

THE RISE OF THE DIGITAL CUSTOMER

Digitization is becoming ever more common in the financial industry. Young fintech companies are leading this trend, while established providers find themselves in a tight spot.

by Rino Borini



Silicon Valley, New York, London, Berlin, Hong Kong, Singapore, Tel Aviv or Zurich – fintech start-ups are springing up like mushrooms all around the world. There are now approximately 12'000 companies which can be described as belonging to this sector. Not all of them will be able to survive into the future. There are various reasons why their business models do not work – missing banking expertise, lack of a customer base, inadequate capital, bad timing or simply a skewed basic understanding of customers' needs.

Even if not every fintech will be crowned with success, the sector in itself is creating a lot of pressure for the established players with innovative approaches, the use of new technologies and streamlined structures. Additionally, it has understood something that is still not clear to many traditional players – the customers have long been digital. Among the under 35-year-old people, who have grown up with the Internet, very few have ever seen the inside of a bank branch. But it is not only the young people who prefer digital services. The age group which is currently becoming digitized at the greatest rate is the generation of 55 years and over.

Traditional financial service providers in a tight spot

Many banks feel themselves threatened by the pace and the innovative pressure of the fintechs. More and more institutes are noticing that they cannot afford to ignore these new developments. Instead of isolating themselves and defending their lucrative domains for as long as possible, some of them are increasingly turning to cooperation. They do not develop internally but rather work together with the most promising fintechs – or buy them up.

About Rino Borini

Rino Borini is the cofounder and CEO of financialmedia AG. The independent media company puts out various publications in the economic and financial sector (the economics magazine PUNKT, the ETF platform 10x10.ch). The company also organizes numerous events and conferences (the leading Swiss Finance 2.0 & FinTech conference). Rino is also a member of the board of directors of Descartes Finance AG, an independent digital asset management agency. Prior to this, Rino was active in leading positions in the financial sector. The Certified European Financial Analyst (CEFA) has acquired a sound knowledge of banking and capital investments over a number of years.

The pressure is noticeable not only in retail banking but also in business with wealthy customers. They no longer wish to be merely cash cows but also want to profit from the new simplicity, transparency and flexibility. The situation is quite comparable

THE AGE GROUP BECOMING DIGITIZED AT THE GREATEST RATE IS 55+.

with the one 20 years ago, when the first Exchange-Traded Funds (ETFs) came on the market. These passive index products do not require any active management, but rather follow an index 1:1 and are therefore far more cost-effective than active funds. Initially, the fund industry had only a tired smile to offer the new competition. In the meantime, the sector manages 3 trillion dollars and growth is in the double figures. Active funds, on the other hand, have to deal with outflows of assets.

A development which will give additional impetus to ETFs is the rise of the digital asset managers, the so-called robo-advisors, a possible game-changer. They manage customer assets on a mostly automated basis, whereby the risk capacity of the investor is clarified in advance. They are implementing what investment professionals have always proclaimed – managing the assets according to strict criteria and with the complete exclusion of emotions. On the basis of the opportunity and risk profile, they set up a suitable investment strategy. The template is generally formed by half a dozen standard portfolios, which are reproduced with ETFs.

Future of robo-advisory services

What will the sophisticated digital platforms be able to do in the future? The customer's risk appetite is nowadays determined using standardized questions and, based on this, a suitable strategy is proposed. Incidentally, this is what banks also do with many of their customers. In the future, with the aid of behavioral economics and gamification approaches, it will be possible to establish a much better digital profile of the robo-advisory customer. Digitization makes it possible to provide a better and more detailed customer profile and, above all, to adapt it continuously during the whole life cycle.

Moreover, the future digital asset managers are also breaking new ground in investment strategy, as there are no limits to the diversity. As soon as a strategy displays a clear set of rules, it can be packaged in an algorithm and integrated into an automated asset platform. Sustainability, dividend, momentum, risk minimization or value strategies – with robo-advisor 2.0 they can be easily implemented. This is comparable with iTunes, where the user can also compile his individual playlist.

Strong growth predicted

Worldwide, robo-advisors manage approximately 50 billion dollars. In the big picture, that is practically nothing. But this is also due to the fact that many customers are just not aware that such automated asset platforms exist at all. And, in addition, it is first of all necessary to establish trust. According to expert estimates, these digital platforms have the potential to manage more than 2.2 trillion dollars by 2020.

Even customer contact will change and become more diverse. The future belongs to hybrid models, which are already being

Interaction	Traditional advisor	Discount brokerages	Online investment platforms	Robo-advisors model
Service	Dedicated advisor	Dedicated advisor	Limited to no human interaction	Fully digital (if desired)
Offering	Holistic advise	Portfolio management + advisory	Transactional investment management + minimal advisory	Investment management + automated diversification
Target customers	Ultrahigh net worth and high net worth	High net worth and mass affluent	Across wealth tiers	Mainly mass affluent
Pricing	High	Medium	Low	Low

Development robo-advisory services. (Source: A.T. Kearney)

implemented by some US providers. A mail or a chat request is sufficient for standard queries. However, when planning a personal pension, most people will certainly prefer to have an in-the-flesh consultation. But, even in this case, a branch office will not be absolutely necessary in the future. It can also be done via video chatting.

This brings up the question of which role the advisor will play in the future. He will not become superfluous; but his tasks will change. He will increasingly become a coach, who sees digitization as an opportunity for simplifying the life of the customers. In the best case, he will become an experience maker. But many people have not yet caught up with digital reality. Just being able to use a tablet is far from implying that a person can think digitally. ■

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