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Digital Disruption in Nordic Wealth Management:

WHY THE INDUSTRY NEEDS TO CHANGE NOW OR FALL BEHIND

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LIKE EVERY OTHER INDUSTRY, WEALTH MANAGEMENT IS UNDERGOING DISRUPTIVE CHANGE THANKS TO DIGITAL. HOW CAN INCUMBENT COMPANIES STAY AHEAD? IT IS WHAT NEW RESEARCH EXPLORED.

Digitalization is changing industries across the world and altering how individuals and companies operate. Wealth management is no exception. Social investing platforms, online advisors, personal finance services and robo-advisors have disrupted the existing paradigm of the wealth management industry globally and in the Nordic countries.

Yet most established wealth managers and private banks have hesitated to engage in the face of disruptors like Lynx Brokers, Saxo Bank, Nordnet, Avanza, Fellow Finance, Invesdor, Robinhood, Betterment, SigFig and SoFi. All challenge incumbents through unique service offerings and clear value propositions that result in more convenient investment platforms at lower prices.

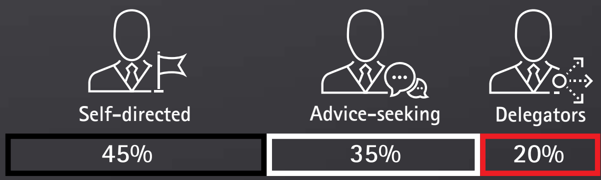
As a result of digital disruption, fifty-eight percent of Nordic banks' wealth management revenues are at risk by 2020.[1] Why? Because traditional players charge two to three times higher fees on mutual fund management compared to the new players using ETF[2] or passive strategies. And incumbents do not offer as much in the way of digital services. What is more, their advice is perceived as biased—aimed at pushing their own mutual funds and discretionary management solutions.

Perhaps most threatening to established wealth managers: Research revealed that nearly a quarter of younger investors switched to a new provider solely to access digital tools that their previous wealth manager failed to provide. It should not come as a surprise: Incumbents are beginning to lose market share. But there is still time for them to play catch-up to nimbler rivals that have not succeeded—yet—in luring away investors.

TAKING A STEP BACK, ACCENTURE STRATEGY EXPLORED THREE FUNDAMENTAL QUESTIONS IN ORDER TO LAY A FOUNDATION FOR CHANGE AHEAD:

- What do Nordic investors want?
- Who are the new entrants and how they address investors' needs?
- How should the incumbents change to face competition?

Investor breakdown



To better understand our survey respondents, we categorized them in three different segments and found: 45 percent of Nordic investors are self-directed (actively follow the markets and make their own investment decisions), 35 percent advice-seeking (look for advice, but prefer to execute trades by themselves) and 20 percent are delegators (give full mandate to the wealth manager to invest their money on their behalf).

What do Nordic investors want?

Most Nordic investors do not use the services of new wealth management entrants like online brokers, robo-advisors, social investing platforms or personal finance services. In fact, only 24 percent of respondents under the age of 50 years and 14 percent of those 50 and above report engaging new entrants. When asked why not, most cited lack of trust (80 percent of the older respondents and 30 percent for younger ones).

Despite this undercurrent of misgivings, 51 percent of all investors and up to 81 percent of under fifties said they would be willing to invest part of their wealth into fully digital services based in their home country.

When the fully digital service was offered by a trusted local brand, their willingness to invest increased. And younger investors reported willingness to go digital with their investment using brands outside the Nordic region. A clear indication that global disruptors also pose a threat.

What else do Nordic investors look for in digital? An overwhelming majority (76 percent) would welcome digital financial planning and investing tools (e.g. portfolio simulation, scenario analysis, auto asset allocation and trade execution). Yet only 62 percent of all investors have access to one or more of these features. Clearly demand outpaces supply.

Willingness to invest in fully digital services: 81% of under fifties

Financial planning and investing tools: 76% vs 62%

76% demand vs. 62% current availability

The same imbalance can be seen in personal financial management tools like account aggregation, cash flow monitoring, and flexible budgeting tools. While 73 percent of investors want at least some of these services, only 40 percent had them available through digital.

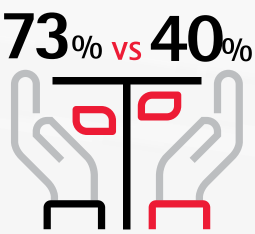
Also, with the financial world getting more complex, there is an opportunity to combine learning with advisory services. And people want it. In fact, 80 percent of under fifties and 66 percent of those aged over 50, which sets high expectations for educating current and future investors. This builds trust.

Despite the clear desire for more digital tools, investors still value human interaction. Nearly 90 percent of investors say that face-to-face communication is important for them in wealth management. But in addition to physical meetings, younger investors expressed a high demand for convenient digital interaction. A full 79 percent would like to include mobile and more than 50 percent want video calling or chat.

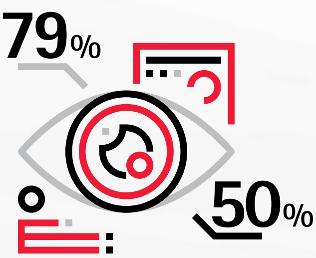
When it comes to pricing, investors expect digital-only services to come with a hefty discount compared to traditional brick-and-mortar services. In fact, on average investors expect pure digital providers to have nearly 40 percent smaller fees than traditional providers, and as many as one-third expect those fees to be 60 percent lower.

Since MiFID II legislation will force most wealth managers to change their pricing models, we asked which models investors preferred. 54 percent of investors want pricing linked to portfolio performance. Only 14 percent want pricing based on an hourly charge. And 32 percent prefer a combination of the two. Investors are willing to pay more for services that address complex, long-term objectives like retirement, estate planning and the like. Almost one-fourth of respondents were willing to pay additional fees for services like these.

Personal financial management tools:
73% demand vs. 40% current availability



Demand for digital communication channels:
79% mobile and 50% video calling or chat



New entrants in wealth management

Digital disruption in wealth management is not a new phenomenon. Online brokers have offered access to a broad range of investment products since the late 1990's.

These offerings have addressed the so-called self-directed investors who want to execute trades themselves. Social investing platforms can be seen as an extension of online brokerage that brings together the idea of community, free investment tips and social learning. They target the needs of advice-seeking investors. Robo-advisors are perhaps the most disruptive technology, offering low fees for automatic investment allocation—and even offer financial planning. Robo-advisors can also serve delegators if they overcome trust issues.

Personal finance service tools are pushing the boundaries of the industry from traditional investment management to more comprehensive money and spending management. New players are able to address a broad range of needs of Nordic investors. Offering more convenient digital interaction in areas like personal financial management and investment planning, and even robo-like features including automatic asset allocation.

While none of the new entrants at the moment covers all of these requirements, they each bring distinctive new capabilities. And importantly, these new digital investing services come with hefty discount compared to incumbents and they can address underserved market segments like mass affluent and self-directed investors.

Defining the landscape of digital players

ONLINE BROKERS – An online investment firm with low costs. That often includes limited private banking focused on informed investors and largely restricting services to advice and training, eschewing incumbents' services that impose additional costs.

SOCIAL INVESTING PLATFORMS – Digital platforms that enable investors to follow and mimic other investors' portfolios. They include benchmarking for other (anonymous) investors and features that build social networks of like-minded individuals.

ROBO-ADVISORS – Investment service using automatic algorithm-based techniques to build and manage portfolios of exchange-traded funds (ETFs) and other instruments for investors based on customers' specific preferences. Robo-advice capabilities are expected to dramatically increase in the near future.

PERSONAL FINANCE SERVICE – Typically mobile-based applications for personal money management including budgeting tools, account aggregation and spending categorization.

How should wealth managers respond?

For Nordic wealth managers, survey findings reveal a clear wake-up call. Digital disruptors are eroding their revenues—and as time goes by, that erosion will grow exponentially.

That is the bad news. The good news? A majority of investors still value face-to-face interaction. They need complex advisory services such as retirement planning, which most of the pure digital competitors are not offering. To defend their position, incumbents should invest in digitalization and reconsider their business model leveraging the strength of their brands and the trust those established brands impart.

So what to do differently? Nordic wealth managers need to:

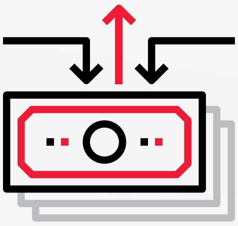
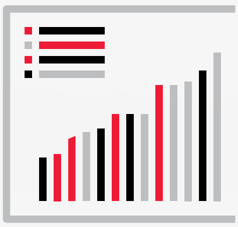
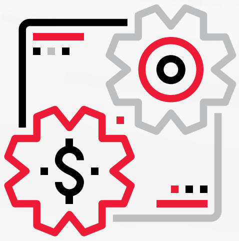
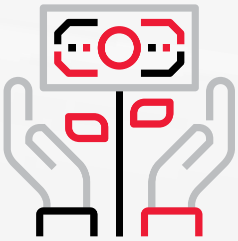
- Move from one-size-fits-all propositions by combining face-to-face and digital according to specific investor needs and wants.

- Unleash robo-advisory to serve new segments like mass affluent and delegator—and to do so with a lower cost model.

- Develop new digital solutions to fill the demand gap in what is available now including personal finance management tools, social features and education services. This will impact cross-selling, and mitigate churn from clients looking for digital tools.

- Shape a customer journey that takes investors from initial onboarding, through advisory services, to the execution of the investment in a seamless fashion. By creating this consistent experience, wealth managers can increase customer loyalty while saving money.

Should they fail to act, the industry landscape could further reform, with new entrants offering transaction-based investing and reporting services, adopting pure-online model with lower fees. While wealth manager roles could further constrict, confined to more complex advisory, impacting their asset under management (AUM) and revenues.

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[1] Digital Disruption in Nordic Retail Banking Study 2015, Accenture Strategy

[2] Exchange-traded funds

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About the Nordic Wealth Management Study

In 2016, Accenture Strategy conducted a survey of 600 investors from around the Nordic region. Respondents had 50 KEUR–10+ MEUR in liquid investable assets and were located in Denmark, Finland, Norway and Sweden. For a more in-depth understanding of the methodology, contact the authors.