Beyond Fintech
Disruptive innovation in investment management

Background

A 2017 report from Deloitte and the World Economic Forum, "Beyond Fintech: A pragmatic assessment of disruptive potential in financial services," examines disruptive innovation in financial services.

The report identifies 8 key forces impacting all aspects of financial services:

1. Cost Commoditisation
Financial institutions will accelerate the commoditization of their cost bases, removing them as points of competition and creating new grounds for differentiation.

2. Profit Redistribution
Technology and new partnerships will enable organizations to bypass traditional value chains, thereby redistributing profit pools.

3. Experience Ownership
Power will transfer to the owner of the customer interface; pure manufacturers must therefore become hyper-scaled or hyper-focused.

4. Data Monetisation
Data will become increasingly important for differentiation, but static data sets will be enriched by flows of data from multiple sources combined and used in real time.

5. Platforms Rising
Platforms that offer the ability to engage with different financial institutions from a single channel will become the dominant model for the delivery of financial services.

6. Bionic Workforce
As the ability of machines to replicate the behaviors of humans continues to evolve, financial institutions will need to manage labor and capital as a single set of capabilities.

7. Financial Regionalisation
Diverging regulatory priorities and customer needs will lead financial services in different regions of the world down distinct paths.

8. Systemically Important Techs
Financial institutions increasingly resemble, and are dependent on, large tech firms to acquire critical infrastructure and differentiating technologies.

Trends

Where disruption has occurred?	As individuals assume more responsibility for their investments, robo-distribution has become the most compelling way to work with them.
	It takes fewer resources to deliver more investment advice, as middle and back office functions are increasingly automated or sourced out.
	The rise of low-cost products has made scale more important to product manufacturing, driving pressures for consolidation.
Where it hasn't	New entrants to investment management have struggled to gain market share as customers stick to existing providers and the cost of enticing them away remains high.

Open questions

To what degree will product manufacturers move upstream and disrupt distributors?

How will the role of human advisers and their job requirements change?

How will wealth managers differentiate their robo-advisory offerings?

Will clients continue to prefer low-cost investments, or will "guaranteed outcome" products become popular?

Will product manufacturing be characterised by more or less scale?

Possible futures

Certainty based offerings	Growing profit pools in retail wealth lead to a renaissance of products that guarantee outcomes.	Customers will flock to products that offer more certainty. But it will take strong partnerships to manage the risks.
Advice as a differentiator	As robo-advice improves, investment advice becomes the main thing that determines a client's choice of institution.	Investment services will become more convenient but also less transparent for customers. Wealth managers will become more important.
Quality externalisation	Rising costs force firms to either rely on external service providers or gain the scale to invest in differentiated technology.	Increasing standardisation and industry bifurcation will create new opportunities as well as new threats.

Key takeaways

Differentiation of offerings

Middle and back-office automation, combined with the growing ubiquity of robo-advisors, are turning investment advice into a commodity. As a result, leading firms will look for other ways to stand out from the competition—especially through more personalised customer offerings.

Advice-driven customer guidance

As robo-advisors become more available and sophisticated, investment management companies will draw on new sources of data to deliver advice on all aspects of their customers' financial lives. This will mark the start of their transition from robo-investors to true robo-advisors.

Role of human advisers

Human advisers will still be crucial to differentiate products, especially for customers with high net wealth. But the role of such advisers will shift from product selection to customer engagement, emotional intelligence, and decision support.

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To view the full report, visit https://www.deloitte.com/au/beyondfintech