

CLIENT PREFERENCES FOR DIGITIZATION AND ECOSYSTEMS IN WEALTH MANAGEMENT

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ABSTRACT

This article uses empirically collected data in Switzerland, Germany, and Austria to illustrate how the share of digital clients in wealth management has evolved since 2012. Using this data, we try to determine the relationship between client characteristics and the preference for bank-centric or open ecosystems. We find that a clear majority of clients seem to lean toward an open digital wealth management ecosystem as opposed to a bank-centric one.

1. INTRODUCTION

Digitization is probably the most important strategic challenge in wealth management at the moment, at least the one that is most intensively discussed by management and supervisory boards. At the same time, opinions differ widely as to how wealth management for high net worth individuals will be affected. Opinions range from minimal disruption to the replacement of client advisors with robots. Nevertheless, most private banking executives believe that “wealth management is a people’s business,” and that digitization will complement, rather than replace, client advisors. This perspective, while fully justified, could have the negative impact of preventing a genuine discussion on technological innovations, especially since the social media revolution has demonstrated that personal relationships, or their cultivation, can very well be digitized.

2. DIVERSITY OF BUSINESS MODELS

From today’s perspective, it is difficult to see which technological changes will actually be relevant for broad client segments. Wealth management is already proving to be very diverse and an industry with a wide range of different business models. At the same time, the wealth management client is

not easy to describe as such, and wealthy clients are also characterized by a very colorful variety of preferences and values. This requires a very differentiated view of a wealth manager’s client base when it comes to defining business strategies for the future. For this reason, this article focuses on data describing client behavior in order to create a fact-based basis for strategic decisions.

The private banking/wealth management segments considered here typically deal with clients who possess free financial assets of at least €500,000. Most remarks in this article refer to the private banking/wealth management markets in Germany, Austria, and Switzerland and use a representative, and regularly conducted survey of high-net-worth clients in the three countries as a database [Cocca (2018b)].¹ While the conclusions of this study can be applied to other wealth management markets, it is necessary to take local characteristics into account.

3. CLIENT PREFERENCES FOR DIGITIZATION

3.1 Do not forget the client

Not everything that is technologically possible will be applied by wealth management clients. Ultimately, clients will decide

¹ Around 300 wealthy individuals were surveyed in Germany, Austria, and Switzerland in each of the years 2012, 2014, 2016, and 2018. The main criterion for participation in the survey was disposable investment capital of over €500,000 in Germany and Austria and over CHF 900,000 in Switzerland. The extensive questionnaire included more than 100 singular questions and allowed, therefore, for a very deep understanding of clients’ preferences and behavioral characteristics.

which technological innovation will prevail. This is one of the most important strategic unknowns today. The increase in “convenience” for the client often represents an important additional benefit of technological innovations, which, however, must also be perceived as such by the client. This implies distortions of perception in both positive and negative directions. Influencing this in the desired direction will be a challenge if the aim is not merely to gain the perhaps small group of technology-savvy clients, but to achieve increased penetration among broader client groups. A scenario that is conceivable is one where despite all the benefits that can be derived from innovative technological solutions clients will simply not be convinced to make use of it. Of course, a provider can also influence this decision through (financial) incentives. However, the risk of inertia of client behavior or an inherent irrationality must be taken into account.

Client preferences are very heterogeneous and the term “future client” is deeply misleading. Even today, in banking, as in other consumer goods industries, it is already becoming apparent how diverse client behavior can be and how difficult it is to determine inherently homogeneous client profiles. For example, clients may be early adopters in one area and remain the absolute traditionalists in another. Despite that, the “special good” that wealth management is about also plays a special role here. Money is undoubtedly a special good and related services are certainly subject to special laws, which can change over time but do not necessarily have to.

3.2 The (augmented) client experience

The primary reason why wealth managers should (indeed must) address the issue of digitization has to do with satisfying the needs of their clients. Today, and increasingly so in the future, wealth management clients expect to be able to obtain information about their personal finances digitally at any time, and to communicate with their wealth managers and conduct financial transactions (or at least parts of them) through digital channels. Over the decades, wealth management has been able to build a differentiating client experience, which involves visiting a traditional private bank and receiving very personal advice from a client advisor. The more it becomes normal for wealthy clients to demand sophisticated services from other areas of life digitally, either in whole or in part, the more likely it is that wealth management services will also be in demand via digital channels. This means that the digital client experience must increasingly be part of the general client experience in wealth management.

If the digital channel is used, there is an opportunity to “simply” offer the existing range of services digitally or to develop a

wide variety of new investment solutions. A wealth of creative innovations can create a completely new world of experience, for example in the form of supporting tools and applications or as portal and interaction platforms. The transfer of the real client experience into the digital world forms the basis of this world of experience and can be oriented towards the already established associations, such as security, trust, and premium service. However, this alone will not be enough; what is needed is an “augmented reality”, a world of experience that creates new possibilities for the client. The creation of such a digital environment or architecture represents the great opportunity of digitization.

Compared to previous generations, the generation of predominantly digital clients has a radically different demand for transparency and spontaneity in their interaction with product and service providers [Buhl et al. (2012)]. As social interaction increasingly takes on new forms, the bank-client interaction in wealth management will inevitably be expanded or possibly even redefined. While today personal contact in the form of a physical consultation continues to be the dominant form of interaction [Cocca (2018b)], this could be expanded in the future in favor of virtual channels. The proliferation of social media offerings such as Facebook or LinkedIn proves that a trusting environment for digital clients, in which very personal to intimate information can be exchanged, can also be created in virtual space. The spread of such an interactive environment in wealth management could be linked to special technical requirements with regards to data security and privacy protection. Increasingly, however, nothing could stand in the way of a fundamental acceptance of virtual communication. In addition to the challenge of presenting a consistent client experience via all communication channels, completely new possibilities also arise in the support of a consultation by multimedia solutions [Böhlmer et al. (2011), Grahl and Ullrich (2011)]. A physical presence or physical meeting can still be meaningful, but could only remain unavoidable where extremely complex services have to be created or where personal confidence building is of particular importance (e.g., new client). It is likely that purely virtual providers (robo-advisors) will establish themselves for an increasingly standardizable range of services [Cocca (2018a)].

3.3 Client empowerment

Digital solutions involve the unconscious (sometimes conscious) expectation of offering client solutions that open up completely new possibilities and can be implemented with aesthetic elegance [The Economist (2013), Leurs (2012)]. These expectations arise from the digital world experiences of the client in other areas of life. Amazon, for example, has

set completely new standards for delivery times, shipping costs, return options, or customer complaint management. Today, features such as comparison options or client ratings of products and providers are also standard in online retailing. This philosophy of “client empowerment” can become the guiding principle in the bank’s innovation process. The digital client wants to increase the degree of autonomy and self-determination and expect the bank to enable them to pursue their interests independently in a self-determined fashion. This “empowerment” of the wealth management client leads to a client who has more power and influence and who is granted new scope for shaping their own interests. Of course, not all clients will have such preferences. There will continue to be a clientele that has neither the time, knowledge, nor interest to deal with all this. The question for the bank is whether, strategically, it wants to focus solely on this client group. A characteristic feature of client empowerment in virtual worlds is the provision of direct connectivity. The traditional business model of banks is based on having an information advantage over the client and making this advantage available to the client in individual areas. In an information society with ubiquitous information access, this form of using asymmetric information distribution comes under pressure. Tomorrow’s wealth management could be about providing clients with tools and solutions that enable them to have more direct access to knowledge and information. The exclusive client experience in wealth management will thus become a question of access to smarter and more intelligent investment solutions, investment tools, investment opportunities, and theme-based networks.

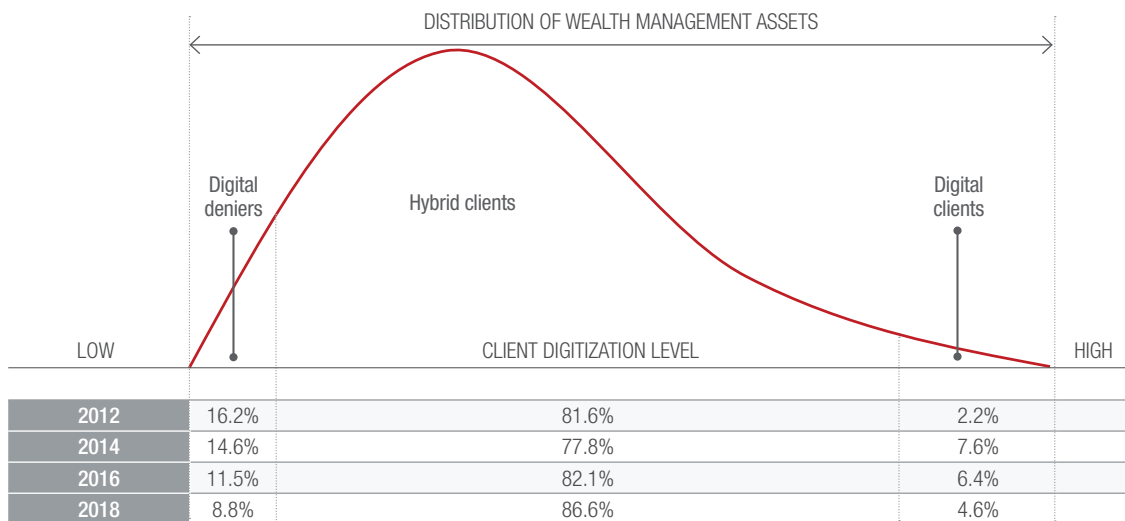
3.4 Today’s client preferences

To determine the potential impact of digitization on behavior of wealth management clients, collected client data [Cocca (2018b)] is now used to capture client preferences and their development over the last years. The totality of the surveyed clients, which is representative of an average client book in private banking/wealth management, is illustrated in segments by means of the degree of digitization. In this regard, three relevant segments that differ in terms of the degree of digitization (i.e., how they make use of online wealth management services today) can be distinguished:²

- **Digital deniers:** the client has a personal advisor and does not use any virtual banking channels.
- **Hybrid clients:** the client has a personal advisor, but also uses virtual banking channels for services related to wealth management.
- **Digitals:** the client has no personal advisor, and more than half of their wealth is with an online bank.

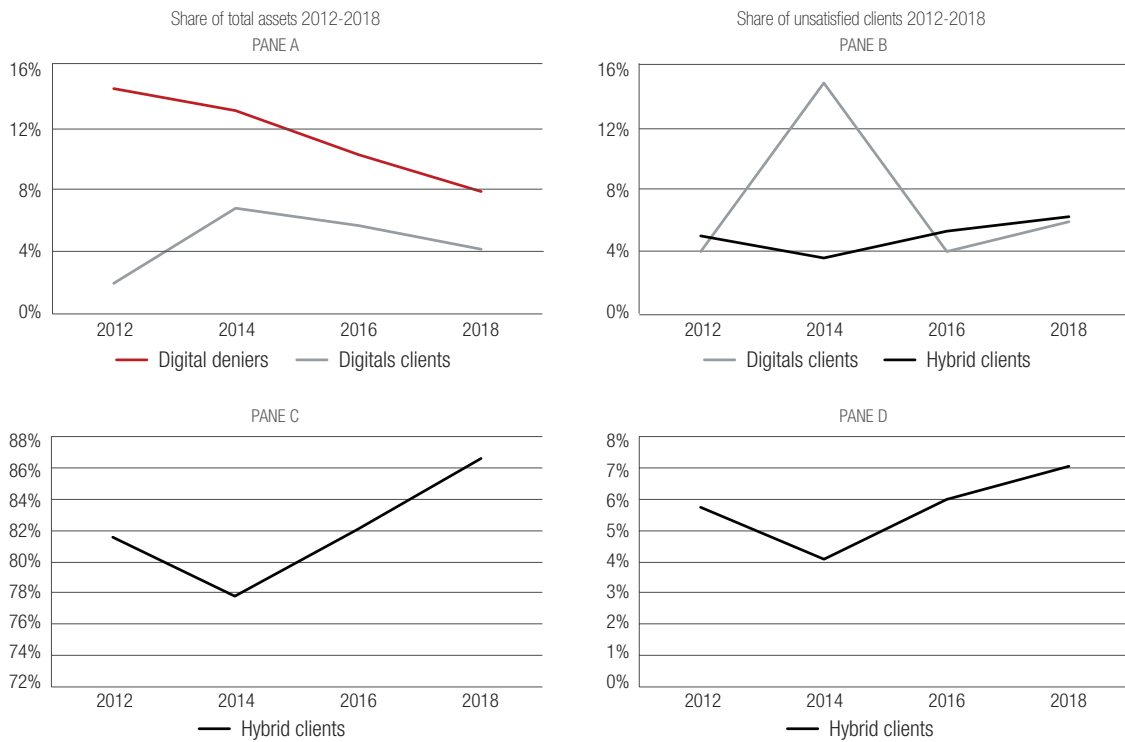
Figure 1 shows how these segments have developed proportionally between 2012 and 2018. The values refer to the distribution of the assets among the three client segments (not the number of clients). It is easy to see that the hybrid clients make up by far the largest group (around 80 percent to 90 percent). Furthermore, it is clear that the proportion of digital deniers has continuously decreased, whereas the proportion of digitals has increased significantly, albeit non-linearly, since 2012. In 2018, the proportion of digital clients fell to below 5 percent after a peak in 2014.

Figure 1: Distribution of wealth management assets across client segment



² Cf. for an evaluation and commentary on earlier data samples of the same study: Cocca (2016), Cocca (2018b)

Figure 2: Share of unsatisfied clients 2012-2018



This temporal development is remarkable against the background of the sometimes very high expectations for growth rates in the digital client segment. This shows that the trend towards fully digital clients in wealth management is neither exponential nor linear. There are two questions that come to the fore when looking at these figures. What could the falling number of digital clients (as defined here) represent and what can this mean in terms of further development?

The declining share of digital clients can be attributed to the following two effects:

1. Whereas previously clients with a high digital affinity were forced to leave their own traditional providers, in recent years traditional wealth managers have also expanded their digital offerings to allow these clients to become “more digital” at their own house bank without having to switch to a pure online player. This means that such a client would still be considered as a “hybrid client”, even though their use of digital offerings may have increased.
2. Linking this to other variables reveals that while in 2012 digital clients expressed a particularly high degree of satisfaction with their providers of digital wealth management services (usually a pure online bank or online

broker), this figure fell sharply in 2014 (cf. Figure 2, pane B). This could indicate that some of the clients who switched to new online providers in the early years were dissatisfied with the products and services they found and subsequently switched back to an established wealth manager.

The latter point could indicate that some new pureplay online providers did not always succeed in meeting the expectations of their clients. This does not necessarily mean that the (falling) trend observed in these figures will continue. Diffusion processes of innovation often do not run linearly but in waves [Fenn and Raskino (2008), Steinert and Liefer (2010)]. This could also be observed in this case and might indicate a dynamic competitive process between the market entry of innovative models, the reaction of established providers, and the further reaction of innovators, etc. Thus, an expected wave-like diffusion of digital services can be developed as a possible future scenario, which will essentially depend on whether the fintechs of the first wave succeed [Mackenzie (2015), Zavolokina et al. (2016)] in developing their own strengths and, above all, in correctly addressing their own weaknesses in order to accelerate growth.

3.5 Second generation fintechs

One of the main criticisms of today's fintech providers in wealth management is that although they are usually very efficient, client-friendly, and cost-effective, their advantages tend to be limited to only a small section of the entire wealth management value chain. Hence, if digital clients want to cover further parts of the value chain, they must look for and integrate additional providers, i.e., control the interfaces. Having said that, while this is probably the most important weakness of individual fintech providers, it could also be the area for greatest improvement that second wave of the fintech evolution could aim for.

In addition, the ability to offer even more complex financial services in a cross-border context virtually will be important. On the one hand, this will be promoted by further increasing the technical performance of hardware and software. On the other hand, it will be relevant to what extent national and international regulation and legal systems will tend to converge or will have a further and increasingly complex effect. The sharply increasing number of fintech offerings in wealth management is a positive development from the perspective of promoting innovation. However, the confusion caused by the large number of providers poses a problem in terms of market fragmentation and could ultimately only allow a few to gain a foothold in the market [Dohms (2017)]. It is, therefore, likely that we will end up with a few large providers that lead the second wealth management technological revolution.

4. WEALTH MANAGEMENT ECOSYSTEMS

4.1 Holistic wealth management

Throughout the entire consultation process, total wealth is a central aspect of holistic advice. In this process, the main question is who has the overall view of the client's assets. This may well be called the "holy grail" of wealth management advice. For very wealthy clients, this function can be performed by the family office, an independent third-party, or by the main bank. An enormous challenge remains, however, for a complex wealth to generate such a consistent overall view, which allows continuous control based on current market data across all asset classes. In addition, it is usually the clients themselves who avoid such a concentration of power with a traditional wealth manager who holds all the information and threads together. An independent entity that performs such an aggregator role by using digital technology would be a benefit in ensuring optimal consulting results. However, the difficulty of managing a complex wealth situation with alternative asset classes and different jurisdictions should also be recognized.

The architecture that would now allow the concept of holistic wealth management to be implemented on the one hand and the integration of various elements of the value chain on the other is found in the concept of a digital ecosystem [Subramaniam et al. (2019)].

4.2 Digital ecosystems

The term "digital ecosystem" has been assigned various meanings in research [Selander et al. (2013), Kallinikos et al. (2013), Adomavicius et al. (2008)]. Skog et al. (2018) use a more inclusive definition than other authors. Specifically, rather than being bounded by a particular technology (e.g., a platform), they refer to digital ecosystems as sociotechnical networks of interdependent digital technologies and associated actors that are related based on a specific context of use. From this, certain characteristics of digital ecosystems are derived. First, they emerge as complex and dynamic webs of interdependent elements (including firms, institutions, and clients). Second, digital ecosystems often span industry boundaries to comprise heterogeneous actors and technologies from several industries. Third, digital ecosystems are inherently hierarchical where the power to influence others increases with centrality, i.e., actors' influence is generally related to the number of external actors that depend on them [Adomavicius et al. (2008)].

4.3 Wealth management relationships

Although the term "ecosystem" has gained in importance as a strategic concept, particularly in recent years, it must be pointed out that ecosystems (or network structures) are not in themselves a new phenomenon in wealth management. This results from the nature of the business. Digitization enables one thing above all else: closer networking of the bank externally with its clients and suppliers as well as internally with its own internal units. This networking enables a significantly higher level of interaction with the client. This is very much in the bank's interest, as an increase in interaction brings useful effects: increased client loyalty and earnings potential per client. An increase in interaction also enables a much deeper understanding of client behavior and offers new opportunities to develop tailor-made offers. Closer networking, both internally and externally, can form the basis for establishing a wealth management ecosystem, with the bank serving as an access point to this network of relationships. This corresponds to what is often a wealth manager in a wealth management client's network today. After all, the wealth manager is, or aims to be, the primary contact person (preferred partner) for the client when it comes to identifying and hiring suitable lawyers, tax advisors, fiduciaries, real estate agents, art experts, etc.

[Deloitte (2019)]. In addition, networking among clients at client events, where important business relationships that have nothing to do with actual wealth management are arranged by the private banker must not be underestimated. All of this is certainly part of traditional wealth management and in a certain sense an ecosystem that has always operated in this business segment [Fasnacht (2018)]. The difference with the current use of the term can be seen in the following points:

- It defines a bank/advisor-centric ecosystem in which the bank tries to be the central hub and claim the interface to the client for itself.
- Digital communication or interaction channels do not play a (significant) role in these ecosystems today.
- This ecosystem is particularly relevant in the higher client segments (from approximately €5 million). The lower the client segment, the less relevant such ecosystems are, as the bank tends to offer more standardized services and the client usually has a lower demand for services from such a network/ecosystem.

However, the term “digital ecosystem”, as used today, is understood in a different way and contains more far-reaching elements:

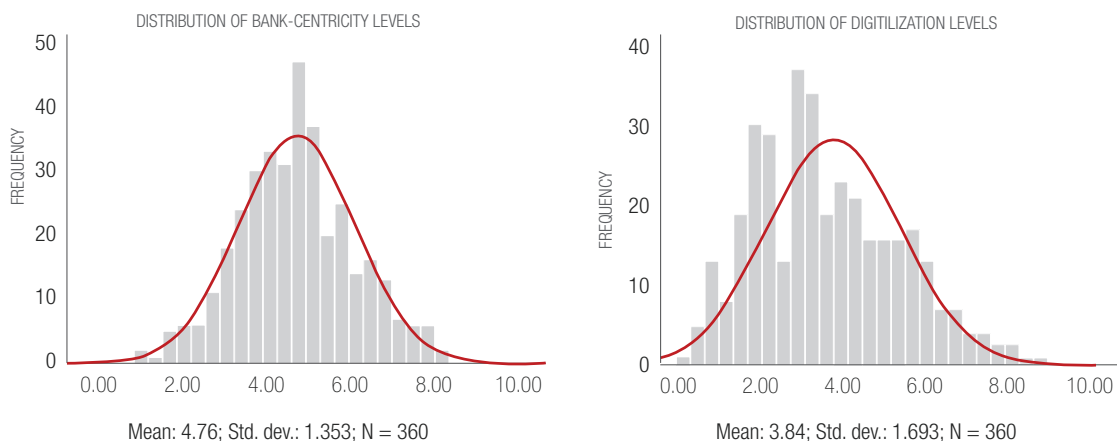
- A digital wealth management ecosystem is not necessarily bank-centric and could also be managed by a third-party provider, which does not necessarily have to be a regulated financial services provider either [Tschanz (2018)].
- A digital wealth management ecosystem could be based on an open architecture, in which the best providers for parts of the value chain are selected according to the best-in-class principle of the client [Schmidt et al. (2018)].

- In a digital wealth management ecosystem, access and control of interfaces is done via digital channels [PWC (2019)].
- A digital wealth management ecosystem can be developed around financial needs or emerge from non-financial areas (e.g., lifestyle needs)

5. BANK-CENTRIC OR OPEN ECOSYSTEMS?

These considerations lead classical wealth managers to ask themselves what basic strategy they should pursue when participating in, or establishing an, ecosystem. From a wealth manager's perspective, the main consideration here is what role it should play in an ecosystem [Deloitte (2019)]. Two basic strategic positioning options are conceivable in an ecosystem: an ecosystem around the wealth manager or an open ecosystem in which the wealth manager is one of many hubs. Which of the two positions a wealth manager should aim for will depend on many internal and external factors. It can be assumed, however, that the central hub function will tend to be favored, as this promises more market power. A relevant, but difficult to ascertain, dimension in this context is the question of which preferences can be observed among wealthy private clients or which clients have which preferences from today's perspective. Based on the data sample already presented, this central question will be investigated by examining which characteristics are related to the propensity of clients to use an open versus bank-centric digital wealth management ecosystem.

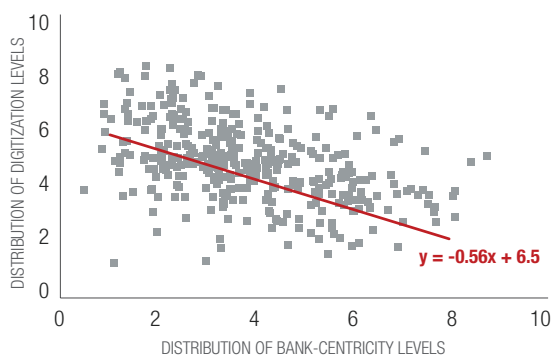
Figure 3: Distribution of bank-centricity and digitization levels



For this purpose, the two relevant main dimensions of the analysis are constructed:

- The digitization level of each client in the sample:** here, a number of variables related to the use of online channels for communication and transaction processing are used and an individual index level is calculated. The index ranges from 0 to 10, where 0 stands for a very low and 10 for a very high level of digitization. The following aspects are covered in this dimension: among others, virtualization level of interaction, demand for personal advice, preference for online providers, preference for personal advice versus robo-advisors, demand for 24x7 offers, early-adopter behavior, fear of hacker attacks and data loss, online banking usage, and social media usage.
- The degree of bank-centricity of each individual client in the sample:** this is based on a wide range of variables, including a client's propensity to place their own bank or advisor at the center of their investment decisions versus their propensity to make investment decisions independently or using third-party opinions/sources. For each client, a value is calculated on a scale of 0 to 10, where 0 stands for a very low and 10 for a very high level of bank-centricity. The following aspects are included in this dimension: general trust in banks, satisfaction with one's own bank, number of bank connections, willingness to change advisors, parties involved in the investment decision, independence versus benefit of the client advisor in investment decisions, assessment of client advisors, access to the bank's investment competence, assessment of banks' past failures, attitude towards supervision of banks, and perception of banks' own interests.

Figure 4: Bank centrality and digitization levels



Correlation:

Kendall's Tau-b: -0.321 (**)

Spearman's Rho: -0.463 (**)

** significance at the 1% level

Figure 3 shows the frequency distribution of the two dimensions for the entire sample.³ The relationship between the two main dimensions is shown in Figure 4. Here, it is evident that there is a significant negative correlation between digitization and bank-centricity levels. In other words, clients who have a high digital affinity tend to show lower bank-centricity in their investment and decision-making behaviors.

In a further step, a four-quadrant matrix is now formed from the point cloud, using the axis mean values as boundaries. This results in four quadrants, which have the following characteristics (Figure 5):

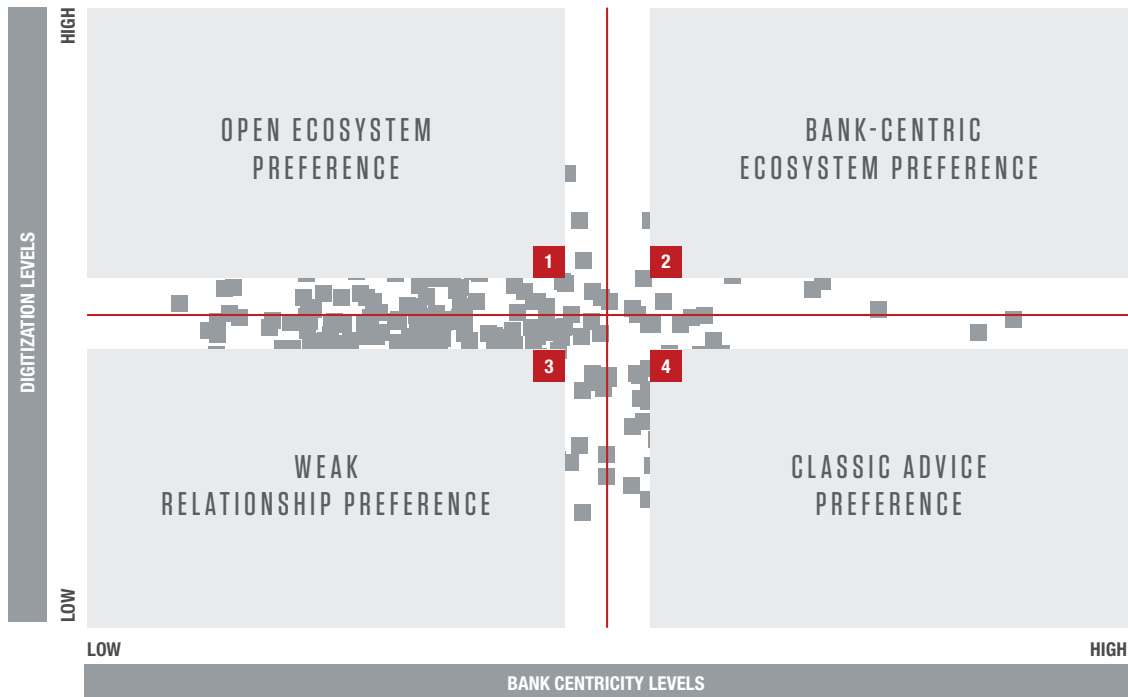
- 1. Open ecosystem preference:** wealth management clients who show a high preference for the use of digital channels and innovative offers and who at the same time act very independently or with the involvement of third parties in investment decisions, thus relegating the role of their own bank or advisor to the background.
- 2. Bank-centric ecosystem preference:** wealth management clients who have a high preference for the use of digital channels and innovative offers and at the same time rely very heavily on their own bank or advisor when making investment decisions.
- 3. Weak relationships preference:** wealth management clients who are very skeptical of technological innovations and do not use them, but who act very independently or with the involvement of third parties when making investment decisions and who do not have a close relationship with a bank or a particular advisor.
- 4. Classic advice preference:** wealth management clients who are very skeptical about technological innovations and do not use them, but at the same time rely very heavily on their own bank or advisor when making investment decisions.

5.1 Patterns and preferences across types

Table 1 shows the analysis of various differences between the four client types shown in Figure 5. First of all, it should be noted that client types 3 (weak relationships preference, 38.61 percent) and 4 (classic advice preference, 35.83 percent) represent the largest groupings. Clients who currently have an affinity for a bank-centric wealth management ecosystem account for 4.44 percent of the total sample and clients who have a preference for an open wealth management ecosystem account for 21.11 percent. This shows that, on the one hand, wealth management ecosystems are only an option for about a quarter of the traditional client base of a bank operating in

³ Only data from the 2018 survey were used for this analysis (n = 360).

Figure 5: Four-field matrix of ecosystem preference



the wealth management sector, and on the other hand that there is a clear preference for an open versus a bank-centric wealth management ecosystem.

Next, we will examine the characteristics of those clients with a preference for open wealth management ecosystems in more detail. Here, 20 characteristics are examined and the different characteristics between the four client types are considered. The 20 characteristics are divided into the following categories: socio-demographic aspects, bank-client relationship, behavioral characteristics, and product preferences. The statistical significance of this group comparison is not considered, as only general tendencies will be explored.

The following findings can be made:

1. The differences in client size measured by client assets are small between the client types, with client type 2 having the highest average value, €2.52 million.
2. The proportion of younger clients (under 50 years of age)⁴ makes up the highest proportion in the subgroup of client type 1 (43.42 percent). For the subgroup of client type 2, the share is also above average at 37.5 percent. In the subgroup of client type 4, only 17.83 percent of clients are under 50 years old.
3. In the overall sample, the proportion of women is 26.4 percent. In a comparison of the subgroups, the proportion of women is highest for client type 4 (31.70 percent) and lowest for client type 2 (6.2 percent).
4. In the overall sample, the proportion of clients who specify a major bank (such as UBS, Deutsche Bank, or Erste Bank) as their main bank for wealth management is 31.4 percent. This share is highest in subgroups 3 and 4 and clearly lowest in subgroup 2.
5. In the overall sample, the share of clients who have a traditional private bank as their main bank for wealth management is 10.3 percent. This share is lowest in subgroups 1 and 2, at 6.3 percent and 6.6 percent respectively.
6. The proportion of clients who are highly loyal to their wealth manager (long banking relationship, high proportion of assets with the main bank) is lowest in subgroups 1 and 3.
7. The proportion of clients with above-average price sensitivity to the price of banking services is highest in subgroups 1 and 2.
8. The proportion of clients who attach above-average importance to the financial stability of their wealth manager is lowest in subgroups 1 and 2.

⁴ In wealth management, the average age of clients is approximately 65 years, which is why the younger client category is defined as "under 50".

9. With regard to the question of how clients rate their own financial knowledge, 17 percent of the overall sample indicate that they have very good knowledge. In a subgroup comparison, the two client types 1 and 2 show significantly higher values (42.10 percent and 37.50 percent).
10. In the overall sample, 23.30 percent of the clients describe themselves as risk friendly. In a subgroup comparison, the two client types 1 and 2 show significantly higher values (43.40 percent and 37.50 percent).
11. 12.50 percent of the clients in the overall sample describe themselves as emotional investors. In a subgroup comparison, the two client types 2 and 1 have significantly higher values (18.80 percent and 15.80 percent).
12. Clients who state that their investment goal is primarily “asset growth” (versus asset preservation) are overrepresented in the subgroups of client types 1 and 2.
13. The proportion of clients who believe they can achieve an excess return without additional risk is highest in subgroups 1 and 3, as compared to the overall sample.
14. Clients who hold derivatives in their investment portfolio are overrepresented in subgroup 1 compared to the overall sample.
15. Clients who hold hedge funds in their investment portfolio are overrepresented in subgroup 4 compared to the overall sample.
16. Clients who hold private equity in their investment portfolio are overrepresented in subgroups 1 and 2 compared to the overall sample.
17. Clients who hold commodities in their investment portfolio are overrepresented in subgroups 1 and 2 compared to the overall sample.
18. Clients with an above-average preference for sustainable investment products are underrepresented in subgroups 1 and 2 compared to the overall sample.
19. Clients who have an above-average affinity for using a bank account abroad (offshore accounts) are overrepresented in subgroups 1 and 3 compared to the overall sample.
20. Clients who have a below-average affinity for using passive investment funds are underrepresented in subgroups 1 and 4 compared to the overall sample.

Based on these considerations, clients who have a preference for an open wealth management ecosystem are: under 50 years of age, not very loyal, care less about the financial stability of the wealth manager, very price sensitive, have high financial literacy, and rather risk friendly.

Figure 6 summarizes the most striking features of the four client types in question.

With regard to differences in characteristics between clients with a preference for a bank-centric (subgroup 1), as opposed to an open wealth management ecosystem (subgroup 2), the following aspects can be highlighted:

- **Gender:** the proportion of men is higher in subgroup 2 than in subgroup 1.
- **Banking group:** the proportion of big banks clients is lower in subgroup 2 than in subgroup 1, but since the proportion of clients with a private banking relationship is somewhat the same between the two subgroups, this indicates a higher proportion of clients with relationships to regional banks (residual group) for subgroup 2.
- **Loyalty:** the share of clients with high loyalty to their own main bank is significantly higher in subgroup 2 than in subgroup 1 (as expected).
- **Price sensitivity:** the share of clients with high price sensitivity is slightly lower in subgroup 2 than in subgroup 1.

5.2 Strategic implications for wealth managers

From the analysis of this data, some implications for the strategy of wealth managers can now be deduced:

- If we start with the current client base of a traditional wealth manager (for which the data sample used here is representative), it can be assumed that around a quarter of clients have some affinity with a digital wealth management ecosystem. This does not mean that around a quarter of clients have a concrete need, but rather that based on the preferences shown today a potential affinity can be derived in today's investment and decision-making behavior along the dimensions of the degree of digitization and the degree of bank-centricity. The extent to which a client would actually use a digital wealth management ecosystem will depend on the actual design and the perceived cost-benefit relationship for the client.
- A clear majority of clients seem to be more receptive to an open wealth management ecosystem than a bank-centric one. This highlights the problematic role that a bank could play in an ecosystem if the client prefers no bank-centric ecosystem. This is the most strategically sensitive point, as it would argue in favor of wealth management ecosystems operated by independent platforms. This could also be an opportunity for “big tech” companies.

- Looking across all four client preferences, however, it should also be noted that an absolute majority of clients still have a preference for the traditional relationship between client and wealth manager.
- Young, male clients with very good financial knowledge and a pronounced risk appetite, who are highly price sensitive, are particularly responsive to open digital wealth management ecosystems. This is the market

Table 1: Four-field matrix of ecosystem preference

	1	2	3	4	
	OPEN ECOSYSTEM PREFERENCE	BANK-CENTRIC ECOSYSTEM PREFERENCE	WEAK RELATIONSHIPS PREFERENCE	CLASSIC ADVICE PREFERENCE	
Share of overall sample	21.11%	4.44%	38.61%	35.83%	
					Average
Client assets	€ millions	€ millions	€ millions	€ millions	€ millions
(1) Average client assets	2.27	2.52	2.20	2.09	2.19
	% of subgroup	% of subgroup	% of subgroup	% of subgroup	% of overall sample
Socio-demographics					
(2) Share of clients with age below 50 years	43.42%	37.50%	23.74%	17.83%	26.40%
(3) Share of female clients	19.70%	6.20%	31.70%	27.10%	26.40%
Bank relationship					
(4) Share of big bank clients	30.30%	18.80%	33.80%	31.00%	31.40%
(5) Share of private bank clients	6.60%	6.30%	9.40%	14.00%	10.30%
(6) Share of highly loyal clients	30.26%	50.00%	41.73%	51.94%	43.33%
(7) Above average price sensitivity	35.53%	25.00%	5.04%	6.98%	13.06%
(8) Above average preference for financial stability	18.42%	18.75%	26.62%	28.68%	25.28%
Behavioral characteristics					
(9) Knowhow (percentage of clients with very good knowledge in financial matters)	42.10%	37.50%	8.60%	8.50%	17.00%
(10) Risk-friendly (percentage of clients that state to be risk seekers)	43.40%	37.50%	14.40%	19.40%	23.30%
(11) Emotionality (percentage of clients that state to be emotional investors)	15.80%	18.80%	9.40%	13.20%	12.50%
(12) Capital gain oriented	67.10%	75.00%	44.60%	45.70%	51.10%
(13) Strong belief market outperformance is possible	32.89%	25.00%	29.50%	27.91%	29.44%
Client product preferences					
(14) Clients with derivatives in their portfolio	25.00%	21.00%	14.39%	24.03%	22.22%
(15) Clients with hedge funds in their portfolio	10.53%	6.25%	4.32%	11.63%	8.33%
(16) Clients with private equity in their portfolio	26.32%	18.75%	13.67%	15.50%	17.22%
(17) Clients with commodities in their portfolio	56.58%	62.50%	45.32%	48.84%	49.72%
(18) Share of clients with high preference for sustainable investments	32.89%	43.75%	44.60%	44.96%	42.22%
(19) Offshore account affinity	56.58%	50.00%	51.80%	44.96%	50.28%
(20) Share of passive investment funds	39.60%	45.40%	43.20%	41.00%	41.60%

segment that needs to be addressed primarily in order to attract potential clients for a digital wealth management ecosystem. This type of client also largely corresponds to the typical digital client who appears as an early adopter of new technological innovation [Cocca (2016)].

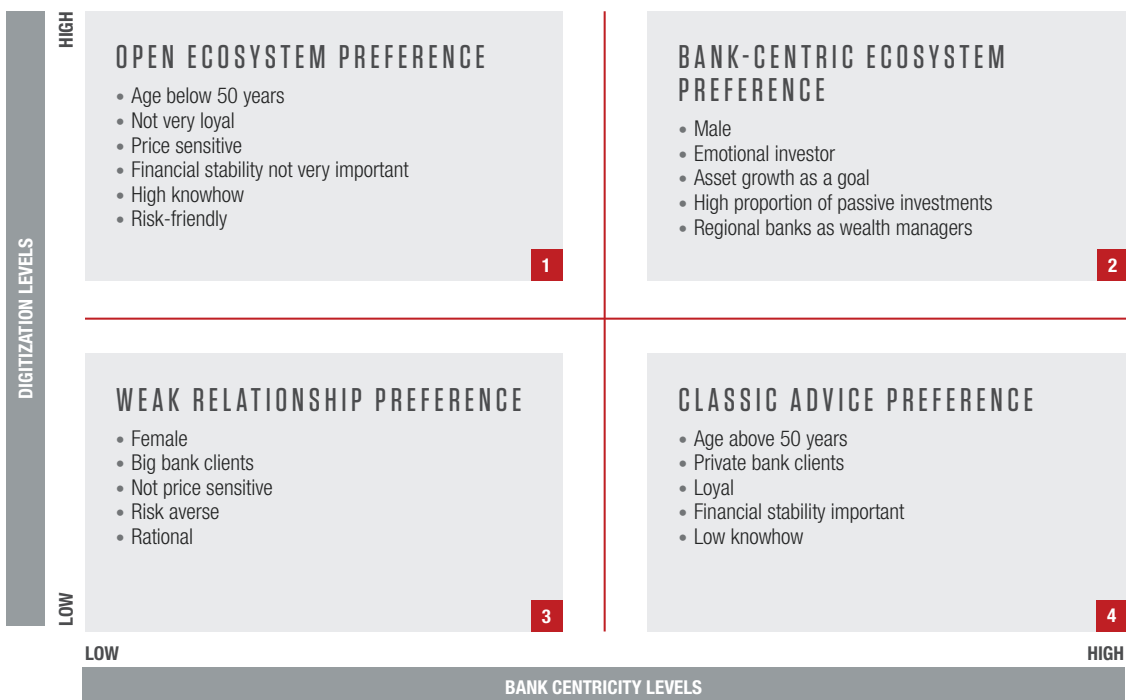
- The parameters from investment and decision-making behavior, combined with product preferences, suggest a higher affinity for open wealth management ecosystems, in specific trading-oriented rather than relationship-oriented wealth management (i.e., highest share of self-directed clients with a diversified portfolio composition in terms of derivatives, private equity, or hedge funds holdings within subgroup 1 versus lowest such share in subgroup 4). This could indicate that wealth management ecosystems could form around particularly attractive trading offerings (zero-fee-offerings, crypto-trading, startup investment platforms, news portals) and thus be more likely to compete with existing online providers than with traditional providers.

6. CONCLUSION

Due to the novelty of the digital solutions currently being developed, it is difficult to analytically determine the extent to which certain client groups would use a new service. A client survey, for example, can only give a current picture of the clients and only weigh up potential demand. This can, of course, change quickly over time. The statements made here about possible future client behavior, thus, represent a necessary starting point for a well-founded analysis, but naturally do not provide a conclusive picture.

The integration of individual successful fintechs into a cohesive digital ecosystem could represent the next stage in the fintech revolution in wealth management. The client data analyzed here show that the role of the traditional wealth manager in such an ecosystem is unlikely to be that of the central hub. The idea that wealth managers will succeed in building a digital ecosystem around themselves, therefore, seems rather unlikely. On the other hand, from today's perspective,

Figure 6: Empirical characteristics deviating from the overall sample average



the general preference for a digital wealth management ecosystem is not particularly pronounced and only around a quarter of clients show some affinity. Ultimately, therefore, these data tend to indicate that there could be a parallelism of different service architectures in the future. Traditional wealth managers use strongly bank-centric solutions to serve

clients who are less independent and prefer a traditional relationship with an advisor, while digital wealth management ecosystems are preferred by clients with a high level of expertise and a propensity for autonomous, bank-independent investment behavior.

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