'WealthTech': The challenges facing the wealth management industry

Tech teams need to be in the front lines, understanding user experience and customer acquisition, writes Dan Tammas-Hastings

Technology is changing society more than ever before. The way we shop, socialise and communicate have all changed radically over our lifetimes. The financial services industry is in many ways behind the curve, with many product lines unchanged in decades. We are likely to enter an online and digital age and many firms are yet to adapt to the new environment. Innovations from outside traditional finance will change the sector in the near future with relationships between institutions and consumers likely to be disrupted as new products in banking, financial management and investment are unveiled, creating more options and convenience for the end-user. As the UK economy is so reliant on financial firms, we introduce the concept of 'WealthTech,' digital wealth management applications, and look at how it will force the financial services to evolve.

The age of data and information transparency is already impacting our financial lives. Historic connections are breaking down and it looks likely that traditional relationships in the finance ecosystem will be disrupted by the powerful forces of technology and regulation. Revenue streams and business models of legacy institutions such as asset managers, life insurers and banks are in danger of being replaced by new players such as robo advisors and peer-to-peer lenders. These new entrants to the investment space have become categorised as WealthTech or InvestTech firms and are part of the 'FinTech (financial technology) revolution'. Perhaps the best known UK player in this space is Nutmeg, a digital asset manager which now manages approximately $1 billion for UK investors despite no branch network or physical presence. Newer entrants to this space include RiskSave, which I founded, and Landbay.

WealthTech has become defined as the FinTech sector that focuses on enhancing wealth management and the retail investment process. The most visible players are applications called robo advisors but other concepts are deserving of attention. Technology derived from wealth management firms, research tools that generate investment solutions, and platforms to support financial advisors—all fall under WealthTech.

Whilst the term robo advisor has gained traction, few digital asset management firms appreciate the label. This is as few players match the regulatory definition of 'advice' and not all parts of the process are automated. The term 'semi-automated digital guiders,' whilst more accurate, isn't quite as snappy and has yet to catch on.

Simply having an online presence in an asset management or advisory firm doesn't reach true 'WealthTech' – for us not only must the technology work and meet the needs of the business, but it must also be novel, surprising and transformative.

The risk to the FinTech sector is that disruption comes from outside the industry. Firms that place technology at the forefront with almost unlimited R&D resources not with one eye on the clock for the next funding round. Indeed many non-financial firms are entering the space with ideas and concepts for both user experience (UX) and customer onboarding, or acquisition. With FinTech's relentless focus on innovation we see it likely that artificial intelligence (AI) interfaces and seamless onboarding experiences are likely within the next five years. But because of this they are likely to be a) commoditised and b) supplied by a non-financial player. IBM being the go-to choice at the moment for legacy players for their AI needs, rather than a FinTech startup.

Traditional financial firms have put developers as a back office function separate from the front-office business line. This has been fine when technology has been considered a support role. However, for a WealthTech (or any FinTech), we question whether this back office approach is likely to yield the desired result. WealthTech seeks to replicate or enhance processes currently performed by a finance professional. This requires developers to understand intricately how the front-line/customer needs work. This knowledge would ensure that the developers have a better grasp of customers wants. Developers will struggle to replicate a process, let alone innovate without this commercial knowledge. Some of the larger players are seeking to integrate the technology team with distinct revenue lines. Indeed Goldman Sachs is seeking – perhaps unconvincingly – to position itself as a technology player.

This, of course, brings new responsibilities to both technology teams and the multiple revenue producers, who have to commit time and effort to communicate and understand new concepts in different areas to their own expertise. This presents both a challenge and an opportunity.

The challenge will be in establishing this more integrated way of working. The opportunity, however, is access to the vast and varied knowledge base that exists in any professional organisation. If the two can be successfully combined then some real WealthTech may actually emerge.

For us the most exciting changes will be the use of AI as part of the customer experience (although more limited in the investment process.) and the relentless rise of passive. Passive investments are approximately 10 per cent of retail distribution currently – we could see this become a majority in the next decade. The main benefit of the changes in the investment ecosystem will be the continued slashing of fund management charges, but it is a struggle to give WealthTech the credit for this, with Vanguard being the ultimate driving force and a child of the 70s.

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