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Wealth & Asset Management Practice in Asia

WealthTech in Asia–Pacific

The next frontier in financial innovation

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WealthTech in Asia–Pacific:

The next frontier in financial innovation

By using tech-driven solutions, WealthTechs in Asia–Pacific can unlock opportunities in the fast-growing wealth management industry to expand the system to more customers and financial institutions.

The wealth management industry is growing fast, bringing with it rapid transformation. Technological advancements have enabled the development of innovative platforms and tools that enhance the efficiency, accessibility, and personalization of wealth management services. However, other factors—such as evolving customer investment and saving behaviors, regulatory reforms, and the rise of new market entrants—are also contributing to the transformation and changing the scale and scope of the wealth management landscape.

Among the new entrants, WealthTech is rapidly gaining momentum as more wealth management firms recognize the potential benefits it offers (see sidebar, “What is WealthTech”). As such, this new field is especially important in Asia–Pacific, with its growing economy and increasing wealth. Though it still is in nascent stages, with around 40 to 45 percent of personal financial assets (PFA) in cash

and deposits, the region is quickly becoming a driving force in the global wealth management industry.

We believe that industry participants could drive more meaningful wealth management penetration while embracing technology to deliver “advice for all.” Wealth management firms operating in the region urgently need to adapt and embrace technology-driven solutions to cater to their customers’ evolving demands and stay competitive in this dynamic market.

In this article, we investigate the WealthTech world, explore its dynamics, and identify how it could unlock opportunities for financial institutions, financial advisers, customers, and ultimately for WealthTech players and their investors across the Asia–Pacific region.

What is WealthTech?

WealthTech is defined as any technology-enabled wealth fintech that facilitates and accelerates the distribution, manufacturing, and post-trade and back-office activities across the wealth management value chain.

The wide spectrum of WealthTech firms can be boxed across the value chain, including:

- digital wealth management platforms that engage directly with end customers while delivering financial advice for retail and accredited investors—direct to consumer (D2C)
- technology solution providers that assist financial institutions and non-financial institutions in digital wealth and asset management capabilities across the wealth management value chain—business-to-business interfacing and business to financial institutions (B2FI)
- digital wealth management platforms that engage with independent financial advisers and agents while enabling them to deliver wealth solutions and advice to their end customers—business to financial advisers (B2FA)

The components of the value chain will be elaborated on later in the article.

WealthTechs seek to expand the wealth management ecosystem while enabling “advice for all” for the untapped and under-served customer segments (especially mass and affluent). They also enable institutions to build scalable and sustainable wealth businesses across the wealth continuum.

The wealth dynamics in Asia-Pacific are evolving

The wealth management industry across the world is changing. WealthTech companies are driving the expansion of the wealth ecosystem while bringing financial advice to untapped and underpenetrated customer subsegments. Financial platforms are reaching out to mass and affluent customers and helping drive financial independence at a comparatively lower cost of investing—for example, some platforms are challenging the rampant commission-driven, product-push engagement, charging only for financial advice and passing back retrocessions from manufacturers to customers.

With wealth on the increase in the Asia-Pacific region, wealth management companies are poised to grow. They are faced with significant opportunities, including estimated “onshore” personal financial assets (PFA) of approximately \$81 trillion by 2027—translating into approximately \$1 trillion of revenue pools across the wealth continuum (Exhibit 1).¹

Traditionally, the wealth management industry has been dominated by the high-net-worth individual (HNWI) segments but, with increasing wealth within

the Asia-Pacific population, the affluent segment is projected to be 34 percent of onshore PFA by 2027, at a CAGR of 8 percent from 2022 to 2027. This segment is notably untapped and underserved and has a comparatively low wealth management penetration of 15 to 20 percent as of today.²

At the same time, “cross-border wealth management connectivity” is on the rise, with increasing flows coming into the two offshore hubs in the region, Hong Kong and Singapore. This inflow represents around \$3.5 trillion of booked assets by 2027, at a CAGR of 8 percent per annum from 2022 to 2027.³

In addition, wealth management is required across not only accumulation but also decumulation. Customers are increasingly showing a critical need for a retirement corpus, especially within emerging Asia-Pacific countries where, because of a younger population, the pension-to-GDP ratio lags developed Asia-Pacific and other nations (for example, the United States had a ratio of 174 percent in 2021 versus Singapore with 94 percent and Indonesia and Malaysia both with less than 2 percent). This opens a massive undeployed potential for WealthTech companies.

‘Advice in the region is massively misaligned—banks are not paid by the client to do what’s in their best interest as fiduciaries, but are paid by the product manufacturer to push its funds. The demand side is a problem, too, because people are not financially literate enough; they don’t know that this misalignment is happening.’

—Samuel Rhee, cofounder, chairman, and chief investment officer, Endowus

¹ McKinsey analysis for revenue pools = PFA x margins; McKinsey analysis for PFA; industry expert estimates for margins.

² Based on industry expert interviews.

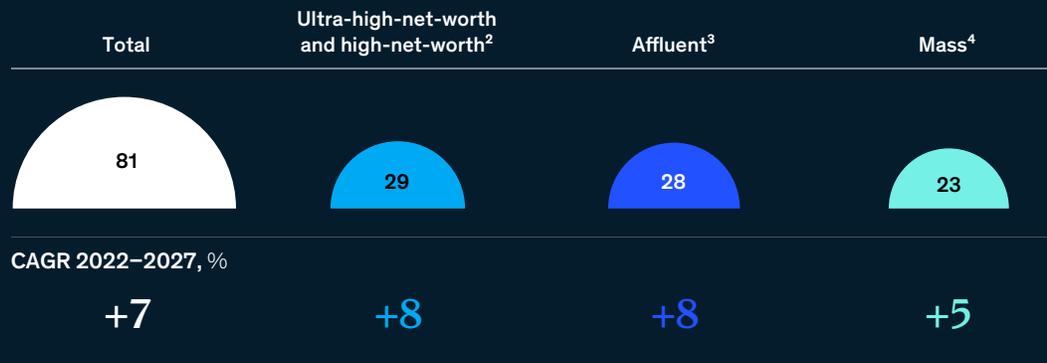
³ *Pension markets in focus 2022*, OECD, 2023.

The growing and underpenetrated affluent segment is fertile for growth in Asia-Pacific.



Asia-Pacific (APAC) will be approximately an \$81 trillion onshore opportunity by 2027

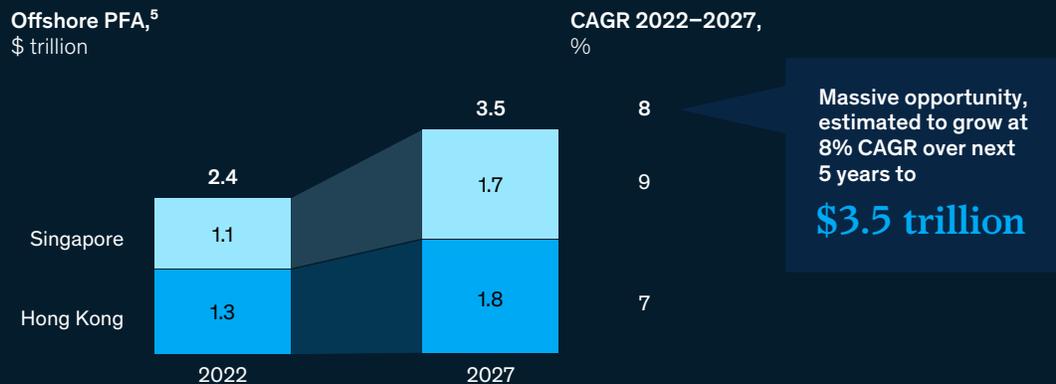
APAC personal financial assets (PFA),¹ 2027, \$ trillion

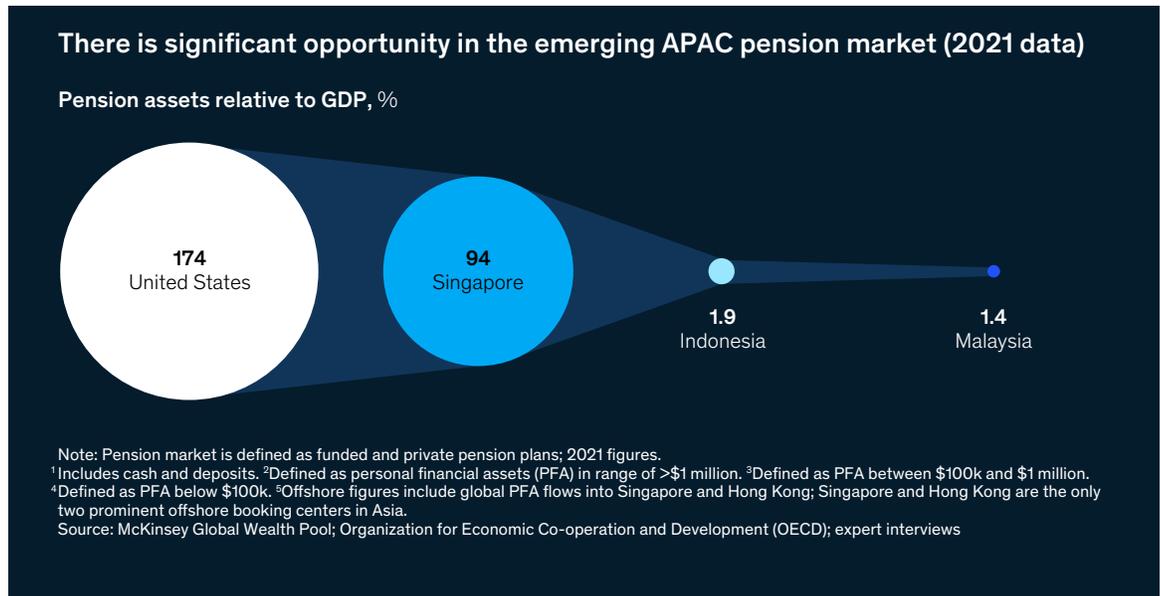


Wealth management penetration, 2022, 2027 (projected), %



Offshore inflows in Hong Kong and Singapore are estimated to be \$3.5 trillion of booked assets by 2027





The Asia–Pacific wealth management industry: Poised at an inflection point

In the United States, an inflection point emerged in the 1990s that marked the start of accelerated wealth development and penetration in the country. When mutual fund assets under management (AuM) as a percentage of GDP reached 18 percent in 1990, a sustained and substantial growth occurred in mutual funds AuM, at a CAGR of 10 percent per annum through 2022.⁴

Similarly, for Asia–Pacific countries like Australia, Korea, and Japan, an analogous inflection point of 18 percent was seen in 2002, following which mutual funds AuM CAGR growth was 18 percent per annum through 2022.⁵

For emerging Asia–Pacific countries like India, Indonesia, Malaysia, Thailand, and Vietnam, the mutual fund AuM as a percentage of GDP has neared the same inflection point in 2021 (at 17 percent mutual fund AuM/GDP), indicating that emerging Asia–Pacific countries can anticipate substantial AuM growth in the coming years (Exhibit 2).⁶

The current economic and asset management landscape is also paving the way for an inflection point for WealthTech: according to the 2022 McKinsey Performance Lens Global Asset Management Survey, pre-tax operating profit margins as a percentage of net revenue have dropped 5 percent from 2021 to 2022, while revenue pools and costs over the same period dipped 11 percent and 3 percent, respectively.⁷ With increasing cost pressures and shrinking revenues, comparatively more cost-effective offerings from WealthTechs are thus put into focus.

Emerging customer needs: Sparking opportunities

Today’s customers want and need more—and wealth management companies need to heed their demands to be able to offer better investment services. Customers seek more than just traditional services. As our customer research has shown, they prefer needs-based financial advisory, multichannel engagement across a digital-hybrid setup, and personalized solutions delivered at scale.

⁴International Monetary Fund, July 26, 2023; Investment Company Institute, July 2023.

⁵Korea Financial Investment Association, March 10, 2022; The Investment Trust Associations (Japan), March 10, 2022; “Series ID A3591523J,” Australian Bureau of Statistics, July 2023.

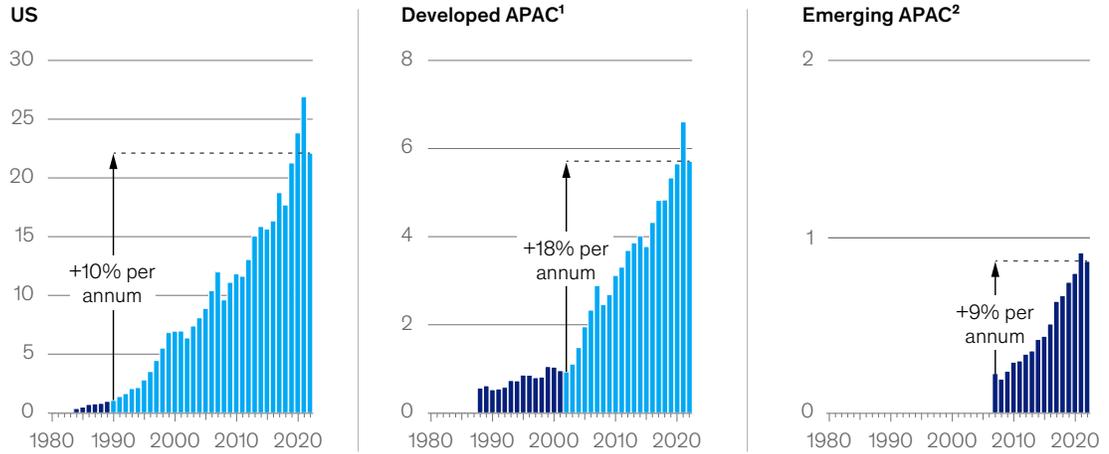
⁶State Security Commission, Government of Vietnam, August 2023; Vietnam Finance and Investment, August 2023; McKinsey Performance Lens Solution, July 2023.

⁷For further information, see McKinsey’s Performance Lens Global Asset Management Survey.

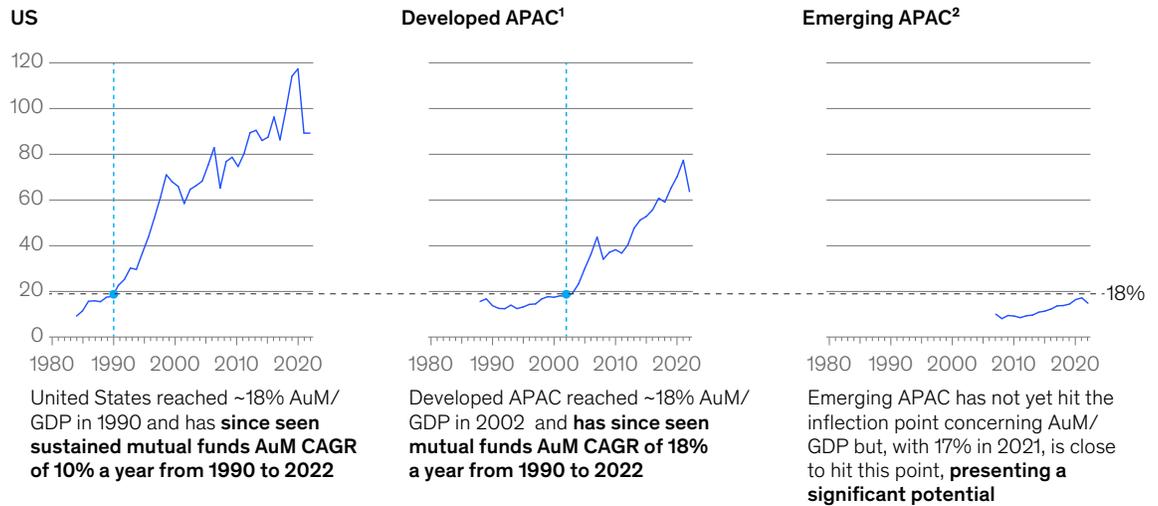
Exhibit 2

The emerging Asia-Pacific market is predicted to reach an inflection point of unprecedented growth in coming years.

Mutual fund assets under management (AuM), \$ trillion ■ Pre-inflection point ■ Post-inflection point



Mutual fund AuM/GDP, %



¹APAC = Asia-Pacific; developed APAC countries include Australia, Japan, and South Korea (KOFIA for Korea and The Investment Trust Association for Japan, ABS for Australia).
²Emerging APAC countries include India, Indonesia, Malaysia, Thailand, and Vietnam; historical CAGR (2011–2021) used to calculate AuM for Vietnam from 2007–2010 and 2022.
³Inflection point was earlier in emerging APAC including Malaysia due to dominant mutual fund AuM growth (7% per annum from 2007 to 2022) vs GDP growth (5% per annum from 2007 to 2022).
 Source: IMF; Investment Company Institute; Investment Trust Association, Japan; KOFIA; Morningstar; State Securities Commission (SSC), Government of Vietnam, 2021; Vietnam Finance and Investment (VF), 2021; World Bank; McKinsey Performance Lens Solution (Global Growth Cube)

With customers' rapidly evolving investment behavior and the advent of technology in the wealth management space, we envisage a very different future for the wealth management industry, challenging the traditional high-touch, relationship-manager (RM) operating models prevalent across

the wealth continuum. The high-touch, RM model will likely still drive specific customer segments—primarily across the higher end of affluent segments and the HNWI subsegments—however the mass and emerging affluent segments will be more driven by digital-hybrid platforms.

The future is expected to include a level of “advisory on demand” or “hybrid advisory,” powered by modern technology—thus introducing significant and meaningful changes to incumbents’ operating models (banks and insurers), while the non-traditional firms (WealthTechs) quickly define the right to play and right to win in this space (Exhibit 3).

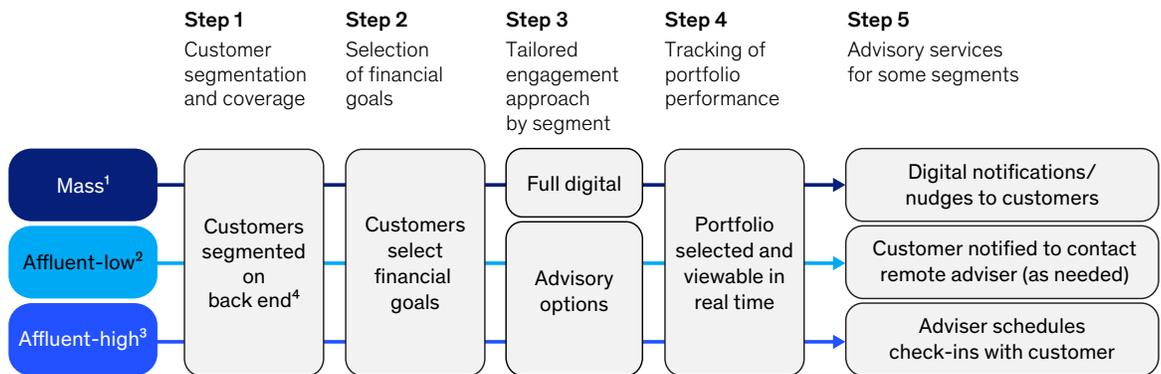
Cracking the code of WealthTech economics

With the plethora of opportunities growing in Asia–Pacific for the wealth management industry, WealthTechs are rapidly accelerating to achieve the type of advisory sophistication that customers seek, to create flexibility in driving multi-asset portfolios

Exhibit 3

Future customer engagements will likely differ based on customer profile segmentation.

Possible customer journeys for emergent customer segments



¹Defined as personal financial assets (PFA) below \$100k.

²Defined as PFA between \$100k and \$1 million with low-investment frequency.

³Defined as PFA between \$100k and \$1 million with high-investment frequency.

⁴Customers can be segmented with defined features, for example, monthly income, risk appetite, investment frequency, investment profile, etc.

‘We need to take a holistic lens across the wealth value chain, and I believe that we can unlock significant value while leveraging new-age technology. This can potentially lead to margin expansion versus margin compressions. There is significant merit to drive the customer experience layer and data lake internally, while the tactical middle- and back-office operations can be outsourced to niche wealth management technology solution providers.’

—Akhil Doegar, chief executive officer,
GROW with Singlife

to reach personalization at scale, and to build an investor education infrastructure in the industry. However, no one in the industry has yet cracked the code to drive economies of scale.

In this section, we dive deep into the foundational elements of the wealth management value chain, emerging WealthTech archetypes, and their estimated value pools.

The wealth management value chain: Breaking down the elements

The wealth management value chain is a complex process that involves multiple elements, each with a unique set of activities. These elements comprise

front-end engagement; financial advice and investment decision layers; model portfolio design and creation machinery; distribution facilitation and processing; execution venue; asset and portfolio administration and management; and securities and post-trade operations. While the activities within each element may sometimes be blurred, each can be broken down into smaller characteristics.

We see the bulk of the value pools for WealthTech players in distribution, as well as the strongest competitive dynamics—here, three main archetypes have arisen. Exhibit 4 provides more detail for each step and activity.

Exhibit 4

Three main WealthTech archetypes arise on the distribution side of the wealth management value chain.

Wealth management value chain

WealthTech archetype				Key activities	
Distribution (focus of this article)	Archetype 1: Direct to consumer (D2C)	Archetype 2: Technology solution providers to financial institutions (B2FI)	Archetype 3: Technology solution providers to financial advisors and customers (B2FA)	Sales front-end	Customer-interfacing digital platform with activities including onboarding, risk profiling, KYC, ¹ investment placement, and tracking
				Financial advice and investment decision	Financial and investment advisory based on risk profile, customer needs, etc Engagement model (ie, digital, advisory, on-demand, or hybrid)—depends on customer segmentation and investment threshold
				Model portfolio design and creation	Research for recommended assets across sectors, regions, type, etc Design, create, publish, and adjust pre-set portfolios containing diversified assets, aimed to suit specific investor needs
				Distribution facilitation and processing	Aggregate, process, and route purchase orders to execution venues
				Execution venue	Execution of investment orders to manufacturers Integrated execution access to large number of funds/assets Contract and rebate management with funds
Manufacturing				Asset/portfolio administration and management	Asset/portfolio administration and/or simulation Asset/portfolio construction and optimization
Middle/back office				Securities and post-trade operations	Order routing, messaging, and settlement Asset custody and settlement

¹Know your customer.

With the rise in affluence and the growth of (mass) affluent segments, customers' demands are increasing for wealth management advisory and products in a market where traditional wealth management models have been designed to serve high-net-worth (HNW) and ultra-high-net-worth (UHNW) segments, in a relatively high-touch engagement format. This creates a significant opportunity (in the distribution portion of the value chain) for a more scalable, digital, service model that can cater to the mass and affluent segments—a space that WealthTechs are well positioned to fill.

Three emerging archetypes in WealthTech

Across the complex wealth management value chain, we have observed three archetypes materializing within the WealthTech space. These are evolving to meet the growing needs of the wealth management landscape and are making “advice for all” a reality (Exhibit 5).

Each archetype has multiple emerging sub-archetypes based on its unique value proposition in the industry across the dimensions of product, pricing, and tech-enabled investment innovation.

Archetype 1: Direct-to-consumer WealthTechs (D2C)

These WealthTechs are multi-asset, digital platforms that offer publicly traded assets (for instance, securities and mutual funds, among others) and private assets (rare assets such as whiskey, art, private equity, private credit, real estate, etcetera), together with either pure digital or hybrid advisory, or a combination of both. These firms have made financial advice a possibility for mass and affluent customers while expanding digital engagement to HNWI customers.

What sets archetype 1 WealthTechs apart is their ability to democratize access to various

Exhibit 5

The three archetypes differ according to how customers are served.

Archetype		Value proposition	Pricing	Products/services offered
Archetype 1: Direct to consumer (D2C)	1A: Public assets	Goal-based financial planning while democratizing public assets (primarily mutual funds and ETFs) ¹	Evolution toward “fee-based” pricing ~20–80bps	Model portfolios with underlying public-traded assets, eg, mutual funds, ETFs, and securities
	1B: Private assets	Democratization of private assets while making accessibility for affluent customers, eg, access to start-ups	Commission-based ~60–200bps	Rare assets and private assets, eg, art, whiskey, and access to start-ups
	1C: Next-gen tech-based assets	Leveraging next-gen tech, such as tokenization, through blockchain for a more innovative way to access to assets	Commission-based ~80–400bps	Assets (both private and traditional), eg, funds, real estate, and stocks
Archetype 2: Technology solution providers to financial institutions (B2FI)	2A: Specific solution providers	Enabling tailored wealth solutions, provided on an as-needed basis to launch digital platforms (mainly single blocks)	Volume-based ~6–10bps Fixed maintenance ~\$200–\$500k	Modular platform capabilities, including customer interface, data analytics, and tech platform
	2B: End-to-end solution providers	Enabling end-to-end implementation and execution of digital platforms, including business processes	Volume-based ~10–30bps Fixed maintenance ~\$300–\$700k	Platform as a service, including customer interface, data analytics, and tech platform
Archetype 3: Technology solution providers to financial advisors and customers (B2FA)		Enabling financial advisory engagement between financial advisors and customers through tech-enabled platforms with investment, capability building, and administration capabilities	Volume-based ~10–50bps	Platform as a service, including customer interface, data analytics, and tech platform

¹Exchange-traded funds.

assets, attracting customers who are drawn to the opportunities presented by these WealthTechs. These companies' engagement models have evolved—the few that started as pure digital platforms have now expanded to include hybrid advisory for the higher end of customers across the wealth spectrum, and a few have expanded into archetype 3 (as defined later). Archetype 1 WealthTechs have challenged one of the biggest inefficiencies in the industry—“commission-led customer engagement”—while introducing “fee for advice” and evolving from commission to fee-based, especially for 1A (public assets).

Even within archetype 1, we see various models emerging: for instance, D2C public-assets WealthTechs offer customers seamless digital journeys, personalized engagements, and model portfolios, all within the realm of financial advisory. These platforms empower individuals to easily access and manage their investments, providing a level of convenience and customization that was previously reserved for a select few.

On the other hand, D2C private-asset WealthTechs focus on granting access and liquidity to private and non-traditional assets, such as private equity funds and vineyard ownership. To achieve this, these platforms pool investments from different customers, expanding the reach of these exclusive assets. Some companies even utilize next-generation technologies—such as blockchain—to tokenize these assets, further enhancing accessibility and liquidity. These private assets were once exclusively available only to institutional investors and a limited number of HNWIs, which severely restricted access and liquidity. However, with the emergence of D2C private-asset WealthTechs, a broader range of investors can now participate in these previously exclusive opportunities. By leveraging technology and innovative business models, these WealthTechs are revolutionizing the wealth management industry, making it more inclusive and accessible to a wider audience.

Archetype 2: Technology solution providers to financial institutions (B2FI)

These WealthTech solution providers are instrumental in helping financial institutions or other WealthTechs build up and or enhance their digital

wealth management capabilities along the wealth management value chain.

Some of these WealthTechs focus on developing and delivering technology solutions for specific parts of the value chain, such as the sales front end or digital model preset portfolios.

On the other hand, some offer comprehensive, multi-modular, end-to-end solutions, revamping a financial institution's digital wealth management portfolio with enhanced functionalities and seamlessly integrating each step of the value chain into the existing architecture. These WealthTech solution providers tend to come with a suite of solutions that are modular and scalable, allowing integration into various types of existing back-end and ancillary systems, and enabling the management of a variety of volume needs. The complex integration of these solutions into financial institutions' legacy platforms has not been easy: wealth management companies may need to run a detailed due diligence on the feasibility and scalability of a WealthTech partner before choosing one.

Archetype 3: Technology solution providers to financial advisers (B2FA)

This WealthTech archetype focuses on providing digital tools and interfaces specifically designed for financial advisers and agents. These solutions aim to enhance the efficiency of financial advisers' work, allowing them to dedicate more time to serving their customers. By leveraging these technologies, financial advisers can offer their clients greater expertise and insights. Additionally, clients can conveniently track their investments digitally on the same platform. This integration of technology and financial advisory services—although not easy—empowers both advisers and customers to make informed decisions and optimize their investment strategies. Some of the industry-leading platforms are taking a disruptive approach where they do not charge customers for using the platforms and ensure that the “commission prevalence” is challenged. These platforms focus heavily on financial advisers' and agents' capability building (with curated content across public and private market spaces), while significantly reducing the administrative burden through their platforms.

‘The big challenge is standardization and interoperability. For platforms like ours to fully develop scalability and liquidity, interoperability is key because it enables different systems, platforms, and organizations to work together seamlessly. This will further foster innovation and efficiency by allowing diverse parties to share resources, data, and capabilities. This means that platforms can also expand their user base and support not just consumers but also enterprise customers.’

—Oi Yee Choo, chief executive officer, ADDX

Calculating the upside of WealthTech in Asia-Pacific

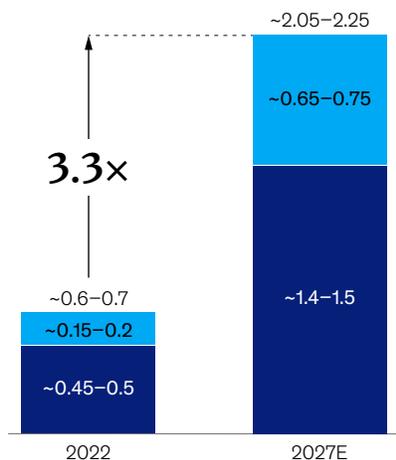
The Asia-Pacific WealthTech industry—with AuM of \$600 billion to \$700 billion across the three archetypes as of year end 2022—is on the brink of substantial expansion. Anticipated to grow by approximately 25 to 30 percent per year, we expect the market could triple or even quadruple its present AuM by 2027 (Exhibit 6). This groundbreaking shift is set to transform wealth management, presenting the opportunity to tap into a revenue stream worth billions in the coming years.

D2C WealthTech firms (archetype 1), with AuM of around \$150 billion to \$200 billion in 2022, are poised to grow their AuM to approximately \$650 billion to \$750 billion by 2027. Revenues are set to surge from \$1.0 billion to \$1.5 billion, to \$5.0 billion to \$7.0 billion, increasing more than five times, by 2027. The most lucrative components of the value chain are financial advice, model portfolios, and distribution facilitation and, as these areas increasingly deliver adept tailored services, we expect them to rise in importance, enhancing customer experience and encouraging customers to pay for advice.

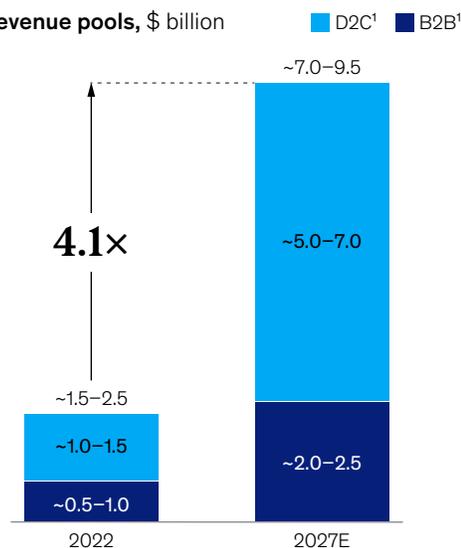
Exhibit 6

By 2027, assets under management in Asia-Pacific are expected to triple and revenue pools quadruple.

Assets under management (AuM), \$ trillion



Revenue pools, \$ billion



¹B2B = business to business; D2C = direct to consumer.

B2B WealthTech firms that cater to financial institutions and advisers—with a market size of around \$450 billion to \$500 billion in 2022—are projected to grow by approximately 25 percent per year to \$1.4 trillion to \$1.5 trillion by 2027.⁸

Reimagining WealthTechs for the future

The Asia–Pacific region holds great promise for the burgeoning WealthTech industry. However, WealthTechs will be faced with obstacles along the journey and it is important they recognize them when navigating the evolving landscape.

To find out more about these challenges, we engaged in a series of conversations with various WealthTech players in the Asia–Pacific region. We identified seven common hurdles that collectively contribute to the overarching issues of scalability and funding, and detail potential strategies to address these challenges.

In the subsequent sections of this article, we delve into these challenges in detail, exploring their intricacies, and propose six core disciplines that may serve as solutions (Exhibit 7). By doing

so, we aim to shed light on the path forward for WealthTechs in Asia–Pacific, offering insights that could help shape the future of this dynamic industry.

Overcoming challenges to tap into WealthTechs' massive potential

All three emerging WealthTech archetypes are likely to be confronted with a range of challenges.

Challenge 1: Conquering high customer acquisition costs

WealthTech players are faced with the hurdle of high customer acquisition costs. As D2C WealthTech players grow within the Asia–Pacific market, they find themselves in increasingly intense competition for a share of customers' investment wallets. Further, given Asia–Pacific's comparatively lower levels of financial and investment literacy, this necessitates greater investments in time and resources to educate their customers—as well as cultivate trust and credibility—through their branding strategies. On average, customer acquisition cost (CAC) ranges between \$50 and \$200, depending on the market, customer type, and products within a WealthTech; this currently translates to a payback period of between 12 and 24 months.⁹

‘Volumes on platforms have been very slow to build. And that is, in part, because the solution has been very portfolio focused. In future, I think customers will keep their existing holdings and just do one or two trades to make their portfolios healthier—this will help the digital wealth business, as you’re not asking the customer to sell everything and buy a portfolio; you’re saying, “Let me help you take one or two steps toward a healthier portfolio.”’

—John Robson, chief commercial officer, Quantifeed

⁸Based on an estimate that financial institutions and independent financial advisers obtain a portion of their AuM supported by WealthTech companies.

⁹McKinsey estimates based on industry expert interviews.

Exhibit 7

WealthTechs face a number of challenges that can be addressed with core disciplines.

Key challenges



Tech-enabled, analytics-backed disciplines



Challenge 2: Institutionalizing asset democratization and augmenting market liquidity

WealthTechs are often faced with needing to institutionalize asset democratization and augment market liquidity. As WealthTechs attempt to create more liquidity in and access to assets (both public and private) through fractionalization, pooling of funds, and blockchain, the actual implementation can present challenges. The two most common obstacles faced are liquidity creation for private assets and price discovery for illiquid assets. These remain unsolved issues in the industry, and various firms have taken an “exchange approach” while collaborating with market makers.

There are also issues around post-trade servicing of private assets, which involve various activities comparatively more complex than that of public assets (for example, close-ended capital calls). Given the nascency of the technologies and capabilities surrounding private asset democratization, post-trade processes could be a challenge for WealthTechs looking to democratize private assets.

Challenge 3: Navigating cross-border complexities

Navigating the diverse market requirements and regulatory frameworks across Asia–Pacific markets adds a layer of intricacy to WealthTech expansion and cross-border operations.

When venturing into a new jurisdiction, WealthTechs need to spend a substantial investment of time and effort to familiarize themselves with new customer needs and characteristics, as well as regulations—for example, how to initiate the application processes for required licenses and navigate policies that could accelerate or hinder WealthTechs’ growth in each country. Understanding the market and the regulatory and compliance intricacies involved in facilitating cross-border investment flows adds another layer of complexity.

There are, however, first attempts from regulatory authorities—such as the Monetary Authority of Singapore (MAS) that launched Sandbox Express in 2019—to relax existing sandbox approval processes and offer firms a more efficient route to test new

‘We also notice that the emerging, digitally native generation no longer looks for advice from classic intermediaries, but is taking advice from peer-groups. People want better access to knowledge, not only the institutional type. Banks have to do something because they do not have sustainable business models.’

—Steffen Pauls, chief executive office, Moonfare

financial products and services.¹⁰ On the flipside, certain WealthTech platforms in Singapore are only accessible by accredited investors. Although designed to protect retail investors from the risks of alternative assets, this could impede WealthTechs from scaling to other income segments.

With unique market and regulatory characteristics, WealthTechs are thus required to localize their investment offerings and solutions—this adds a strain especially on WealthTechs whose technology stacks are not built for the level of flexibility and customization required to scale in multiple jurisdictions.

Challenge 4: Unifying disconnected ecosystem players for seamless integration

WealthTechs need to work out how to unify disconnected ecosystem players for seamless integration. The WealthTech industry’s true potential can be unlocked through ecosystem integration and partnerships. However, cultivating meaningful collaborations with incumbent institutions and regulators can prove to be challenging. Identifying suitable partners, aligning cultures, and integrating technologies demand extensive negotiations. Cultural differences and technological hurdles often complicate these alliances, posing additional barriers in the pursuit of seamless integration and innovation.

Challenge 5: Elevating financial and investment literacy for informed decisions

Low levels of financial literacy across the Asia–Pacific region could hinder the complete realization of WealthTechs’ impact. These lower levels necessitate WealthTechs to make substantial investments in education and build customers’ trust so that they can inform customers about available market products, as well as foster a deep understanding of the implications of their financial decisions. This could become especially critical for WealthTechs offering private assets, as these products could be difficult for customers to understand, given the general lack of financial education.

Challenge 6: Bridging the funding gap

The WealthTech funding landscape faces a shortfall. There has been a downturn in venture capital and private equity investments in the past few months; global venture capital fintech funding in 2022 (at \$85.4 billion) has come down by 36 percent from a record-breaking year in 2021 (at \$133.1 billion).¹¹ For current Asia–Pacific WealthTech players, there have not been any major funding rounds in the recent period, and for those that have raised new funds, the funding levels are similar to previous rounds. The sector’s unique business models challenge traditional valuations, impacting the availability of funding rounds. Navigating this funding gap remains a significant concern, potentially reshaping the

¹⁰“Sandbox Express,” Monetary Authority of Singapore, August 11, 2023.

¹¹Excluding grants, SPAC private placement, debt, post IPO debt, lending capital; DealRoom AI, April 2023.

sector's growth trajectory. However, in specific situations, the unique and robust operating models that WealthTechs can offer still attract investor confidence and funding—such as pure fee-based advisory models or the democratization of asset classes to reach broader customer segments.

Challenge 7: Achieving self-sustainability, scalability, and profitability

Self-sustainability, profitability, and scalability to achieve breakeven still remain the ultimate obstacles for WealthTechs, over and above other challenges. Given the comparatively lower fees charged and smaller size of customer portfolios (compared to traditional wealth managers), WealthTechs have to achieve a substantial volume of assets under management to break even.

Moreover, after achieving a foothold, WealthTechs may encounter difficulties in scaling into other customer or product segments. This is because of needing to scale existing technologies to meet new requirements, rebranding, reeducating customers, and scarce resource allocation—all at the expense of potentially alienating the existing customer base.

Key transformational disciplines for WealthTechs

We have identified six important disciplines that WealthTechs can master to stay ahead and unlock the industry's immense potential. By employing technology-enabled and analytics-backed solutions to address their clients' unique needs, WealthTech companies could see cost reductions and scale

improvements while continuing to revolutionize the way wealth is managed, democratize access to financial services, and ultimately reshape the future of the wealth management industry.

1. Crafting a strategic approach to distribution partnerships for programmatic scaling

Crafting a comprehensive partnership strategy for programmatic customer acquisition involves a strategic approach to collaboration. Identifying potential partners, such as established financial institutions or non-financial enterprises where wealth management services could be embedded, entails meticulous research to align with target customer segments and overarching business objectives. The evaluation of partnership opportunities extends beyond surface-level considerations, diving into partner attributes such as customer base, technological capabilities, and brand reputation. By nurturing these partnerships and framing a collaborative framework, WealthTechs could unlock synergies that drive efficient programmatic customer acquisition. Monitoring partnership performance and fine-tuning strategies could ensure sustained growth through mutually beneficial alliances.

For example, we have noticed that to circumvent the lengthy processes of procuring licenses to operate in certain jurisdictions, some WealthTechs have chosen to partner instead with existing financial institutions in the relevant countries to gain access to the market and customers.

‘Liquidity cannot be created with a pure wealth management platform; it needs to be created through exchanges, officially plugged into other networks as well. We solve liquidity by thinking about it as cross-pollinating traditional pockets of capital and digital asset exchanges (with different client segments) on a centralized exchange—this can create tokenization, and only with tokenization can assets become more liquid.’

—Kelvin Lee, chief executive officer, Alta Exchange

2. Reimagining geographic coverage and cross-border integration

In the increasingly connected world with expanding cross-border wealth flows, geography coverage strategies can be redefined to include contexts of wealth flows and wealth corridors. Strategic geographic coverage expansion can also serve as a method to expand and diversify sources of funding for WealthTechs, as it taps into geographies with high interest in investments into the Asia–Pacific region.

3. Adopting data-driven, segment-specific marketing

WealthTechs have the opportunity to unleash the potential of data-driven marketing to boost customer acquisition and efficiency—this can be achieved by leveraging AI-powered algorithms and advanced data analytics to build a strong, customer-centric recommendation engine that understands and segments customers and sends out meaningful, segment-specific digital campaigns that resonate with the specific customer segments. These campaigns could extend beyond simple, segment-based approaches, embracing one-to-one communication sequences. By rigorously monitoring and optimizing (through experimentation or A/B testing), WealthTechs could try out new ideas and rapidly scale the successful ones to identify the most cost-efficient and high-return channels, ensuring their marketing efforts are both impactful and economical. Embracing agile methodologies could enhance the speed and adaptability of marketing strategies, allowing WealthTechs to swiftly respond to changing market dynamics and customer needs.

4. Establishing world-class personalized digital experiences

To elevate personalization to new heights, WealthTechs could harness data analytics and machine learning to meticulously segment their customer base, enable rapid customer scoring and profiling, as well as provide tailor-made offerings. This level of granularity would allow them to personalize and deliver investment strategies and financial services that align precisely with customers' individual preferences, goals, and risk profiles. Moreover, integrating AI-driven customer service tools, such as chatbots powered by natural language processing, would enable seamless and personalized engagement and responsiveness on a large scale. Behavioral economics adds another layer of personalization, shaping offerings that resonate deeply with clients' decision-making tendencies.

5. Unlocking emerging white spaces with core technological capabilities

WealthTechs' existing core value propositions and capabilities could also be utilized to target white spaces of unmet needs in the current wealth management landscape. For example, WealthTechs' cash pooling and cash management capabilities could be used to serve private equity and venture capital portfolio companies, utilizing their personalization and advisory skills to serve external asset managers of family offices or small and medium-sized enterprises. WealthTechs have either already started expanding into these spaces or have ambitions to do so—to stay ahead, they need to constantly keep these white spaces in mind.

‘There are many financial advisers who deliver face-to-face advice—this is a costly structure that will reduce significantly in the coming years. Given the incredible improvements in generative AI, this can fundamentally change the way financial institutions communicate with clients. AI can be used to automate and streamline the personalization of customer experiences and tailored offerings.’

—Michele Ferrario, chief executive officer, StashAway

6. Transforming customer engagement and insight generation with digital analytics tools

As WealthTechs continue to evolve and expand their influence, optimizing sales strategies becomes imperative. Using advanced analytics, financial advisers could revolutionize customer engagement. This could be achieved by harnessing the power of predictive analytics to anticipate clients' preferences and investment behaviors, thus offering them investment strategies that are finely attuned to their needs. Moreover, through digital tools like lead generation and pipeline management, advisers could gain unprecedented insights into potentially high-value clients. This data-driven approach could enhance sales effectiveness, enabling advisers to focus their efforts on clients most likely to benefit from WealthTechs' services, ultimately fostering stronger client-adviser relationships and improved outcomes.

WealthTechs could leverage the above disciplines to rapidly scale up and generate revenue. These disciplines require talent and capability excellence—a strong, capable leadership team crafting a compelling business case and narrative, driving growth and innovation. Simultaneously, enhancing working teams' capabilities is crucial. WealthTechs could cultivate a profound understanding of end customers and their needs, even if interactions are not direct. This customer-centric perspective could shape solution design and delivery, ensuring that the offerings resonate deeply with their intended users. By marrying visionary leadership with proficient execution, WealthTechs could create a holistic framework for success in the ever-evolving landscape of wealth management.

The way forward

Success is not a product of mere luck and requires several factors to come together with the collaboration of several key stakeholders—this triggers key questions:

Will customer segments shift to adopting WealthTechs—specifically HNWI segments—with self-direct usage of the wealth platforms?

- How will HNWI segments react to the increase in digital engagement and offerings when they are

still predominantly served through non-digital engagements by advisers and private bankers?

- Within HNWI segments, which customer types are the most likely to make the shift to adopting WealthTechs that offer self-direct usage of wealth platforms?
- What key offerings are needed to accelerate this shift for these HNWI subsegments?

How will the rise of WealthTechs impact incumbent financial institutions?

- As WealthTechs continue to gain traction and disrupt the traditional wealth management landscape, how will incumbents adapt and respond to this changing competitive landscape?
- Will they embrace collaboration and partnerships with WealthTechs, or will they develop their own digital wealth management solutions to stay relevant?

With the current impact on funding rounds, will the WealthTech space consolidate?

- Which archetypes might have the highest chances of consolidation?
- What sort of consolidation will there be in the WealthTech space? (For example, the consolidation of direct competitors or that of complementary firms.)

How can regulatory frameworks support the growth of WealthTechs?

- Given the cross-border complexities and diverse market requirements in the Asia-Pacific region, how can regulators support the expansion of WealthTechs while ensuring consumer protection and market stability?
- Are there opportunities for regulatory sandboxes or streamlined approval processes to encourage innovation and experimentation?

Forging a path to the future

The wealth management industry represents a multifaceted and ever-evolving domain. Success in this market demands more than just a comprehensive understanding of its dynamics; it necessitates addressing critical questions to unlock untapped potential. Among these are scaling up to attain regional leadership and profitable growth, as well as evading the growth trap, and fostering

collaborations with banks to harness additional opportunities.

The path for modern digital wealth is now defined, presenting a burgeoning segment waiting to be harnessed. With a mindful, test-and-learn approach, companies can seize this opportunity and pave the way for the future of wealth technology.

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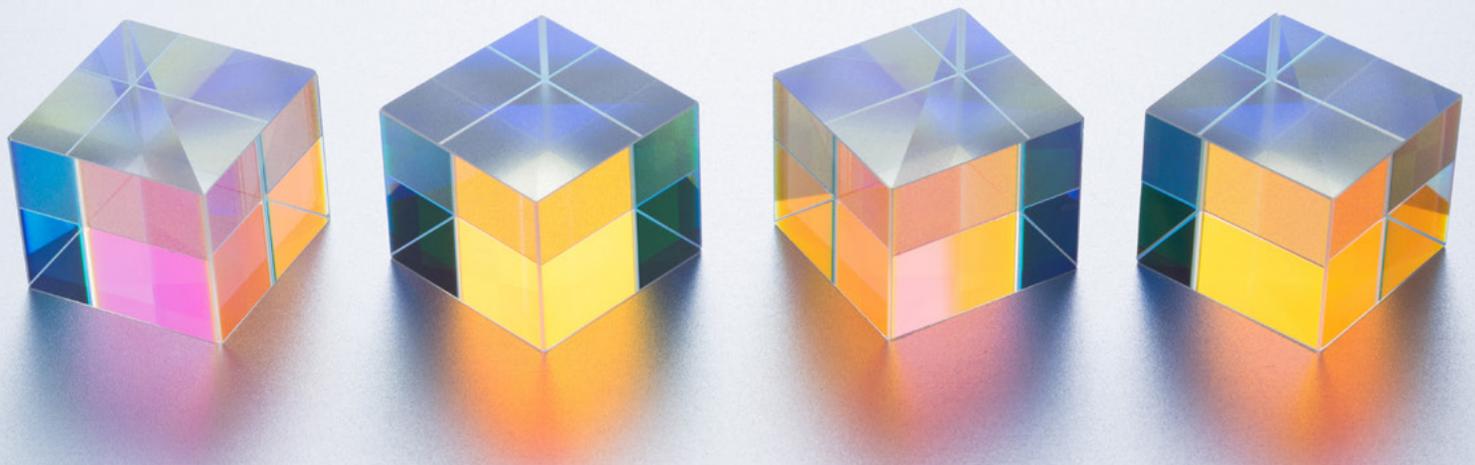
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WealthTech in Asia–Pacific: Industry expert interviews



An interview with Oi-Yee Choo of ADDX

In an interview with McKinsey, Oi-Yee Choo, chief executive officer of ADDX, spoke about the inefficiencies in the alternative market space, among other issues.

McKinsey: How do you see the WealthTech industry in Asia-Pacific evolving?

Oi-Yee Choo: First of all, wealth management in Asia-Pacific is expected to grow at a CAGR of 11–12 percent for the next seven to ten years. The crucial segment is the growing middle class establishing the high-net-worth individual (HNWI) investor base.

The HNWI investor segment in Asia-Pacific is likely to have accumulated their wealth from employment income, and are likely to be younger, technologically savvy, and self-directed. The service that resonates for them is quite different from the service traditional private banks extend to their segment of clients. The WealthTech industry can address many of these gaps.

While stocks, in general, are already quite well-served by exchanges and brokers, there are many areas in which WealthTech can enhance the portfolio construction and wealth management of HNWI. For example, robo-advisory can tailor, customize, and offer low-cost portfolio construction. Burgeoning new asset classes that would appeal to the growing HNWI segment require technology and ecosystem development. This area has been limited by size, scale, speed, and cost of regulation, which together significantly increase the cost of servicing the customer.

McKinsey: Looking at the democratization of alternative assets, what are some of the key trends in the WealthTech space?

Oi-Yee Choo: One of the key trends is that we see general partners [GPs] and fund managers increasingly expanding their distribution to both

traditional and newer digital wealth channels. However, one of the key issues is the cost to serve and the cost to service the alternative asset class. Digital platforms built to purpose are likely to be able to efficiently serve and fractionalize the investment size for their investors to build a right-sized alternatives portfolio.

The other key aspect of alternative assets is they are generally illiquid in nature. Creating pathways to liquidity will greatly facilitate mass affluent and more mainstream adoption of alternative assets. Digital exchanges could support secondary trading for closed-end funds and funds with lock-ups, and GPs and fund managers are increasingly creating open-ended, semi-liquid funds that allow investors to redeem, should they need to monetize their investments. WealthTech will be well-positioned to support this growing area as the constant need for subscription and redemption services, as well as monthly net asset value reporting, could be better digitized.

Finally, traditional players are looking to create more efficient touch points, expand their client base, and optimize the cost of servicing clients. WealthTechs are well-positioned to fill many of these gaps in for traditional financial institution clients, especially in the space of alternative investments.

McKinsey: What's your view about the liquidity management of private assets enabled by technology?

Oi-Yee Choo: We think that it is still some time away. Secondary liquidity for our client base is a secondary consideration. They have only just started to understand, appreciate, and subscribe to (say) a private equity or venture capital fund. It is likely that they view these investments as difficult to access, and longer term. However, liquidity management is starting to happen as platforms like ours have a longer track record and investors may

want to rebalance their portfolios. Investors who, for example, have invested in a hedge fund that has hit their investment target and don't mind taking some profit off the table in exchange for liquidity. We're encouraging our investors to do that on our exchange. And I think, over time as the number of investors and volume scale up, market makers will participate should there be arbitrage opportunities.

McKinsey: What is the big challenge that players like ADDX currently face in the industry?

Oi-Yee Choo: The big challenge is standardization and interoperability. For platforms like ours to fully develop scalability and liquidity, interoperability is key because it enables different systems, platforms, and organizations to work together seamlessly. This will further foster innovation and efficiency by allowing diverse parties to share resources, data, and capabilities. This means that platforms can also expand their user base and support not just consumers but also enterprise customers.

McKinsey: What additional complexities do you see in blockchain-based assets?

Oi-Yee Choo: Blockchain is a powerful underlying technology that will revolutionize the way we transact in financial services from digital currencies to digital securities. We are already seeing many global and regional financial institutions build their

own blockchain capability. However, as a nascent technology, standardization and connectivity across the ecosystem need to be built.

The other complexity is that there is no standardization of securities regulation and tokenized securities versus traditional securities. Over time, I expect that regulators will move toward a securities regulation regime that is technology or blockchain agnostic, like Singapore's.

McKinsey: One of the main questions to solve is how to make WealthTech players profitable while scaling. What are the main building blocks?

Oi-Yee Choo: First, a flexible work force, which means balancing a core team of engineers and complementing them with outsourced or offshored talent. Second, maintaining discipline on build decisions and being clear about the ROI when building platform features. Third, minimized fixed costs, such as rent.

McKinsey: What's your view on collaboration opportunities within the WealthTech ecosystem?

Oi-Yee Choo: There's no way that any company can scale alone—by being open to partnerships and collaboration, WealthTechs can uncover more opportunities to increase efficiency, or to scale.

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Oi-Yee Choo is chief executive officer and director of ADDX.

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An interview with Alta Exchange

McKinsey spoke to the Alta Exchange team about the inefficiencies in the digital markets and how players can create liquidity for the emerging wealth segments.

McKinsey: What do you believe are the biggest inefficiencies in the market currently?

Alta Exchange: Twenty years ago, a company took on average five-and-a-half years to go public; in recent years, it is common for companies to take as long as 12 years or more. There are more and more companies being delisted, making them not investable in the traditional sense, so we have to think about how to achieve smart wealth allocation in the private segment—how can we make it easier to access private equity as the asset class?

The lack of financial education and market awareness needs to be overcome; more capacity and time should be spent on investor education. Another challenge is how to enhance liquidity, which is key to drawing entry-level HNWI customers to invest. A lack of due diligence is also a hurdle, as it adds time constraints. Regulatory complexities between countries create an issue and how they can be tokenized needs to be addressed—there needs to be global harmonization. Connectivity between Asia and the European Union is a further problem—it is not yet built out and stifles fund flows. Last, there are too many intermediaries in this space; the varying and fragmented processes need to be streamlined and standardized.

McKinsey: As an exchange, how do you collaborate with financial institutions?

Alta Exchange: Everything ties into our member-firm model where we work with different financial institutions—they partner with us and bring their investors; we call them member firms. We didn't want to launch into the market on the premise that we wanted to disrupt everything; rather, we approached it from a broader perspective, seeking to collaborate and transform the industry together. We knew that we needed to work together with other broker-dealers with track records and

experience in traditional means of doing business in each market. We can't do it alone.

We have tried to take an open architecture approach, partnering with other broker-dealers and traditional financial institutions. Almost all of the deals come to us from our network of established financial institutions, as they have the client relationships. What we need to do is maintain our licenses, technology, and overall processes to make sure they are robust. Then we will be able to attract all sorts of different assets and instruments to the exchange.

On the technology-solution side, what we're trying to get right is interoperability at several layers, not just technology, but to process workflows—a platform where the different member firms can connect on our exchange, and manage and control the overall user experience. One of the areas that we're moving into is what we call "mass-private-markets-as-a-service, or PMAas." Essentially, our clients can leverage our technology, licenses, inventory, and front-end user experiences to complement their services to their clients. We want to help create seamless experiences for their customers as a turnkey solution.

We built Alta Exchange for ourselves, to be everything that we saw was missing in the private markets and alternative investing. Alta Alternative Investments, which houses our private capital markets and fund managers business, is a member firm to Alta Exchange as well.

McKinsey: How do players like yourselves create liquidity?

Alta Exchange: We are challenging the notion that the only solution is a venture capital fund with a ten-odd-year tenure. Investors should be able to access intermediate liquidity, and meeting this need is a trillion-dollar solution. Everyone talks about how private equity is great, but also how it is so illiquid. It will never become mainstream if it's illiquid; there has to be liquidity.

Liquidity cannot be created with a pure wealth management platform; it needs to be created through

exchanges, officially plugged into other networks as well. We solve liquidity by initially thinking about it as cross-pollinating traditional pockets of capital and digital asset exchanges (with different client segments) on a centralized exchange—this can create tokenization and only with tokenization can assets become more liquid.

We run our exchange on blockchain. All our licenses are securities licenses, which gives us flexibility to do blockchain as well as non-blockchain trades. This means we can fractionalize and make it easier for more mass affluent customers to buy and trade assets. It also reduces a lot of the trading settlement time and counterparty risk.

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Willie Chang is group chief operating officer of Alta Exchange, **Sudhanshu Khemka** is an associate director, **Kelvin Lee** is cofounder and chief executive officer, and **Benjamin Twoon** is cofounder and chief operating officer.

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An interview with Samuel Rhee of Endowus

Samuel Rhee, cofounder and chairman of Endowus, told McKinsey about what he believes are the challenges, trends, and inefficiencies in the WealthTech market in Asia.

McKinsey: What are the big trends you see as WealthTechs evolve within the overall wealth ecosystem?

Sam Rhee: Many players globally have focused more on transactional wealth such as trading, brokerage, and even crypto, so WealthTech fundraising and valuations have fluctuated because the sector is sensitive to the markets. It may make sense to narrow the scope to wealth management technology, with the vertical dedicated to investing and managing wealth for the long term. This offers the best long-term upside opportunities for building business and investors, including direct to consumer (D2C) and B2B models. Some WealthTech players are addressing the deeper infrastructure and operational inefficiencies in public or private capital markets.

We have yet to see a fully scaled business in the sector; Endowus is the nearest to achieving that. It is more difficult in Asia—the field is narrow with players focused on developing a robo-advisory model that is product-centric, not advice-centric.

McKinsey: What challenges do you see?

Sam Rhee: They boil down to the areas of advice, access, and cost. First, advice: how to meet clients' needs based on their financial goals and provide a hyper-personalized service incorporating sophisticated financial planning tools and solutions.

Second is access, especially in Asia where many of the good products available in bigger markets are not readily available in the region because of lack of scale. That's why the big banks dominate. Advice in Asia is often misaligned because banks sell new products that carry high incentive fees for their advisers and have hidden commissions. They're not

paid by the client to do what's in their best interest as fiduciaries but by product manufacturers to push their funds. This means cost is high.

On the demand side, people are less financially literate in Asia and less aware of this misalignment, of what constitutes good advice, and of issues around access and cost.

Third, the role of the regulator: developed market regulators focus on the protection of consumers whereas the Asian financial crisis has made regulators more protective of incumbents. At Endowus, we focus on advisory-led, digital-first, hyper-personalized solutions and try to create a comprehensive wealth platform business not beholden to a single fund or strategy, focusing instead on the holistic digital expression of advice and user experience.

McKinsey: Regarding cost, is it more economical to build capabilities internally or is there an opportunity to partner with business-to-financial-institution (B2FI) providers?

Sam Rhee: We're agnostic about the product provider, which means we work with almost 100 fund management companies. However, many of the solutions we have built have never been built before so much of our tech development has had to be proprietary and built for purpose in-house.¹²

But the business moat is as important as the technology moat—being an independent and fiduciary-based adviser and selecting best-in-class products for the right asset allocation and strategy.

The market excites us, but we need to be able to execute our service in a cost-efficient manner to scale. Scale is essential to the wealth business and the biggest cost is customer acquisition. That's why we provide a total wealth solution that meets all investors' needs across all sources of funds. In particular, the core target affluent market is likely to be more profitable for us and allow us to

¹² A platform business model is a way of creating value by facilitating the interaction between two or more groups of users, usually through a digital platform.

democratize down to the retail mass market. This will give us scale from a reach perspective. We cannot ignore the mass retail industry because, in many Asian markets, it will become the high-net-worth sector of tomorrow.

McKinsey: What are the biggest inefficiencies you see in scaling in the WealthTech industry?

Sam Rhee: The biggest inefficiency comes from not being able to solve the infrastructure problem of access and providing better client experience at scale through digitally enabled advice.

In particular, the ultra-high net segment and not-for-profit organizations, such as school endowments or charities, are important parts of the market that are not being served properly—they are a massive wealth opportunity.

The other opportunity—the result of inefficiencies in the structure and distribution channels of products—is the move toward private market and alternatives. We need advice, access, and cost to be resolved in this vertical.

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Samuel Rhee is cofounder and chairman of Endowus.

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An interview with Akhil Doegar of GROW with Singlife

McKinsey talked with Akhil Doegar, chief executive officer of GROW with Singlife, about the WealthTech industry in Asia, including his views on emerging archetypes and pricing.

McKinsey: What does the WealthTech landscape in Asia look like for you?

Akhil Doegar: The market has many inefficiencies across the wealth value chain and we need to take a holistic lens across it. I believe we can unlock significant value while leveraging new-age technology. This can potentially lead to margin expansion versus margin compressions in the industry. There is significant merit in driving the customer-experience layer and data lake internally within an organization, while the tactical middle- and back-office operations can be outsourced to the wealth management technology solution providers.

There are transparency issues, which can cause inefficiencies because the hidden pricing structures are convoluted and difficult for clients to understand. I think there will be a lot more awareness of what the right pricing should be.

I see three trends in WealthTech: first, technologies that can help remove inefficiencies. Second, with the right products and technologies, you can have margin expansion. Third, consumers will start to demand a lot more.

McKinsey: What will be key opportunities to deal with these inefficiencies along the value chain?

Akhil Doegar: Let's start with AI and machine learning and how they could deal with inefficiencies. Their first application could be customer service, and, with that, portfolio

management, risk management, and arbitrage. Distributed ledgers could be more efficient and transparent. Also, regulators are starting to become not just mere policymakers, but participants in the ecosystem, a trend that helps the tech industry.

McKinsey: What do you feel are the challenges in WealthTech?

Akhil Doegar: The challenges, I think, are first about data security and privacy. And, second, as big tech moves in, we need a different model of regulation because the current models of regulation—based on revenue and profitability—do not work in big tech.

McKinsey: From a business perspective, is it essential for a platform business to keep technology development in-house?

Akhil Doegar: With regard to technology, I'm clear that books and ledgers can be outsourced to any platform or company deemed fit. But I think that the logic and user interface should be owned by the company. You can have an in-house, mini-technology shop that can do quick turnaround and high-gain jobs that are not very intensive or critical.

McKinsey: And what's your view on pricing in the WealthTech space in Asia-Pacific?

Akhil Doegar: On the more general level, we need to move away from "fees-for-sales" to "fees-for-advice" and eventually "fees-for-performance." We should make just one share class and be transparent with customers that this is the fee that's being charged for maintaining portfolios. Advisers charge customers for advice and they pay some of that to the platform—I don't think that customers need to pay platform fees, as they are already paying advisory fees.

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Akhil Doegar is the chief executive officer of GROW with Singlife.

An interview with Steffen Pauls of Moonfare

McKinsey talked to Steffen Pauls, chairman and chief executive officer of Moonfare, about his views on the WealthTech industry in Asia and the trends that he sees emerging.

McKinsey: Could you tell us how you think the WealthTech industry in Asia–Pacific is evolving?

Steffen Pauls: The top trends I see are emerging wealth and the easing of the regulatory environment. We're seeing the growing importance of the high-net-worth individual (HNWI) segment, but more particularly, increasing numbers in the mass affluent segments.

Generally speaking, in Europe, many people—especially in the emerging wealth segments—have limited access to financial and investment opportunities. There is an unprecedented value creation happening, particularly in private markets, and this presents an enormous opportunity. Political and regulatory bodies are starting to realize that it is not sustainable for only a few super-wealthy private individuals to have access to private markets. Europe is probably spearheading regulatory easing, and Singapore is very open to it, which will give more and more access to retail investors.

And new technologies, like blockchain, will better enable access to private market opportunities in the future.

We also notice that the emerging, digitally native generation often no longer looks for advice from classic intermediaries but is taking advice from peer groups. People want better access to knowledge, not only the institutional type. Banks have to do something or risk that their wealth management business models becoming unsustainable; it's striking how fast traditional banks have adopted technology.

I think that everybody in ten years' time will have access to all kinds of private markets and assets. I'm convinced that blockchain will not only play a crucial role in the fractionalization of assets and liquidity,

but also when it comes to simplifying the entire investment process.

McKinsey: How is Moonfare dealing with these trends?

Steffen Pauls: What has to happen for any disruption in an industry—particularly in an established industry—is that market participants must want it. Asset managers need more high-margin products, while the end client, who is living with inflation, wants more high-yield products. Moonfare aims to accelerate this trend and simplify the process, from the private equity industry down to the single investor.

McKinsey: How is Moonfare reacting to the big trends around advice being commoditized?

Steffen Pauls: You need someone who is super-experienced and professional (and in alignment with the end customer's interests) to be advising and selecting. At Moonfare, we aim to be a highly curated, digital investment manager.

McKinsey: It's the first time in a decade that the industry is facing real economic pressure. Do you think that's why WealthTech will have a much greater product market fit?

Steffen Pauls: I think you're right. We're seeing this in the institutional market and, to some extent, in the private, individual wealth management market as well. However, my personal view is that the democratization of assets and private equity is not a two- or five-year phenomenon—we are talking about 20 years. It will need a ton of education done around it and many inefficiencies taken out of the regulations before it reaches the mass market.

McKinsey: What are the biggest challenges WealthTech players currently deal with?

Steffen Pauls: Mass affluent and HNWI customer segments carry extremely high customer acquisition costs. These are the most sought-after segments

across industries, from consumer goods to financial services. Everyone wants them as customers for obvious reasons. This puts enormous pressure on WealthTech start-ups and scale-ups that are competing with the biggest banks in the world for customers. Your revenue model and approach to winning customers have to be razor sharp. We've spent the last seven years perfecting ours.

I think that we will see three possible trends. One, more consolidation in certain verticals. Two, product offerings will have to broaden substantially to get more share of wallet out of customers. And three, more partnerships: WealthTechs will not destroy the established banking industry. I am sure it will play a substantial role, but there will be coexistence through cooperation.

McKinsey: Are there any other considerations you would like to mention regarding the WealthTech industry?

Steffen Pauls: I love WealthTech; I love what so many innovative people and technologies can do in this space. However, the industry must remain dedicated to its enormous responsibility toward the customer, and to perform rigorous quality control on the offerings that these customers can access. The largest risk I see is that there will be offerings that are not "serious," particularly as WealthTech expands into the retail market. This is a risk to everyone in the ecosystem.

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Steffen Pauls is founder, chairman, and chief executive officer of Moonfare.

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An interview with John Robson of Quantifeed

McKinsey spoke with John Robson, chief commercial officer of Quantifeed, to find out his views on the role of digital wealth platforms in transforming financial institutions.

McKinsey: Could you tell us more about Quantifeed?

John Robson: Quantifeed helps financial institutions build, manage, and distribute wealth management using our digital wealth management solutions. We deploy technology platforms that help financial institutions create investment portfolios, distribute them, and then monitor and rebalance their customers' investments.

McKinsey: What are the key challenges in your business?

John Robson: The financial institutions we service are driven to provide valuable investment insights to their customers, coupled with “fuss-free” execution and settlement. We work with our clients to develop platforms that deliver personalized investment advice based on each customer's preferences and constraints. This helps customers understand the “health” of their portfolios and the next-best-trade they can do to improve their financial positions. In other words, we are working to create an immensely engaging experience for the adviser and the customer.

McKinsey: What enables you to offer these kind of services?

John Robson: Quantifeed has been developing and deploying QEngine for more than ten years. It is an API-accessible, microservice-based platform enabling a broad range of wealth management services to be flexibly deployed. The platform provides analytics, execution, and monitoring services. It can be quickly configured and implemented to power both self-directed and adviser-based wealth management services.

McKinsey: Let's talk about the market—what core trends do you see in WealthTech?

John Robson: Discretionary portfolio management (DPM) is an established product in Europe but relatively nascent in Asia, especially in the retail and mass affluent market. We have launched several very successful platforms with banks in the region that enable DPM to be offered on lower minimum investment amounts, and aim to do more.

We also see a strong trend toward highly personalized advice that considers each customer's personal preferences and constraints. Increasingly, generative AI and large language models will help to advance these trends in personalized investment advice.

Another growth area relates to retirement income solutions. Knowing where to invest in retirement and how much to consume are issues that many retirees face. Digital wealth management can provide needed solutions in this customer segment.

Also, we are beginning to see changes in the asset management industry. In the years ahead we may see a trend to asset managers tokenizing mutual fund offerings.

McKinsey: How does one address the pension opportunity?

John Robson: As I mentioned, planning for retirement requires services for the accumulation and decumulation phases—goal-based investing during accumulation, and retirement income solutions in the decumulation phase. These solutions need technology that takes account of each customer's personal situation and the changing conditions of the market. Digital wealth management solutions like ours can help customers analyze, visualize, and manage their assets before and after they retire.

McKinsey: How do you see margins across the wealth management value chain developing in the future?

John Robson: The horizon is full of exciting, new, innovative services that will help customers manage their wealth more efficiently and achieve better financial outcomes. We will see more and more value being delivered—and where that happens, margins will be maintained. There will be an exciting race between financial institutions to have the best set of features delivered for customers.

McKinsey: Do you think this will trigger more volume?

John Robson: Two macro trends will drive volumes higher in the years to come: a more digitally engaged customer base and increasingly personalized advice that speaks directly to each customer's unique needs. Sensible portfolio investing is at the core of good wealth management. Our technology will help customers move from an existing set of investments, which are often poorly allocated, to a much healthier portfolio. This personalized, step-by-step approach will drive volumes and establish digital advice as a core tool for customers and advisers in the wealth management industry.

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John Robson is chief commercial officer of Quantifeed.

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An interview with Michele Ferrario of StashAway

Michele Ferrario, cofounder and chief executive officer of StashAway, talked with McKinsey about delivering advice to customers, the use of AI in the WealthTech industry, and current key inefficiencies.

McKinsey: What are the big trends that you currently see in the broader wealth management ecosystem?

Michele Ferrario: If you fast-forward, say by ten years, I think that over 99 percent of people will manage their money primarily through self-service platforms. The human interface will only interject for specific non-scalable cases—like legacy planning and difficult tax situations. Today, if you have less than \$10 million dollars, you get product pitches, not advice. As the industry moves to a more digitized process, advice can actually be real, unbiased advice.

McKinsey: From a value proposition perspective, how are you delivering advice to customers?

Michele Ferrario: There is financial advice (such as how much you need to save monthly to reach your financial goals); then, once that has been established, there is investment advice (such as how to allocate savings to different investment products).

We offer free financial planning tools, but we deliver most financial advice through education. For example, telling people that, “You know your choice of buying coffee for \$6 versus drinking free coffee from your employer in the morning? That’s not a \$6 decision—in 30 years, it is a \$300,000 decision.” That’s more educational.

Investment advice and the subsequent execution are the core of StashAway’s offering, where we charge a small fee on the assets under management. I think the misalignment of incentives is the most broken piece of the wealth management industry. An adviser might have an inherent incentive to pitch whatever product makes the most money for the financial institution. Our management fee is structured in a way that, whether I use a unit trust or

an exchange-traded fund (ETF), it doesn’t matter; I can decide what is best for the client.

McKinsey: What do you see in terms of challenges and opportunities moving forward?

Michele Ferrario: We are targeting \$5 trillion in financial wealth across five markets and we’re still small compared to the size of the opportunity. So, to me, the opportunity is to serve more clients in the five countries in which we operate, and to manage a larger share of wallet for the clients we serve already. On product assortment, we can add a few things, but we generally have what I think most clients would need.

McKinsey: How can AI be used in the industry?

Michele Ferrario: Today, there are a lot of financial advisers that deliver face-to-face advice to customers—this is a costly structure that will reduce significantly in the coming years. Given the incredible improvements in generative AI, this can fundamentally change the way financial institutions communicate with clients. However, because we are a technology-first, self-service platform, we will not swap human customer support with a bot. Our clients deal with us mostly through electronic means, but the day they call us, it means they want to speak to someone—that’s why we make sure that we answer the phone within eight seconds and we respond to WhatsApp queries within the hour.

One area of greater impact of AI is personalization: AI can make hyper-personalization possible, enabling clients to have access to tailored offerings specific to them.

Should you use AI for investment optimization? My perspective is no; creating a black box does not make sense for asset allocation: we are long-term investors. Obviously, in the hedge fund industry, there are areas where AI can help, but to me, the biggest changes are more on the communication side and in the personalization of opportunities.

McKinsey: What are some key inefficiencies in the current landscape?

Michele Ferrario: The first is the misalignment of incentives—it's an inefficiency from a client perspective as what is often called "advice" is actually a sales pitch on the product with the highest margin; it's great for banks because they make a lot of money out of it. That's why, for instance, ETFs are not popular in the Asia–Pacific region: they are not profitable for the banks. Private bankers and relationship managers are costly; their salaries need to be paid, which creates a vicious cycle as high-fee products need to be sold to pay them. There are also inefficiencies due to too much focus on cash in client portfolios—approximately 40 percent of people's financial wealth in most Asian countries is in cash versus

14 percent in the United States. People should get their savings to work harder for them.

McKinsey: Most wealth firms are promoting personalization by creating micromodel portfolios based on various customer needs. How scalable is it from your perspective?

Michele Ferrario: From a technical perspective, it is easy. In our case, if you look at the way we manage the backend, every client can have a different portfolio. What I think is more difficult is the user experience: how do you enable your clients to choose? How do you guide your clients in the process? This is an area where I think advances in AI can be beneficial, by providing hyper-personalization.

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Michele Ferrario is cofounder and chief executive officer of StashAway.

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