

From **FINTECH** 07 June 2023

Communication the key to unlocking tech transformation of wealth management



Delyth
Richards,SG
Kleinwort
Hambros

BY **YURI BENDER**

Will digital intelligence triumph over human emotion and wisdom? Speakers from the FT/PWM Innovation in Wealth Management Summit debate the latest industry tech trends with Yuri Bender

In the endless talk about digitalisation, conducted by vested interest in its deployment – software companies selling packages or banks streamlining processes and tech stacks – the culture of wealth managers and clients is often forgotten or ignored.

“One of the biggest revolutions ahead for the wealth sector will come through process improvement and automation of what were linear approaches,” says David Durlacher, CEO of Julius Baer’s international division in London. Despite this scientific description, he is in no doubt about the human quality necessary to trigger change: “Communication.”

While physical resources will be pumped into digital enhancement, developing AI tools and data-led initiatives, the toughest fight is emotional, as banks battle to connect with a broader client demographic.

Grappling with technology

“Our industry must grapple with its limits as much as opportunities, if it is to engage hearts and minds of a new generation,” says Mr Durlacher, describing increasingly socially-conscious clients pondering the role of their wealth in improving society.

“The ultimate requirement of wealth managers is to engage with our humanity as much as our intellect,” suggests Mr Durlacher, shifting the focus of the debate from digital innovation to appreciating firms’ collected wisdom from negotiating crises, allocating assets and advising clients.



Unlocking the hearts and minds of a new generation of clients will require an emotional, as well as a digital, connection. *Image: Getty Images*

“Wisdom,” he believes, is essentially human, unlike “intelligence”, which can be synthetically generated, recalling a client meeting, to demonstrate differences between the qualities. “This couple had sold their business, the proceeds making them extremely wealthy. During our conversation of how to help, the temptation was to discuss performance, assess markets and how to manage their money,” he says. “If we had done that, we would have missed their entire priority, as the main

employer in their local community, keeping hundreds of people in work. They may have walked away from their business, but still held a keen desire to support the community. Our main job was answering the big picture question: 'How can we help you achieve that broader goal?'"

Second-hand emotion

Emotion not only determines engagement with clients, but also feeds AI algorithms, confirms Jerome Stern, managing partner of family-owned investment firm J Stern & Co. "You have more and more analytical tools and can automatise processes, with AI allowing you to summarise things straight away," he says. "But it doesn't give you the ability to ask the right questions in the first place."

Moreover, investment managers must weigh up emotions when drawing up portfolio strategies in a way machine learning may struggle. "Human behaviour is driven by irrational exuberance," says Mr Stern, referring to political interference in environmentally friendly investments by right-wing US politicians.

"When you're looking at trade, you have to also see it from the point of view of the Texan pension fund, hearing external forces preventing them investing in oil, a significant part of the state's GDP. You ask yourself: 'Am I actually doing the state a disservice by doing this?'"

"AI doesn't give you the ability to ask the right questions in the first place"

Jerome Stern, J Stern & Co

Similarly, while noting irrational behaviour leading to client losses in cryptocurrency projects, including the FTX debacle, he is a proponent of technology facilitating these investments, believing the digital leap during Covid propelled finance forward "10 years" in a short period.

"The technology behind this will be revolutionary, no question," stresses Mr Stern, advocating the use of blockchain alongside AI in wealth management, allowing investors to buy tokenised shares from decentralised exchanges via mobile devices.

Peripheral vision

At Citi Private Bank, one of the most advanced in deploying technology, digital capacities are "table stakes", rather than selection criteria in their own right, says chief innovation officer, Phil Watson, favouring collaboration with external partners, including universities and start-ups to help innovate internally.

"We talk about 'bringing the inside out and the outside in'. In simple terms, this means that ideas are born, and progress is made through sharing" not just technology, but also human challenges, opportunities and "pain points", says Mr Watson.

"Wealth managers and private banks frequently struggle from a lack of peripheral vision," he admits. "They can be so focused on a narrow set of products, services, and client experiences that they miss the state of play completely changing around them."

"Wealth managers and private banks frequently struggle from a lack of peripheral vision"

Phil Watson, Citi Private Bank

Connectivity to innovation hubs, plugging banks into ideas and talent pools that could embed digital culture into banks' "DNA", can only be achieved by developing human talent alongside its artificial manifestation, he argues. "The more we technologise, the more we humanise. Applying one in absence of the other is detrimental to the client experience and your business model."

Smaller wealth managers, even as devotees of technology, have stronger reservations around its uses. "Digital capability and technological access" are a key factor, believes Delyth Richards, group head of client solutions, SG Kleinwort Hambros, while warning some clients can be "overwhelmed in the short term" by 24/7 communications and performance reviews.

Culture is key to this progress, acknowledges Ms Richards, championing the matching of innovation with tradition. "At SG Kleinwort Hambros, we like to consider ourselves as a start-up with 200 years of history," she says.

Will customers be satisfied with the digital offerings they are presented with, asks Achim Denkel, CEO of CAPInside.com

Even platform providers, with financial interest in the technological revolution, acknowledge limits to digitalisation. Family dynamics often beat digital connectivity when determining which bank to partner with, says Achim Denkel, CEO of CAPInside.com, an online investment community serving family offices.



"The desire to get a quick digital overview of all investments comes more from the successor generation than from the head of the family," says Mr Denkel, adding that the focus of first generation entrepreneurs and first-born offspring is naturally on their company and "obvious investments" such as real estate. This changes in the following generation, which

demands a "quick, transparent and therefore digital overview" of its wealth.

Despite being a fintech founder, he remains cautious about predicting eventual dominance of AI over human decisions. "How far the financial industry will go to replace humans with machines depends on how far customers will go with this swap. After all, just because everything is available at a glance and there is a direct response to customer queries does not mean that more satisfied customers will be produced," suggests Mr Denkel. "The next few years will show which customers can be profitably offered a customised service and which customers recognise this as an added value in the long run."

Digital supremacy

But there are others in the technology industry who believe digital progress is already overtaking human input. "A strong digital strategy will enable a firm to leapfrog the competition by improving accuracy and speeding up processes, and this can be achieved by either integrating innovative technologies or buying directly from a third-party vendor," says Simon Edwards, chief revenue officer at wealth technology specialists BlueMatrix.

"It can be challenging for firms to navigate all the options available to them in the marketplace, but in general the most desirable solutions provide a compliant and secure feature-rich software environment."



Traditional players will need to play a game of catch-up, argues Anders Kvamme Jensen, founder of AKJ

Moving down from the wealthiest clients, digitalised services are even more attractive, believes Mr Edwards. "Technology has a much bigger role to play in helping wealth managers understand this more diverse group of customers through analytics, which can shed light on their behaviours, preferences and search criteria."

This technology-intensive approach finds favour among other providers too. "Investment performance will decline without digital sophistication, and product and specialist offerings will quickly pale in comparison to a rapid proliferation of digital-facing and digitally driven alternatives," says Anders Kvamme Jensen, founder of the AKJ global brokerage and digital asset specialist. "Sitting on one's hands will ensure one's extinction."

The traditional Swiss banking model, in particular, could come under threat. "The Swiss European approach has prioritised stability, trust, and strict regulations," says Mr Kvamme Jensen. "While this certainly affords numerous benefits, it can also present a challenge to provide this alongside a forward-thinking, agile mindset. In general, traditional players will need to play a game of catch-up, made all the more difficult by the lightning-quick pace of crypto and AI."

Responding to a fast-changing regulatory backdrop, "tech-savvy start-ups and digital banks could leverage state-of-the-art technologies including AI to manoeuvre within this changing landscape," he believes.

In contrast, says Mr Kvamme Jensen, traditional banks will find themselves increasingly burdened by legacy systems and processes, unable to make rapid, but necessary shifts: "No one wants to play tennis wearing ski boots."

To register for the FT/PWM Innovation in Wealth Management Summit, taking place on 8 June 2023 in London, [please click here](#) or contact bruna.pascucci@ft.com

--	--	--	--

[Print](#)