

The future of wealth management

How hybrid advisory models are transforming the industry





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Editorial

Robo-advisors emerged after the 2008 crisis as fintechs aiming to democratize access to wealth management services. But most have failed to build sufficient scale as they struggle with customer adoption. Still, these fintechs have set a new standard for the role technological interfaces can play in the way financial services are structured and consumed. And while the pandemic has accelerated the trend toward technological adoption, it has also highlighted the need for financial management solutions that offer a human touch – a hybrid approach.

This report examines the benefits for incumbents of integrating hybrid approaches to their operational models. More specifically, we look at

how such approaches allow incumbents to link the cost and maintenance efficiency of a purely digital robo-advisor with the human advice of conventional financial management services. The benefit is the ability to attract more clients by offering lower fees than legacy services, while still providing personalized guidance and advice from humans to support customers and reassure them amid market volatility. Looking ahead, we expect a digitally-enabled coach on financial matters in combination with a personal advisor for complex decisions to help individuals improve their financial health.

We hope you enjoy the report and invite you to share your views and experiences with us!



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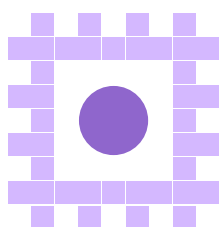
Member of Executive Board, Co-Head Investment & Wealth Management Services, Julius Baer

Introduction

Robo-advisors were trailblazers. They emerged in the last decade as part of a movement that advanced the ability of machines to replicate the work of humans in the portfolio management space. Instead of relying on humans to build and rebalance portfolios, robo-advisors used technology to seamlessly rebalance portfolios, automate administrative tasks, and to standardize the investor risk profiling process. Although these platforms offered clear benefits – especially lower costs – many pureplay robo-advisors failed to achieve meaningful growth beyond a small group of early adopters. At the same time, many incumbent wealth and asset managers built their own digital platforms to complement human advisory services. Known as the hybrid advisory model, this approach intertwines technology with a human touch.

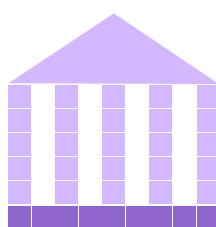
Two types of hybrid models

The hybrid advice model is being shaped by the confluence of two forces: 1) pureplay robo-advisors beginning to offer human advisory services and 2) incumbent wealth and asset managers using technology of automated platforms enhance the offering for their clients while saving costs in the middle office at the same time.



01 Fintech hybrid robo-advisors

The most prominent robo-advisor is probably the US-based digital wealth manager Betterment founded in 2008 with USD 22 billion in assets under management. In 2018 Betterment launched one of the world's first hybrid robo-advisors. A number of hybrid robo-advisors have cropped up around the world since: for example, Wealthfront, Stash, and SigFig. In Switzerland, Selma Finance, True Wealth, VIAC and Frankly are the most active robo-advisors.



02 Incumbent hybrid robo-advisors

Hybrid models from incumbent wealth and asset managers are now also well-established. Vanguard, for example, introduced its hybrid robo-advisor Personal Advisor Services in 2015 and is now the largest player in the industry with USD 220 billion under management. In contrast to the pureplay robos, Vanguard targets baby boomers - the generation born between 1946 and 1964 – with a flat-rate fee structure of 0.30%. The hybrid service combines computerized asset allocation and rebalancing with access to human advisors over the phone and via videoconferencing.

Advantages of the hybrid approach

The hybrid approach combines key aspects of the technology-first and conventional wealth management business models to provide users with a cost-efficient and thorough offering. In the graphic below, we highlight the key advantages and drawbacks of each business model.

Wealth management business model comparison

Advantages

Conventional Wealth Managers

- Highly tailored offering for customers
- Users have access to personal human advisors
- Thorough support for users
- Access to portfolios generated by humans, which is preferred by some users who don't want to rely on technology

Hybrid Robo Advisors

- Portfolios are developed and rebalanced by algorithms
- Users can reach out to human advisors to varying extents, depending on a firm's business model, but can use the digital interface to self-serve
- Customers receive personalized advice from human advisors
- Low fees for customers, as fewer human advisors are needed

Fully Digital Robo Advisors

- Low fees for customers, as no human advisors need to be hired
- High digital efficiency and self-serve capabilities for customers
- Ability to lure in younger demographics with cheaper services

Disadvantages

Conventional Wealth Managers

- Firms charge high fees for users as relying solely on humans for portfolio management and advice comes with a hefty price tag for providers as they need to hire more licensed advisors
- Portfolio development and rebalancing must be supervised or completed by humans, adding extra work for staff
- Users must consult human financial advisors whenever they have a concern or question

Hybrid Robo Advisors

- Human advice is not always available without limit, which could deter some users that need more support
- For some offerings users have to pay extra for human advice
- During a crisis, human advice may be in higher demand, which could lead to wait times for users

Fully Digital Robo Advisors

- No human support should a complicated question arise
- Limited personalization as the service is based purely on algorithms
- Services often can't take a complex financial situation into account, like the coronavirus

Source: Insider Intelligence, RFS.

3 Reasons why incumbents should build hybrid capabilities

01

Use technology to cut costs across the value chain

Facing enormous pressure to reduce their cost base, incumbent financial institutions can embrace new technologies to commoditize cost drivers that do not provide competitive differentiation (like human counsel and advice). By relying heavily on technology for back-end functions like portfolio development and rebalancing, hybrid robo-advisors can cut operational costs significantly by employing fewer human financial advisors. Technology should also reduce the cost of reaching the end customer. Clearly, there are some upfront costs to develop the necessary technological infrastructure to launch a hybrid robo-advisor.

02

Attract younger, more cost-sensitive clients

Due to the operational savings discussed above, hybrid robo-advisors can offer services at a lower price. As such, they can extend their lower fees to a large, next-generation demographic. This is becoming ever-more important as millennials are due to inherit USD 68 trillion in the wealth transfer (by 2030), which means that many will have significantly more assets they need to invest, and if they already have an account with a hybrid robo-advisor when building their wealth, they're more likely to stick with them as well for more advanced services.

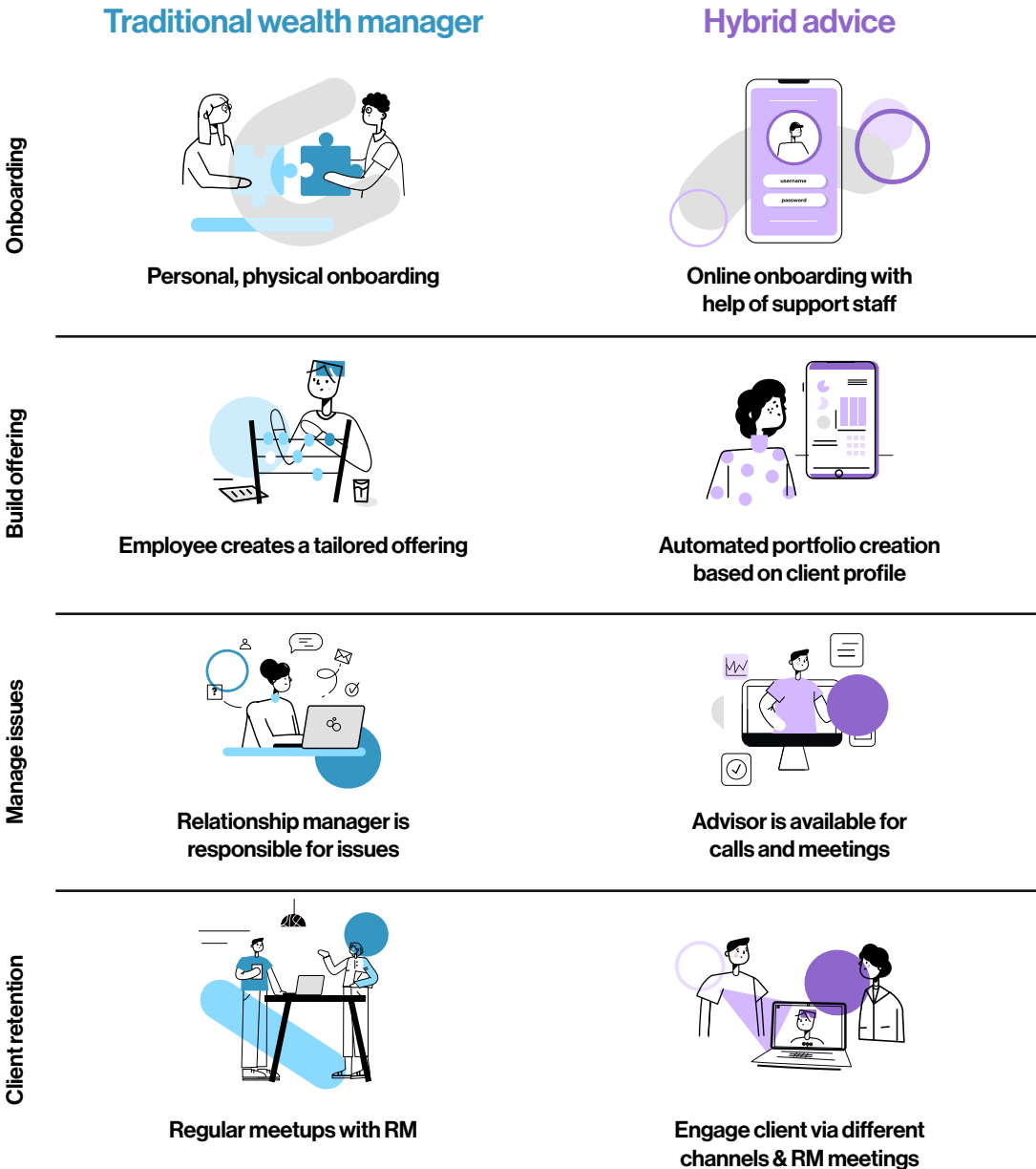
03

Potential for improving the client experience

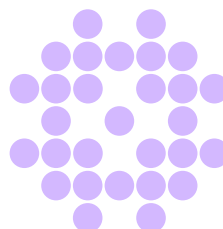
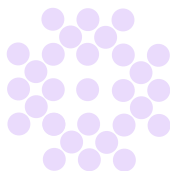
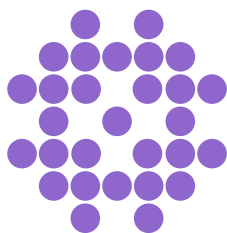
As it turns out, combining low fees with a human touch allows wealth managers to better meet customer demands. Indeed, customers can use self-serve digital tools for many of their questions, but for more complex issues, they can reach out to professional advisors to receive additional support. This means financial advisors can, at the same time, focus on complex tasks that can't be managed appropriately by algorithms, like reassuring users during a financial crisis. As such, incumbent distributors can leverage control of their customer experience and even place pressure on manufacturers to get lower product prices.

Bank client lifecycle

Traditional wealth management vs. hybrid advice



Corona pandemic accelerates the need for hybrid models



The market has been particularly volatile and unpredictable during the pandemic. Such volatility leads to severe unease among investors, but human advisors can help mitigate possible negative effects, such as withdrawing investments, by explaining the market's behavior. Additionally, the hybrid approach's ability to provide human financial advice via digital means, like video chats or phone calls, makes it particularly suitable during the pandemic.

That said, this additional support brings along challenges for hybrid robo-advisors. In the case of Vanguard's Personal Wealth Advisor, 2020 saw complaints mushroom across investor bulletin boards about long waiting times to speak to Vanguard advisers and interruptions to services in periods of high market volatility.

In response, Vanguard CEO Tim Buckley said, "We can now collaborate through video technology,

meeting clients in the comfort of their own home. It is a whole new territory that is opening up and we plan to roll these advice services out across the world... We do worry that people are getting pulled in to day trading without fully understanding the risks. No investor should be playing with their retirement savings for entertainment."

From the incumbent's perspective, automation also presents an opportunity to enhance operational efficiency so that relationship managers can focus their attention on more relevant work. In fact, according to an EY study, 58% of a relationship manager's working time is spent on non-value adding activities. The goal is to standardize and outsource or automate non-value adding activities, such as necessary compliance precautions and other internal activities. This allows the relationship manager to spend more time on value-adding activities, such as client meetings.

2 quick wins to support the sustainability of hybrid models

01

Increase relative price of human advice

Firms offering unlimited human advice may have to hike up their prices. For hybrid services that offer unlimited access to human advice, users reaching out to advisors more frequently could drive up the cost of service providers significantly, as more staff may need to be hired. In this context, it makes sense that hybrid models with unlimited human advice may need to hike up their prices.

02

Companies should boost electronic reassurance

To offset the need to hire more advisors, companies should intensify the use of electronic reassurance via emails, as well as in-app nudges and pop-up advice. One way hybrid robo-advisors can reduce the need for human advice is by providing enhanced digital support via various channels. For example, if a user is on the page to withdraw funding, the app should provide information on how this will affect their long-term investment goals. Such efforts would help to support clients through the crisis, without having to hire more staff for personal advisory sessions.

Judging maturity of hybrid models

We categorize the spectrum of maturity into three categories:

Characteristics of Stage One

- Skewed toward a digital-only focus
- Clients don't get human support during the onboarding process
- Sign-up, but also means that personal preferences aren't taken into consideration
- Small number of pre-developed model portfolios available for clients
- Offer no human advice

Characteristics of Stage Two

- Enable sign up via human interaction or digitally – but user can't choose
- Portfolios aren't personalized to each individual client (but there are many model portfolios)
- Clients can set up meetings as part of the annual fee, but the calls are limited to a certain amount and time

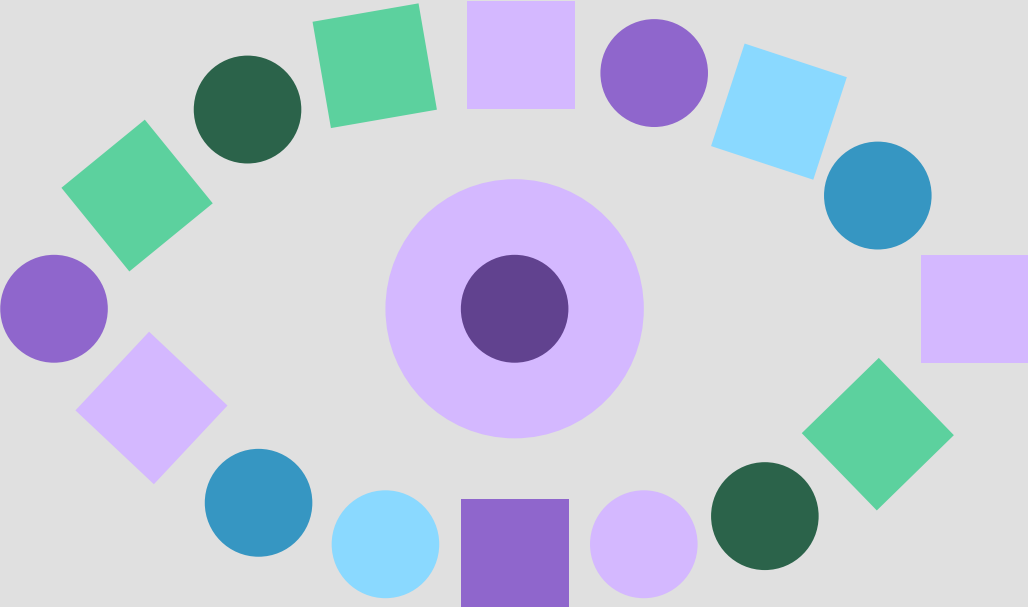
To advance to the next maturity level, firms need to add more options to give users more flexibility.

Characteristics of Stage Three

- Users have flexibility to choose between human and digital services across the user journey
- Users can get a personalized portfolio tailored to their needs by answering a variety of questions – either by human consultation or digitally
- Users can get in touch with human advisors whenever they want, and meetings can be as long as necessary

Companies in the advanced level have managed to provide users with a blend of human and digital services, as well as the flexibility to choose which method they'd like to use to engage with the wealth manager.

Case Studies



These six case studies are selected to demonstrate best practices with respect to advanced hybrid capabilities. We have arranged the case studies into three separate categories: first, asset managers (Vanguard and Blackrock); second, fintechs (Wealthfront and VIAC), and third, wealth managers (Julius Baer and Vontobel).

Category 1 Asset managers

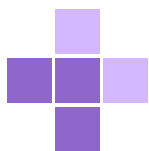
Vanguard Personal Advisor Services

Vanguard is the largest mutual fund manager in the world and the second largest provider of exchange-traded funds (ETFs). Their mutual funds and ETFs are known in the financial services industry as having some of the lowest management fees and expenses. Vanguard introduced Personal Advisor Services in 2015. It already had USD 17 billion in AUM after the two-year pilot phase, and as of February 2021 Vanguard's Personal Advisor is the world's largest hybrid robo-advisor, managing USD 221 billion.



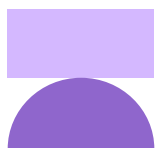
Offering

During the onboarding, a Vanguard advisor will develop a financial plan that includes life goals, review of current investments and determination of future needs. The minimum investment is 50,000 USD and is invested in particular in low-cost Vanguard ETFs and index funds. The service does not include advanced benefits, such as tax-loss harvesting or smart beta allocation. In addition, the Personal Advisor offers services such as advice on estate planning, creation of a succession plan, and guidance on charitable giving, at no extra cost.



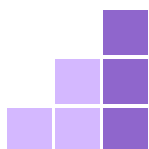
Onboarding process

Vanguard Personal Advisor Services has a personalized onboarding process with a human touch. When signing up for the service, clients work with a human advisor to create a financial plan based on the individual's financial goals, time horizon, and risk level — meaning there's no digital onboarding process. Although there's no flexibility regarding the onboarding process, having a human consultation means Vanguard can highly personalize its offering. Contrary to many other hybrid robo-advisors, Vanguard offers portfolio customization on a client-by-client basis, rather than relying on a set of predeveloped model portfolios. Once a portfolio has been created, the user has the option to review it and ask questions before signing up.



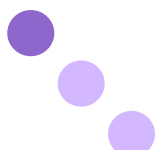
Tech / Human Advice balance

After onboarding, advisors are available to clients via the phone, email, or videoconferencing to help users navigate the services and provide guidance on key decisions. Human advisors also monitor, rebalance and adjust portfolios for clients, but technology supports the underlying processes. Clients can connect with an advisor by phone, email or video chat.



Pricing model

Vanguard uses a percentage fee for its hybrid robo-advisor, with decreasing charges when managing more assets. For assets of up to USD 5 million, users are charged a 0.3% fee. For those with over USD 5 million in AUM, the percentage fee drops to just 0.2%, and further declines to 0.1% and 0.05% for those with over USD 10 million in AUM and over USD 25 million in AUM, respectively. In addition to the 0.30% management fee, Vanguard charges expenses for the underlying funds (in average 0.1%).



Key points – summarized

Compared to the competition, Vanguard offers a value-for-money proposition tailored to the client - for those with the necessary minimum investment amount. Thus, the product is targeted at affluent clients and stands between the high-end offering of wealth management providers and pure robo-advisors.

Category 1 Asset managers

Blackrock's FutureAdvisor

Blackrock is the biggest asset management firm in the world, with over USD 8.5 trillion in assets managed. BlackRock pushed into the hybrid robo-advisor space via an acquisition in 2015, when it purchased digital wealth manager FutureAdvisor for an undisclosed sum.



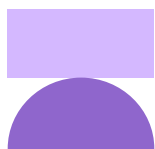
Offering

While BlackRock inherited FutureAdvisor's legacy direct-to-consumer (D2C) book, and is still serving those customers, it has since pivoted into primarily a B2B offering. FutureAdvisor offers a number of very helpful tools for analyzing a client's existing portfolio and for long-term financial planning. These tools are free of charge. In addition, FutureAdvisor offers wealth management services. These services include comprehensive investment management via ETFs and index funds and automated rebalancing and tax-loss harvesting. The minimum investment amount is USD 5,000.



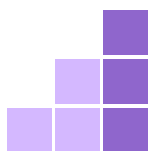
Onboarding process

As a client of a partner company, you can connect your existing account with FutureAdvisor. At sign-up, users can add their financial accounts, goals, and target timeframe to FutureAdvisor, which then provides them with customized recommendations based on the client's age, risk tolerance and investment horizon. The portfolios are based on ETFs and index funds and to a lesser extent on bonds and other investment instruments. Rebalancing happens four to six times per year. More complex strategies or sustainable investing options are not offered. Unfortunately, there is no opportunity for potential clients to speak with an advisor during the onboarding process.



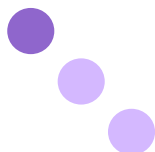
Tech / Human Advice balance

FutureAdvisor manages a customer's funds using a combination of humans and technology. Users get access to a team of financial advisors via email and phone, who they can contact for any questions about their portfolios and general wealth advice.



Pricing model

Blackrock's FutureAdvisor charges a management fee of 0.5%. In addition, there are commissions for the ETFs and index funds. In return, access to a financial advisor is included in the pricing.



Key points – summarized

A low initial investment requirement makes FutureAdvisor a good option for younger consumers getting into wealth management. As a B2B solution it is only available to customers of partner companies, such as Fidelity and TD Ameritrade.

Category 2 Fintechs

Wealthfront - The pioneer among pure robos

Wealthfront was founded in 2008 and is considered a pioneer in the field of robo-advisory. It is now the largest pure robo in the world, managing USD 23 billion (as of June 2020) for over 425,000 clients.



Offering

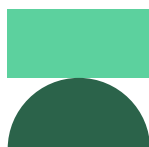
Wealthfront creates a diversified portfolio based on the client's risk profile using ETFs. Wealthfront also offers advanced features. For example, it offers risk parity strategies for all clients or even Smart Beta strategies for clients with over USD 500,000 in investments. For these clients, portfolios are created using a mix of individual stocks and ETFs. Wealthfront also offers automatic portfolio rebalancing and tax-loss harvesting.

In addition to the investment account, Wealthfront also offers clients a cash account with a credit card, which offers an interest rate of 0.35%, free of charge.



Onboarding process

Wealthfront has a simple client onboarding process. First, it elicits how much experience the user has. New users are given the opportunity to define their goals and based on that, a long-term financial plan is created. The customer can connect their bank account to Wealthfront to analyze their past spending and discover potential savings. The most important insight in onboarding, however, is the client's risk profile, which is key for constructing portfolios. The entire onboarding is done digitally in a few moments and the customer doesn't even have to wait for their funds to be transferred (Wealthfront takes the risk here to provide a better customer experience).



Tech / Human Advice balance

Wealthfront tries to handle as many requests as possible with the help of technical solutions. However, there is always the possibility to speak with a human advisor. Wealthfront calls their advisors Product Specialists and according to Wealthfront these are certified experts who can handle both technical and investment related queries. On average, a Product Specialist handles up to 30,000 clients. Despite this, there are no waiting times on the Wealthfront hotline. This is because Product Specialists are tasked with automating frequent inquiries.



Pricing model

Wealthfront's minimum deposit is USD 500 and fees are kept very simple and transparent. There are no account or trading fees. Wealthfront only charges an annual fee of 0.25% on the invested capital.



Key points – summarized

In summary, Wealthfront offers a very good product with fantastic user experience and low costs. The biggest difficulty in the future remains customer acquisition.

Category 2 Fintechs

VIAC – A successful niche-player in Switzerland

VIAC is a digital pioneer for retirement solutions in Switzerland. Within three years, more than 45,000 customers have joined VIAC, which now manages around CHF 1.1 billion on the platform.



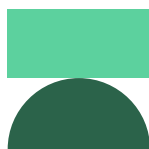
Offering

VIAC focuses on pension solutions. Specifically, it offers a digital service for investing in pillar 3a. Pillar 3a allows a voluntary, limited contribution to be invested for retirement. Access to the invested money is blocked and can only be paid out upon retirement or some other exceptions. VIAC has focused on this niche. The capital is invested using passive, low-cost ETFs and index funds. In terms of investment strategies, the customer can choose between several investment focuses - global, Swiss and sustainable. In addition, experienced customers can create their own strategy on the basis of various index products.



Onboarding process

VIAC offers a fully digital onboarding, which the customer can complete on the platform of his choice: Either via smartphone app or by web app for computers. A simple questionnaire assists customers in their choice of strategy. The whole account opening can be done within 5 to 10 minutes in a 24/7 self-service process. In case of any questions, the customer can contact the multilingual support via phone, personal chat or mail.



Tech / Human Advice balance

The app is designed to be very intuitive and simple. Due to the easy to use the front-end, customers can do a lot by themselves. If customers get stuck on a point or want to know more about a topic, it is very important to VIAC that the customers can quickly contact a well-trained advisor. The entire support staff have several years of private banking experience. The quality of the advice is a differentiator recognized by customers against the competitors.



Pricing model

VIAC's fee is based on the chosen strategy and is as low as 0.00% for certain strategies, such as the Account Plus - a retirement savings account with 5% equities. On average, VIAC's fee across all strategies is 0.36% for custody, brokerage fees and the product costs. In addition, it also includes a disability or optionally a death insurance in proportion to the invested volumes.



Key points – summarized

In summary, VIAC has found an attractive niche that they are disrupting with a much better technical product. The customer experience is exemplary and the pricing is significantly lower compared to the competition.

Category 3 Wealth Managers

Julius Baer – pure wealth management

With a history in Swiss banking dating back to 1890, Julius Baer is an international reference in wealth management with more than CHF 400 billion in assets under management. Headquartered in Zurich, it is present in more than 50 locations across the world with a second home market in Asia.



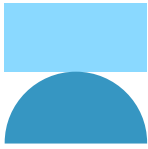
Offering

Julius Baer serves wealthy private clients, family offices and external asset managers through a client-centric business model, providing clients with holistic advice tailored to their needs. The comprehensive offering includes advisory and discretionary mandates, wealth planning services, and credit and structuring solutions.



Onboarding process

Julius Baer accepts clients from more than 100 countries after a careful review of background, needs and risk factors. A personal relationship manager guides prospects through the account opening process. Video identification and e-signature are available in Switzerland and Luxembourg and being rolled out to other banking hubs.



Tech / Human Advice balance

Julius Baer serves clients in a personal way, with each client assigned a dedicated relationship manager (RM). The service approach depends on the client needs and ranges from self-directed to advised to full delegation. The RM guides through the offering and is supported by the proprietary Digital Advisory Suite.



Pricing model

The pricing reflects product selection, the client profile and market conditions.



Key points – summarized

Julius Baer is an international reference in wealth management with a worldwide presence. Its unique focus on wealth management services puts the client in the center and avoids conflict of interest. It provides a broad range of products and services out of its own capabilities and from its open product platform.

Category 3 Wealth Managers

Vontobel's Volt – a new industry standard

Vontobel, a Swiss private bank and investment firm manages over USD 300 billion in client assets. In 2019, Vontobel released Volt, a digital active wealth management solution that marks a new industry standard. Although Vontobel is a traditional wealth manager offering services to wealthy individuals and institutions, with Volt, the firm has created a platform to also deliver services to the mass affluent market.



Offering

Vontobel's Volt is a perfect example of a hybrid solution in the wealth management industry. In this context, Volt offers two different products:

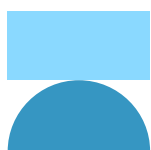
- Volt 3a is a retirement planning and investment solution.
- Volt Invest is a robo-advisory like product that allows clients to invest in different investment themes through actively managed instruments.

The interesting thing is that Vontobel, a wealth manager offering services to wealthy individuals and institutions, has created such a product for the mass affluent market. The minimum investment is only CHF 10,000. Vontobel also states that it has developed a real-time risk monitoring system specifically for Volt. Volt also shines with interesting content on investable topics. Vontobel also makes the product available to other companies as a B2B solution (e.g. Raiffeisen Bank Switzerland with its 3.5 million clients).



Onboarding process

Volt also excels in the onboarding process. To open an account, the customer needs the Volt app. After entering personal data and choosing an investment strategy, the customer must perform video identification and digitally sign the contracts. After that, money can be transferred to the account and invested. The entire digital onboarding process takes an average of 15 minutes. During onboarding, the customer's risk profile and existing financial knowledge are also elicited with the help of targeted questions.



Tech / Human Advice balance

Volt is only available as a mobile-only solution. However, the digital customer experience sets new standards for the wealth management industry. Customers have access to phone and email support for all kinds of questions. However, there is no personal financial advisor.



Pricing model

Volt charges a fee of 0.96% on the invested amount per year. This fee includes transaction costs, account maintenance fees and risk management services. In addition, a maximum of 0.6% is charged for financial instrument costs for thematic investment strategies. As a Swiss private bank, Vontobel thus positions itself clearly above the market average. However, the offering is unfortunately not competitive in purely price terms.



Key points – summarized

In summary, Vontobel has taken on a pioneering role in the wealth management industry with Volt and is also targeting other client segments in this way. The digital customer experience has been a success. And with the investment themes, Vontobel is hitting the nerve of the times, the intersection between investments and stories.



A view from the top

Interview with Nicolas de Skowronski, Julius Baer

Nicolas talks about how shifting client expectations are pushing private banks to accelerate their innovation cycles, the potential of hybrid advice, and why he does not see pureplay robo-advisors as a big threat in higher wealth segments.

Nicolas what is your view on hybrid advice, and why is it an important topic?

We need to be clear what we are talking about. Increasingly we see robo-advisors offering clients the possibility to talk to a human contact to help them set up what is essentially an ETF portfolio on autopilot. This is not hybrid advice, in my opinion. For us as a wealth manager, 'advice' means supporting clients to make investment decisions by taking into account individual situations and requirements. Augmenting this traditional client-advisor relationship with technology-based recommendations – be it through purely digital channels or via the relationship manager – is a hybrid form of advice. It combines the best of both worlds.

What are the specific trends that are shaping this development?

The most relevant driver is heightened client expectations. High net worth clients expect both a dedicated human relationship manager as well as sophisticated digital tools and capabilities. This goes beyond 'channels' providing access to transactions – it is more about content; clients expect to be provided with investment ideas that are relevant for their specific portfolio at that particular moment rather than generic, one-size-fits-all recommendations. In the past, we relied solely on relationship managers to provide this tailoring. Today, we take inspiration from recommendation systems on streaming services such as Netflix to analyse transaction data and come up with meaningful suggestions. The net benefit

is that relationship managers thus augmented by technology can spend more time with clients.

Speaking of digital channels, do you envy FinTechs for their user interface?

From a usability perspective, FinTech solutions often have an edge. As a consequence, Julius Baer is in the process of adopting Agile methods – not only for software development, but for our entire ‘change-the-bank’ activities, including business projects and resource allocation. This will allow us to enhance client experience by focusing on ‘client journeys’, prioritize innovations which matter the most, and accelerate the delivery by decreasing wait times.

Are you afraid of losing clients to robo-advisors, particularly the younger ‘digital natives’?

No. Regardless of age and level of digital affinity, the needs of a HNWI or UHNWI go far beyond the offerings of robo-advisors. At Julius Baer, we offer over 40,000 financial instruments, we have Wealth Planning experts who can help with complex international issues, and we provide bespoke credit and structuring solutions. More importantly, we have a professional and integrated investment process. Meeting the performance and risk objectives of a client is of crucial importance. In particular, in volatile market periods it is better to rely on the expertise and guidance of a dedicated Chief Investment Officer and Research team than on a simple automated process.

Lastly, it is not only about capabilities but also about delivery and the experience. You can’t compare high-end luxury goods with supermarket products, neither in terms of price nor quality. In addition to offering a comprehensive range of services and solutions, we offer a personalised high-end experience for our clients.

Are you happy with the Hybrid Advice offering at JB? Or is there more work ahead?

There is always more work ahead and we can always be better, however, we have made a good start. In recent years, we have succeeded in digitising our advisory business – we provide advice but investment decisions are ultimately made by the client. For discretionary mandates – where the bank manages the assets on behalf of the client – we are now enhancing the offering, increasing automation and developing customisation features. Ultimately, we want to bring the advisory and discretionary worlds together using a fully modular architecture: Some clients are happy to delegate the management of assets but want a say in the strategic allocation. Other clients may want to pick stocks themselves while relying on the Bank to manage their fixed income portfolios. We need to ensure that we can help clients select the approach that best suits them.

Do you think that is the future of wealth management?

Yes and No. Yes, because what I have described still needs some work, and because we will see many players in the industry moving into this direction.

No, because it doesn’t stop there. I mentioned Wealth Planning. Reconciling the professional activities and the international lifestyle of our clients with tax laws, social security systems, inheritance laws and so on is highly complex and reliant on delicate conversations. We wish to enhance the profiling and navigation of solutions to a point where we can provide the most impact for our clients in a faster, more convenient way with even better outcomes.

Ultimately, for private banking clients, the bottom line will be the quality and availability of a full set of services that meet their needs and desires. Scaling and price differentiation are important, but not the only criteria. What’s the point of a great shoe at a nice price if it doesn’t fit the foot?



Platforms offer vast potential for growth

Interview with Christine Schmid, additiv

Christine talks about the relevance of hybrid advisory services today, what clients really want, and why Banking-as-a-Service is set to be a big trend going forward.

Why are hybrid advisory services relevant today?

Historically, it was fundamental for a client to have a personal relationship with their bank that provides wealth management products and services. In comparison to other financial products such as lending or payments, with wealth management there is more at risk from a client point of view. However, technology now enables banks to provide wealth management solutions to maintain a personal relationship where required and yet benefit from the convenience and efficiency of functionality that enables personalization, modeling, instant support etc.

The need for access to a real person in case of individual questions combined with the expectation of optimal digital tools must be serviced with

a seamless hybrid wealth solution. Such a hybrid approach combines the best components of human-based financial advice and digital advice and those wealth managers or providers who provide value by combining simplicity, transparency, ease of use, personalization and access to a human for help will continue to grow above market level.

What does the client of the future really want?

Clients expect honest and transparent advice, fair pricing and information access on any channel. This must include the possibility to easily access help or be advised in person when required. In a broader sense, I see three key factors:

1. Personalized advice built upon client interests and 'best recommendation' to optimize a client's

portfolio i.e. reducing risk at same return projections or increasing investment return potential while risk levels remain unchanged.

2. Portfolio impact analysis and improvement based on client target or ESG rules: portfolio optimization and target setting alongside the UN's SDGs (sustainable development goals) provided through an intuitive and simple interface. These can include personal footprint reduction, CO2 reduction, improvement in gender equality and many more.

3. Seamless financial planning – financial health guidance: not only including the wealth accumulation phase but also the professional wealth decumulation during retirement and next generation wealth transfer.

What are the biggest barriers to building hybrid capabilities?

The biggest barrier was the belief that nothing can replace a relationship and personal meetings. The pandemic turned this idea on its head, as clients and relationship managers were forced to rely on digital channels – and it worked! So, while in person meetings are a crucial from time to time, a relationship can actually be enhanced using hybrid solutions. Personalized advice, fast combined with in tool servicing such as remote chat, video or screen sharing can bring interactions and advice to new levels on top of simplified operational processes.

Companies like additiv help financial institutions build hybrid wealth solutions. What trends do you see with respect to this element of digitalization?

I see two major trends within wealth management that are set to dominate: first, Banking as a Service

(BaaS), and second, embedded finance. Banking as a Service (BaaS) describes banking services made available through Application Programming Interfaces (APIs) to other distribution channels. At the moment there are only a few banks, such as Goldman Sachs or BBVA that offer BaaS, and they predominantly focus on payments, credit and account opening. Very few institutions are focused on Wealth Management as a Service. This represents a compelling market opportunity to grow exponentially by tapping other distribution channels while at the same time improving unit economics.

Embedded finance refers to the platforms that embed financial services into their offering – be it an insurance company, a tech firm or a mobility company. The API integration also allows for the distributor to have more control over the customer experience. Therefore banking as a service covers the supply of the service, embedded finance addresses the demand side.

At additiv we recognize the growing need for banks and other financial institutions to offer Wealth Management-as-a-Service and the demand from non-banks to embed finance and we are providing the bridge between banking suppliers and new distribution channels. For example, our partnership with Bricknode is essential to enable this new approach to wealth management for our customers. Together with Bricknode we enable financial institutions to select an established end-to-end solution for all their client's wealth management needs. It adds Bricknode's Brokerage-as-a-Service, providing fully-scalable back-office and record-keeping functionality to additiv's already broad product range which includes extensive orchestration and client engagement capabilities.



AI-powered platforms to emerge as the benchmark for hybrid advice

Interview with Mathias Schütz, Avaloq

Mathias talks about how AI has the potential to improve customer service, automate repetitive tasks and to offer highly personalized invest advice.

Is robo-advisory a threat to the wealth management industry?

In our opinion, robo-advisory – and to a broader extent, artificial intelligence (AI) – offer interesting opportunities for the wealth management industry. In a recent study by Avaloq (Avaloq Front-to-Back Office Report), it emerged that AI has the potential to improve customer service, automate repetitive tasks, and offer highly personalized investment advice. At the same time, it became clear that employees play a significant role in ensuring that this potential can be fully exploited. The front office as well as the middle and back office remain indispensable in providing a holistic and seamless customer experience to bank clients. The study also concludes that a clear majority of customers

do not want to use an exclusively „robotic“ service and that the human component, especially in advice, is definitely appreciated. Nevertheless, it seems clear that AI, robotics and automation will shape the future of the industry. Therefore, our long-term vision for the wealth management industry is to maintain the interpersonal relationship between clients and advisors and to strengthen it through technology to increase client engagement and satisfaction.

What do you understand under hybrid advice and what should a hybrid model ideally look like?

Let me give you an example of how hybrid advice should ideally be implemented, based on the Avaloq Engage app. This is a newly launched,

Interview: Mathias Schütz, Avaloq

AI-powered solution that allows wealth managers and advisers to interact with their clients through social messaging channels such as WhatsApp in a secure and compliant manner. Imagine a relationship manager called David who receives a text message on his smartphone from his client, Linda. Linda would like to diversify her portfolio by investing into a specific theme. She is using her preferred social messaging app, but David is using the Engage app on the other side. In the background, a set of AI-based analytic tools and semantic language processing capabilities is helping David to detect Linda's intentions and to respond to her questions in an efficient manner. The app supports David in seamlessly communicating with Linda and in preparing a highly personalized investment proposal – by simply using his smartphone or tablet. Linda on the other hand, doesn't even notice that the advice she's receiving from David is derived from AI technology. She feels comfortable on her customer journey as she is communicating with her trusted advisor through the messaging app she has been using for years. At the end, Linda receives a link from David to a detailed investment proposal which meets her risk/return profile. She accepts the proposal by simply using her mobile banking app.

What are the implications of such digital solutions on the industry?

No doubt, technological trends such as AI, mobile solutions and process automation will continue to transform the financial industry. Thanks to increased efficiencies and scalability, it will become more and more appealing for private banks and wealth managers to tap into new client segments. For instance, high-grade wealth management services which have traditionally been reserved for (ultra)

high net worth clients, may also be offered to clients in the affluent or mass affluent segments. In our view, this trend will pave the way for the democratization of wealth management. Digitalization and technological advancements are also fundamentally changing the requirement profile for employees in the financial industry – new skills are needed. Ideal candidates should be able to combine digital expertise with a strong understanding of customer needs. People will continue to play an absolutely decisive role in this development.

Companies like Avaloq provide the infrastructure that banks are built on, so you get interesting insights behind the scenes of the industry. What are your customers struggling with most at the moment?

Covid-19 has definitely increased the pressure for more digitalization among our clients, namely private banks and wealth managers. They all need to transform their business models to be future-proof – across the front, middle and back office. In addition, we expect a large part of banking data to be moved to the cloud in the coming years while blockchain-based solutions will become very important.

What advice would you give to your customers who have underestimated or are still underestimating the impact of technological disruption in their industry?

Ultimately, we believe that it is crucial for an institutions' long-term success to achieve an optimal balance between innovative technologies and talented people. Firms that find this balance will lead the industry in the digital era.

Final summary

The ongoing industry-wide automation and externalization of middle and back offices, combined with the ubiquity of robo-advisory offerings, are reshaping the value proposition of the investment advisory client journey. Consequently, leading firms will seek to identify and invest in other ways of differentiating themselves to stand apart from competition, in particular through deeper personalization of customer offerings.

One way to achieve this is through hybrid advice models. Leading wealth managers are set to balance the potential of technology with a critical human touch, even drawing on new sources of data to deliver advice on all aspects of clients' financial lives. This is set to mark the start of change in the way wealth management services are deployed to clients.

Looking ahead, the human advisor is likely still to be instrumental when differentiating products, especially for high and ultra-high-net-worth clients. However, in some leading companies, the role of such advisers is likely to shift from product selection to a focus on deeper client engagement, emotional intelligence and even behavioral coaching.

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