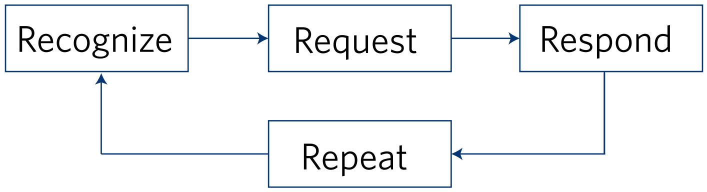
Now consider how a connected strategy creates a new relationship with clients, automatically weaving together multiple experiences as opposed to separate, fragmented transactions. The "repeat" dimension allows wealth managers to progressively collect

41 Current flows mapped based on client and manager interviews and mystery shopping with wealth managers in Asia

42 Asian customer research, Synpulse, 2016

data on the client and the broader investor population and increase personalization over time. This loop transforms stand-alone experiences into connected customer relationships and strengthens the "recognize", "request" and "respond" phases of a client journey[43] (Figure 20).

Figure 20: Phases in the client journey and the 'Repeat' loop



Source: *Connected Strategy*, HBR Press, 2019

A connected journey and its information flows is illustrated in Figure 21. At each step of the journey, direct connectivity with the client provides the firm with a rich data set that is used for enriching the overall client profile and for real time personalization. This makes current and future interactions more valuable for clients, increasing the likelihood they will provide more relevant, accurate and actionable data, kicking off a virtuous information cycle. The ongoing clickstream of data and its usage is the foundation for increasing the client's willingness-to-pay via personalized advice while the use of digital, connected platforms ensures scale wherein providing such an experience to more clients is not reliant on adding additional advisor capacity.

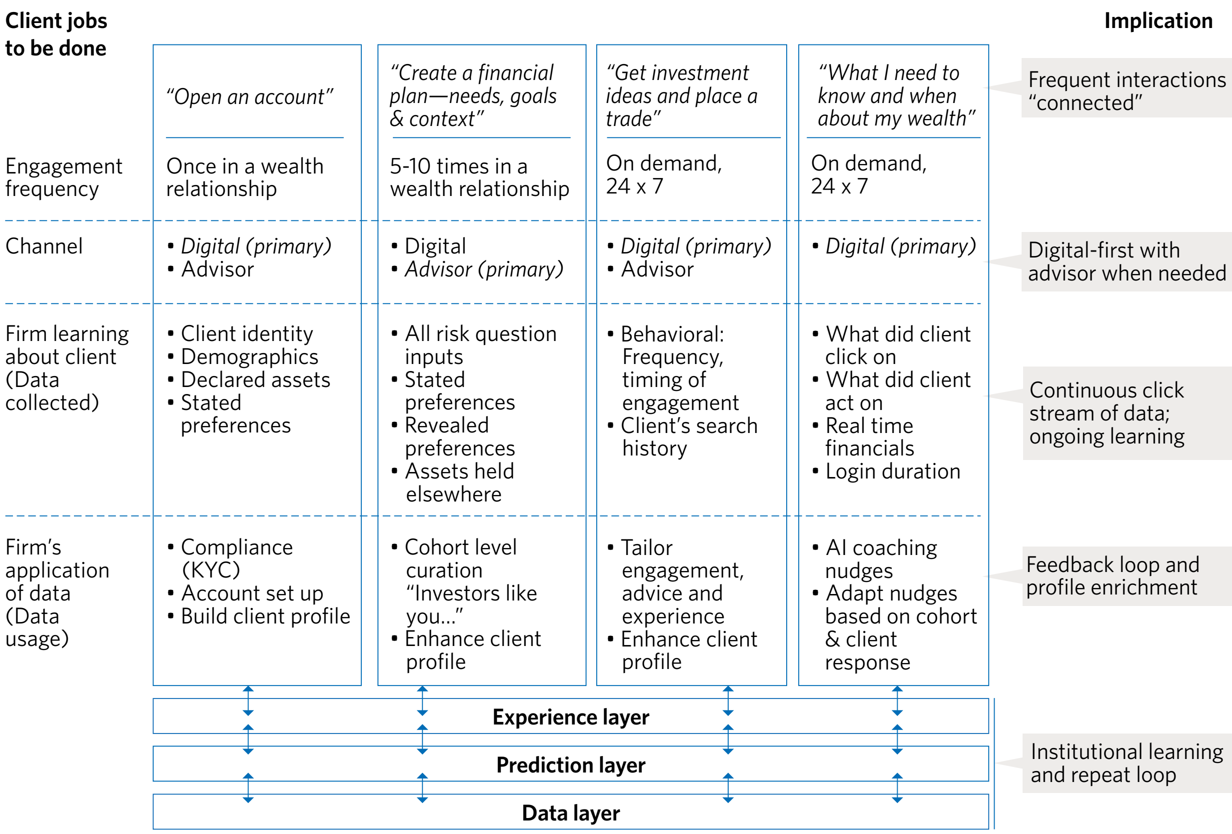
This virtuous information cycle allows for *client specific learning and population- or cohort-level learning* (e.g., "People like you invest in")[44]. It also provides insight into what new products and services the wealth manager could offer to better meet the needs of clients.

In addition, the type of connected client experiences a wealth manager wants to build dictates the required information flows between a wealth manager and client. As we move through the four connected experience archetypes, the intensity of information flows increases. There are four dimensions for practitioners to consider:

43 We refer readers to Nir Eyal's book 'Hooked' for a framework to build such engagement loops

44 Spotify's personalization approach is instructive in this context. We refer readers to the podcast "Spotify: A product story."

Figure 21: An illustration of a connected client relationship information flow



Source: Authors' analysis

1. Trigger: Does the customer need to trigger the information flow?
2. Frequency: Is it continuous or episodic? If episodic, what is the frequency?
3. Richness or bandwidth of the information flow
4. Effort: How much effort does the customer need to exert?

Figure 22 summarizes key requirements for information flows for each archetype.

As the firm learns more about the client's investing behaviors and preferences, it can progressively broaden the set of needs and services that the customer trusts it with. For instance, a natural financial services adjacency is insurance given its impact of a client's net worth when risks materialize.

Figure 22: Information flows for various connected customer experiences

	Status quo experience *Analog, 'disconnected'*	**Connected customer experiences**			
		Respond to desire	*Curated*	*Coach*	*Automated*
Trigger	Advisor or customer	Customer	Firm or customer	Firm	Firm
Frequency	Ad hoc	On demand	On demand	Continuous	Continuous
Richness	Low	Low	Medium	High	High
Effort for customer to transmit information	High	Low	Medium	Low	None

Source: Authors' analysis

DIGITAL TRUST AND CONNECTED EXPERIENCES

Implicit in the connected experiences and information flows described above is the importance of trust. The need for trust increases as we progress through the four connected customer experiences. For a 'respond-to-desire' client experience, a client has to trust simply that the firm will execute a *transaction* with speed and do so reliably. This is a clearly defined outcome for the firm to deliver and for the client to perceive quickly.

For a Curated Offering, the bar for trust is higher since a client now has to trust the trade execution and the advice received on the "what to buy (or sell)", "when to buy" and "how much to buy" decisions. Importantly, the outcome of advice is not instantly clear to the client since the investment outcomes are displaced in time from when the investment decision is made and are impacted by broader market conditions, the underlying exposures, the client's own behavior (do they buy high, sell low?) among other factors.

For Coach Behavior, the required level of trust increases further in that the connected nudges need to be demonstrably in the client's best interest, easy to understand and act on. Finally, with Automated Execution a client has to completely trust the wealth manager.

The ability to create and build *digital trust* is critically important to scale connected wealth management. The best advisors are trusted by their clients. As wealth managers augment human-based relationships with connected customer relationships, they will need to test and learn how to nurture trust in a digital context. The "trust quotient" provides a useful framework in this context. The framework formulates trust as an increasing function of credibility, reliability and intimacy perceived by the client and as a decreasing function of the self-orientation of the provider[45]. A Connected Strategy is an enabler and accelerator of the credibility and reliability drivers. It can also ensure '24 x 7' client-orientation by wealth managers. Finding new ways to create a sense of intimacy for digital experiences, through user experience design and personalization will become a key differentiator. ■

45 The Trust Quotient and the Science Behind It, TrustedAdvisor.com

4. Connection Architectures

Once a wealth manager has defined what type of *Connected Customer Experience(s)* to build, the next design question to address concerns the firm's target connection architecture. This addresses what connections a wealth manager chooses to make with or facilitate between various industry ecosystem participants such as customers, suppliers, app developers, wealth tech firms and data providers.

Let us first elaborate on the concept of a connection architecture using the current industry structure. The use of distributors by asset managers to distribute investment products such as mutual funds has historically been necessary in Asia due to geographic and regulatory fragmentation. Distribution intermediaries function as wealth retailers, aggregating demand via their client bases and leveraging their distribution networks of branches and people. As such, their two main connections are with the consumer (via advisors who are firm employees) and with asset managers (suppliers). The wealth managers evaluate products, curate them, and distribute advice and products to customers. For these functions, they charge mainly transactional distribution fees and so-called "trailer" fees, since they act as the agent of the manufacturer and not of the client.

In the section below, we now lay out five new connection architectures: *Connected Retailer, Connected Producer, Connected Market Maker, Crowd Orchestrator and Peer-to-Peer network Orchestrator.* In each case we describe the archetype, provide case examples and share our perspective on how each archetype may evolve.

CONNECTED RETAILERS

Archetype description: Connected wealth retailers create direct, digital connections *at the firm level with customers and with multiple producers*. Connected retailers, like their analog counterparts, curate products and connect to asset managers but the key difference is in the direct connection created with clients as opposed to relying on a network of analog, 'disconnected' relationships between the advisors and clients.

Case examples

- Roboadvisors. In Asian markets such Taiwan, Hong Kong and China, standalone players and incumbents have launched simple roboadvisors using a connected retailer strategy. Clients answer a few questions, provide a simple overview of their goals and invest in curated portfolios with ETF or mutual funds from various providers with embedded execution and custody services. There are several business-to-business providers such as Quantifeed, Bambu, and Prive who provide wealth managers platforms to implement such solutions. The level of personalization offered by roboadvisors remains limited.

- Connected retailer strategies are also being implemented for the distribution of structured investment products, a popular product category with Asian affluent and HNW investors. Technology companies, such as Leonteq or FinIQ, provide wealth managers with the technology to create curated offerings of structured investments from leading investment banks.

- Among Asian incumbents, DBS Bank remains a pioneer in its digital transformation vision and execution and continues to evolve from a traditional wealth retailer to becoming a full service, connected wealth retailer. It built on its prior strengths of a large customer base (DBS banks 3.5 million customers in Singapore) and its brand (DBS is Singapore's most valuable brand and the ASEAN region's most valuable bank brand[46]) to build a robust range of connected capabilities (DBS was awarded the 'Best Digital Bank in the World' in 2020[47]) in wealth management.

Potential evolution of archetype

The main innovation in the connected retailer architecture thus far has been the roboadvisor model, which has shown limited take-up in its current form. We believe there are three reasons why this is so:

- *There is a mismatch between the core offering — an efficient, low-cost ETF portfolio — and its target consumer:* Consumers who are self-directed and have sufficient investing knowledge can access similar solutions at a far lower price from brokers or asset managers directly. While for those who lack the requisite knowledge and confidence to invest themselves, a human advisor is needed but this becomes less viable at the 25-30 bps price point of a direct-to-consumer roboadvisor, particularly in context of the cost of client acquisition and marketing. Contrast this with self-directed trading platforms such as eToro or Robinhood that are designed for DIY, active traders and the offering facilitates and encourages greater investing activity — i.e., there is greater congruence between the offering and the target consumer for the DIY trading platforms unlike that for a roboadvisor.

- *There are few entry barriers making replication by incumbents and fintechs easy.* The standard roboadvisor offering is a passive approach to investing, implying a lesser

46 DBS was named Singapore's Most Valuable Brand for the eighth year in a row in 2020 with a brand value of c.$8.5 billion

47 Global Finance, 2020

need for frequent engagement and connectivity, limiting a key benefit of a connected customer experience of frequent interactions and data-driven insight and personalization over time. This limits network effects for a roboadvisor as the value to the 'n+1' client is not materially greater than that to the first client. For example, Nutmeg, one of the UK's pioneering players in the segment was still unprofitable, nearly a decade after its founding[48] and ultimately sold to JP Morgan. There are traditional scale benefits — i.e., a larger AuM roboadvisor generates more revenue to support product development and brand recognition — but such benefits are easier to accrue for a roboadvisor embedded in an incumbent wealth manager with a large, under-penetrated existing client base.

- *Roboadvisors take a purely rational, portfolio optimization approach to wealth management.* However, it is well known that clients exhibit a range of behavioral biases[49] in investing. The 'homo economicus' persona is limited at best[50]. For most consumers, investing decisions are not perfectly rational and therefore a tax efficient, Markowitz-optimized portfolio of low-cost ETFs is not one that consumers intuitively understand or gravitate to, independent of a human advisor's coaching.

As a consequence, many roboadvisors are not yet profitable and some have closed within a few years of their launch (e.g., Smartly in Singapore[51]). We think some will be acquired by larger firms in Asia while others will fail.

This said, the approach of North American roboadvisors such as Betterment, Wealthfront and Wealthsimple initiated many beneficial changes in the industry, which will continue to evolve and improve. For example, going direct to consumer, adopting a client-centric approach, significantly improving the user experience, and building for future affluent consumers.

To think about how the connected retailer architecture may evolve, we find it instructive to look to other industries with more advanced connected strategies in place. For example, in media, firms that started as connected retailers moved upstream to become connected producers as their connectivity to clients gave them insight into consumer preferences. Think Netflix as its streaming service created a richness of data and insight, allowing it to move upstream to content production.

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48 "Loss-making roboadvisor Nutmeg to be bought by JP Morgan as the US investment bank targets British consumers", www.thisismoney.co.uk, 2021

49 Prospect theory, Kahneman and Tversky, 1979

50 "Digital advice: how can we broaden beyond the "homo economicus" persona", LinkedIn post by Alexis Calla, 2021

51 https://www.finews.asia/finance/31329-singapore-robo-advisor-smartly-winds-up-business

It remains to be seen whether similar verticalization will occur in wealth management where the data from a connected relationship allows wealth managers to design more relevant wealth products and move upstream to asset management. Interestingly, several providers of business-to-consumer roboadvisors in Asia are already promoting their unique investment management capability versus their easy-access to third-party products.

We are also yet to see an incumbent or a newcomer offer a connected retailer strategy with a focus on providing guidance all along the client investment journey as opposed to solely on the management of a portfolio of stocks, ETF or mutual funds. We see this as an opportunity and whitespace to exploit.

CONNECTED PRODUCERS

Archetype description: In a Connected Producer architecture, product manufacturers such as asset managers or insurers connect directly with investors, thereby disintermediating distributors. They do so via proprietary direct channels or via third-party platforms. Asset managers can then benefit from direct access to client relationships and from reduced distribution costs. However, they would incur the cost to build and run direct platforms and client acquisition and marketing costs, which can be substantial.

Case examples

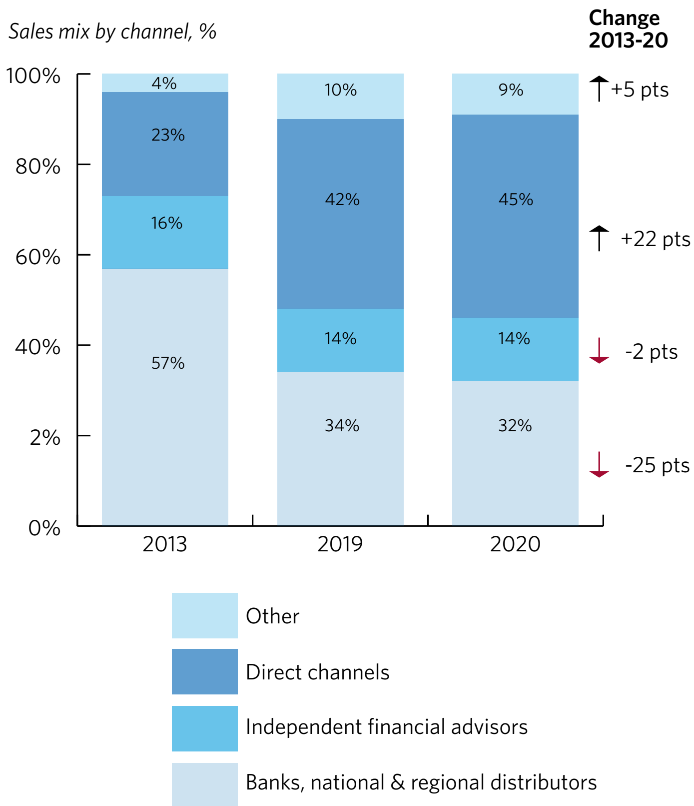
The Connected Producer architecture has gained traction in large, geographically dispersed markets such as India and China as well as more mature markets such as Korea. In these markets multiple mutual fund companies have successfully set up their own direct businesses.

- In China, the architecture is viable due to the high degree of connectivity with customers via mobile and Know Your Client (KYC) being easier due to Government identity databases. These factors allow existing asset managers who previously had no direct link to the end consumer to increase their share of the c.$3 trillion assets of the mutual funds industry. For example, many fund providers are now able to sell their funds directly to their customers via Caifuhao, which sits on Ant Financial's Alipay platform (a connected market maker we discuss in the next section. Caifuhao also gives firms access to artificial intelligence capabilities such as user profiling, operational optimization and smart marketing. A meaningful portion of funds sold in the connected producer model in China used to be money market funds. But as customers increased their familiarity with this delivery channel, they started to move up the risk-reward spectrum to include other asset classes such as equity-focused funds, becoming increasingly comfortable purchasing investment products higher in the risk spectrum without the need for face-to-face interactions.

Furthermore, this new connection architecture is opening up new ways of interacting with 'digital native', connected consumers. Take for instance, mutual funds live streaming[52] in China where fund managers elaborate on the rewards (and presumably risks!) of their fund offerings, and viewers of the livestream can connect to a superapp such as Alipay and place trades right away. This connects and gives scale and direct access to fund managers in a way that has been previously infeasible.

- In India the role of intermediaries in channeling household savings to financial markets through mutual funds has declined over the last decade as direct channels have gained share (see Figure 23).

Figure 23: Connected channels continue to disintermediate the Indian mutual funds industry[53]



Source: *Economic Times*, 2020

52 Inside the Cutthroat World of China Mutual Fund Livestreaming, Bloomberg, 2020

53 "Mutual fund investors give middlemen the slip", The Economic Times, 2020

- Even in mature Asian markets such as Korea, connected producer architectures have emerged. For example, Hanwah Asset Management, Korea's 4th largest local asset manager with $90bn in assets, recently launched an app[54] allowing investors to buy directly from a curated offering of equity and bond funds. Investors subscribing directly do not incur a sales charge and benefit from reduced fees. Its proprietary fund marketplace is designed to bypass third-party channels such as banks, brokerages and insurers. Regulatory support is also encouraging Korean players to build direct platforms.
- Insurers too continue to expand their presence in wealth management, driven both by overlapping client needs around wealth management and financial planning in Asia as well as a desire to build direct or hybrid distribution models with consumers directly, bypassing bank distribution models. In addition, they are also attempting to build connected relationships via health and wellness apps such as PRU Pulse and AIA Vitality to drive data driven engagement and sales over time.

Potential evolution of archetype

Asset managers will continue to increase their share of sales both via direct-to-consumer platforms and third-party platforms. They will continue to expand channels of connection to customers e.g., holding live streaming workshops, podcasts and other channels to communicate with customers to allow for investor education and product marketing. Since customers still generally prefer hybrid approaches to wealth management involving people and digital services, it will potentially be economically infeasible for asset managers to replace the distribution power of local banks. The DIY segment will likely be dominated by superapps, neobanks and the digital banking units of universal banks. This will make it challenging for pure, standalone asset managers to build direct distribution. However, increasing shelf space on the superapps and the distribution arms of parent entities offer asset managers ways to achieve viable connected producer architectures.

CONNECTED MARKET MAKERS

Archetype description: A connected market maker is a digital platform that connects clients to multiple asset managers and wealth services (e.g., financial planning, advisory). Market makers often make a wider range of daily lifestyle services available to clients and curate popular, personalized investment products. This is a relatively new model in Asia but one that has demonstrated significant growth over the last decade

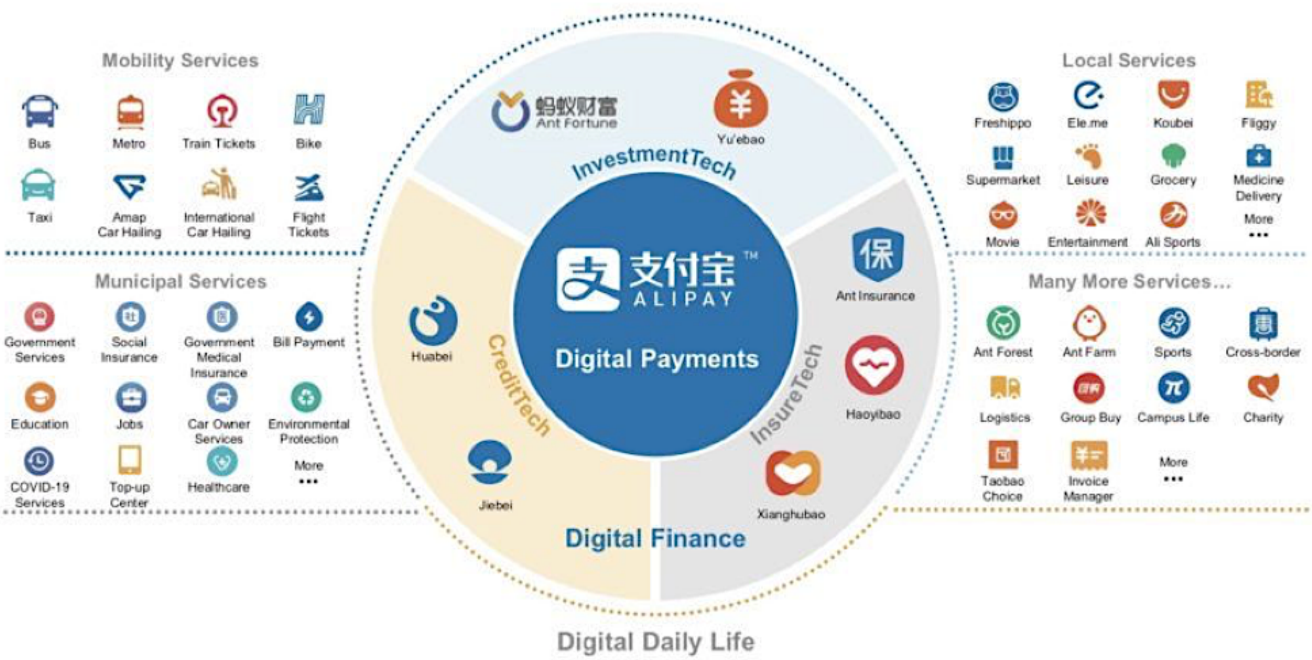
54 "Hanwha Asset unveils fund marketplace app", The Korea Herald, 2021

in China. Asia's superapps — e.g., Alipay, Grab, WeChat, Gojek — continue to tap into the demand for mass affluent wealth management across China, Indonesia, Philippines, Thailand and Vietnam.

Case examples

Ant Financial in China is a prominent example of a connected market maker. Figure 24 provides an overview of the range of services offered by Alipay, which is a digital supermarket of offerings, letting users invest in mutual funds and purchase insurance from established players. It is China's largest online investment services platform with 700 million annual active users and AuM of $600bn[55]. Wealth management and insurance now contribute over 60% of Ant's revenue. In wealth management, Ant ranks #1 in the sale of non-money-market mutual funds with quarterly sales in 2021 of $140bn. It connects 80 fund managers with virtual stores to offer 6,000 funds to its users.

Figure 24: Ant Financial's Alipay — a Connected Market Marker superapp



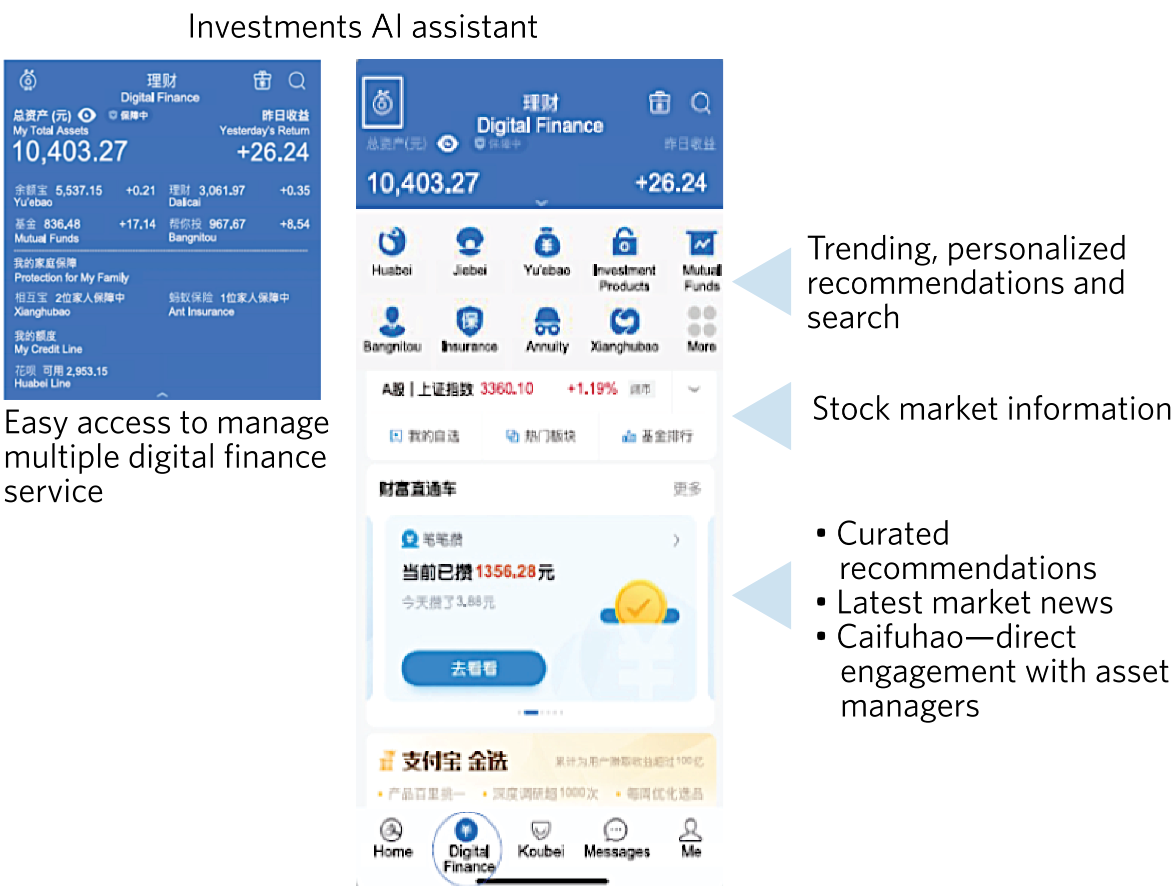
Source: Ant Group IPO Filing

Ant Financial strengthened its connection architecture by sharing its artificial intelligence technology with asset managers to help the latter in their digital transformations. Firms representing over 90% of fund sales in China are now on Ant's Caifuhao platform. Caifuhao offers users information on stocks, access to Ant Financial's money market

55 "The transformation of Ant Financial", Financial Times, 2020; AuM as of 2020

fund Yu'e Bao and more than 6,000 wealth management products. It is also accessed via Ant Fortune, Ant's investment mobile app making it a digital, connected capability (see Figure 25).

Figure 25: Ant Fortune — a Connected Market Maker in wealth management



Source: Ant Group IPO Filing

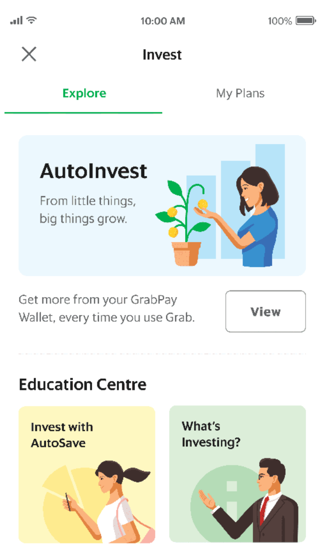
Ant is also evolving its connected customer experience strategy from a *respond-to-desire* experience to *Connected Curation* and *Connected Coach Behavior* experience. To do so, it has partnered with Vanguard, the US-based asset manager with ~$6 trillion in AuM. The partnership will leverage "Alipay's technology" and "Vanguard's expertise in investment management and advisory"[56]. The venture offers an automated service "Bang Ni Tou" (roughly translated to "Help You Invest") to capture people with ~US$100 to invest in mutual funds — the low minimums are specifically designed to democratize high quality financial advice in China, demonstrating the scale and reach of new, connected

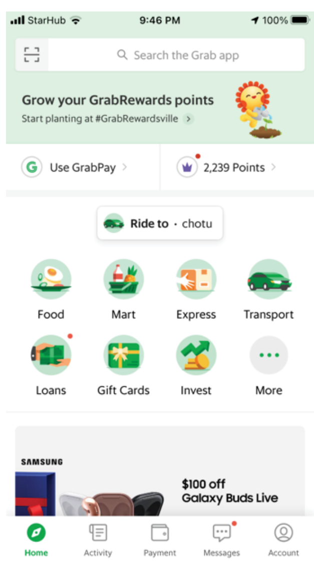
56 "Ant, Vanguard Target 900 million Users", Bloomberg, 2019

architectures in wealth management. The Vanguard-Ant joint venture acquired 200,000 clients in its first 100 days. Vanguard CEO Tim Buckley describes the partnership as a venture that marries "...Vanguard's time-tested investment philosophy and approach with Ant's digital platform and technology to fundamentally change for the better how individuals in China invest."

Figure 26: Grab — a Connected Market maker superapp

Grab's Super-App is a leading provider of ride hailing and food delivery services in South East Asia





Grab is starting to build a Curated Offering and Coach Behavior experience for investing

Source: Grab App

In India too, a series of connected market makers such as FundzBazar, Groww and Policybazaar have emerged that have propelled sales through the direct model to 45% of total mutual fund sales[57]. It is worth noting that in recent years, these developments have also been accelerated by Indian regulators who have significantly transformed the economics of mutual funds distribution by banks by banning "entry or exit load" fees.

In Indonesia, the low level of investment penetration offers significant headroom — only 2 million consumers have mutual funds out of a population of 270 million. Therefore, regulators have stepped up efforts to grow the investor base by facilitating partnerships directly between mutual fund firms and online platforms. Connected superapps such as

57 "Mutual fund investors give middlemen the slip", The Economic Times, 2020

Grab (see Figure 26) and Gojek are expanding their connections beyond traditional asset managers to make more asset classes available to their users. As an example, Gojek users can now invest in gold from within the ride-hailing app. The new service, *GoInvestasi*, allows users to buy and sell gold, and keep track of the returns on their investment. The gold-investing product is run by *Pluang*, an Indonesian startup[58].

Even in mature markets such as Taiwan, connected market makers are making their presence felt. AnueFund[59] operates as a connected market maker with its mobile app that "allows users to browse industry news, receive real-time updates about selected fund products and compare the underlying securities of different strategies".

Potential evolution of archetype

In our view connected market makers are well placed to realize the rewards of connected strategies in wealth management. Their range of services and extensive network of connections allow them to create choice for customers, generate large volumes of customer data and engagement and partner with best of breed service providers across the full spectrum of the customer's jobs to be done. As such, they are primed to reap the rewards of connected strategies.

Connected market makers could evolve their models in several ways going forward by connecting clients to different types of services:

- Market makers focused on wealth management could broaden the range of products enabled (e.g., funds, stocks, bonds, crypto, gold)
- Market makers could connect clients to a network of financial advisors
- Market makers could host a series of financial planning, investment, insurance and health and wellness services within a financial superapp structure, distinct from apps that focus on daily lifestyle services

CROWD ORCHESTRATORS

Crowd orchestrators are firms that create connections between customers and groups of individuals who come together as a 'crowd' to act as a producer. Crowdfunding platforms are an example of such an architecture.

58 https://technode.global/2020/05/12/gojek-gold-investing-goinvestasi/

59 Ignites Asia

In wealth management, we do not know of players in Asia where an individual or a collection of individuals acts as a customer's wealth manager via a digital platform. Local regulations requiring proper licensing for the provision of wealth and asset management services may remain a formidable obstacle to this architecture's development in the industry.

PEER-TO-PEER NETWORK CREATORS

Archetype description: Peer-to-peer networks create connections between large groups of individuals where the roles of 'customer' and 'producer' change frequently. *Social trading networks* and *online communities of retail investors* are two categories of peer-to-peer networks in wealth management. These allow retail investors and traders to share their trades and/or trade ideas with other network participants. Social trading networks also allow investors to automatically copy or mirror trades from other traders in their own trading account.

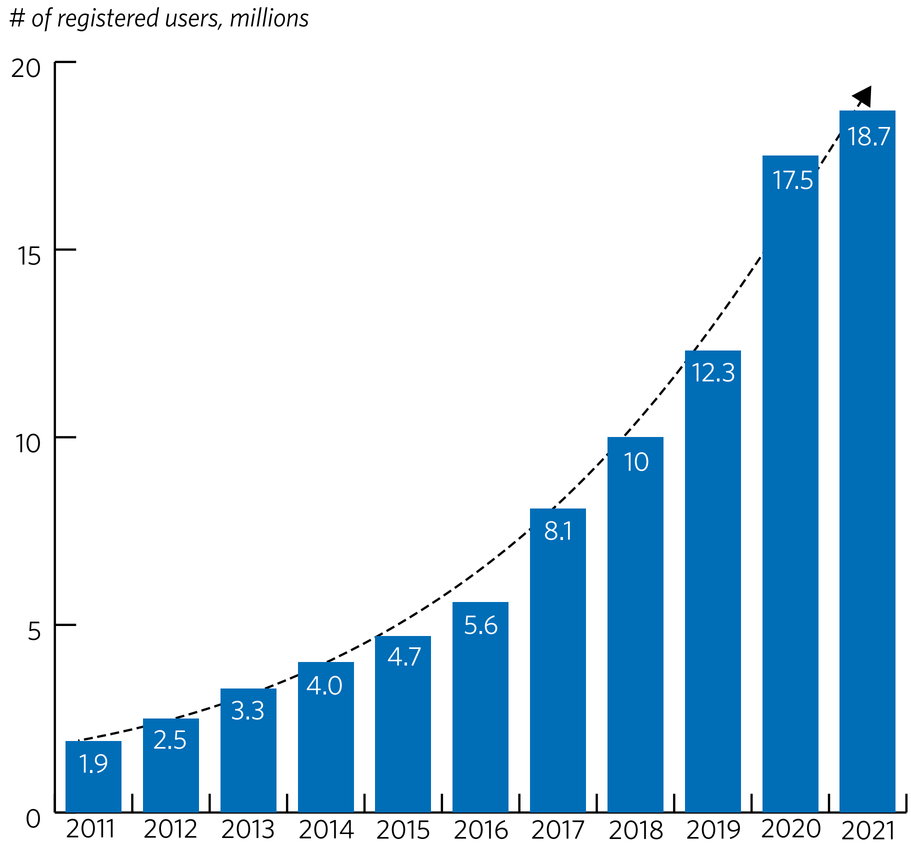
As investors in Asia have greater and cheaper access to 'do it yourself' planning and investing platforms, they need sources of information they trust and guidance to inform their investment choices. Online networks have emerged as one such source of guidance and continue to gain popularity in the region and globally. Such networks provide "Connected Curation" and "Connected Coaching" in a loose sense as investors seek out and provide advice from the network's participants, tapping into the collective knowledge of their peers.

Case examples

- **eToro is a leading peer-to-peer social trading platform.** While eToro's main market is Europe (c.70% of their total accounts), Asia accounts for c.20% of their total client accounts. Their stated mission is to build "the world's largest social trading network to empower people to trade and invest in stocks, crypto and global markets, copy top traders and get copied". As such, their network allows each individual to emulate the investing strategies of other network participants and vice versa.

  Their network has created "a growing community of investors who connect and learn from each other" (see Figure 27). Registered users can access a virtual trading account that allows them to practice their investing skills. Their clients' median age is 34 and a typical session is nine minutes long with an average of four logins per day. These data are indicative of the appeal of such platforms to a burgeoning base of emerging affluent investors who are digitally savvy and have high propensity for self-service investing. The extent of digital engagement also suggests a high degree of connectedness with the firm and allows for a large, relevant data pool that can be mined for client and population level insight and personalization. Their revenue model has three streams — as a market maker, by earning spreads on trades and from non-trading fees such as inactivity fees.

Figure 27: eToro's subscriber base growth



Source: https://www.etoro.com/about/investors/

- **Several social networks have also emerged that focus on FX trading**, a popular investment activity in Asia. Examples of such networks include LiteForex Social Trading and InstaForex.
- **Online investing communities such as Reddit, StockTwits and Seedly are further examples of such architectures.** Reddit Asia has a community of 20-25 million users and allows users to provide guidance to each other. Seedly, based in Singapore, looks to help its users "make smarter financial decisions". Their community feature allows users to access knowledge from peers prior to making a financial

decision, including unbiased reviews of products ranging from travel insurance to roboadvisors.

Potential evolution of archetype

With the increasing democratization of investing and social sharing as a dominant trend, such networks will continue to grow in their functionality and reach. Peer-to-peer networks will continue to adapt the knowledge and experience of their participants into practical trading tools, applying pressure on incumbent revenue streams.

It is worth noting that none of these networks or DIY-oriented business models that seek to disintermediate the market have been tested through a sustained period of adverse market performance. Between 2010 and 2020, the S&P 500 delivered annual average return of 13.6% with deep but brief market declines along the way such as the one triggered by the covid-19 pandemic. With greater access to investing tools and products, consumers might also build up investment portfolios riskier than appropriate for their financial circumstances, which are only made transparent in a sustained market downturn.

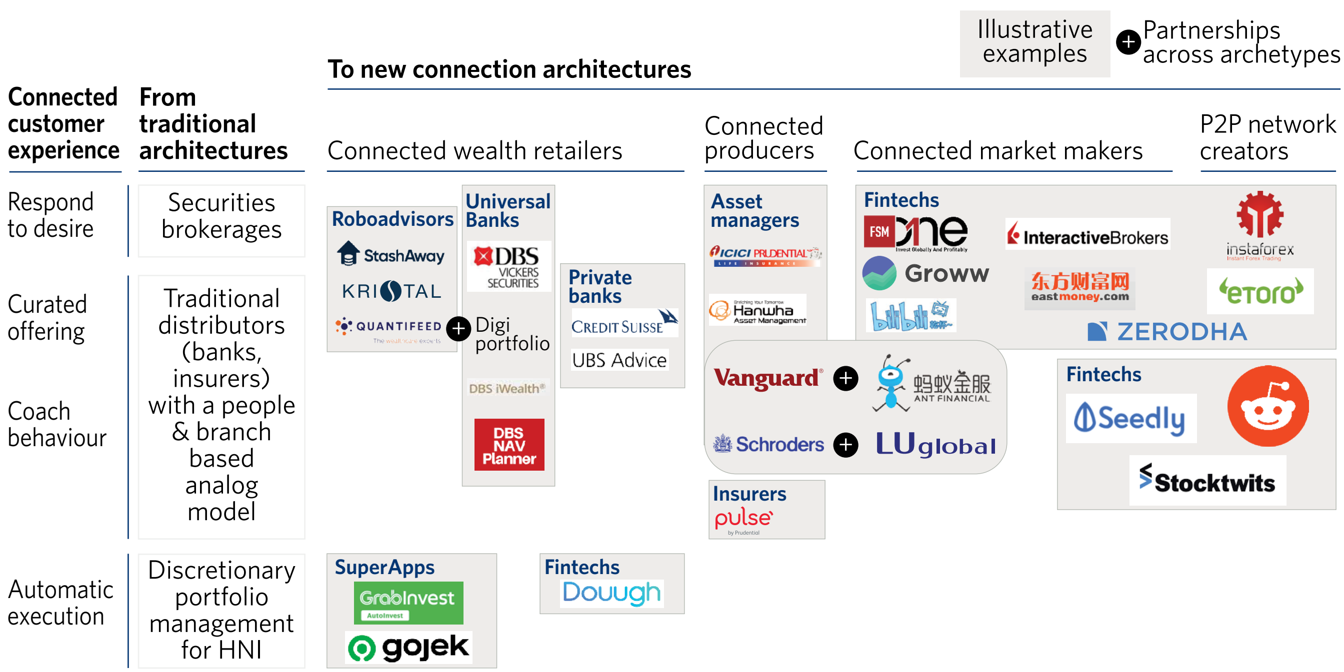
The Connected Strategy Matrix

The Connected Strategy matrix in Figure 28 shows the emerging landscape for wealth managers in Asia and highlights the following:

- **The scope of change is ubiquitous.** Every major category of industry participant from wealth managers, asset managers, insurers through to superapps and fintechs are building new connected customer experiences and forging new connection architectures.
- **Fintechs are setting the pace and agenda for innovation in wealth management.** They continue to foster experimentation across both the connected customer experience and the connection architecture dimensions while few incumbents have launched innovative, first mover capabilities. This is surprising yet also an opportunity and a wake-up call for incumbents to invest more effectively and test and learn with their client bases.
- **Many players started out with a single connected customer experience type and then expanded to offer multiple connected experiences *within the same connection architecture.*** For example, Ant Financial started out as a connected market maker with a 'respond-to-desire' experience and has since expanded to 'connected curation' and 'connected coach behavior' experiences. Similarly, DBS started out with a

traditional business model but since 2017[60] has built a connected curation experience and then a connected coaching experience. Their approach of building different connected experiences at different points of the client continuum is consistent with their role as a universal bank that serves the continuum of wealth clients.

Figure 28: Connected Strategies of wealth managers in Asia



Source: Authors' analysis

- **Partnerships between complementary players are ramping up:** New connection architectures are emerging across the landscape. For example, Ant Financial partnered with Vanguard who has complementary skills in asset management and advisory to scale up their collective connected curation and coaching, to leverage Ant's customer base and connected platform assets. British asset manager Schroders also partnered with digital investing platform Lu International, a subsidiary of Ping An.
- **There is significant white space in the Connected Curation and Coach Behavior experiences:** There are a relatively large number of firms that have chosen to focus on the 'respond-to-desire' experience with market maker architectures. However, in emerging Asia's context, we believe that the Connected Curation and Coach

60 Reimagining wealth management, DBS Investor Day, 2017

Behavior experiences offer a significant white space and growth opportunity. Their total addressable market is large and growing since most consumers need advice.

MONETIZATION AND BENEFITS

A connected strategy is an enabler for new revenue models in wealth management. We first recap current revenue streams and then introduce new revenue models for wealth managers.

- **Transactional front-end fees:** A front-end load is a sales charge applied at the time of the initial purchase of an investment. This is likely the largest component of the Asian wealth revenue pool and remains relatively high. Recently, Hong Kong received a "below average" grade for its mutual fund costs, because of high asset-weighted median fees and the pervasiveness of front-end loads[61]. More than 85% of funds, whether domiciled or available for sale in Hong Kong charge front loads.
- **Transactional commissions per trade:** A commission is a charge assessed by a broker, advisor or platform for the purchase or sale of securities. For DIY investors with a "respond-to-desire" experience, commissions have fallen to less than 10 basis points per trade in many markets, trending towards zero.
- **Trailer fees as a per cent of assets under management:** Some firms and advisors charge clients a fixed or tiered fee, usually embedded in the product, as a per cent of the AuM. Rising competition and regulatory measures in Asia are challenging trailer fees. For example, Indian regulators have banned wealth managers from charging distribution fees.
- **Fee-based advice:** A fee-based advisor charges an advisory fee from clients in addition to receiving a commission from the firm whose products he sells. Clients in Asia are generally averse to paying for wealth advice and this portion of the revenue pool remains small.
- **Fee-only advice:** A fee-only advisor does not earn any commission from financial products sold. They charge a fixed amount as their advisory fees or a percentage of the client's AuM or a mixture of both[62].

Regulators in Asia are moving to shield investors from high fees, with a focus on distribution fees, given the industry in Asia is driven by banks, and asset managers have less

61 Morningstar's biennial Global Investor Experience (GIE) report, 2019

62 https://singaporefinancialplanners.com/blog/fee-based-vs-commission-based-vs-fee-only-financial-advisor/

negotiating power[63]. In China, the Securities Regulatory Commission launched a pilot scheme to test the investment advisory business in public mutual funds, in a move to shift from a transaction-based model to a fee-based model of selling funds. Financial regulators in Taiwan, India and Korea are also pursuing regulatory measures to address the incidence of high fees.

A Connected Strategy enables new data and value driven revenue models to be deployed. In wealth management in Asia, such pricing models are not currently used. We expect newer revenue models from other geographies to make their way to Asia over time. New, potential revenue models include:

- **Subscription-based models:** Subscription pricing models are increasingly a part of the advisory landscape in North America but are not prevalent in Asia yet. This allows wealth managers to offer “digital first” services with select access to human advisors. This accelerates the connected relationship a firm can build with clients, while recognizing that in key journey steps an advisor’s role and human connection is valued by clients. In 2019, pricing for Schwab Intelligent Portfolios Premium was changed from a traditional AuM-based advisory fee to a one-time $300 fee for planning and a $30 monthly subscription (advisory) fee. In addition, clients pay the operating expenses on the ETFs in the portfolios.
- **Usage-based models:** One could envision a new model where firms will charge investors for on-demand consultation based on the timing, length and complexity of the advice desired and the degree of digital versus human connectivity a client prefers. As such, simple, hourly fixed fee-models have been introduced and continue to gain in popularity in North America[64] but are less prevalent in Asia.
- **Longevity-based models:** Firms could reward investors over time for their loyalty.
- **Individualized performance-based models:** Firms could explore performance fee-based not on the financial return of a particular product but on the success of the client in achieving their goals.
- **Advertisement-based models:** Like firms in other industries, the portion of the revenue stream could be based on advertising linked to the user’s engagement with the platform.

63 Morningstar

64 “State of Financial Planning and Fees: The Bigger Picture”, Envestnet, 2020

As more connected players such as superapps, platforms and virtual banks increase their presence in wealth management, we expect new revenue models to emerge to appeal to smaller, historically less profitable customers on the pricing dimension, also increasing pricing pressure on more profitable client segments.

Benefits for stakeholders

The distinctive benefit of a connected strategy for firms is breaking the willingness-to-pay and fulfillment cost tradeoff. In addition, a connected strategy offers a range of benefits for clients, advisors and regulators.

- **Benefits for clients:** The Holy Grail from a client's perspective is personalized, timely and holistic advice at the lowest price point, available '24 x 7' on any channel of her choice. In the current paradigm, personalization is linked to a customer's level of wealth since the higher the level of personalization, the higher the firm's cost to fulfil. As a consequence, most clients do not get high quality, personalized wealth management. Ironically, these are also likely the clients who would benefit most from higher quality advice, given relatively lower levels of disposable income and investible assets. A connected strategy offers firms the potential to make the firm's best expertise and the best advisor's decision-making skills available to all clients via data-driven advice, directly delivered. Also, since ~50% of clients want to consolidate their financial activities in one place[65], firms that demonstrate superior personalization will gain disproportionate market share.
- **Benefits for advisors:** We describe the benefits for advisors as distinct from the wealth management firms' that they are employed by since advisors are often independent, entrepreneurial individuals or teams within wealth managers with incentives and time horizons, not fully aligned with that of the firm or the client. A connected strategy allows advisors to spend more time on client relationship building and coaching. Vanguard's Advisor's Alpha that measures the advisor's contribution finds that it is precisely such behavioral benefits that an advisor should focus on[66]. Morningstar's research[67] leads to similar conclusions, suggesting that "behavioral coaching is the single most impactful thing an advisor can do, adding, on average, 150 basis points" and that coaching impacts outcomes for clients more so than "maximizing returns and asset allocation"

65 2021 EY Global Wealth Research Report

66 "The evolution of Vanguard Advisor's Alpha®: From portfolios to people", Vanguard Research, 2018

67 "The Value of Advice What Investors Think, What Advisors Think, and How Everyone Can Get on the Same Page", Morningstar, 2016

This implies a key change in role and skillsets for the advisor of the future. Importantly, as connected strategies empower firms with direct, connected client data and the ability to automate advice, they shift power from advisors to the firm, facilitating institutional relationships at scale. Most advisors understand this dynamic, and this has, at least in part, limited the adoption of digital capabilities[68].

- **Benefits for Regulators:** A firm that uses a connected strategy to offer its clients high quality, tailored advice equitably will increase trust with clients and regulators. By virtue of information flows being connected with clients, firms can ensure *consistency of advice*, leveling the playing field for all clients. This would create a digital record of interactions and guidance to clients, increasing investor protection. A connected strategy also allows for larger scale client education and coaching using the platform since digital assets once developed can be accessed by more users. From a regulator's perspective, such connectedness can promote investor education, protection and democratize high quality advice.

68 Interviews and mystery shopping with advisors in Asia

5. Looking Ahead

As we have described in this whitepaper, the traditional wealth management model is intermediated and "disconnected" leading to information loss as firms capture and codify little of their clients' insights and lack precise, ongoing insight into most of their clients. In contrast, newer players are starting to deploy Connected Strategies — a combination of Connected Customer Experiences and new Connection Architectures — disintermediating traditional players. We believe that connected strategies present an opportunity and a threat for wealth managers and that we are in the early stages of this transformation. Therefore, wealth managers will need to make deliberate choices about their Connected Strategy, related capabilities to invest in and outcomes to target. In this section we share our perspective (and indeed our speculation!) on the implications of connected strategies for wealth management going forward and posit a set of key questions for executives to think through in shaping their firm's Connected Strategy.

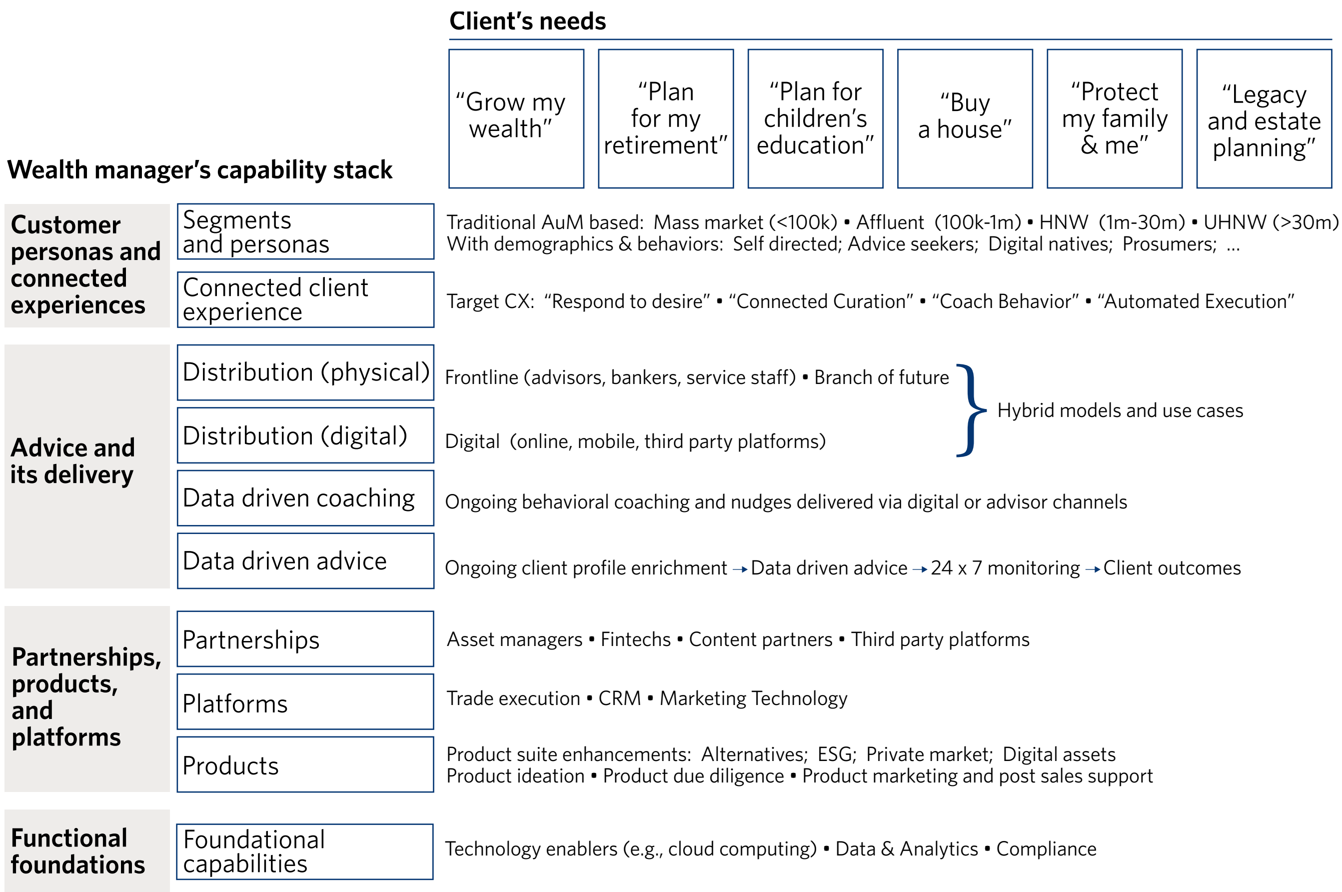
IMPLICATIONS FOR WEALTH MANAGERS

Incumbent wealth managers have many advantages to start with. These include large existing client bases, experienced advisors, trusted brands, deep regulatory and product knowledge, elements of omni-channel distribution across people, digital and branches and a legacy of building trust with clients.

However, the incumbent players have shown limited ability thus far to innovate on business models or capabilities. In Asia's largest growth markets — China, India, and Indonesia — innovation in wealth management connected experiences and architectures has been almost entirely from newer, technology-led firms that offer financial services. These include start-up fintechs and superapps.

Looking ahead, incumbents will need to augment their current capability stack. Figure 29 lays out the stack of a connected wealth manager across key capability layers: *client experience, advice, partnerships, platforms, products and foundations.* Wealth managers will need to decide which connected customer experience(s) to build, what connection architectures to form, then invest in the related firm capabilities and manage the tension with their current business models and legacy organization. As such, we see seven broad implications for wealth managers as they adopt connected strategies.

Figure 29: Connected wealth manager capability stack



Source: Authors' analysis

Implication #1. Connected wealth managers will augment their digital channel experiences and capabilities for advice and decision making, going beyond transactional convenience

Digital channels are currently designed for "self-directed" *traders* and roboadvised clients. The channel for advice-seekers and for guiding clients' decision making remains branch-based or remote personnel. We expect that this will change as the scope of digital advice expands and its sophistication and personalization increases. The advice will be accessed and acted on digitally by both "self-directed" clients and advice seekers. The latter group of clients will be able to access on demand human or virtual advisors to guide them through the digital advice content much the same way as an Amazon customer service representative can see a customer's shopping cart, preferences and co-browse content to guide the customer through the purchase process.

While digital channels are already used for many of the *customer's transactional jobs* to be done such as viewing portfolio balances, checking investment returns and placing self-directed trades for stocks, funds and FX, we believe that tomorrow's connected wealth managers will be able to expand the digital advice menu to *facilitate good investment decision making*. This is likely to include features such as:

- Algorithmically driven, personalized advice delivered directly to the client 24 x 7
- Automated, 24 x 7 portfolio monitoring instead of relying on people for doing so manually
- Automated guardrails against behavioral or emotional risks
- Increased use of multi-media (voice, video) for a more conversational wealth management experience
- Access to human or virtual advisors if the customer needs to better understand the advice

Trending: Creating 'gravity' in digital wealth platforms

It is difficult to retain users if a wealth platform does not offer something new, of value and in an engaging manner on an ongoing basis. A wealth management digital platform, as part of a broader hybrid wealth experience, will need to attract clients and retain them with habit-forming features and nudges to ensure activation, engagement and retention. The created habits, in turn, should help investors achieve a higher level of financial wellbeing. Creating this 'gravity' is essential for an effective, long term connected strategy implementation in wealth management. However, relatively infrequent wealth needs do not intrinsically form the basis for such 'attraction'. Therefore, several banks and insurers have started experimenting with using lifestyle services and engagement features to attract and engage users to then progressively move towards investing and related financial jobs to be done. Some examples include Ant Financial's lifestyle services at the core of its Alipay app, DBS' lifestyle app as part of its Paylah! App and Prudential's Pulse, health, wealth and fitness app, which is the insurer's nascent attempt at creating a direct-to-consumer wealth and insurance platform. We see these attempts at broadening the engagement approach to nurture greater client connectivity as a key trend that will persist.

- New features will emerge in digital-first propositions to foster intimacy and digital trust
- Progressive expansion of advice beyond investing to insurance and, potentially, health and wellness

Looking further ahead, as newer technologies and media interfaces such as Virtual Reality become more prevalent, the digital advice experience will further resemble the human advisor experience.

Implication #2. Connected wealth managers will significantly redefine the role, skillset and economics of advisors, sharing the benefits with consumers

The advisor's main role has traditionally been to provide "ad-hoc, analog connectivity" for clients to the wealth manager's expertise and to shepherd clients through most of the steps in the customer journey. As newer cohorts of customers who are digital native become the main wealth client base, as wealth managers learn to educate and advise clients digitally, and as firms learn to use data to generate tailored advice and ensure ongoing engagement, firms will dramatically transform the role of the Advisor in the following ways:

- Train advisors on becoming tech-empowered and able to operate with a range of digital tools
- Increase advisor client loading ratios or retain fewer, higher quality advisors to serve clients
- Increase coaching skillsets to explain in consumer-friendly terms the advice automatically generated for the client versus sales-oriented skills
- Shift from sales-oriented, commission-based roles to coaching-oriented, salaried roles
- Focus on relationship management with clients as opposed to on transaction support and servicing
- Advisor to focus on in-person financial planning at select moments of truth and life events for clients versus the go-to source for ongoing investment ideas and trade execution

Trending: The war for *new* talent

As wealth managers in Asia seek to hire thousands of new advisors and bankers, triggering a war for traditional talent, demand for frontline talent will continue to exceed supply. A less publicized battle is also underway to attract talent for the digital transformation of the industry with roles such as product owners, UI/UX designers, programmers, Machine Learning specialists and risk and compliance personnel with digital experience. To respond to clients' needs for more convenience and with the higher employee-related costs, banks will have to realize higher productivity by enabling advisors via hybrid relationship models, requiring advisory and technology talent.

The challenges of recruiting technology talent are likely to outweigh the arms race for human advisors in the longer term as wealth managers are not just competing within their industry but across all industries for such talent. Clearly, wealth managers will have to prioritize which client journeys or which engagement models are critical for them and allocate resources accordingly to execute their connected strategy.

Implication #3. The channel mix will change materially in Asia, reducing market share for traditional bank-based wealth management businesses

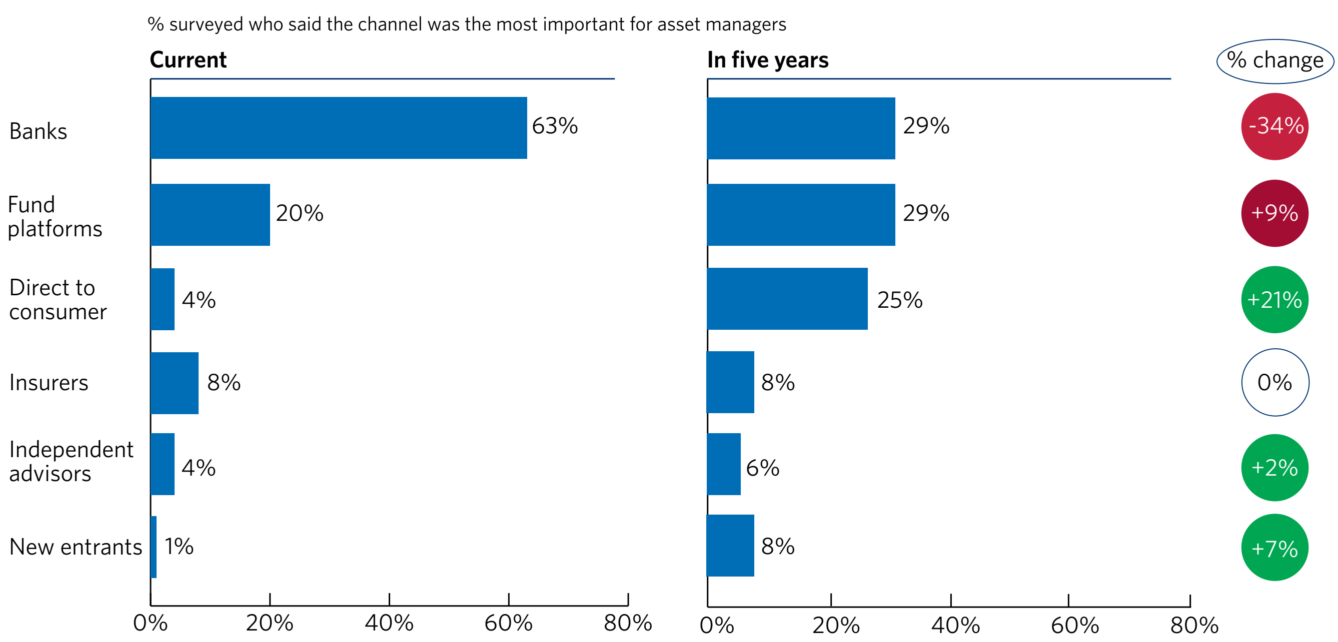
As technology allows players to create direct connections with customers, disintermediation and a reconfiguration of channels will continue. Today, nearly two thirds (63%) of asset managers in Asia see banks as their most important channel for investment product distribution. In five years, less than 30% think it will remain their most important channel for wealth management with digital platforms and direct to consumer models gaining greater importance (see Figure 30). A reduced share of wealth management fees together with low interest rates, the continued digital adoption by clients against a backdrop of banks' legacy branch and technology will be headwinds for bank-based wealth manager earnings.

The changed channel mix will be a function of more players stepping up their own connected distribution efforts and increased client migration to newer connected channels and experiences.

- **Asset managers** will expand their Connected Producer relationships with clients via third-party digital marketplace platforms and via proprietary direct-to-consumer platforms. Asset managers see increasing the use of digital sales as a top priority, with the covid-19 pandemic further accelerating their digital plans[69]. These developments in South East Asia are exemplified, for instance, in Malaysia where multiple asset managers are deploying connected producer architectures. BIMB Investment Management rolled out its BEST Invest mobile app in 2020, followed by Affin Hwang Asset Management and Hong Leong Asset Management, launching their mobile apps in 2021.

- **New entrants (superapps):** Superapps such as WeChat, Alipay, Grab and Gojek are large, well-funded entities in specific markets in Asia. Superapps have proven track records in achieving scale in serving clients' frequent, small ticket, transactional needs. In China they have achieved similar scale in investing as well — this trend will accelerate in other Asian markets.

Figure 30: Expected changes in the importance of Asian asset management channels[70]



Source: Funds Europe

- **New entrants (fintechs):** Business-to-consumer wealth fintechs tend to have similar offerings, anchored around a basic roboadvisory service that is commoditized. With a limited client base and high acquisition costs, it is unclear whether these firms have the resources or demand to deploy and reap the rewards of connected

69 Survey of Asian asset managers by Cerulli Associates

70 "There's no turning back", Funds Europe, 2020

experiences, particularly the importance of a richer data set built up over time. A likely outcome for many of these players is to be acquired by larger wealth managers as has been the case in the US and in Europe and/or being absorbed by larger fintechs as part of consolidation.

- **Big tech firms:** These are data-driven, technology companies such as Amazon, Google, Facebook, Apple and Microsoft. Their connected strategies and related capabilities create opportunities for them to enter the industry *should these firms choose to do so*. A survey of HNW customers in Asia reveal that over 90% of them would become a big tech wealth client with nearly 100% of customers say they would be willing to switch to the big tech wealth manager[71]. However, a more plausible scenario is for the big techs to build technical services to enable connected wealth managers (e.g., the AWS[72] of advice data and algorithms). This could become a profitable service line for the tech firms, leverage their superior technology expertise, while allowing wealth managers to focus on their strengths.

Implication #4. Connected wealth managers with automated, data-driven advice capabilities will gain operating leverage and progressively reach a 'Turing Test' moment

Wealth managers with a connected strategy will collect and utilize progressively larger streams of relevant data and create and refine a comprehensive, ongoing picture of a client's investing behaviors, attitudes and preferences. This will then allow firms to generate automated, data-driven personalization at scale, reducing the need for advisors to tailor advice client by client for mass, mass affluent and affluent clients.

This virtuous cycle of data and personalization will allow first movers to reduce their marginal cost for personalization and create a digital moat over time that will make it harder for competitors to poach clients, much the same way that historically HNW clients were attached to their personal wealth advisor.

Over time, the advice that is generated will approach a 'Turing Test'[73] moment when clients will find it harder to discern whether the advice was generated by a human or an algorithm. Indeed, the delivery of the advice via digital channels will also better mimic the "human touch" and sense of intimacy as firms learn to design digital experiences for trust and exclusivity[74], which are the emotional underpinnings of wealth management.

71 "Would 'Google Wealth Management' be a threat to the industry?", Fund Selector Asia, 2020

72 Amazon Web Services

73 https://en.wikipedia.org/wiki/Turing_test

74 "Future of Digital Trust Driving forces, trends and their implications on our digital tomorrow", Deloitte, 2021

Trending: Contextualized, connected communications
Should advisors provide the same guidance to every client during a market event? Are there better approaches than to broadcast a list of ideas to every client? In the last decade, wealth managers aimed for consistent, at scale, relevant communication to their clients. House views and product ideas are today centrally broadcast through websites and to clients' mobile devices. Consistency and scale have been achieved but largely at the cost of relevance, with broad based, generic communication being the norm.

Progress in automation, the lower cost of collecting and storing data, and more accessible machine-learning techniques together create the possibility to by-pass the traditional tradeoff between consistency and relevance and open new forms of hybrid or fully digital investment guidance. For example, updates on markets can be filtered and limited to those having an actual impact on a client's existing portfolio. Beyond such tailored information, combining behavioral data and rule-based algorithmic communication helps rein in investor biases and nudge the investor towards better decisions. The tone of a portfolio update can also be tuned to the personality of the client. Application of social filtering methods with appropriate governance also provides the equivalent of peer-coaching and addresses inertia. Leading retail and private banks are experimenting with such methods in personalized engagement to strengthen client connectedness.

Implication #5. The industry ecosystem will broaden further as connected wealth managers forge partnerships along key steps of the customer journey

As firms design and deploy new connection architectures and customer experiences, newer firms and capabilities will become part of the wealth management industry's broader ecosystem. Partnerships will accelerate for a range of the customers' jobs to be done with content creators, educators, investment experts, peer to peer networks, gaming firms, etc. becoming part of a richer ecosystem of capabilities. These partnerships will increasingly span all aspects of a customer's journey from customer identification, onboarding, education, ongoing coaching and education, guidance from peers and trade execution.

For example, gaming firms could be leveraged by wealth managers to help clients educate themselves about investing before having access to more sophisticated DIY trading platforms. This could serve as the investing analogue of a graduated driving license

Trending: Mass customization and the future of the mutual fund

The mutual fund has, for decades, been a practical, efficient way for retail clients to invest even a small amount of money in diversified and professionally managed solutions. ETFs have since brought tax efficiency in the US and access to lower-cost, rule-based solutions. They are good solutions as long as the assumed objective of the investor is to suitably balance growth and volatility. Recently, digital technologies, from process automation, fractionalization, algorithms and blockchain have created the potential to allow for the mass-reproduction of key elements of a fund and of a portfolio of funds investment processes. It is now technically feasible for wealth managers to offer a digital account behaving as a "mutual fund" of one.

This mass customization of key components of an investment process at scale, centered on a retail digital account, would address a broader set of client aspirations in tailoring passive strategies (direct indexing), in incorporating principles or ESG dimensions or in establishing more granular outcomes than the traditional risk/return benchmark-based approach. Adjacent features could also be integrated using technologies to better reflect the behavioral preferences or educational needs of each individual investors. While we do not foresee mutual funds and ETFs being ushered out in the near future, we see retail digital accounts becoming a key offering of leading wealth managers.

program with a newer generation of more financially literate consumers and greater investor protection outcomes.

Incumbent firms will have to assess which parts can and should be built de novo versus which parts should be built using the legacy technology stack, which comes with its challenges of integration across organizational silos and disparate technologies.

Implication #6. Connected wealth managers will blend skillsets and client experiences from technology-led firms with new ways of delivering unbundled, personalized solutions

For most retail investors the delivery of wealth management solutions remains highly packaged and bundled. This is exemplified with the role that mutual funds still play. The key benefit of this simple, one-size-fits-all solution has been the economies of scale it affords.

However, technologies such as digitized individual accounts, fractional share investing and tokenization of assets will see wealth managers unbundling their traditional offering, allowing for instance clients to access the portfolio construction solution of one provider, the tactical asset allocation overlay of another and the securities selection capabilities of several asset managers. Passive and active solutions will become easily mixable. This will also have implications on pricing models. The combination of connected strategies and unbundling will allow hyper-personalization of solutions. Wealth management product managers will also evolve to acquire skillsets of technology product managers in shaping the next generation of end-to-end product management.

Implication #7. Connected wealth managers will partner closely with regulators to shape tomorrow's rules of engagement

Wealth managers will not be able to rely on their traditional regulatory knowledge or norms. New obligations and responsibilities will be created especially around the collection, storage, use and sharing of personal data and the oversight of algorithms for advice. China provides an example with its recent clampdown on the practices of some of its leading new players and tightening of its regulations.

New opportunities will also arise with the evolution of regulatory frameworks centered around the fair, suitable distribution of highly packaged products by sales people to a world of consistent, trackable, algorithmically delivered personalized solutions. Leading Asian regulators such as the Hong Kong Monetary Authority and the Monetary Authority of Singapore have started to establish frameworks to facilitate this dialogue and allow for experimentation and learning and ultimately help evolve their regulations.

Within wealth management organizations risk and compliance functions and their personnel will have to adapt to this new reality much the same way that the advisors will have to adapt as well.

KEY QUESTIONS TO ADDRESS

Which Connected Strategy — i.e., the target *connected customer experience and the target connection architecture choices* — makes sense for a wealth manager is a function of the firm's current and desired role in the industry ecosystem and its specific context. The strategic choices that a pure play, 'de novo' wealth fintech faces are materially different from that of an incumbent wealth manager with an established, profitable revenue stream and domain expertise who is, however, saddled with legacy organizations, systems and skillsets.

To facilitate problem solving at the individual firm level, we lay out a preliminary set of questions for wealth management executives to think through in designing their firm's connected strategy and its implementation. Our intent here is to not so much to be comprehensive with the questions but to provide a starter list of key issues to solve for to get the new, connected business models designed and executed right.

Target client personas

- For which client personas does the firm have a competitive advantage to gain disproportionate share?
- What are the customer's and advisors' jobs to be done?
- Which personas would value a connected wealth experience? How sizeable is this target group?

Connected customer experiences

- Which connected customer experience(s) should the firm deliver, aligned to its target personas?
- What capabilities are needed to drive clients to engage with the firm's digital wealth platform?
- At what points in the client's journey does a firm want to play given its capabilities?
- What should a connected experience for UI-NX — i.e., for inexperienced users — look like?
- How may the firm deliberately design connected experiences for wealth management that focus on decision making quality versus simply transactional convenience?
- How should a firm achieve a critical mass of *a priori* personalization to prime the data collection loop?
- What are the resulting information flows from the connected customer experiences?
- How should the firm's data architecture be adapted to the new information flows?
- How should the role of a product manager evolve in light of data-driven advisory capabilities?
- What capabilities are needed to drive frequent client engagement with the firm's digital platform?

Connection architectures

- Where are the current white spaces in the industry?
- What is the firm's current connection architecture and how does it need to change?
- What is the ecosystem of capabilities and partnerships needed for clients?
- Which 'string of pearls' partnerships could bring together new, complementary connected capabilities?
- How ready is the firm's technology stack for the desired connection architectures?

Strategy implementation, change management and organization

- Why change — strategic, economic and client considerations?
- Which competitors are pursuing a Connected Strategy and what is risk to the firm's earnings over time?
- How material could a Connected Strategy's impact on a firm's economics be?
- What should the pace of investment be — 'big bang' or more phased out?
- Where is the firm best positioned to compete — across the entire customer journey or on specific steps?
- What team structure is needed to bring together the client experience, product and analytics?
- How prepared is the firm's culture and ways of working to a connected strategy?
- Should connected experiences be built as a separate business unit or as part of the main franchise?

EPILOGUE

Connected strategies provide a host of players in wealth management a transformational opportunity to build connected client relationships and connection architectures instead of relying on traditional, intermediated business models. But connected strategies are not all about hyper-digitization and automation. A connected strategy does not mean automating every possible transaction for every customer. For many transactions what customers want is help in making better decisions. Few clients rely solely on their financial advisors to make all or even most investment decisions. Some investors would enjoy frequently receiving ready-to-execute investment recommendations, some would not. Some investors would be happy to be coached and nudged along their investment journey, some would not. It will be important to resist the temptation to create connectivity just because technology makes it possible and to monetize the information flows indiscriminately.

As wealth management in Asia transitions from today's analog, disconnected paradigm to a more connected, personalized model, we believe that we are in the early innings of Connected Strategy applications in Asian wealth management. ■

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