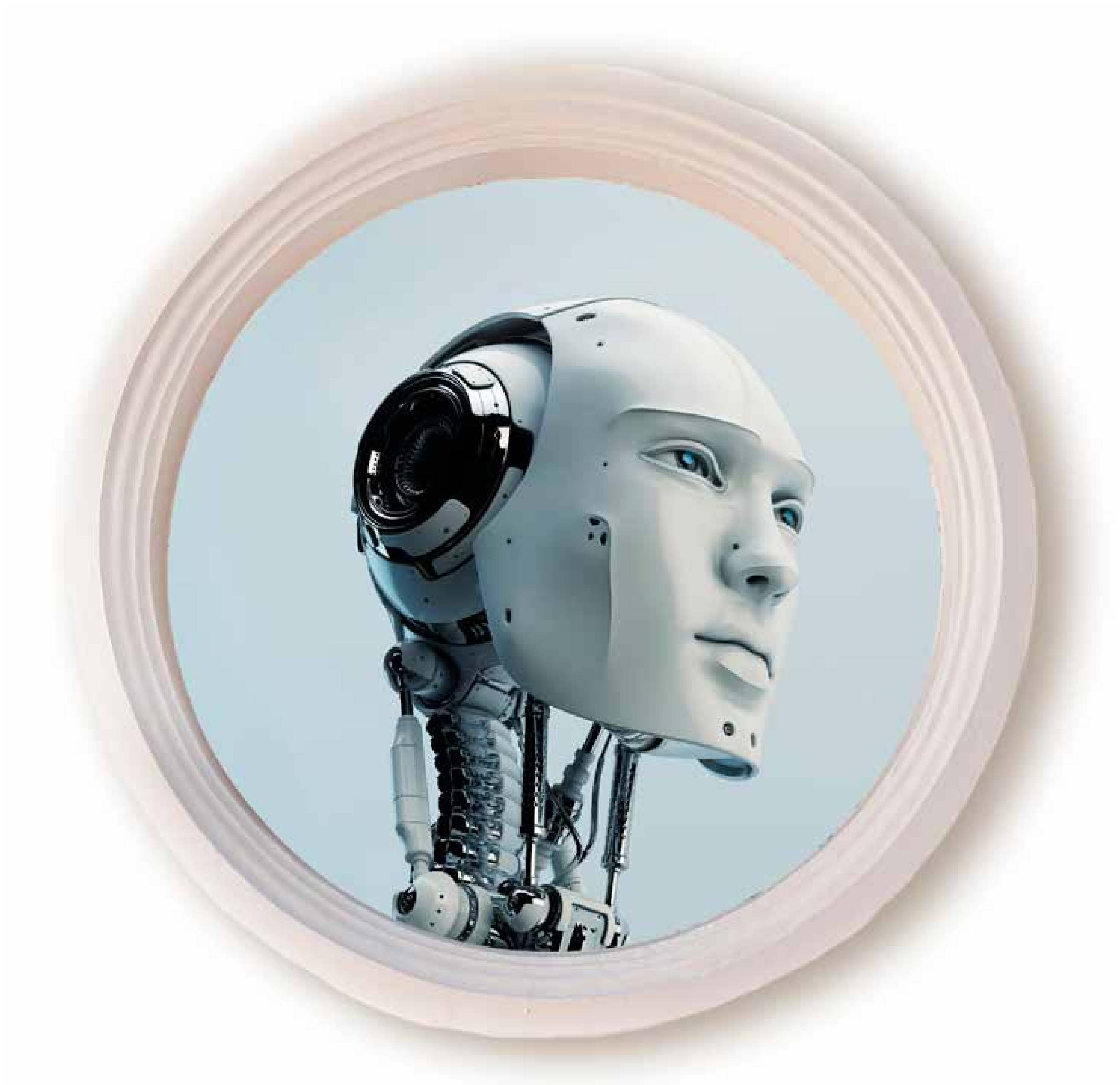


**Robots are here**

The rise of robo-advisers in Asia Pacific

# Introduction

Robo-advisory is fundamentally challenging incumbents in the wealth management industry by disintermediating traditional wholesale distribution channels.

For Asia Pacific clients, robo-advisory offers ease of use, convenience, and affordable fees, as an attractive alternative to low-interest savings accounts for those who prefer to employ a “hands-off” approach towards investing. Given these characteristics, robo-advisory services are likely to be the most attractive for Retail and Affluent customer segments in Asia Pacific.

High Net Worth Individual (HNWI) investors, on the other hand, are unlikely to be the key target market for pure-play robo-advisory services, as their larger appetite for risk and desire for control mean that they are likely to continue to prefer to make self-directed investments. Rather, the winning strategy for HNWI investors is likely to be a hybrid robo-adviser model – one that combines a superior digital experience with qualified, human-led advisory services.

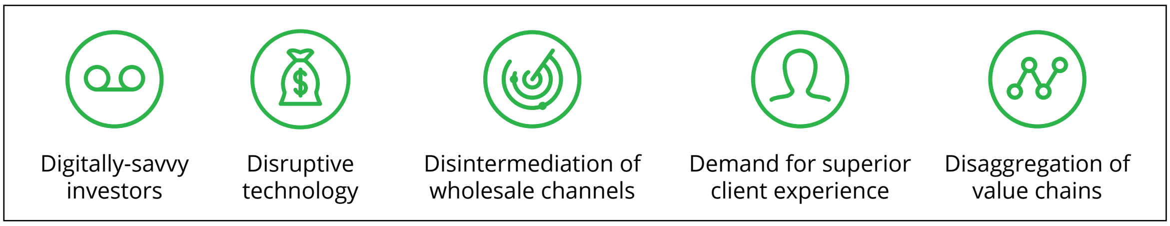
However, several challenges remain. These include data privacy and cyber threats, as well as issues related to the size of investments and the deep expertise required to develop and manage robo-advisory competencies in an environment with many legacy IT systems.

# Digital disruption in wealth management

Within Asia Pacific, dramatic changes in the wealth management landscape are driving wealth managers and private banks to re-evaluate and modernise their existing operating models. As technology companies increasingly become critical distribution platforms for wealth management products and services, incumbent players – who have traditionally depended heavily on the primary relationships that private banks have with their private investors – are experiencing disruptions in their investment product distribution chain.

Buoying the rise of these technology companies is a new generation of digitally-savvy investors. Accustomed to client-centric platforms in their everyday lives, these investors possess a global mind-set, and place a much greater emphasis on value propositions, regardless of their service provider. As a result, we are witnessing five digital disruption trends in the wealth management landscape in Asia Pacific, which are in turn underpinning the rise of robo-advisers in the region (see Figure 1).

**Figure 1: Five digital disruption trends in wealth management**




## Digitally-savvy investors

Globally, a new generation of digitally-savvy, self-directed investors has emerged. Although Millennials and Generation Z investors tend to possess higher digital propensities, these investors are not limited to a single wealth or age group (see Figure 2). With their relentless expectations for client-centric offerings, investors from every wealth and age group are increasingly adopting digital sales channels for their banking needs. Indeed, some investors may even have a preference for technology giants over traditional banks.

**Figure 2: Characteristics of investors across different age groups[1,2,3]**

| | Generation Z | Millennials | Generation X | Baby Boomers |
|---|---|---|---|---|
| Birth year | After 1999 | 1980-1999 | 1965-1979 | Before 1965 |
| Core values | • Social<br>• Realistic<br>• Diverse | • Global orientation<br>• Loyal<br>• Influence-seeking | • Independent<br>• Pragmatic<br>• Entrepreneurial | • "Anything is possible"<br>• Individualism<br>• Gratification-seeking |
| Digital propensity | • 100% digital natives<br>• Strongly influenced by social media<br>• Reliant on Internet research and social media opinions | • Highly technically capable<br>• Technology is integral<br>• Early adopters of technology<br>• Reliant on Internet research<br>• Social media-oriented | • Quick assimilation of technology<br>• Technology has large impact on day-to-day life<br>• Preference for personal contact for important decisions | • Technology has small impact on daily life during childhood<br>• Technology adoption only in selected areas<br>• Preference for human intervention and long-term rapport |
| Percentage of global population | 30% and growing | 28% | 20% | 22% |

Very high   High   Medium   Low

1 "The Pictet Group Annual Review". The Pictet Group. 31 December 2017. https://static.group.pictet/sites/default/files/2018-04/Pictet_AR2017_PDF_DE_Mobile.pdf
2 "Market dynamics relevant to UBS". Deloitte. 2018. https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Financial-Services/gx-fsi-dcfs-2019-investment-management-outlook.pdf
3 "Millennium Development Goals Indicator". United Nations. July 2015. http://mdgs.un.org/unsd/mdg/default.aspx

## Disruptive technology

From banking and payments to private banking and asset management, technology giants are entering the financial services industry on many fronts. Leveraging their sizeable platforms and global networks, they have unprecedented access to many traditional wealth management clients, and pose a formidable challenge to existing players with their breadth and depth of knowledge in areas such as artificial intelligence (AI), blockchain, and robo-advisory. Within Asia Pacific, technology giants are increasingly deploying robo-advisers in their foray into wealth management (see "Beating the competition with robo-advice in China").

**Beating the competition with robo-advice in China**

As financial services players seek to boost their revenue from retail clients, a boom in robo-advisory services seems imminent in China: the market – estimated to be worth USD 27.1 billion at the end of 2017 – is expected to double every year from 2017-2021[4]. Over the same period, the number of Chinese investors using robo services has also been forecasted to soar dramatically from fewer than 2 million to 79.4 million[5].

With competition from large FinTech companies, such as Ant Financial and Lufax, heating up, traditional financial institutions are also developing their own robo-advisers, either on their own or in collaboration with other technology players, such as Xuanji or MiCai[6].

For instance, Ant Financial's Caifu Hao is an AI-powered technology platform that enables fund management companies to make wealth management services more accessible to ordinary users. 27 fund management companies have seen tangible benefits since setting up their Caifu Hao accounts: they have been able to increase their operational efficiency by 70%, while reducing their overall costs by 50%[7]. In addition, they have seen a tenfold increase in the number of daily visitors, a threefold increase in the amount invested by returning investors, and an 89% increase in the holding period among all investors[8].

4 "Chinese banks, brokers eye robo advice for edge on competition". Reuters. 27 April 2017. https://www.reuters.com/article/us-china-wealth-management-roboadvisors/chinese-banks-brokers-eye-robo-advice-for-edge-on-competition-idUSKBN17T08P

5 "Chinese banks, brokers eye robo advice for edge on competition". Reuters. 27 April 2017. https://www.reuters.com/article/us-china-wealth-management-roboadvisors/chinese-banks-brokers-eye-robo-advice-for-edge-on-competition-idUSKBN17T08P

6 "Chinese banks, brokers eye robo advice for edge on competition". Reuters. 27 April 2017. https://www.reuters.com/article/us-china-wealth-management-roboadvisors/chinese-banks-brokers-eye-robo-advice-for-edge-on-competition-idUSKBN17T08P

7 "Ant Financial to share full suite of AI capabilities with asset management companies". Reuters. 27 April 2017. http://fintechnews.hk/5535/roboadvisor/ant-financial-to-share-full-suite-of-ai-capabilities-with-asset-management-companies

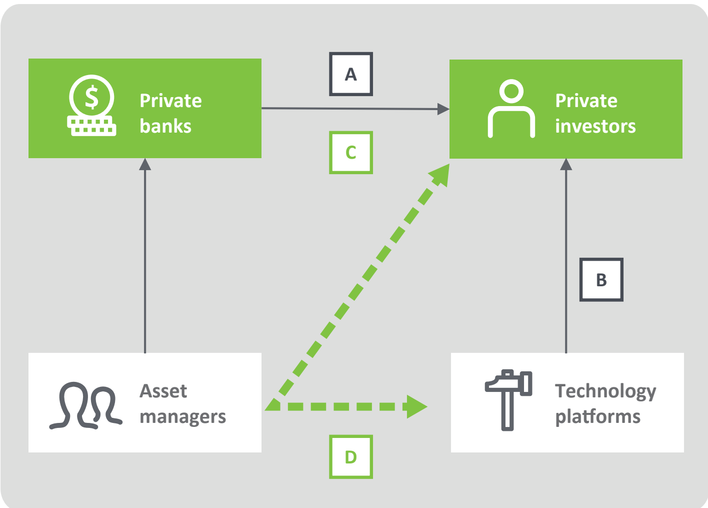
8 "Ant Financial to share full suite of AI capabilities with asset management companies". Reuters. 27 April 2017. http://fintechnews.hk/5535/roboadvisor/ant-financial-to-share-full-suite-of-ai-capabilities-with-asset-management-companies

### Disintermediation of wholesale channels

Currently, the traditional investment product distribution chain is heavily dependent on the primary relationships that private banks have with their private investors. At the same time, the increased importance of, and trust in, technology platforms and social network businesses have enabled these technology players to provide basic banking services, such as payments and lending.

In the near future, however, we are likely to witness the traditional wholesale distribution channel become increasingly disintermediated, as independent asset managers continue to build D2C offerings, for example, on their own platforms with the use of robo-advisory technology. Technology giants may also become alternative distribution platforms for asset managers, who are keen to leverage the former's direct, global access and reach, as well as deep relationships with private investors (see Figure 3). The rate of this development, however, will depend on the various compliance requirements and distributor relationships that exist within each market.

**Figure 3: Potential shifts in the investment product distribution chain**




**Current**

- **A** Asset managers rely heavily on the relationships private banks have with their private investors
- **B** Technology players provide basic banking services to private investors

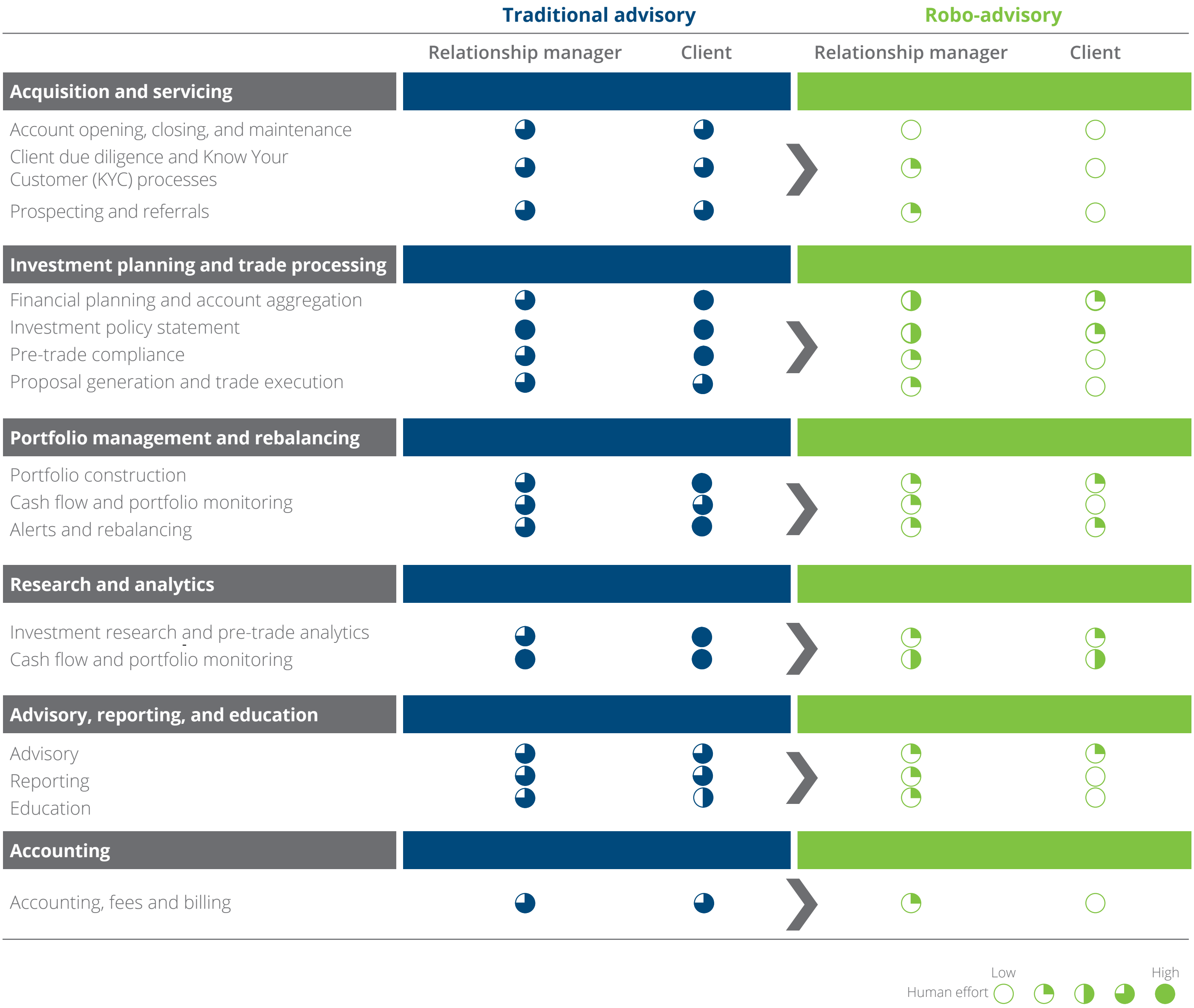
**Potential shifts**

- **C** Independent asset managers build D2C offerings
- **D** Technology giants become alternative distribution platforms for asset managers

### Demand for superior client experience

Accustomed to client-centric platforms in their everyday lives, investor expectations for a superior client experience are quickly evolving. Increasingly, wealth management players are realising the need to provide client-centric experiences and become more agile in delivering customised experiences and solutions to their target customer segments. For many Asian private banks, embedding client-facing robo-advisers across the entire private banking value chain is one way in which they can secure deeper and lasting client relationships, and expand the reach of their offerings while reducing the labour intensity for repetitive tasks (see Figure 4).

**Figure 4: Embedding robo-advisers across the private banking value chain**[9]




9 "Wealth management digitalisation changes client advisory more than ever before". Deloitte. June 2017. https://www2.deloitte.com/content/dam/Deloitte/de/Documents/financial-services/Wealth%20Management%20Digitalization.pdf

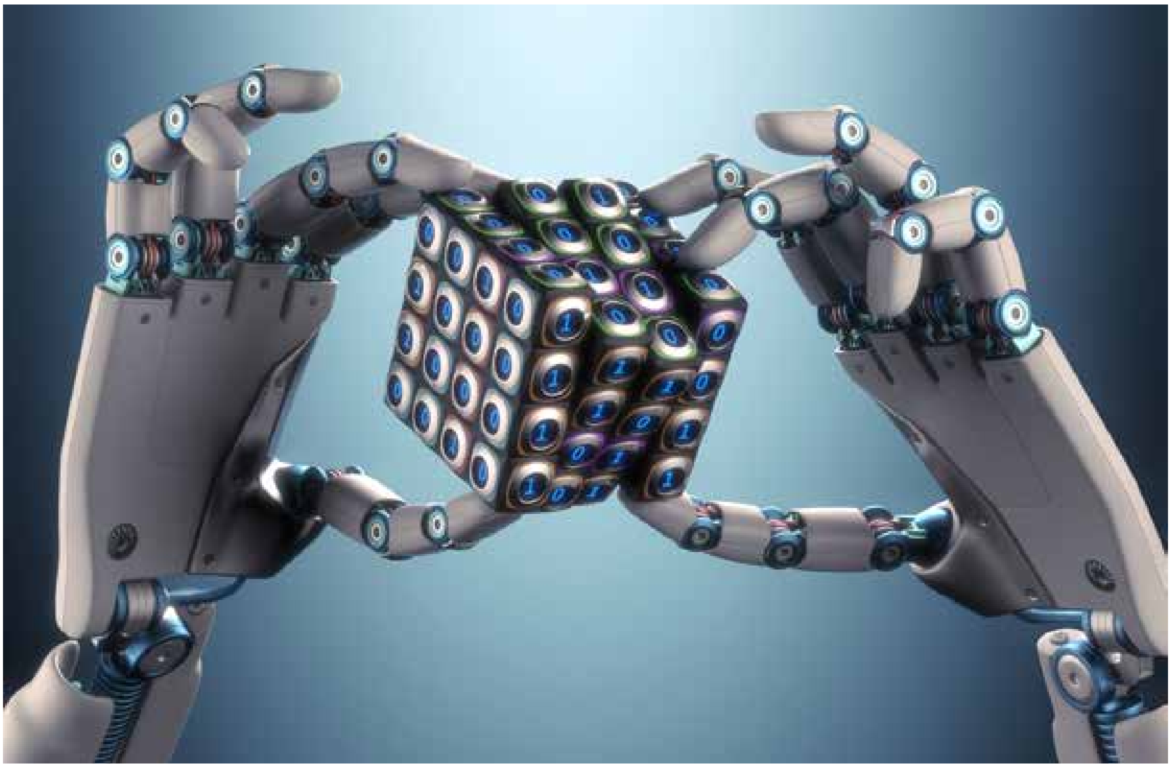
## Disaggregation of value chains

As the disaggregation of integrated value chains continues, wealth management players must focus on their most strategic value chain segments. The focus has since shifted to building client-centric platforms that are similar to those offered by technology giants, where investors are able to access a wide range of products and services within a single, integrated ecosystem (see "Enhanced client experience with RoboInvest").

**Enhanced client experience with RoboInvest**

Earlier in 2018, Singapore's OCBC Bank launched its robo-investment service, RoboInvest, targeted at young and tech-savvy investors. With an initial investment amount of SGD 3,500, the service has been likened to picking a playlist using a digital music service, where investors can pick from 28 portfolios of equities and exchange-traded funds across six markets, or across themes such as technology, real estate investment trusts, fast-moving consumer goods companies, property, healthcare, and food & beverage[10].

Developed in partnership with a local FinTech start-up, WeInvest, RoboInvest uses algorithms to monitor each portfolio automatically and periodically re-balances assets if there are economic and market movements that impact the portfolio. Investors are also able to monitor their investments through a dashboard, and can withdraw or add to them at any point[11].



10 "OCBC launches robo-investment service". Singapore Business Review. 23 August 2018. https://sbr.com.sg/financial-services/news/ocbc-launches-robo-investment-service

11 "OCBC launches robo-investment service". Singapore Business Review. 23 August 2018. https://sbr.com.sg/financial-services/news/ocbc-launches-robo- investment-service

# The rise of robo-advisers in Asia Pacific

### Regional overview

The Asia Pacific region has a sizeable pool of robo-advisory users and AUM, which is expected to increase in the near future. Given its lower cost structure, as compared to the traditionally labour-intensive advisory approach, robo-advisory enables wealth management players to charge lower fees, enabling them to expand their target market beyond the HNWI clientele to a new and younger clientele that is interested in active investing (see Figure 5). Millennials in the region, for example, are more likely to consider investing with robo-advisers than Generation X or Baby Boomer investors[12].

**Figure 5: HNWI and robo-adviser user statistics across different regional markets[13,14,15]**

**HNWI statistics (2017)**

| | North America | Europe | Asia Pacific |
|---|---|---|---|
| |  |  |  |
| **Population** | 5.7 million | 4.8 million | 5.5 million |
| **Wealth** | USD 19.8 trillion | USD 15.9 trillion | USD 18.8 trillion |
| **Growth (2016-2017)** | • Population: 9.9%<br>• Wealth: 10.3% | • Population: 7.3%<br>• Wealth: 7.8% | • Population: 7.4%<br>• Wealth: 8.2% |

**Robo-adviser user statistics (2018)**

| | North America | Europe | Asia Pacific |
|---|---|---|---|
| **Users** | 6.8 million | 0.9 million | 17.9 million |
| **AUM** | USD 296 billion | USD 17 billion | USD 86 billion |

12 "Robo-Advisers worldwide". Statista. https://www.statista.com/outlook/337/100/robo-advisors/worldwide
13 "Global Wealth Report 2018". Credit Suisse. October 2018. https://www.credit-suisse.com/corporate/en/research/research-institute/global-wealth-report.html
14 "Julius Baer Wealth Report: Asia". Julius Baer. October 2017. https://www.juliusbaer.com/fileadmin/user_upload/2017-10-17_JuliusBaer_WealthReportAsia2017_Report_EN.pdf
15 "Number of robo-advisors worldwide as of April 2017, by country". Statista. https://www.statista.com/statistics/795467/number-of-robo-advisors-by-country

### Key markets

Within Asia Pacific, Hong Kong and Singapore are the two of the key robo-adviser markets, given the former's strategic access to China's large HNWI market and the latter's ambitious FinTech push (see Figure 6). With their strong growth potential, user penetration rates in these two markets are expected to triple over the next four years, with significant increases to AUM (see Figure 7).

**Figure 6: Selected robo-adviser markets in Asia Pacific**[16]

**HNWI statistics (2017)**

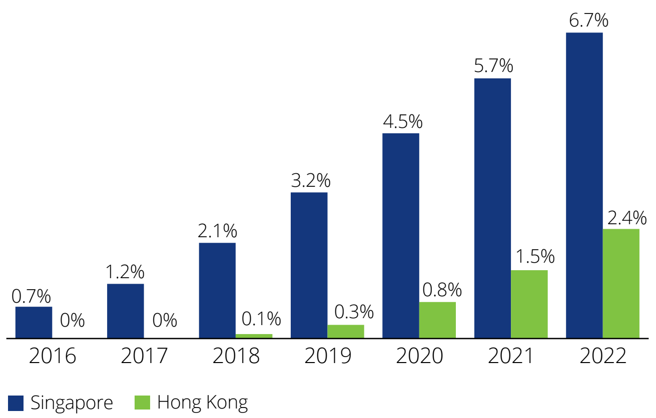
| | Singapore | Hong Kong | China | Japan | Australia |
|---|---|---|---|---|---|
| Population | 110,000 | 110,000 | 1.1 million | 2.9 million | 2.9 million |
| Wealth | USD 560 billion | USD 560 billion | USD 5,800 billion | USD 7,000 billion | USD 7,000 billion |
| Growth (2015-2016) | • Population: 6%<br>• Wealth: 6.6% | • Population: 4.1<br>• Wealth: 4.7% | • Population: 9.1%<br>• Wealth: 9.8% | • Population: 6.3%<br>• Wealth: 6.7% | • Population: 8.7<br>• Wealth: 9.1% |

**Robo-adviser user statistics (2018)**

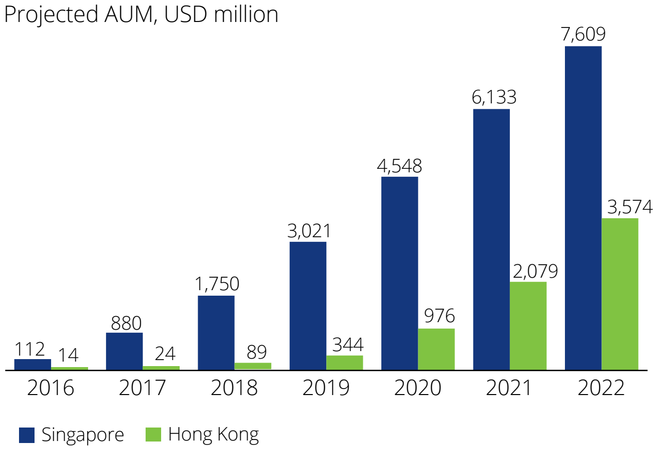
| | Singapore | Hong Kong | China | Japan | Australia |
|---|---|---|---|---|---|
| Users | 122,000 | 6,000 | 17.5 million | 203,000 | 67,000 |
| AUM | USD 2 billion | USD 90 million | USD 81 billion | USD 3 billion | USD 1 billion |

**Figure 7: Projected robo-advisory user penetration rates and AUM for Singapore and Hong Kong**[17]

Projected user penetration rate, percentage of total clients




Projected AUM, USD million




16 "Number of robo-advisors worldwide as of April 2017, by country". Statista. https://www.statista.com/statistics/795467/number-of-robo-advisors-by-country

17 "Number of robo-advisors worldwide as of April 2017, by country". Statista. https://www.statista.com/statistics/795467/number-of-robo-advisors-by-country

Overall, however, investors in the region are mostly self-directed, preferring to make their investment decisions without the use of financial advisers (see Figure 8). This underscores the opportunity for wealth management players to offer cost-effective robo-advisory services to enable investors to make their own independent investment decisions, while retaining the ability to provide tailored investment advice at a moment's notice.

Ultimately, robo-advisory services are likely to be the most attractive to Retail and Affluent customer segments in Asia Pacific. Indeed, HNWI investors in the region are not the primary target for these services, as they are likely to continue to make self-directed investments, given their larger appetites for risk and desire for control. The Retail and Affluent segments, on the other hand, can benefit from low-cost, automated advice that is delivered to them on banking platforms in formats that they are already accustomed to (see Figure 9).

**Figure 8: Role of financial advisers for investors in Asia Pacific**[18]

*"How and when do you use a financial adviser?"*

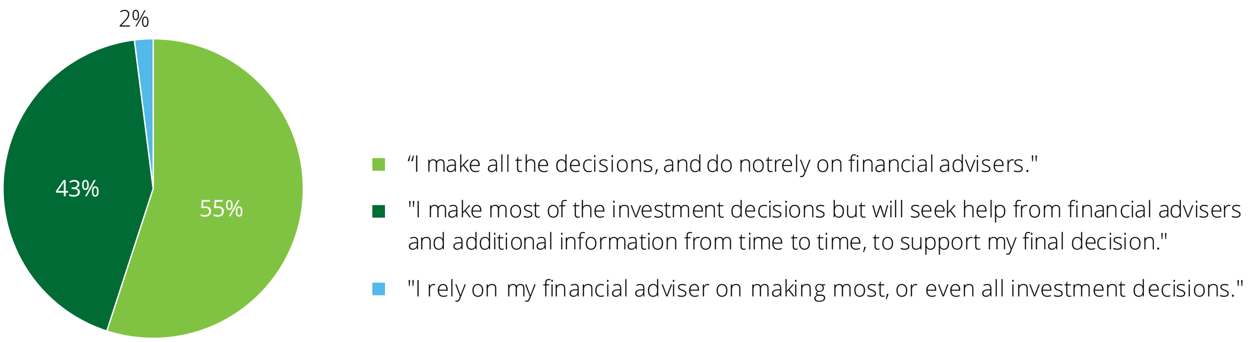



**Figure 9: Retail, Affluent and HNWI banking client profiles in Hong Kong and Singapore**[19]

| | Retail | Affluent | HNWI |
|---|---|---|---|
| **Investable assets** | • Less than USD 100,000 | • USD 100,000 - 1 million | • More than USD 1 million |
| **Investment characteristics** | • Fee-sensitive<br>• Very used to automated banking services | • Desire control and want to make own investment decisions, but open to advice | • First generation entrepreneurs who earned the assets typically hold the bulk of wealth, have a greater appetite for risk, and are inclined to manage their own money<br>• Next generation still desires control, but is also willing to consult professional financial services |
| **Banking products** | • Accounts<br>• Payments<br>• Cards<br>• Basic investments | • Accounts<br>• Payments<br>• Cards<br>• Standardised investments | Holistic banking solutions, including:<br>• Lending<br>• Single equities<br>• Alternative investments |
| **Robo-adviser service model** | • Automated | • Hybrid | • Personal (no robo-adviser) |

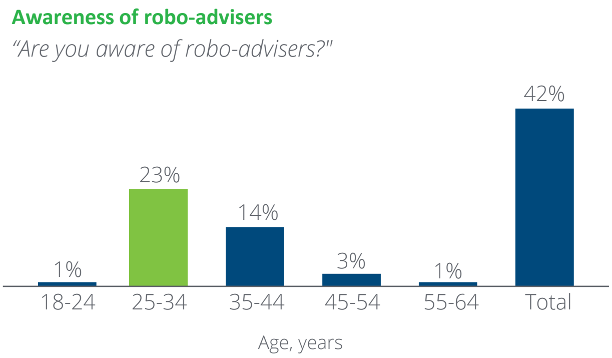
18 "Asia: Hong Kong FinTech company launches robo-adviser app". RFi Group. 7 June 2017. https://www.rfigroup.com/rfi-group/news/asia-hong-kong-fintech-company-launches-robo-advisor-app

19 "The future of automation in investment services". 360F. January 2017. http://360f.com/wp-content/uploads/2018/07/360F-The-Future-of-Automation-in-Investment-Services_Robo-Advisors-vs-Digital-Assistants.pdf

## Spotlight on Singapore

To encourage the uptake of robo-advisory products and services, wealth management players must continue to invest in consumer education to build awareness and familiarity with these platforms. In Singapore, awareness and likelihood of usage of robo-advisers is highest among 25-34 year olds (see Figure 10), with women more likely to adopt robo-advisers than men (see Figure 11). More specifically, women who are willing to use robo-advisers tend to have lower investable assets. This suggests that women with limited investment experience may be more willing to consult a robo-adviser, and may therefore require a different set of robo-advisory solutions.

**Figure 10: Awareness and likelihood of usage of robo-advisers in Singapore[20]**



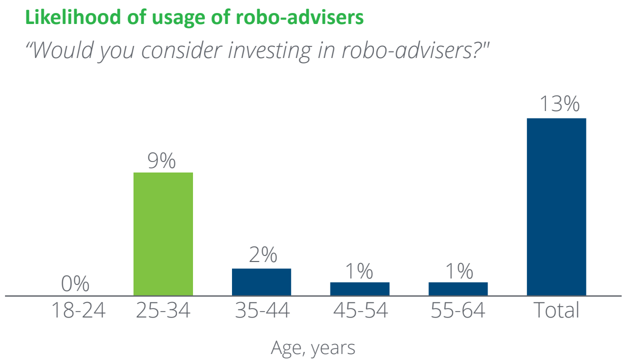
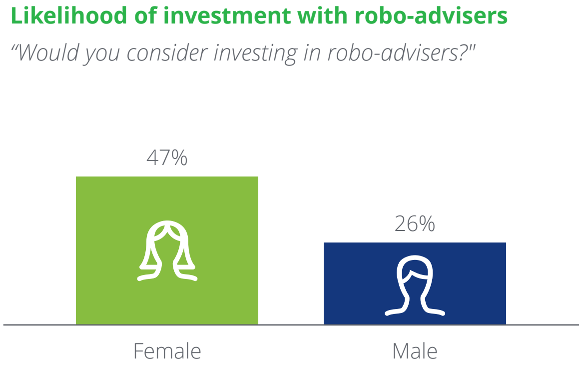




**Figure 11: Gender differences in likelihood of usage of robo-advisers in Singapore[21]**





20 "Awareness and consideration of robo-advisers in Singapore". FinTech News Singapore. 20 June 2017. http://fintechnews.sg/9908/roboadvisor/awareness-consideration-robo-advisors-singapore

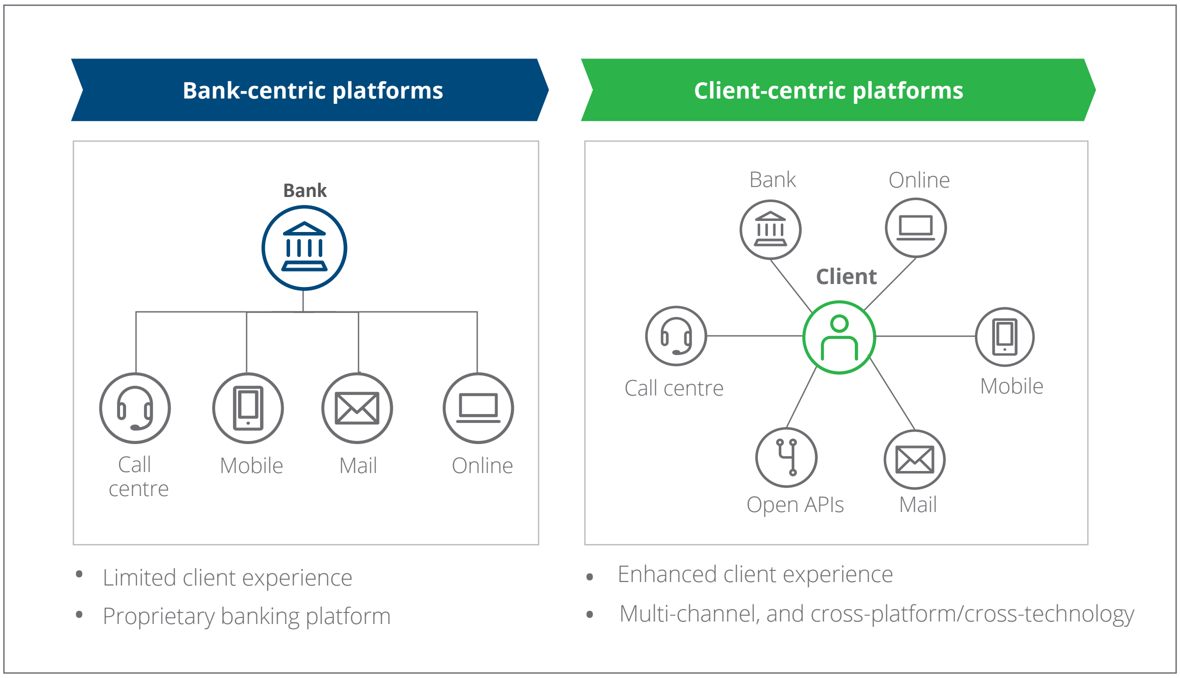
21 "Awareness and consideration of robo-advisers in Singapore". FinTech News Singapore. 20 June 2017. http://fintechnews.sg/9908/roboadvisor/awareness-consideration-robo-advisors-singapore

# Looking ahead

For wealth management players seeking to adopt or integrate robo-advisory solutions in their existing product offerings, creating client-centric platforms to deliver superior client experiences – and secure deep and lasting client relationships – is imperative.

In other words, they need to move from the status quo, where channels are mostly bank-centric and proprietary, with limited client experience, to client-centric platforms that are multi-channel, cross-technology, driven by customer insight, and offer services that go beyond basic banking needs (see Figure 12).

**Figure 12: Building client-centric platforms**




To deliver this, they will need to focus on five strategic imperatives. Firstly, although the deployment of robo-advisory technology has the potential to enable wealth management companies to lower costs and reduce the level of human labour involved, companies must shift their overall mind-set and strategies to place the client at the centre of everything they do, and move from a focus on cost reduction to experience enhancement.

Secondly, with clients now accustomed to interacting with technology platforms on their own terms, companies must increase their agility to engage with clients at their preferred times and through their preferred channels. Thirdly, through the use of data aggregation and analytics, companies should shift from reactive advisory to proactive advisory, and deliver investment insights that a client may need, but may not yet be aware of.

Finally, companies will need to develop the competencies to create highly personalised client experiences within an end-to-end, integrated ecosystem. To do so, they will need to invest in technology capabilities, including advanced analytics, machine learning and contextual engagement, and collaborate with a variety of players across different industries, such as technology companies, in order to deliver these platform experiences.

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