



Wealth Management Trends –

Respond to the most important trends
in Wealth Management with aixigo

July 2019

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Executive Summary

In this report, aixigo focuses on the trends that we expect to drive wealth management in the coming years:

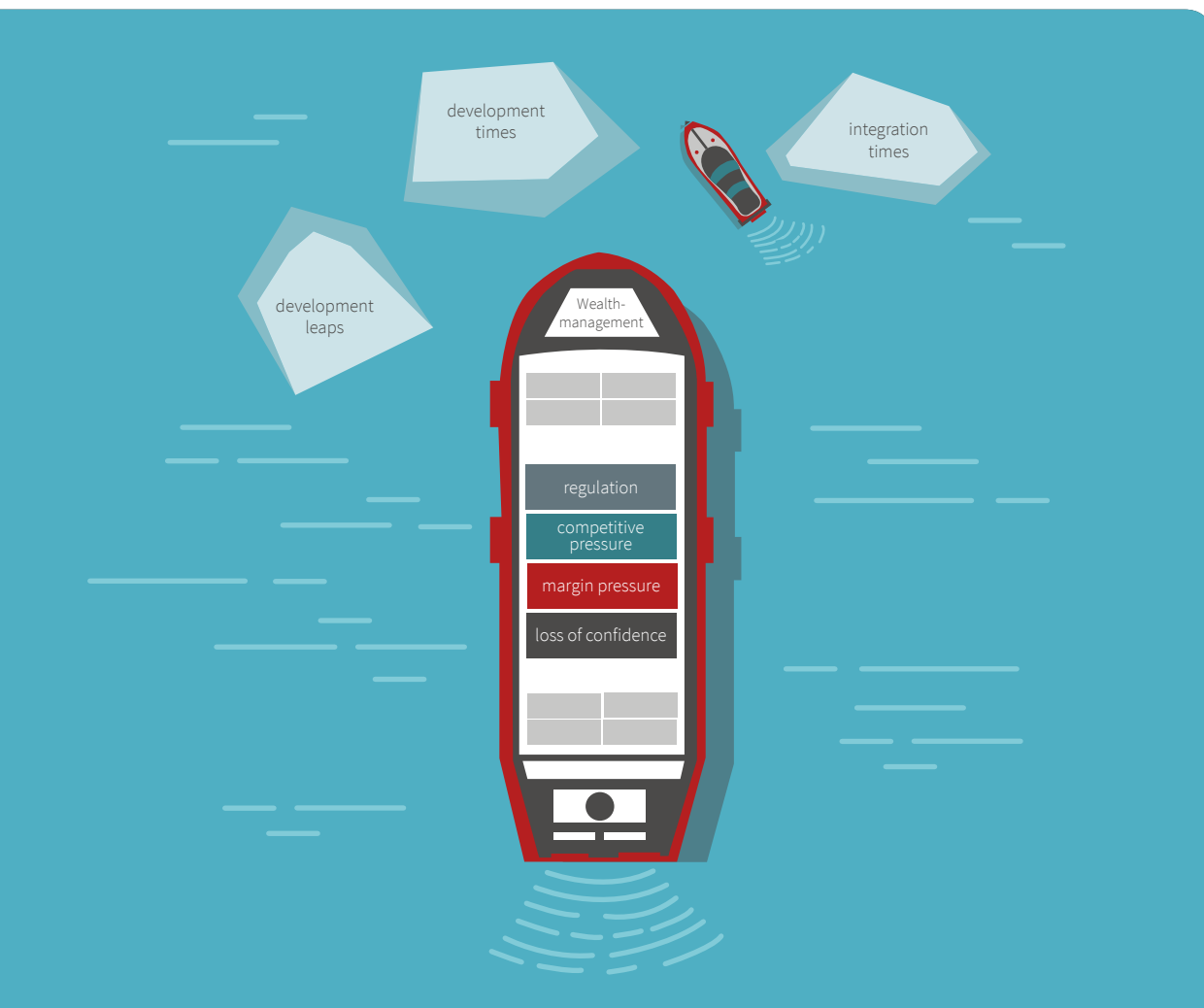
- Increasing regulatory intensity for banks and financial service providers, triggered by the challenges of climate change: With the Paris Agreement, the EU also sees the financial industry as obliged to play its part in combating climate change by redirecting investment flows into sustainable investments. To this end, a package of measures has already been adopted, the implementation of which wealth management must prepare itself for. However, this also creates opportunities, as this development is attracting a great deal of interest from clients.
- The next step in the digitalisation of wealth management through hybrid advisory services: The symbiosis of personal investment advice and efficient discretionary portfolio management enables wealth management to design advisory processes that are both personal and efficient in times of time-consuming regulation. While social change means that wealth is increasingly transferred to younger generations, who are more self-confident when making investment decisions, hybrid advice can offer more individual advice, tailored to personal needs, by analysing a wide range of client data.
- Artificial intelligence (AI) supported processes optimise inefficient processes and bring intelligent customer interfaces: Banks and financial service providers are under cost pressure due to the ongoing low interest rate phase and high costs for the maintenance of legacy systems¹. At the same time, Bigtech's digital service offering is shaping customer experience requirements. The ongoing implementation of AI optimised processes and customer interfaces is inevitable for wealth management and must be intensified.

¹ „Den Filialbanken brechen die Erträge weg“, Markus Fruehauf, FAZ. 11. April 2019 (Link: [FAZ](#)).

Like in all industries, wealth management will continue to face the challenges created by the megatrends shaping the world. Climate change, social change and technological breakthroughs mean that wealth management is once again undergoing a process of transformation².

Furthermore, with the effects of recent years, such as the loss of client confidence in the wake of the financial crisis, the accompanying tightening of regulations and the competitive pressure from the entry of Fintechs, Bigtechs and other financial service providers³, are still having an impact, the horizon is already showing the offshoots of the next challenges.

It is essential that the wealth management industry prepares fundamentally and dynamically for these challenges. The leaps in development are growing and very soon it will no longer be enough to enter the market as a fast follower, as development and integration times are increasing while competition is unassailably moving forward.



A sluggish tanker in unsafe waters:

The wealth management of tomorrow is looking for safe passage between unforeseeable challenges.

²„Megatrends“, PWC. 24. Mai 2019 (Link: [PWC](#)).

³„Fintechs gegen Banken: Der digitale Kampf ums Geld“, Christian Kirchner, Niklas Wirminghaus, Capital. 18. April 2019 (Link: [Capital](#)).

Wealth Management Trend 1:

Intensifying regulatory requirements for banks and financial service providers:
Ensuring fast and secure compliance

Year after year, in wealth management the regulatory framework for banks and Fintechs is becoming denser. For good reason: In the course of the financial crisis, many clients lost their invested assets due to non-transparent financial products. Comprehensive regulation is the approach of the EU and other central authorities to demand and promote the transparency of financial products and their brokerage.

This starts with laws against money laundering and corresponding regulations for KYC processes, continues with guidelines to protect the privacy of customers and leads to rules on the sale of financial products.⁴

MiFID II causes unrest EU-wide

The aim of MiFID II is to strengthen investor protection and make financial markets more transparent. Investors should be consistently informed about the costs of financial products before and after the purchase. Unlike before the financial crisis, according to MiFID, statements of suitability must be drawn up and the advisory process documented so that investors are not sold products whose risks they do not understand or cannot assess.

After only one year since the introduction of MiFID II, the industry agrees that MiFID II does not really benefit the customer, but causes unnecessarily high expenditure without the desired added value. Moreover, the technical implementation of the ex-ante cost calculation and the telephone recording of advisory conversations have posed a technical challenge to most financial service providers.⁵

From the customer's point of view, MiFID is also considered inadequate according to consumer protection. In particular, telephone recording, the flood of documents caused by ex-ante and, since January 2019, ex-post costing and the statement of suitability prolong the length of the advice enormously and additionally increase the complexity for the customer. Further has also met with little understanding in this case⁶.



⁴„Compliance will kill the bank“, Chris Skinner, The Finanser. Dezember 2018 (Link: [The Finanser](#)).

⁵„Auswirkungsstudie MiFID II/MiFIR und PRIIPs-VO:Effektivität und Effizienz der Neuregelungen vor dem Hintergrund des Anleger- und Verbraucherschutzes“, Prof. Dr. Stephan Paul, Die Deutsche Kreditwirtschaft. Februar 2019 (Link: [Die Deutsche Kreditwirtschaft](#)).

⁶„EU-FINANZMARKTREGULIERUNG AN VERBRAUCHERINTERESSEN AUSRICHTEN“, Bundesverband Verbraucherzentrale e.V, Marktwächter Finanzen. 29. März 2019 (Link: [vzbv](#)).

How regulation affects the bank and the day-to-day work of advisors - process automation becomes indispensable.

Some financial service providers report that they are no longer in a position to hold cost-covering advisory meetings without process automation. The main reasons being increased bureaucratic requirements. Uncertainties in the interpretation of regulations with non-standardised processes, while at the same time advisory meetings generate significantly higher liability risks.

As a result, advisors conduct fewer advisory sessions than before, which leads to an additional decline in margins in addition to low interest rates. On the other hand, it can be observed that obsolete processes are being rethought and modernised accordingly. The challenge in the coming years will be to avoid excessive IT projects and to ensure regulatory compliance. For this reason, financial service providers often resort to offers from specialised third parties that can provide appropriate, tried and tested solutions. A development that will intensify in the coming years.⁷

The sustainable bank. EU launches further regulation of the financial sector.

While MiFID regulation has more or less been implemented successfully, another wave of directives is already on the horizon.⁸ Triggered by the Paris Agreement, which provides for a limitation of global warming to below 2°C, the EU intends to take more responsibility for financial service providers. According to the EU, investments amounting to 180 billion euros are needed to curb global warming. Money that cannot be financed by public funds alone. By diverting investment flows to areas and sectors that contribute to sustainability, the gap in investment funds can be closed more quickly. The EU has already adopted a package of measures to implement this project:

- Standardisation of understanding the concept of sustainability,
- ESG label for sustainable financial products,
- The sustainability preferences of customers should be increasingly taken into account during the advisory process,
- Obligation to consider sustainability factors and risks in the investment of funds for financial service providers. To ensure this, transparency for end-investors and comparability of products are to be created.

These measures are to be integrated into current directives such as UCTIS, AIFMD and MiFID II.⁹

⁷„Outsourcing 3.0: Licensed Fintechs Driving Growth and Efficiency for Banks“, PWC. März 2018 (Link: [PWC](#)).

⁸„EU-Ziele stellen Finanzindustrie vor beinahe unlösbare Aufgaben“, Christian Waigel, private banking magazin. 06. Februar 2019 (Link: [private banking magazin](#)).

⁹„Sustainable Investment – Einfluss des Pariser Klimaabkommens auf die Finanzindustrie“, Samuel Isenschimid, Banking Hub. 08. April 2019 (Link: [Banking Hub](#)).

Opportunities in the market for sustainable financial products

A certain aversion on the part of financial service providers to additional regulatory costs is understandable, but new opportunities also arise here. Financial service providers who manage to position themselves convincingly as part of a sustainable value chain at an early stage can expect growth in the young customer segment. Studies show that Generation Y and Z in particular are choosing financial service providers who represent corresponding values, or to put it colloquially: they are choosing financial service providers who stand for „something“.

Recently, the market for sustainable financial products has picked up strongly and younger investors in particular have shown a strong interest in sustainable financial products. In addition, the withdrawal of major investors such as the Norwegian state fund or insurance companies such as Munich RE from investments in coal and other fossil fuels signals that the issue has reached the entire financial sector.

Sustainability means more than just an ESG seal?

ESG is committed to environmental, social and governance issues. This refers to criteria that measure the impact of investments on issues such as environmental protection, inclusion of minorities or corporate governance. Preliminary studies show that securities with a good ESG rating generate better returns than those with a poor ESG rating.



So far, however, the weighting of ESG criteria has been a controversial issue. Investors differ in their prioritisation and perception of sustainability. The EU is now striving for uniformity.¹⁰

Technology from aixigo for regulation-compliant automation.

It can be seen that the intensifying regulations are creating an increasing need for technological support for the advisor. Wealth Management is therefore obliged to redesign processes efficiently through automation and digitisation so that in the end there is more time for the relationship with the client and his needs.¹¹

For this reason, aixigo supports the flexible development of regulatory compliant business processes. For regulatory compliant process automation, the aixigo platform provides specially tailored REST services and realises a variety of workflows, such as complete investment advisory with allocation recommendations and declaration of suitability, quarterly reporting, loss threshold monitoring or rebalancing. But it is also possible to configure business processes for individual customers. Thus a lasting relief of the advisor can be achieved.

¹⁰„The Future of Fintech and Wealth – ‚ESG‘ is the most important thing you’ve never heard of“ Simon Taylor, 11fs. 29. März 2019 (Link: [11fs](#)).

¹¹„Wie modernes Wealth Management regulatorischen Vorgaben genügt“, Dr. Thomas Beck, av-finance. 22. März 2019 (Link: [av-finance.com](#)).

Wealth Management Trend 2:

Wealth management between the generations: Change in business models due to discrepancy between self-directed and digital trust

Financial service providers must adapt to the fact that the requirements of customers for financial advice will change with the change of generations. According to a study by DAB BNP Paribas, the older generation valued trust during personal advisory sessions and delegated responsibility for investment decisions to the advisor. Younger customers, on the other hand, were more independent when it came to investment decisions and attached importance to a convincing online customer experience.¹²

Although this shows that personal advice will continue to be available even in times of digitalisation, the question for financial service providers is how to bridge the gap between the various requirements in the future. How is it possible, despite tight regulation, to design the advisory process in a cost-efficient and personal way?

Robo Advisor – an alternative?

To escape some of the regulatory pressure, a large number of financial service providers have so far seen the way out as an automated discretionary portfolio management, especially with Robo Advisor offers.

These are characterised by the fact that they are easier to handle in legal terms than traditional human investment advice. For example, the MiFID II regulations do not apply to discretionary portfolio management and consequently do not apply to Robo Advisor. Since Robo Advisor usually focuses on low-cost funds and ETFs, they can score points with a simple, transparent and low-cost fee model. Only 0.5% to 1.5% p.a. are due at the end of the year as an asset management fee.

In 2018, however, it turned out that many Robo Advisors have difficulties working profitably. In particular, clients and thus managed assets were lacking to generate profits. As a result, some Robo Advisors have already disappeared from the market. Some others have switched from a B2C to a B2B strategy, offering their Robo Advisor as a white label product to banks.¹³

¹²„Was erwartet der Kunde von morgen von unabhängigen Vermögensverwaltern?“, DAB BNP Paribas. 24. Oktober 2018 (Link: [DAB BNP Paribas](#)).

¹³„Why robot advisers do not always add up“, Miriam Rozen, Financial Times. 8. April 2019 (Link: [Financial Times](#)).

Hybrid advice – The marriage of discretionary portfolio management and investment advice

While most Robo Advisors have not been able to accumulate enough assets to operate profitably, nor do they offer interaction with a human advisor which is still desired by many clients. Hybrid advice has the potential to dissolve the existing dualism of rigid discretionary portfolio management and expensive investment advice by creating a „best-of“ approach.

The idea of hybrid advice is to create a basic portfolio with discretionary portfolio management for clients. This allows non-value-adding activities, such as the provision of regulatory documentation, to be bypassed or at least automated. Customers are free to link a large number of data points, such as asset situation, account activities or life planning, to their own account. The more data the better, because the twist is that customers can call in an advisor if required, e.g. for a one-off fee or a subscription model. It is conceivable that customers can independently and flexibly change their investment objectives to suit their current life situation. The wealth manager can, for example, react to this with rebalancing and offer further coaching. This can be done flexibly by making a classic personal appointment, remotely via a video conference or other client interfaces. Since the client has already linked the personal data to the account, the advisor can access the data on a daily basis and thus has a complete as possible view of the client during the advisory meeting. If desired, the customer's dense data base can also be used to create proactive and highly personalised meetings. Furthermore, it is possible to collect more data about the customers and to offer a more personal portfolio structure, compared to classic Robo Advisors, according to the customer's wishes.

In the future, the hybrid advisory approach will make it possible to standardise and automate activities that offer little tangible customer benefit. At the same time, the option of facultative use of personal advice creates added value for the client, making it easier to argue for higher fees. Discussions would focus less on administrative costs and more on the value of advice. At best, hybrid advice will be integrated into a holistic financial wellness and planning concept that crosses traditional advice with digital wealth management.¹⁴

Hybrid advisory with aixigo

aixigo supports financial service providers with state-of-the-art technology. The integrated know-how of wealth management and investment advisory opens up completely new possibilities when developing innovative solutions and services for clients, advisors and portfolio managers. The advantages and unique selling points of aixigo technology enable financial service providers to meet the demands their customers place on them now and in the foreseeable future.

Wealth management and the financial sector have in general always been a technology-focused economic sector. At present, banks are sitting on a large amount of data, which they are trying to refine more and more. With this refined data they can generate additional income from the data or reduce costs. AI-based applications in particular are suitable for this task, but at the same time depend on being trained by a large data set.

¹⁴„So könnten Hybridlösungen im Wealth Management aussehen“, Norbert Paddgas, private banking magazin. 26. März 2019 (Link: [private banking magazin](#)).

Wealth Management Trend 3:

Efficient processes and intelligent customer interfaces through RPA and AI

Robotic Process Automation (RPA) and the Use of Artificial Intelligence (AI) in the Financial Sector

The use of artificial intelligence in the financial sector still seems to be a medium-far vision of the future, but banks and financial service providers are already being forced to optimise their processes at least through robotic process automation or better through artificial intelligence due to constantly changing regulations such as MiFID II and competition from Bigtechs.

The Path from Automation to Artificial Intelligence

Level 1: **Robotic Process Automation**

Robotic Process Automation is the first step towards the use of artificial intelligence. Here, repetitive and rule-based processes are automated using structured data.

Level 2: **Digital assistants**

Digital assistants offer customers new interfaces through chatbots and speech recognition. These have to be trained for the unstructured input of data.

Level 3: **Artificial intelligence**

The previous applications required systems that have mastered learning with structured and unstructured data. Only when both hurdles have been overcome can the use of AI be discussed.

Artificial intelligence is then able to take over decision-making processes and initiate processes with minimal human input.



Cost reduction and efficiency gain

Many of these applications are designed to automate repetitive tasks with little variability and low application intelligence requirements. For example, the scanning of documents can be easily optimised by RPA. Automating pattern recognition also helps banks detect money laundering, fraud and terrorist financing in transaction data. Furthermore, automated documentation processes according to current regulations and national laws are possible. Particularly in times of MiFID II, financial service providers must try to keep securities trading profitable under cost pressure by reducing non-value-adding activities.¹⁵

¹⁵„Digitale Compliance als Chance für Wealth Manager“, Dr. Thomas Beck, private banking magazin. 25. Januar 2019 (Link: [private banking magazin](#)).

Intelligent customer interfaces determine customer contact.

Due to the entry of younger generations into the aforementioned financial market, there is a further field of application for AI-based processes: The customer experience is now primarily shaped by the Bigtechs and digital service providers outside of the financial world, with customer interfaces particularly affected. A service provider that can only be reached on weekdays between 9 a.m. and 5 p.m. is now completely out of the question. The accessibility by browser and high-performance app, with additional attractive UI design, has long been the standard.¹⁶

In addition, individual profiles based on (big) data analyses are to be created for customers in order to personalise communication and product recommendations even more precisely. Therefore, financial service providers are currently not only supplementing the customer contact with a majority of channels, but also individualising the product offer to customers, based on AI-decreased processes. First approaches, in which modern customer interfaces and a personalised offer can flow together, are pursued with Chatbots and also the establishment of Voice Banking. As a result, customers are increasingly getting back in touch with their own service providers.¹⁷

Voice banking in its infancy

In order to stand up to the technology giants, financial service providers must once again focus more on their customers. This means that they must be reachable via voice banking, mobile via the app and, in the future, also via the smart speaker. Particularly in wealth management, the desire for personal contact possibilities with the financial services provider will remain, despite digitalisation.

So far, however, it seems that truly intelligent and personal voice banking cannot be fulfilled at short notice. The essential artificial Intelligence technology, with the associated sub-area of „Natural Language Processing“, i.e. the recognition, processing and interpretation of unstructured voice inputs, has matured to a certain extent, but is not yet fully linked with services intelligently to provide customers with real added value.



Intelligent voice banking does not mean that a smart speaker waits for certain signal words and then triggers predefined services. It must be able to recognise unstructured voice input and then flexibly connect to the various services of a financial service provider. This lacks the necessary structured data and algorithms to train the digital assistant.¹⁸

Impact on the IT of financial service providers

The use of Big Data for all kinds of applications is based on the fact that customers can ask a wide variety of questions. This applies to digital services, such as, voice interfaces, which customers use directly, as well as, to internal users who have ideas for new products and want to check their relevance for customers. To do this, knowledge about a large number of customers must be made available. This makes mass suitability a central requirement for the bank IT.

¹⁶„Young people and their phones are shaking up banking“, Helen Joyce, The Economist. 02. Mai 2019 (Link: [The Economist](#)).

¹⁷„Wie KI-gestützter Kundenservice mehr als nur die Customer Experience steigert“, av-finance.com. 24. April 2019 (Link: [av-finance.com](#)).

¹⁸„Banking With Alexa: What Works, What Doesn't“, Bill Streeter, The Financial Brand. 16. Januar 2019 (Link: [The Financial Brand](#)).

This poses an enormous challenge for financial services's IT. Digital customer interfaces, which the customer can use 24/7 and which are capable of an individualised response, require systems which have extremely fast response times, because the willingness to wait for answers online is low. The response times in the area of voice interfaces are particularly noticeable. The answer must arrive within 300 milliseconds to make the conversation feel natural to the user.

The changed requirements on the customer interfaces require not only speed but also a high degree of flexibility on the part of the financial service provider's IT, because the innovation speed of the competition is enormous and only innovative companies can survive against the rest of the competition. Today's customers expect regular innovations. Long project times for new features just because they require changes to existing systems, for example, are now completely out of the question.

Fast Follower Problem

For financial service providers, it is essential to start the transformation process as quickly as possible, since the integration of AI-supported processes requires significantly more complex steps than previous technological projects. This is not only due to the technological complexity but also to the fact that the machine has to be trained with data and the user has to be trained in handling it.



Particularly with artificial intelligence, companies run the risk of no longer waiting for the technology to mature and then entering the market as a „fast follower“. The development and integration of such systems takes too long. Companies that have already taken the step of using artificial intelligence may have in the meantime already gained too large a market share.¹⁹

Mastering tomorrow's IT challenges with aixigo today

Anyone who wants to profit from the trends described above is urged to improve their own infrastructure to such an extent that all IT requirements can be met at the same time. Accordingly, systems and services are required to be fast, flexible and suitable for the masses.

Find out more on our website about how aixigo can help you meet these needs.

¹⁹„Why Companies That Wait to Adopt AI May Never Catch Up“, Vikram Mahidhar, Thomas H. Davenport, Harvard Business Review. 06. Dezember 2018 (Link: [Harvard Business Review](#)).

Conclusion:

Looking at global trends as a whole

It should have become apparent that the wealth management trends described cannot be viewed in isolation, as they are interdependent: The intensifying regulatory environment triggered by the financial crisis means that financial service providers must optimise their processes. Not only to avoid costs, but also as not to lose contact with customers in the thicket of bureaucracy and regulation. Opportunities for customer retention are opened up by intelligent customer interfaces and being able to address customers personally, based on AI-derived data analyses. Young customers in particular appreciate this form of customer contact, as their experiences are shaped in particular by the digital customer interfaces of Bigtech. These intelligent customer interfaces can therefore be well embedded in hybrid advisory in order to satisfy the customer's need for personal contact, but also for a voice and digital customer experience.

In order to survive the digital transformation, financial service providers must therefore be able to respond to all trends and challenges simultaneously. To achieve this, the existing IT must be adapted sustainably. Speed, mass suitability and flexibility are the prerequisites for being able to profit from these trends.

