

Into the Wilderness: Shifting the Digital Discourse from Protection to Progression

"We are releasing the computer into the wilderness," announced Hendrik Leber of Acatis Asset Management in March. He was, of course, referring to the recent launch of the first global equity fund to be fully controlled by artificial intelligence. Computer-based research and trading solutions may have been around for some time, but Leber's technology is particularly smart. It is able to discern patterns of non-linear developments; it is capable of deep learning.

Preliminary tests show that this computer-optimised fund has outperformed the market by 3-5% a year, over a five-year period. Despite being a renowned fund manager, Leber's admission that "this computer is vastly superior to me" gives credence to the suggestion that robots could soon replace humans in many surprising jobs and sectors. (Cue the sharp inhalation of breath from fund managers everywhere.)

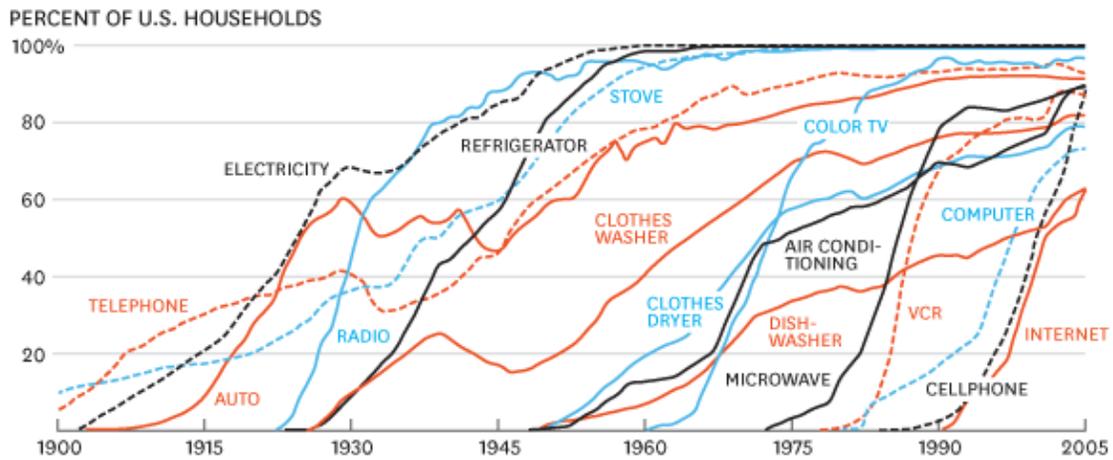
Developments in the digital space which impact the world of wealth management are now numerous from AI to biometrics, FinTech to RegTech, the roster reads like a veritable A to Z of innovation.

If you are still questioning the relative value of digital integration, then you are behind. The mind-set shift needed? Stop thinking about *protecting* the current business model from the technological revolution and start thinking about strategies for *progressing* in this new context.

The urgency of this reorientation is paramount. Consumption of new technologies is increasing at a faster rate than ever before; take the telephone, for example, which was launched before 1900 but took decades to reach just 50% of households, then compare it to the mobile phone which took roughly a single decade to reach the same level of penetration when it was launched just before 1990.

Put simply, consumers no longer view technology with the same level of cynicism that they once did.

Figure 1: Consumption Spreads Faster Today



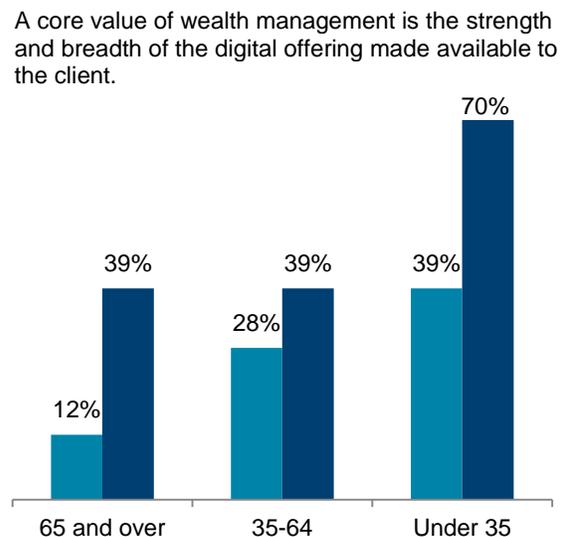
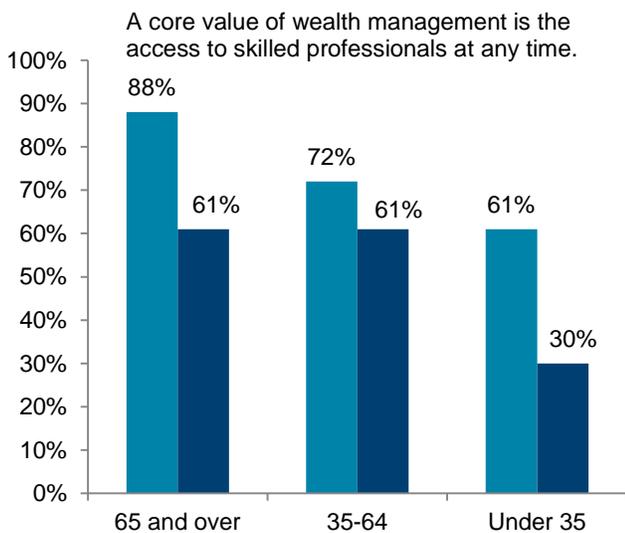
Source: Nicholas Felton, The New York Times – as featured on HBR.org

Recent research undertaken with CFA Institute revealed that 75% of wealthy individuals anticipate that enhanced access through digital channels will become more important to their relationship within the next five years. Worryingly for client relationships, however, our research also demonstrates a discrepancy in the way wealth practitioners and wealthy individuals perceive wealth management today.

Figure 2: The Core Value of Wealth Management

Wealth practitioners and wealthy individuals were asked: In each of the following pairs of statements, which sentence most closely aligns with your view about the core value of wealth management?

■ All Wealth Practitioners ■ Wealthy Individuals



Source: Scorpio Partnership & CFA Institute, The Value of Premium Wealth Management for Investors

As wealth management firms continue integrating digital solutions to enhance their client experience, more attention must be paid to coaching wealth advisors through these times of change. The best firms will not only be innovators and early adopters, but also they will also take proactive steps to ensure alignment between clients' and advisors' evolving perceptions of technology in wealth management.

Indeed, central to the success of digital integration is a clear vision as to the purpose and objectives of harnessing innovation. Every firm must understand whether digital is an interface to the customer, a distribution channel for streamlining execution or a supporting technology to manage client information.

The wrong choice can doom the business to failure; being overly ambitious without internal buy-in can create conflict with traditional business leaders and potentially damage traditional revenue streams. Yet, not being ambitious enough can stifle business growth and leave propositions vulnerable to competitors who are working better, faster, smarter, or more creatively with technologies.

As firms tread out into the digital wilderness, the key question will be how to align digital integration to the existing growth agenda or re-write growth objectives based on digital aspirations. Fighting to protect the business from technologies will be futile, but placing innovation and talent front and centre in the business strategy can help firms to progress in this new environment.

To understand how you can address these challenges or more, please contact our team.

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