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THE BANKING SOFTWARE COMPANY

Asia's mass affluent investors: The next battleground for wealth revenues

Transforming digital infrastructure to tap into Asia's growing mass affluent market

Asia's emerging markets are among the world's fastest-growing economies, and their growth is fueling an expansion of the middle class, both in size and financial clout.

By 2030, the region will accommodate two-thirds of the global middle class population, according to the OECD[1]. In China alone, the middle class is expected to swell to almost 1.2 billion people in the same time period[2]. As a result, the world's purchasing power center is gradually shifting from West to East.

This trajectory will have significant implications for the financial services industry, especially when it comes to wealth management. However, despite these changing dynamics, many in the sector remain focused on serving deep-pocketed clients. At Temenos, it is our view that Asia's burgeoning mass affluent market offers vital opportunities, and fintech developments pave the way to make the most of them.

1 http://oecdobserver.org/news/fullstory.php/aid/3681/An_emerging_middle_class.html
2 https://oecd-development-matters.org/2019/05/07/look-east-instead-of-west-for-the-future-global-middle-class/

Seeking new opportunities

Although there is no standard definition of 'mass affluent', the term generally applies to individuals in the middle class bracket, who have not inherited wealth, earn higher than average incomes, and hold investable assets valued between US$100,000 and US$1 million. In comparison, high-net-worth (HNW) and ultra-high-net-worth (UHNW) individuals typically possess liquid assets of at least US$1 million and US$30 million, respectively[3].

HNW/UHNW investors make up the majority of private banking and wealth management clients, however, this space has become quite saturated and costly to service. Factors such as low interest rates and more stringent regulations and compliance measures have added to the burden. On top of that, rising competition from family offices[4] and boutique asset managers[5] have also put greater pressure on traditional players. For instance, a recent McKinsey study revealed that total assets managed by European private banks fell by 4 percent in 2018, causing profits and margins to shrink.[6]

The blow to the bottom line is now spurring financiers to explore new revenue streams – and Asia's mass affluent segment is an attractive prospect. Besides the vast number of Chinese entering this category, Southeast Asia's mass affluent are forecast to reach 136 million by 2030, according to BCG[7]. Investors in countries like Thailand, Indonesia and Malaysia are already accumulating substantial capital and, therefore, should be on the radar of ambitious wealth managers.

While the mass affluent definition is diffuse and encompasses a culturally diverse group of people in Asia, they do share some key characteristics. They are predominantly millennials (under the age of 40), they are aspirational, and they are exceptionally tech-savvy. The latter quality is driving a surge in demand for innovative banking solutions, including regular social media engagement and the availability of real-time asset prices on multiple devices.

3 https://www.investopedia.com/terms/h/hnwi.asp
4 https://www.scmp.com/business/money/wealth/article/3019665/global-family-offices-grow-assets-under-management-nearly-us6
5 https://www.reuters.com/article/us-asia-wealth-analysis/asias-billionaires-develop-taste-for-boutique-wealth-managers-idUSKCN1SX0FO
6 https://www.mckinsey.com/industries/financial-services/our-insights/european-private-banking-an-inescapable-call-for-action
7 https://www.bcg.com/publications/2018/beyond-crazy-rich-mass-affluent-southeast-asia.aspx

Crafting a customizable digital platform

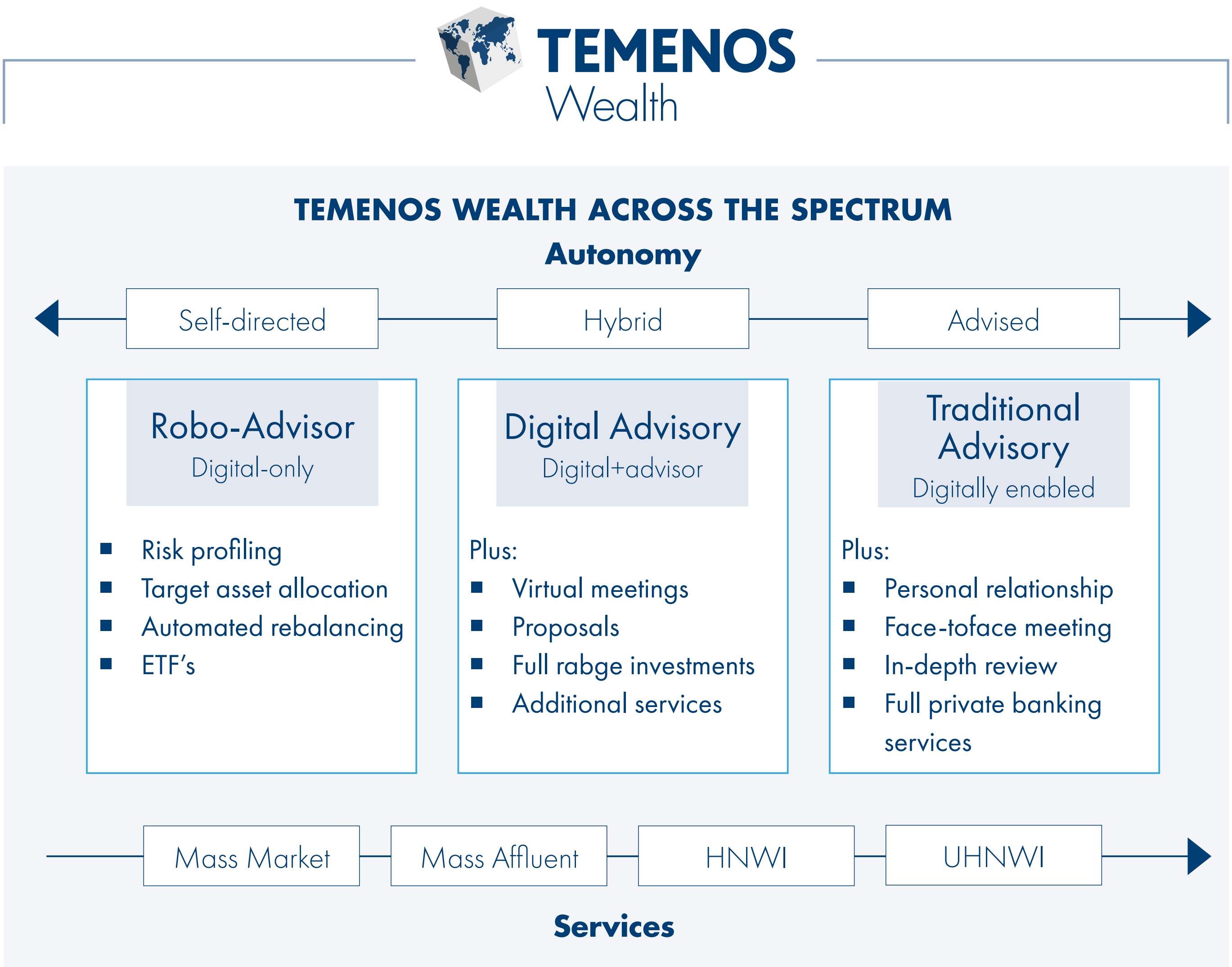
Even though winning over and retaining mass affluent investors is not without its challenges, the market is very accessible and rewarding. A 2019 Forbes Insights survey on modern wealth management showed that 60% of executives saw the segment as highly important to their business because it stood to represent tomorrow's HNW cohort, and they emphasized smart technology as an essential tool[8].

At Temenos, we believe that success in the wealth space relies on building sophisticated technology infrastructure to improve overall productivity. In order to truly cater to the mass affluent – while continuing to serve HNW/UHNW clients – a holistic overhaul of operational systems is the best course of action.

8 Forbes Insights report, 'The Next-Generation Wealth Manager: Advancing Services and Personalization with Technology', 2019

All too often banks simply scratch the surface by concentrating their technology upgrades on the front end, but that is akin to putting new alloy wheels on an old car to make it go faster. A digital channel solution is inadequate if the product it links to is managed at the back office by an aging core IT system or slow, manual procedures. This approach usually stems from the notion that a multipronged strategy prioritizing investment in people and processes is daunting - but it need not be the case.

Consider constructing [a single, scalable digital platform] - devoid of silos - that is designed to sit across numerous channels, ranging from mass market to HNW/UHNW customers. This will allow for seamless transitions between different categories and facilitate customizable services to match each profile with the added bonus of keeping operating costs down.



Where deemed relevant and necessary, the integrated platform can deploy features such as virtual meetings, robo-advisors to assist with portfolio planning, and advanced data analytics to power better predictive guidance.

The human aspect of this equation is equally valuable. Companies can gain a huge amount of efficiency by relying their staff – whether it be in sales, advisory or IT – who are trained to use one platform across the board. That familiarity can enhance knowledge, streamline resources and save time without compromising on the breadth and treatment of customers.

Investments in meaningful technology are no longer an option but a prerequisite to thrive in an evolving global business environment where disruption has become the norm. Understanding and acting on this will enable bankers and wealth managers to reach out to the expanding pool of young, pioneering and increasingly wealthy investors in Asia's booming economies as well as strengthen relationships with their existing clients.

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