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The current state and future needs of wealth technology

Findings from Chelmer's survey of delegates at the 2023 Stockbrokers and Investment Advisers Association conference, supported by Suite2Go

1.

Setting the scene: The Australian wealth management sector

The Australian wealth management sector is large and growing, however it is also undergoing changes as a result of regulation, technology, innovation and changing investor preferences. As a result, investment advisers and stockbrokers are facing a complex mix of challenges. Stricter regulations demand transparency and risk management, while legacy technology costs are impacting operational efficiency. Additionally, disruptive fintech players are reshaping the industry.

Superannuation is the largest and fastest growing component of the Australian wealth management sector, accounting for around three-quarters of FUM. Although Australia is the world's 12th largest economy, it has the fourth largest pension system in the world. However, the majority of the money sits with traditional member-based Superannuation funds and most of these members do not obtain advice throughout their journey to retirement. The same for non-Super investors with only 25% or less seeking wealth advice.

The number of advisers in Australia has been shrinking and, following the 2017-2019 Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, the market is more fragmented which has led to the increased use of managed accounts. This helps optimise tax and client asset allocation needs as well as a way for financial advisers to demonstrate their value proposition. Some of the standards and qualifications developed as a result of the Royal Commission have seen many older advisers elect to retire or leave the industry rather than upgrade their qualifications and this has shifted the average age of advisers down. With a wave of younger advisers entering the industry, naturally technological adoption has increased and become native to the advice process.

Platform technology adoption is identified as a key value proposition for wealth managers in delivering engagement with clients and operational efficiency. Traditional platforms have expanded their technology to cater for managed accounts. While the market is competitive and functionality is expanding, these platforms can't handle all assets perfectly and therefore advisers have needed to use multiple platforms which has led to fragmented reporting and portfolio management.

Survey Introduction

In 2022, pioneer wealth technology firm, Chelmer, partnered with Australia's leading fintech consulting firm, Suite2Go, to give more Australian financial institutions access to Chelmer's intelligent, leading-edge wealth management system, Myriad.

Amidst the ever-changing Australian financial landscape, Chelmer surveyed delegates at the 2023 Stockbrokers and Investment Advisers Association (SIAA) conference. The survey provided an opportunity for Chelmer to deepen its understanding of how Australian investment advisers and stockbrokers are utilising technology, and further insight into how this reflects on their client's experience.

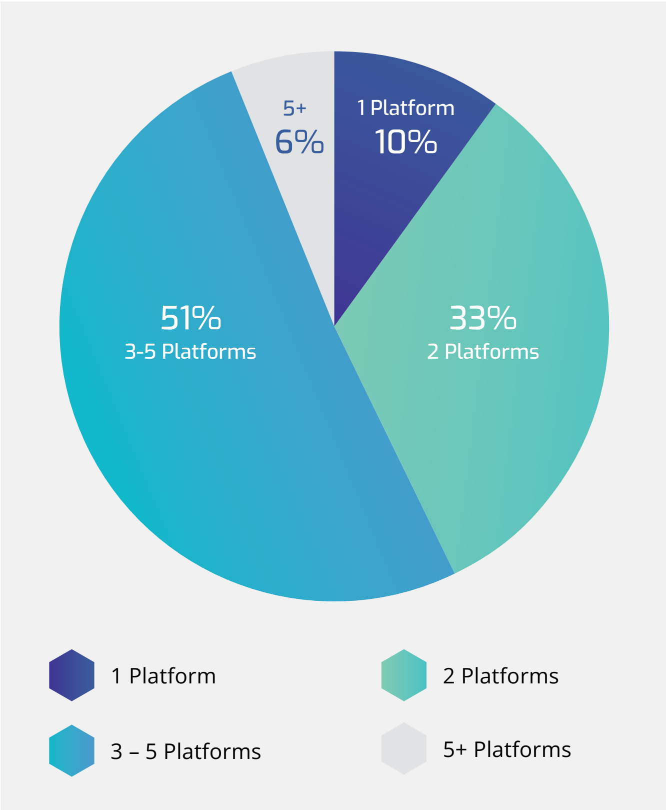
The survey results, along with findings from Suite2Go's Wealth Report research in 2021, highlight several compelling themes that underscore the need for increased digitisation within the wealth management sector, particularly among brokers and wealth advisers.

The survey results also indicate a strong market demand for versatile, integrated wealth management technology that can:

- Deliver comprehensive, user-friendly, streamlined reporting features.
- Aggregate various asset types across multiple platforms.
- Enhance client access to their information.
- Handle complex client portfolios.
- Streamline portfolio management solutions.

2. Survey Results

Q.1 How many platforms do you currently use to manage your clients?



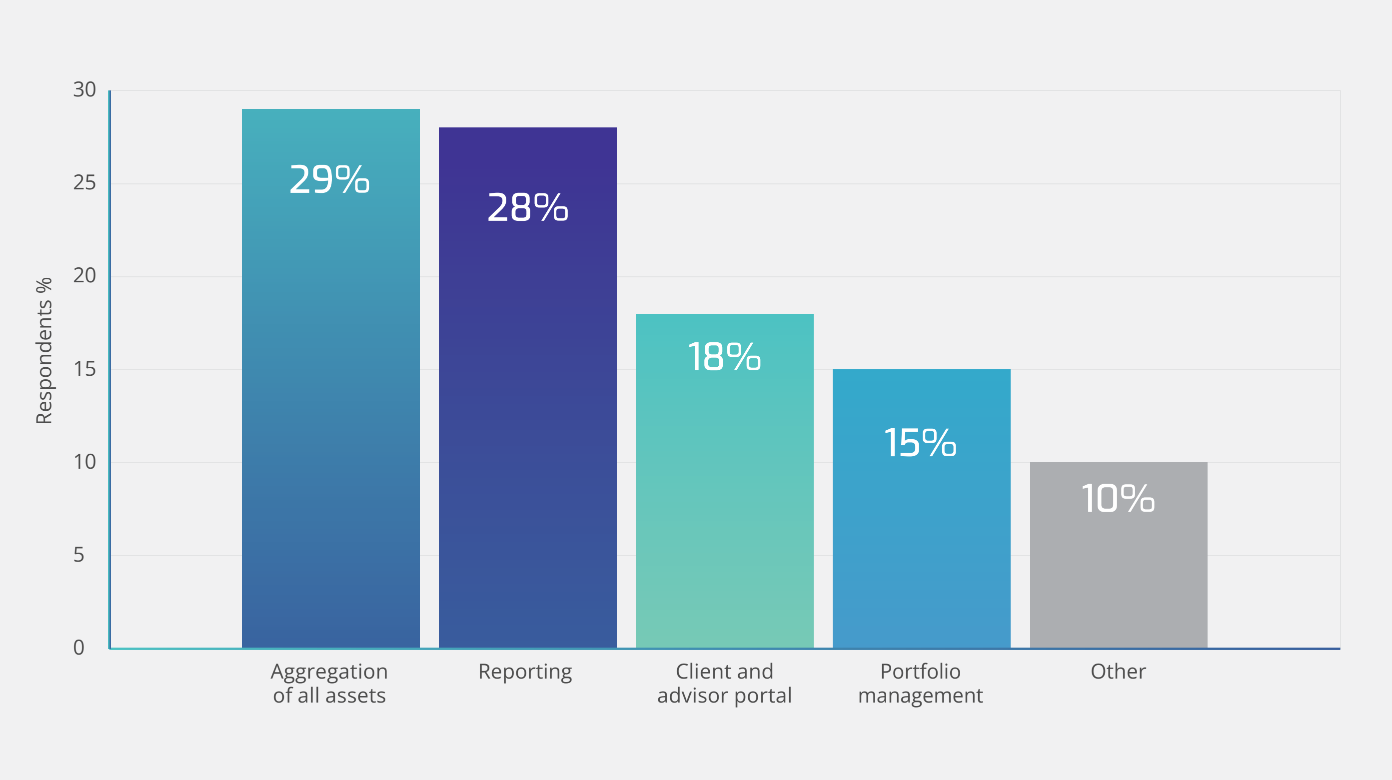
Varied platform usage

The majority of respondents use multiple platforms (between 2 - 5) to manage their clients, indicating a diverse approach to managing client accounts and assets spread across different solutions. A smaller portion of respondents use only one platform, possibly indicating a more streamlined or specialised approach.

The results highlight the potential for a more integrated solution to consolidate various functionalities and aggregate a single client view across all platforms.

2. Survey Results

Q.2 What are some of the deficiencies in existing platforms?



Reporting capabilities and aggregation most frequently mentioned issues

The most frequently mentioned issues with current platforms are inadequate reporting capabilities and a lack of aggregation for all assets.

Reporting emerges as a common deficiency, highlighting the importance of robust and comprehensive reporting capabilities for financial professionals.

Aggregation of all assets and client/advisor portals are also areas where respondents perceive deficiencies, suggesting a need for better integration and accessibility of information.

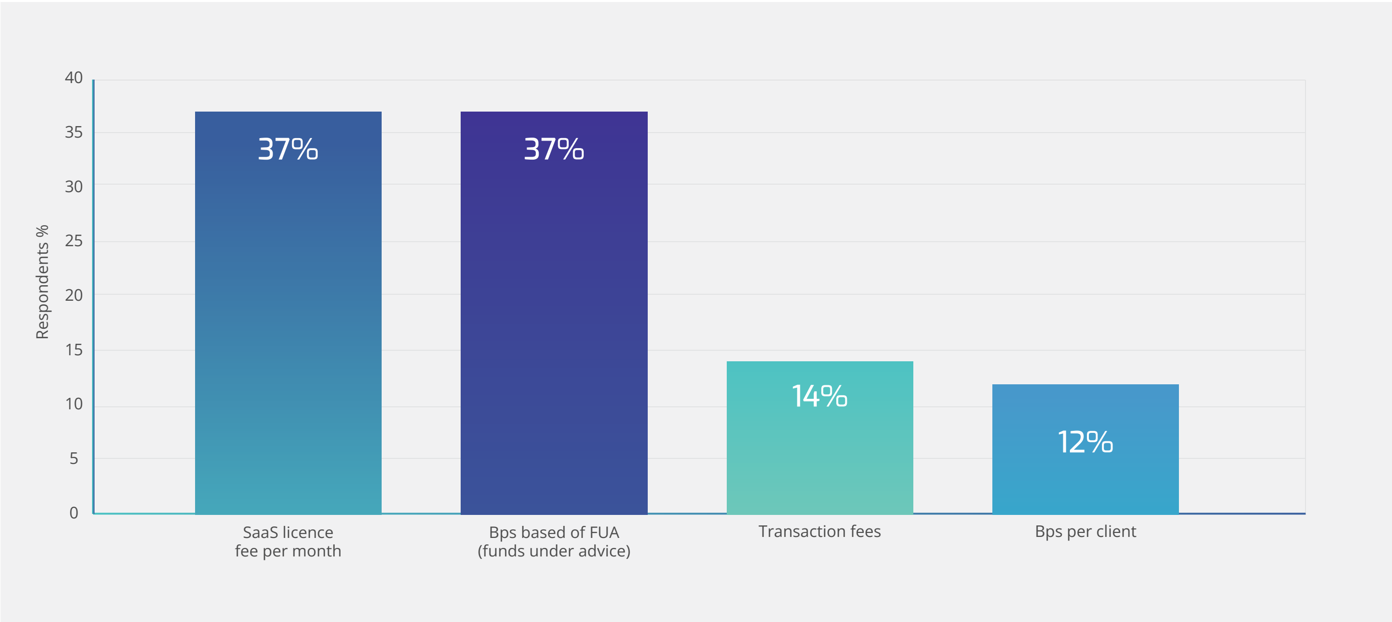
This suggests strong market demand for platforms that provide comprehensive, user-friendly reporting features and the ability to aggregate various asset types.

Some of the other deficiencies mentioned included handling of corporate actions, data flows and system integration, performance reporting and charts, process inefficiencies, access to ABE bonds, holding unlisted securities and funds, and updates overnight.

These results suggests strong market demand for platforms that provide comprehensive, user-friendly reporting features and the ability to aggregate various asset types.

2. Survey Results

Q.3 How would you prefer to pay for platforms?



SaaS monthly license fee in demand

There is a clear growing preference for a SaaS (Software as a Service) model with a monthly license fee, indicating a leaning towards predictable and recurring payment structures. Although there is still interest in a basis points fee model based on Funds Under Advice (FUA), which aligns fees with the amount of client's assets under management.

Results indicate the importance of offering flexible pricing models to meet diverse customer preferences.

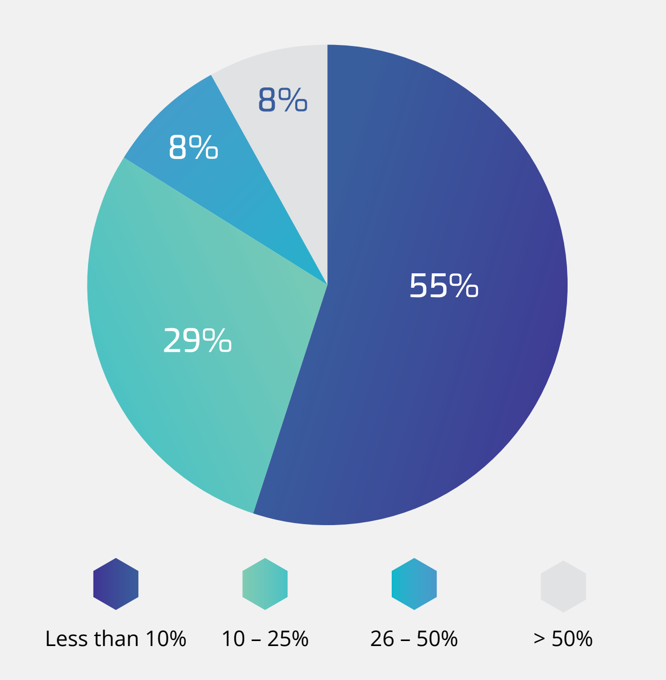
2. Survey Results

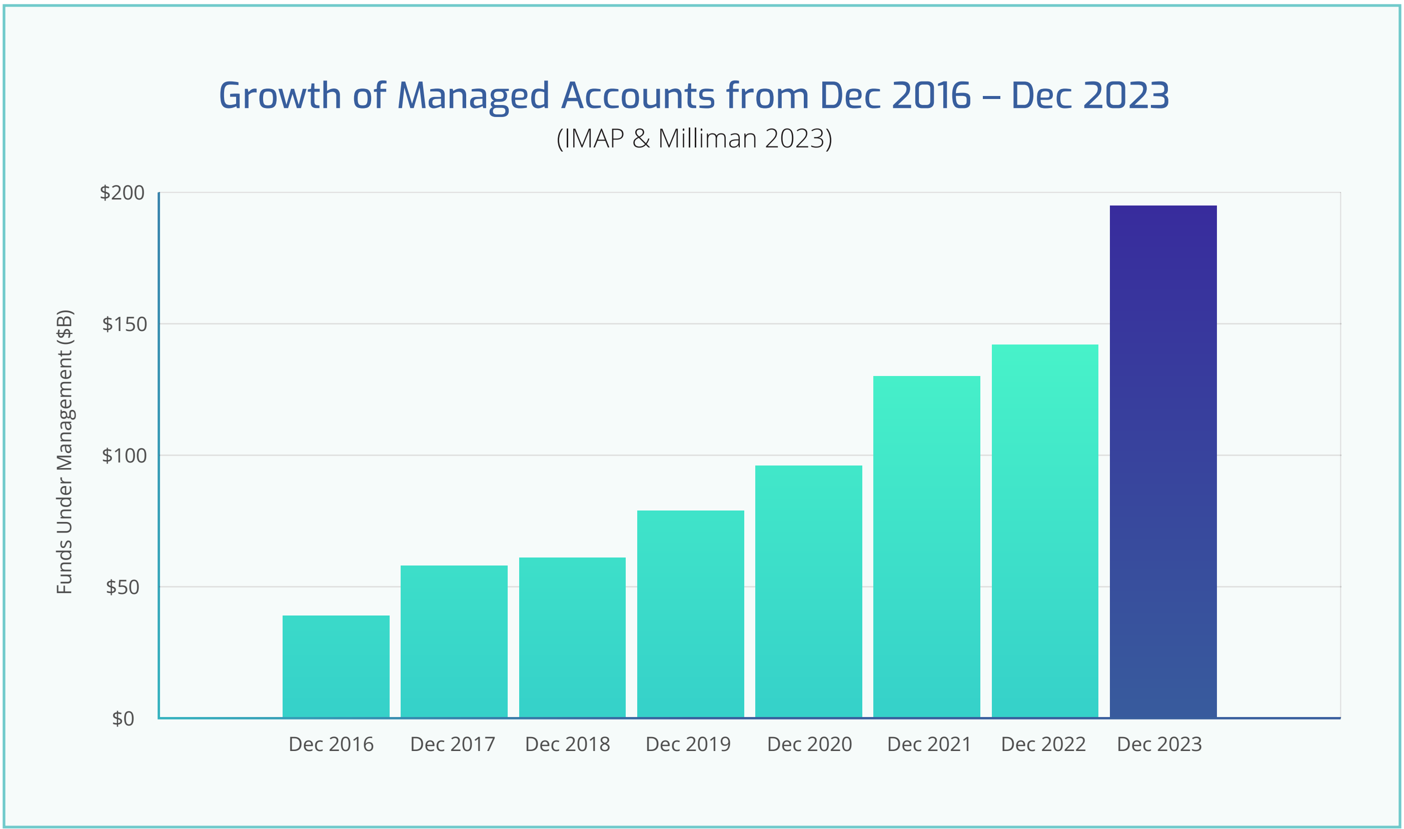
Q.4 What's your current use of managed accounts as a percentage of your business?

Managed accounts do not dominate overall business portfolio yet!

Despite the growth in the managed account sector, most respondents have less than 25% of their total business in managed accounts, with a significant portion having less than 10%. This suggests that while managed accounts are used, they do not dominate the overall business portfolio for many respondents.

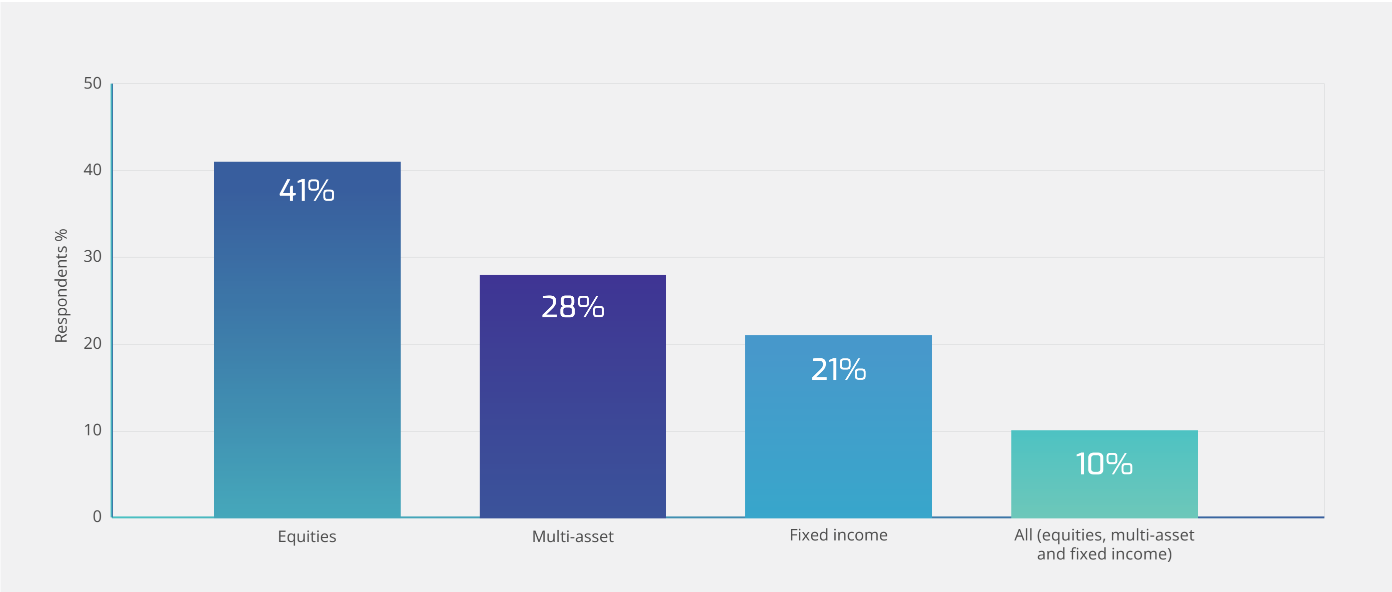
Any solutions for advisers need to cater to new and existing investment structures.





2. Survey Results

Q.5 What type of managed accounts do you run for your clients?



Equity portfolios dominate managed account usage

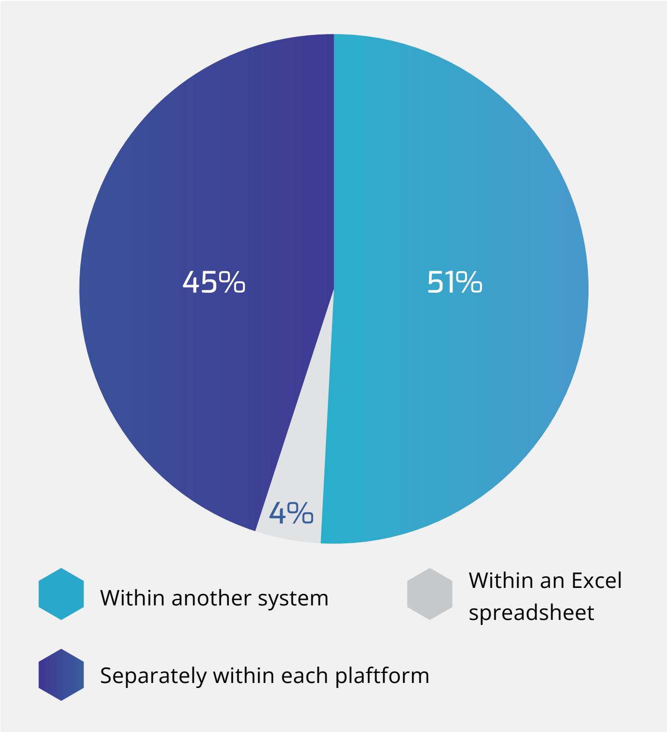
Equities are the most commonly managed account asset type, and also the first type of Separately managed accounts available on platforms, followed by multi-asset strategies using underlying funds, then fixed income.

Managed accounts are one mechanism to help streamline the advice process, but the management of these portfolios needs to be automated, in order to reap the full benefit of this structure

As managed accounts become more prolific and complex, the need to manage client's portfolios in one central system becomes more critical.

2. Survey Results

Q.6 How do you manage execution of your clients' portfolios / models if over multiple platforms?



Need for more streamlined portfolio management solutions

Respondents employ various methods to manage client portfolios across multiple platforms, with a significant portion managing them separately within each platform.

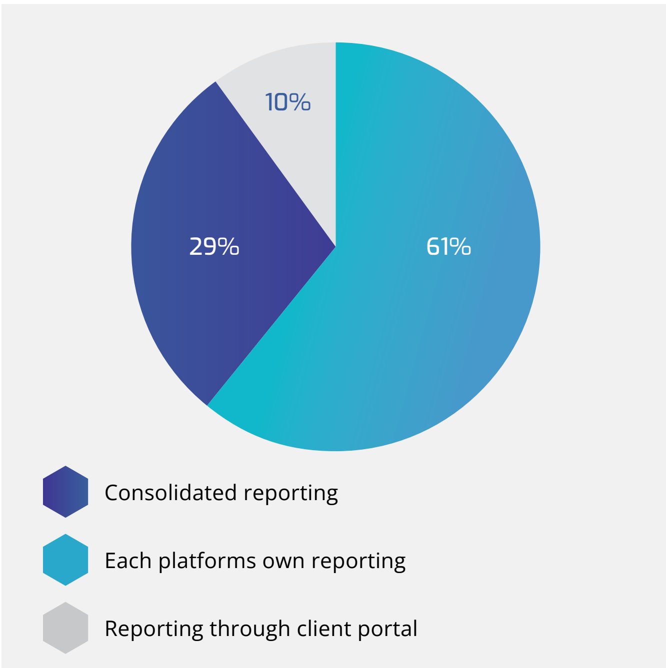
These results could indicate a need for more streamlined portfolio management solutions.

Q.7 What do you currently use for client reporting?

Significant interest in consolidated reporting

Respondents indicate varied practices, with the majority using each platform's own reporting capabilities. However, there is significant interest in consolidated reporting. Only 10% of respondents currently deliver their client reporting through a self serving client portal.

Results suggests a demand for versatile, integrated and comprehensive reporting solutions that can handle complex client portfolios.



2. Survey Results

Q.8 Do you hold unlisted assets in your clients' portfolios?

Q.9 Are your clients' unlisted assets held and reported on separately to other platform assets?

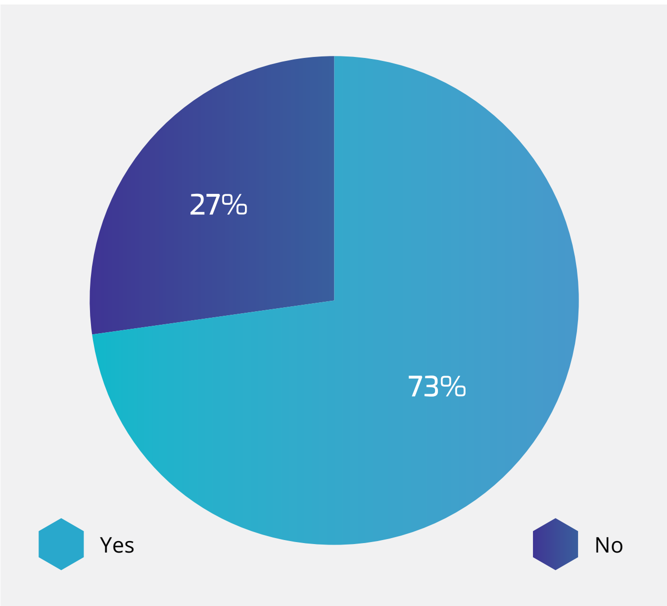
Q.8	73% YES	27% NO
Q.9	59% COMBINED	41% SEPERATE

Unlisted assets held and reported separately

A large proportion of respondents report unlisted assets separately from other platform assets.

Results indicate a need for specialised reporting and management for these types of assets.

Q.10 Do you provide your clients' consolidated tax reporting?



Demand for consolidating tax reporting

The provision of consolidated tax reporting is mixed, with most respondents using each platform's own reporting capabilities, but there is significant interest in consolidating tax reporting.

This suggests a demand for integrated and comprehensive reporting services that can streamline and enhance tax reporting for clients.

3. Highlighting key trends

It is clear there are a number of compelling themes already in motion that underscore the need for increased digitisation within the wealth management sector, particularly among brokers and wealth advisers. These include:

- The impact of regulatory changes on financial planning and wealth management innovation, including the Royal Commission's findings and implications for the industry, which enabled fintech players to enter and disrupt the industry.
- Legacy tech has led to integration challenges resulting in varied usage of platforms and reporting capabilities.
- Increasingly popular among advisers and investors, there has been rapid growth in managed accounts and ETFs.
- The importance of enhancing client engagement through digital platforms, with a focus on user experience, customisation, and the integration of advanced analytical tools.

Regulatory challenges slowed down innovation allowing external fintech players to disrupt the industry.

The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry and COVID-19 pandemic accelerated powerful trends that we've seen developing over the last decade, compelling the wealth sector to consolidate and scale up as a sustainable strategy for survival. This period also witnessed a squeeze on margins and intensified cost competition as services became more commoditised and indistinguishable.

At the same time, new fintech entrants emerged as a pivotal enabler, allowing market leaders to deliver the swift and adaptable services that clients demand, without imposing a financial burden on the organisation. From micro-investing platforms such as Raiz, to self-investing platforms such as Stake and Selfwealth, these fintech stockbrokers are part of a growing trend in Australia where technology is being used to democratise access to investment opportunities and streamline the trading experience.

Amidst this backdrop, wealth and broking firms are being challenged to demonstrate their value to clients, with their loyalty hinging on the tangible aspects of their experience. This is forcing many existing participants and traditional broking businesses to re-examine their business models and pivot into holistic financial advice.

While the regulatory environment varies from territory to territory, globally the wealth management sector is seeing a similar theme emerging. Technology is driving change. In the United States, the fastest growing channel is digital investment platforms like fidelity commission free investments and independent financial advisory, and wealth managers are integrating fintech vertically and horizontally to enable scale in advice.

While it is clear that face-to-face advice is not going away, nor is the need to streamline processes to enable more advice to more Australians. Tech-savvy advisers and brokers hold the key to success. By embracing technology, they can personalise client experiences, navigate regulatory complexities, and stay ahead of fintech trends.

The future belongs to those who blend financial expertise with technological agility, unlocking innovation-led value for clients.

3. Highlighting key trends

Legacy tech has led to integration challenges, resulting in varied usage of platforms and reporting capabilities

Over time, organisations have accumulated and adapted diverging technology and data strategies. As a result, the integration of front, back and middle offices can be vastly varied, with each platform having different strengths and shortcomings, as highlighted in the survey results.

The common public perception of financial markets professionals looking at eight screens on the trading floor in fact represents the complete failure of technology.

According to Chelmer's Chief Innovation Officer, Andy Robertson, software systems have piled up in the financial industry in an ad hoc way, with little thought to how they all communicate. "The new fintech focus on building their own apps has actually made the situation worse. You might have 20 apps on your desktop that all look different and don't talk to each other."

For many wealth firms, even after making the strategic decision to move on from legacy systems without any interoperability, the challenge is selecting the right technology provider to support their long term growth, justifying the level of investment into the tech and quantifying the return for the business. Hence, detailed due diligence on the feasibility, scalability and interoperability is needed before choosing a technology partner.

Rise of managed accounts and the technology required to support them

Managed accounts are an integral part of wealth businesses. Respondents in the survey noted their usage spanning widely from 'less than 10%' to 'more than 75%'. The Institute of Managed Account Professionals (IMAP), in conjunction with Milliman, found that managed accounts FUM reached AUD$194.85 billion 31 December 2023 up 20.47 per cent when compared with June 2023's figure of AUD$161.74 billion. The advantages of scalability with personalised preferences is a strong argument for the growing demand for managed accounts, but choosing the right technology platform to support this product is crucial. From global SaaS providers to in-house built platforms, there is a range of technology used in this space, however the technology varies widely with differing satisfaction levels.

A key element in technology to appropriately support stockbrokers, investment advisers and their increasing use of managed accounts is a modular approach to delivering platform functionality.

Technology providers need to be willing to partner and work closely with Australian wealth businesses to find the right strategic solution to help scale businesses as they grow and evolve.

Whilst there is no one size fits all approach, the successful managed account providers all focus on (1) Customer Centricity through differentiated services to retain and obtain new clients. This is done through stronger front end client portals, reporting, portfolio modelling and consolidated tax positioning. (2) Modular and scalable platforms so that they can grow alongside the business offering back office and middle office IT efficiencies as well as disruption free transformation projects (Innovation without disruption).

3. Highlighting key trends

Imperative to invest in future technology for client engagement and operational efficiency

To successfully navigate the future of wealth management in Australia, stockbrokers and financial advisers will need to adapt to the various macroeconomic and regulatory conditions, as well as being proactive in their approach to technology adoption.

Client expectations and appetite for technology is growing, and as technology advances, client expectations and the role of advisers will change. Engaging clients through digital platforms with a focus on user experience, customisation and the integration of advanced analytical tools is key. Deloitte's recent 2024 survey* found that 70% of young investors and 67% of all investors are considering switching providers, with digital apps featuring among the main reasons for the change. The same survey found that 59% of Gen Y investors do not expect to use an adviser by 2030.

* Source: Deloitte's 2024 Survey Results

The need to personalise their experience through consolidated, on demand view of portfolio performance and visually simplify such a complex investment picture is essential to enabling effective monitoring and informed decision-making by the client and adviser. This was emphasised by Wilsons Advisory recently who pointed to the need to better leverage data to give personalised content aligned to the investor's interest and products and investment ideas that are relevant.

The line between stockbrokers and financial advisers will continue to blur, and those who can seamlessly combine the strengths of both offers will thrive.

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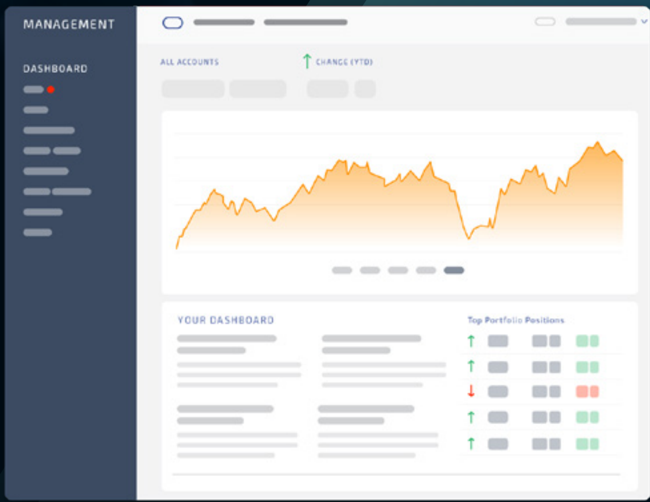
sales@chelmer.co chelmer.co

Proven, dependable wealth management solutions

Chelmer is a trusted wealth specialist, powering dependable, robust, specialist software for Asia-Pacific's financial services industry to manage and create wealth. Our best-in-class, tailored suite of financial software, progressive partnerships and know-how enable more efficient, scalable wealth management.

We have been pioneering wealth management software for over 30 years. Today, we are a premium trusted partner for some of the top wealth management firms across Asia-Pacific, with over USD$70 billion of investor assets managed and hundreds of millions of dollars transacted by our customers every day through Myriad.



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If any of the survey results or commentary has raised concerns about your own wealth management technology or if you have further questions, please get in touch with our Australian partners, Suite2Go, to talk through your challenges and aspirations and discover what's possible when you partner with wealth technology innovators.

Suite2Go
suite2go.com

Get in contact with our Australian distribution partners:

Leanne Bradley
leanne@suite2go.com

Mike Li
mike@suite2go.com

Andrew King
andrew@suite2go.com

chelmer.co

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