

High tech meets high touch

In Asia, talent in asset and wealth management must bridge a gap between rapid digital advances and clients' needs for quality personal service.



The challenges of Asia's wealth boom.

Almost anywhere in the world, consumers increasingly rely on smartphones or e-tablets to find information, shop online, arrange travel, get mortgage quotes, and buy insurance. Now, in Asia, this digital revolution has started to alter a key financial sector with well-established players: asset and wealth management. In response, consumer banks are launching mobile banking to facilitate mutual fund purchases. Wealth and asset management firms are looking at ways to better serve customers with digital delivery of information and investor education to bolster conversations between advisors and clients. As these elite clients grow more comfortable with online platforms and digital tools, private banks and wealth advisors must strike the right balance between high tech and high touch. "It's a journey; some firms are ahead of others," Ryan Stork, chairman of Asia Pacific for BlackRock, said of the digital inroads into the investment sector. "A number of conversations in Asia are occurring around how firms can utilize tools to make the experience between the advisors and the clients even better."

Meeting the needs of both large sovereign funds and individual investors is pulling Asia's asset and wealth managers in multiple directions, all with digital components. Technology is helping firms educate, communicate, and distribute products in what's likely to be a multiyear process. "The human relationship won't go away; rather, technology is being used to facilitate communication between the institution or advisor and the client," Stork said.

Asia's digital transformation is part of a global phenomenon as consumers access financial services differently today than they did just a few years ago. Retail investors in many markets regularly use smartphones and tablets to monitor accounts and research investments online; many increasingly are turning to web-based brokers. Research in Europe on Generation D (for digital) revealed a population that is "always on and always accessible, including in their investing lives" (Accenture 2015). Generation D cuts across demographics, including baby boomers who comprise more than half of the group. Although wealthy Generation Ds tend to be older, many are open to digital involvement in wealth management to complement investment firms' offerings. "While they do still prefer face-to-face interaction, 35% of these individuals feel as though they could work exclusively with their financial advisor, using only digital tools, and not see that relationship suffer," Accenture found.

In Asian financial services, a big factor is the explosion in the number of high net worth individuals, including entrepreneurs and tech startup executives with newly acquired wealth. China's population of high net worth individuals with investable assets exceeding 10 million renminbi (\$1.6 million) numbered more than one million in 2014—twice the number in 2010 (Bain and Company 2015). They include youthful Chinese (80% of them younger than 50) who have accumulated wealth relatively rapidly. The Bain research, conducted with China Merchants Bank, found that China's high net worth population is “now more diversified, encompassing both entrepreneurs who opened factories decades ago, as well as younger professionals in the technology sector and other emerging industries.”

The investment habits of wealthy Chinese are evolving, as most keep only 10% to 20% of their holdings in cash and deposits, compared to the 40% to 50% stash of the investor population at large, Bain found. Although wealthy Chinese still want to make their own investment choices, they trust more of their assets to private wealth managers. This presents more opportunities for private banks and wealth managers to capture their share with new products and professional advisory offerings. (Bain 2015).

Such rapid changes in Asia are raising key questions, as Stork observed: “The retail marketplace is institutionalizing, but at what pace? How are investor preferences and needs evolving in the Chinese market? How do we ensure education keeps pace with the options put before end-investors, so that we can continue to support long-term investment needs with local and global investment opportunities?”

To address these questions and the talent implications for financial firms facing digital disruption, Korn Ferry gathered some top senior asset management executives from the Asia Pacific region (see Acknowledgments) to discuss the rise of digital technology, its promise for asset management firms, and the challenges it poses.

The digital transformation.

Traditionally, in the human-intensive asset management and wealth management business in Asia, client relationships were built over years. Serving exclusive clientele required a high-touch approach, such as providing information about private equity investment opportunities or access to closed-end mutual funds unavailable to average investors. While many industries in Asia leaped into a digital future, financial services remained behind the curve.

Then, seemingly overnight, Asia's investment sector experienced a seismic disruption: Alibaba Group, the Chinese e-commerce giant, catapulted into the arena in 2013 when its online payment affiliate, Alipay, gained a majority stake of Tianhong Asset Management Co. Together, Alipay and Tianhong launched Yu E Bao. The fund's name is translated as "leftover treasure," a reference to converting spare cash into a money market fund holding. In its first 18 days, the fund attracted more than 2.5 million customers and raised 6.6 billion yuan (\$1.08 billion) (Reuters 2013).

Shock waves rippled across Asia, forcing many Asian financial services firms to suddenly figure how best to stave off competitors in the mass market, such as with their own internet platforms, and to provide tools for digitally savvy high net worth clientele. Shanghai-based Noah Holdings Ltd., which serves high net worth individuals and institutions in China, launched its Caifupai online platform for accessing financial products and services. But Ching Tao, chief financial officer of Noah Holdings Limited, questioned to what extent digital platforms will replace in-person services for institutions and sophisticated clients. "From our perspective, the digital platform is an additional service offering paired with in-person services provided by relationship managers or private bankers, areas in which we hope to develop our competitive advantages," Tao said.

Stork concurred, saying that digital investment management services (or "robo advisors"), which are most popular in such developed capital markets as the United States, will not replace human advisors in Asia. Still, he cautioned, "we do need to recognize that an entire generation is comfortable with the idea of making investment decisions without speaking to a human being. Having said that, our focus on the technology front is to supply tools that support and enhance the services that [financial advisors] provide to their clients."

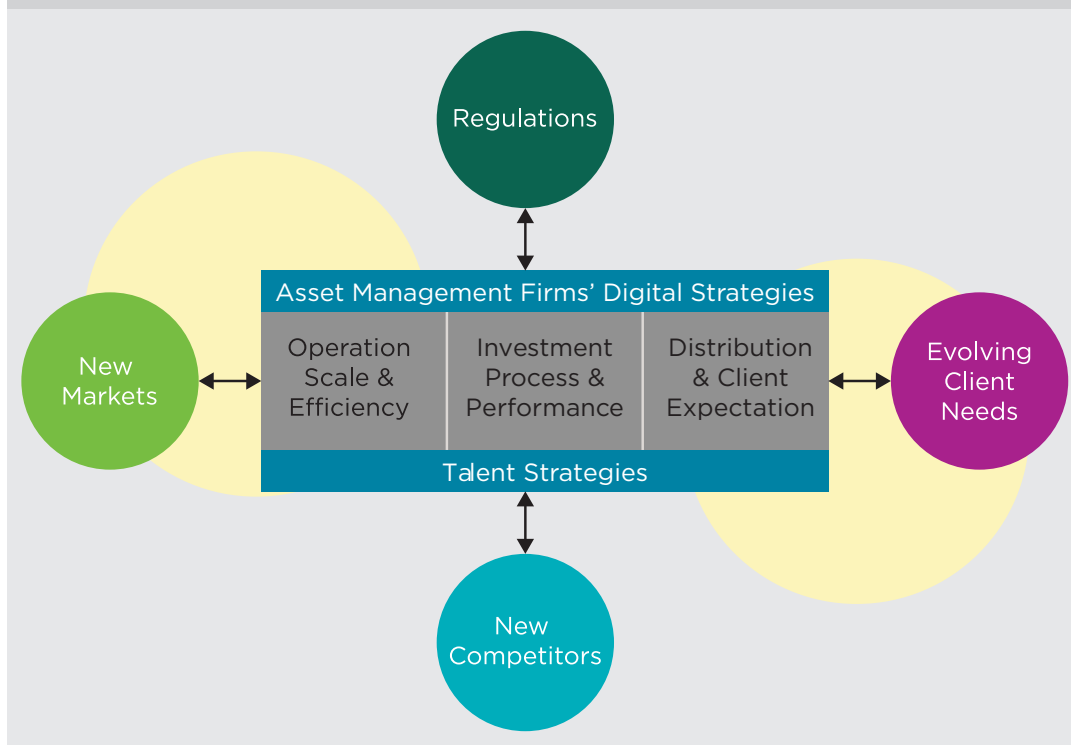
Globally, advances in artificial intelligence have allowed robo advisors to enter traditional asset and wealth management, becoming one of the most disruptive threats since low-cost online stock trading emerged in the mid-1990s (Melin 2016). From independent firms to Wall Street institutions, players across the sector (see Figure 1) are offering digital services employing algorithms and portfolio models to allocate investments based on an investor's risk tolerance, goals, and preferences. Fees for such automated services are typically lower than those charged by human advisors.

"Asia is still evolving, albeit at a rapid pace, but I do not believe that the role of the advisor will disappear, because the shift towards educating the market has to take place first."

*Ryan Stork,
chairman
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Figure 1. Global, differentiated digital strategies for asset management firms.

Asset management firms in Asia are pursuing digital strategies to tap new markets, improve investment processes and performance, fend off new competitors, and serve the evolving needs of their clients, including high-net worth individuals and institutions.



An omni-channel approach.

As technology makes further inroads into Asian financial services, the question becomes how its new tools can augment the human-delivered services that enhance risk management, facilitate market discussions, and deliver information and education to investors. At one firm, for example, Skype and similar programs improve internal communications, including those between fund managers and traders. Online technology also enhances the client experience and delivers information and education. As firms discern how best to deploy digital solutions to meet the needs of specific clients—individual investors, high net worth individuals, sovereign wealth funds, and institutions—digital strategies will vary. There also are challenges inherent in applying technology; for example, rules and regulations limiting purchase of funds via online channels differ from country to country.

The result will be an omni-channel approach, with the right mix of high touch and high tech. Noah Holdings is among the firms taking a hybrid approach to wealth management, especially in China's second- and third-tier cities, where it employs a combination of private bankers for high net worth clientele and largely digital platforms for other customers. Such automated tools likely will be embraced most quickly by younger investors. "It is conceivable that the younger generation will make more use of technology such as robo advisors as the algorithms become much better at basic portfolio allocation and asset allocation," Tao said. "The new generation may not require a relationship manager or a private banker to fulfill their basic needs. But for high net worth clients, product and service offerings are going to be a combination of online support and offline help."

Another caveat about acceptance of technology is market performance. In rising markets, positive sentiment helps support automation, Stork observed. "However, as we have entered a period of higher volatility, it will likely slow progression. I think the balance between human interaction and technology will continue to move along but won't shift overnight." He added that the tech transformation "will ultimately give rise to a sharper focus on advisor-led, model-based investment services."

More client education also is needed in the current investment environment of low interest rates and low stock returns, a sharp contrast with the stock trading frenzy of a few years ago that ended with a crash in the Chinese stock market. That plunge in mid-2015 prompted the Chinese government to intervene aggressively. China's central bank cut interest rates, regulators capped short selling, pension funds agreed to buy more stocks, and the government suspended initial public offerings to limit the supply of shares to help support the price of stocks already listed (Economist 2015).

“There is a gradual realization [among retail investors] that quick gains are unlikely in today’s persistently low interest rate environment. Education, allocation, and research will [become] more important ... and will be beneficial for society as a whole. There needs to be a change from a ‘quick buck’ distribution approach to a longer-term and more holistic investment mentality,” said Pedro Bastos, CEO, Hong Kong, and regional head of Asia Pacific, HSBC Global Asset Management.

Regulators also will affect the digital transformation in financial services. In China, for example, lack of regulation probably will speed automation, making it easier to buy investment products with little or no human involvement. In Hong Kong, which is highly regulated, buying a fund is much more involved. Although regulation in China likely will be strengthened over time, a regulatory gap will still exist with Hong Kong.

The allure of big data.

For leaders in asset and wealth management in Asia, big data may offer another promising frontier, allowing institutions and advisors to gather information about clients and to assist in making investment decisions. Billions of bits of data about clients can provide keen insights for investment firms, such as spending habits that might shed light on risk tolerance and investment attitudes. Although big data has had few early adopters in Asia, it is shifting now into the mainstream as more firms grasp its importance and potential to help drive revenues. By effectively using this information and feedback, financial services companies can deliver a mutually beneficial and personalized customer experience, particularly in three areas: distribution of products (loans, funds, insurance); investment products; and risk management.

“There is a real risk that asset management firms will miss out unless they wake up to the transformation and deal with some of these issues. I believe we are in the right place at the right time as wealth is being created at a fast pace in Asia. But there is serious risk due to complacency that, as an industry, we will miss out.”

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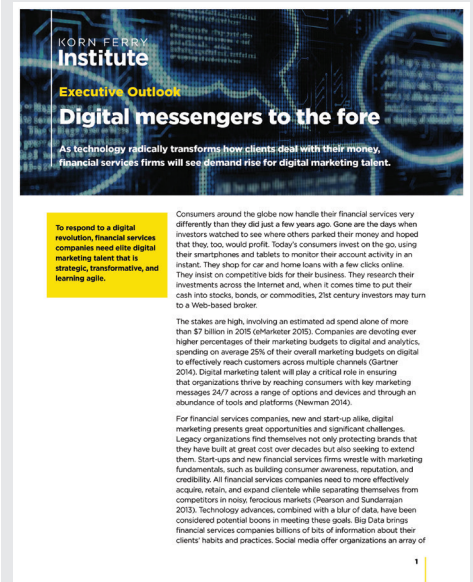
Talent for a digital transformation.

As asset and wealth management firms navigate the uncharted waters of digitization, an innovative and comprehensive talent strategy is critical. Financial services firms demand talent that is tech-savvy and possesses the right skills and expertise to provide the necessary human touch for wealthy clients and institutions. “The talent market is becoming a convergence of capabilities—being able to think strategically about the markets and how to invest, alongside the technical skill set of building applications,” said Donnell Green, managing director, head of human resources APAC for BlackRock.

Globally, financial services firms need to harness the power of digital technology to drive business growth and become market leaders in an increasingly competitive market. By acquiring, developing, and retaining industry-leading digital talent that is comfortable with technology tools for risk management, portfolio evaluation, and asset allocations, these firms can develop a best-in-class consumer experience, gain new customers, increase loyalty, and grow market share. Identifying learning-agile, transformative, and strategic talent that also fits the culture can be a challenge for this industry (Vogl and Feldman 2015).

The experience in financial services mirrors the talent challenge in digital transformations of other market sectors. The challenge is not about having the right technology. Rather, particularly for such traditional companies as those in financial services, the key is having the right mix of talent to lead and to execute a successful transformation (Vickers and Hammerich et al. 2016). Korn Ferry Hay Group, for example, offers tested, research-validated ways to assess, identify, and develop talent based on four factors—competencies, experiences, traits, and drivers—that are highly predictive of performance. By assessing high-potential talent with, for example, the Korn Ferry Four Dimensions of Leadership (KF4D), employers get a high-resolution view of how well suited leaders may be for new roles (Crandell et al. 2014).

In Asia, talent with both investment expertise and deep digital knowledge is rare. Those with digital expertise are more apt to pursue technology careers than to look to financial services. The challenges for asset management firms will be attracting tech-savvy talent that can seize the opportunities presented by digital transformation while also identifying those within asset management firms who have the tech aptitude to be part of new online initiatives. “As an industry, we need to start grooming and attracting the talent so that they have both technical knowhow and financial capability,” said Jenny Pong, group director, human resources, JTH Group.



For more information about digitization and financial services, please see:

<https://www.kornferry.com/institute/digital-messengers-to-the-fore?financial-services-cyber-talent-challenge>

Many banks in Asia have management trainee programs. But in the last few years, graduates have gravitated more toward information technology than toward financial services. Asset management firms, which tend to be smaller and flatter organizations than banks, face greater difficulty recruiting top graduates. Nonetheless, some asset firms are building internal recruitment teams to identify talent from universities.

Another challenge is that pure-play technology talent typically has a different mindset—for example, that success comes ultimately from failing quickly and frequently—which is at odds with the conservative financial services sector. Those who can bridge such differences in thinking and find ways to work within the more highly structured financial services environment will find themselves in high demand.

A graphic for the Korn Ferry Institute. It features a dark green header with the Korn Ferry Institute logo in white. Below the logo, the title "Leaders for a digital transformation" is written in white. A small subtitle in white reads: "It can be mission-critical for companies to consider the traits, competencies, and drivers of the talent—in-house and external—that will help create their digital future." The main body of the graphic is a light green background with a perspective view of a blue grid pattern that recedes into the distance.

KORN FERRY
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Leaders for a digital transformation

It can be mission-critical for companies to consider the traits, competencies, and drivers of the talent—in-house and external—that will help create their digital future.

For more information about leadership and digital transformations, please see:

<http://www.kornferry.com/institute/leaders-for-a-digital-transformation>

Conclusion

Digital transformation brings both challenges and promises for asset and wealth management firms in Asia. Here are eight insights about the digital inroads into this sector in Asia from industry experts at the forefront of change.

1. Across the global industry, technology has facilitated the creation of investment platforms for asset managers to achieve scale and operating efficiency. The application of big data and other technology tools can transform the way asset managers make investment decisions. Technology also enables asset managers worldwide to educate, communicate, and distribute products and services to intermediaries, client partners, and investors.
2. Building trust and relationships with institutional clients and high net worth individuals requires education and human interaction, which are unlikely to be replaced by digital means. But digital platforms can provide additional services to help asset managers penetrate new markets and offer new products in a cost-effective manner.
3. Even in a rapidly evolving market such as Asia, industrywide digital transformation will not occur overnight; education must come first. Although the industry is moving in the direction of greater digitalization, the right products and services must be targeted to address the needs of next-generation investors.
4. Digital transformation starts with the mass market of retail investors and moves to specific segments, followed by mass customization to create individual solutions. Face-to-face service will continue, although most investors eventually will use robo-advisor technology to some extent. The pace and degree of penetration by such tools probably will vary according to market environment and sentiment. Firms positioned to do well are those that offer personalized support and keep applications streamlined and simple.
5. Technology transformation probably will encounter barriers across Asia. In such highly regulated markets as Hong Kong, compliance issues could impede technology-enabled distribution of products and services. At the same time, in such under-regulated markets as China, technology that distributes products to investors too quickly or without appropriate oversight could impede the healthy development of the industry, making reasonable regulation and investor education priorities.

6. For some asset managers, the digital challenge will be bridging the information access gap between institutional clients and end-investors. With institutional clientele, frequent interactions are needed, especially for research and client-relationship management. In this area, the “people component” of asset and wealth management is increasing, not decreasing, because of digital’s increasing use.
7. The talent market is seeing a convergence of capabilities, from investment savvy and strategic thinking about the markets to technical skills related to digital applications. The goal is to simplify asset management and make it more accessible to clients.
8. Organizations are starting to identify critical roles in their talent acquisition strategies. Talent needs in the future will be different than they are now. The right mix of skills and knowledge may not yet exist. Therefore, organizations need to engage in more creative workforce planning, as the digital transformation will affect how wealth and asset management firms look and operate in the years ahead.

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