

THE TECHNOLOGICAL FUTURE OF THE WEALTH MANAGEMENT INDUSTRY FOR PORTFOLIO MANAGEMENT INVESTMENT SERVICES

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Abstract

Private Bank X is interested in the current Financial technological developments in the wealth management industry including the threats and opportunities that those developments bring along. To analyse this, first is searched for a proper definition of financial technology. Secondly, an overall view of financial technology is given using the DEEPLIST-framework. After doing so, the research paper goes deeper into the topic of robo advice. Thirdly, the effects of financial technology on the investment structure of Private Bank X is investigated. Hereafter, an overview of the wealth management industry is given including a broad analysis of the attractiveness and the potential profitability of that industry by indicating the levels of threat through Porter's five forces model. This gives that the level of attractiveness for newcomers will be determined by their ability to differentiate in order to attract clients of the established firms, using different business models, structures and products. For the incumbents, this is directly the biggest threat. The current players in the industry experience a moderate to high threat of competition. All in all, despite the robust character of the industry, the attractiveness for newcomers is moderate to high, which indicates a moderate to high threat for the current established players in the industry. After the industry analysis, gaps and opportunities are identified in regard of optimization, differentiation and acquiring newcomers. After all, the conclusion states that when analysts and techie's rise, disruptions give opportunity to improve, differentiate and penetrate the industry.

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Keywords

Financial Technology, Robo investing, Wealth Management, Porter's five forces

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1. INTRODUCTION

Technology develops faster than ever before, for example in the healthcare sector ‘Moet ik naar de dokter?’ is a highly used medical application for patients in the Netherlands. It helps the patient in deciding if he or she should visit a general practitioner. This application now acts as an additional instrument for patients and doctors and does not seem to be a direct threat for the current healthcare sector. On the other hand, in the financial world, the rise of the technological opportunities is the cause of many new entrants in the banking sector. Start-ups see opportunities in robotized financial services. This could be a potential threat for the existing banks and wealth managers in the Netherlands.

A global association of investment professionals, the CFA institute held a survey among its members, 70 percent expects that the wealthier investors will be positively influenced by automated financial ‘robo’ services due to lower costs, improved accessibility to advice and improved product choices (Financial Investigator, 2016). Quiet unanimously, professors of multiple universities and partners working within the biggest consulting firms see the future of banking. There is one big disruptive element that is changing the industry, financial technology. In order to stay competitive, these specialists expect that banks will have to reorganize. This is not a onetime reorganization but a continuous process. Those professionals working within the field of banking expect that within the next five to ten years, in order to survive, banks will have to be translated into organizations that exist for 90% out of technological and software specialists. For BANK X this would mean that many offices will disappear although some Private Bank X offices will need to stay opened for marketing and image purposes that keep the brand high. Anyhow, there will be a shift in jobs. The bank with its personnel now will be a completely different bank with its personnel in a few years. If this shift is happening, the biggest challenge will be the becoming of this complete different technological company. In this translation an improved strategy is required. These developments also create opportunities. BANK X, probably the number one traditional financial institution in the Netherlands is interested in this financial technological revolution. “What is Financial technology? What is robo advice? How does this influence BANK X’s current investment structure? What does this mean for the industry and its attractiveness? What is the wealth management industry level of attractiveness for entrants and what are the threats for established competitors in the Netherlands? Which opportunities arise due to these developments? How should BANK X alter their strategy in order to stay competitive?”

The number of competitors has changed as well as the kind of competitors. Market borders are changing rapidly and the environment of investment banking has never been more dynamic than it is now. It is not the strongest of the species that survives but the most adaptable (Charles Darwin). When an enterprise does not properly analyse their business’ conditions compared to its competitors, it will not have the ability to appropriately adapt a strategy in a changing dynamic environment (Barlett et al, 2008). So, every company should have the knowledge to change in order to survive. Therefore, companies should have a flexible strategy in order to respond quickly to changes and competition. Rivals that change quickly, change the market (Michael Porter 1996). Besides, the private interest of the Bank X in which competitive status it occurs and

in which direction it should invest in order to survive this new era, it is thus also of social relevance what shift the current technological developments have on the general future of banking.

The main objective of this study is to derive at an improved direction of strategy for Private Bank X. By investigating what financial technology is, what robo advice is and by investigating what BANK X’s investment structure looks like. This includes doing research on which pillars and metrics the bank can monitor performance and what BANK X’s competitive position in the market looks like (by the five forces of porter). With all the information, the target is to find strategic opportunities to survive in these times of change.

2. FINANCIAL TECHNOLOGY

The basis of a company is its strategy, it begins at strategic planning, a part of strategic planning consists of strategic analysis. In such a strategic analysis, the external environment and the internal capabilities of a company are analysed. In the financial world, there are many important external influencers to be analysed that could have a significant impact on a companies’ operations. One that could be of major influence for BANK X is FinTech (Financial Technology).

FinTech could be explained as an industry composed of companies that use technology to make financial systems more efficient (Wharton FinTechClub, 2015). For sure there will be people in the industry that will disagree with this definition, however since it is to be found that this is the most fetching definition of FinTech, this will be used when is referred to FinTech in this paper.

In order to explore the FinTech environment multiple market analysis models could be used. Chosen is to use a modified extended version of the PESTLE-analysis. The PESTLE-analysis is a model used to investigate markets by exploring the Political, Economic, Social, Technological, Legal and Environmental/Ecological subsectors in an external analysis of the macro-environment. The PESTLE-analysis is usually used to explore a business’ market. The modified version of the PESTLE-analyses, the DEEPLIST-framework aims at capturing a more complete view of the market and trends, which is the reason why this ideally fits investigating a concept like FinTech.

To maximize the benefits of the DEEPLIST analysis, it should be used on a regular basis within an organization to enable the identification of trends. Further the DEEPLIST method can oversimplify information and carry the risk of ‘paralysis of analysis’. Furthermore, the access to high quality information is limited. However, it provides a simple and easy-to-use and understand framework. It involves cross-functional skills and expertise and helps to reduce the impact and effects of potential threats to an organization. It encourages the development of strategic thinking within an organization as well as it provides a mechanism that enables an organization to identify and exploit new opportunities. It also enables to assess implications of entering new markets both nationally and globally. This is way it is seen as the best tool to use in order to capture a view of the market divided per factor. (Strategy skills FME books, 2013) Therefore, in order to capture this complete view of the market and its trends, the subsectors Demographics and Informational are added in customer and business’ perspective. See Appendix table 1. As shown in table 1 every subsector of the DEEPLIST-framework captures multiple factors that could be of significant

influence for BANK X. With most importantly, the trend of customers that is changing. Digital natives are on their way as well as the product solutions for this trend. Fintech latest trends



are: service-based investing, robo investing and digital-based-equity crowdfunding.

3. ROBO ADVICE

FinTech latest trend Robo investing is what captures wealth managing banks interest most. Bank X experiences a relative decrease in the rise of clientele in the private banking sector which means it generates relatively less income and needs to save costs in order to stay as profitable. When saving costs, reorganization is inescapable. When reorganizing, not only costs are saved but experience and knowledge is lost as well. In order to stay competitive, BANK X is particularly interested in the way how Robo advisors can fill the gap. In order to keep providing high quality services it must be provided in a cheaper way.

Robo investing, robo advisors, or automated investors as some call it, could be defined as, online wealth management services providing automated, algorithm-based portfolio management advice without using human financial planners (The FinTech blog, 2015). Robo advice could be defined as a financial advisor that provides financial advice or portfolio management online with minimal human intervention (The New York Times, 2014).

Private Bank X's investment bankers receive a binding advice from a higher committee (Global Investment committee GIC) within the BANK X Bank about the asset classes they need to invest in, in regard of the portfolios managed. Most Robo advisors limit themselves to providing portfolio management, so does the definition provided now. Private Bank X's department work mostly exists of allocating investments among asset classes which is exactly what most robo advisors at other firms (mostly start-ups) are automating. Within Bank X there is already developed a digital service that looks like a robo investor but in fact is an automated portfolio manager (APM).

4. BANK X'S INVESTMENT STRUCTURE?

Bank X consists of multiple departments, among these departments there is one department that takes care of the investment services. This department is divided into two parts, the retail bank and the private bank (Private Bank X). The retail Bank department provides service to clients investing with a capital under 500.000 euro. The private Bank (Private Bank X) provides services to clients investing with more than 500.000 euro. The private bank and the retail bank offer multiple different forms of investment packages to clients, this is for the Private bank: Active investments, active plus investments, comfort investments, comfort sustainable investments, and do it yourself investments. For the retail bank the packages exist of management investments, funds advice, investments advice, active advice and do it yourself investments. See table 3.

Every investment package provided within the investments department of the bank has a digital system working in the background that enables to provide professional services in a digital way. Chosen is to do this because these systems should improve the overall services provided by the bank. The success achieved with the services provided by the bank should according to the management of the bank be measured with the pillars where BANK X is monitored on. These five pillars are decided to be: sustainable profitability, sustainable customer growth, innovation, processes and systems (simplify and improve), and leadership (pro-active mindset of personnel).

In the current situation, the retail bank and the private bank offer different services to clients within the same bank. The digital systems in the background are also still different within the same bank. This seems strange however this is due to the fact that Private Bank X has been acquired by Fortis in 1997, Fortis and Private Bank X ran different digital financial systems. In 2008 Fortis and BANK X were merged (Nationalised) by the government due to the financial crisis which again meant more changes in various digital systems. From 2014 onwards the management of the investment department for the private bank as well as the retail bank are both run under the managerial supervision of the private bank. The policy is made up by the 'Private Bank X' part now for both services, so the Retail and Private department are currently one department however with inconsequent underlying supporting digital systems.

What is clearly visible is that disruptions change a companies' structure including the IT infrastructure. At the moment, there are two main digital systems, the Automated Portfolio Manager (APM) and the Triple A system. Both possess a digital background system for single orders, the equity order (EO) system as well as both services are also accessible via internet banking online. The APM is the system running for the Retail bank. Triple A is the system running for the Private bank. In principle, the main differences are that Triple A has better looks and feel in comparison to APM as well as it is only a background application accessible for the bankers. APM has more opportunities in regard of automated management. The APM is as defined earlier in this paper, the product that BANK X offers that looks like a robo advisor. In contrast to Triple A, APM has the ability to automatically compare a clients' portfolio to a model portfolio (a portfolio idealised by the banks vision). So APM can automatically derive to an advice or a proposal that can be accepted by the client in order to optimize his or her portfolio in the direction of the banks investments view. The APM is thus visible for bankers and clients. Further,

Triple A possesses an improved automatic methodology to picture the clients profile in contrast to APM where this is still done manually. So there is already a direction of automation but the major switch to robo advice is yet to come. What differentiates these systems to others in the market is the user-friendly interface and the broad pallet of options (Portfolio Management BANK X, 2016). The competition is nevertheless getting more serious. Now due to the financial technological developments, it is for wealth managers of major interest to get an improved view of the wealth management and potential robo investment industry including its attractiveness and the threats that come along.

5. WHAT IS THE WEALTH MANAGEMENT INDUSTRY LEVEL OF ATTRACTIVENESS FOR ENTRANTS AND WHAT ARE THE THREATS FOR ESTABLISHED COMPETITORS IN THE NETHERLANDS?

The threat of other technology companies taking over services that traditionally would be outsourced to banks is expected to be real. By 2020 the global assets under management of robo advisors is forecasted to grow to an estimated US\$255 billion, according to a research report by 'MyPrivate Banking Research' (Financial Times, 2014). So, to answer the question: 'What is the wealth management industry level of attractiveness for entrants and what are the threats for established competitors'. First sub questions should be answered and borders be clarified. 1) What are industry attractiveness, threats, entrants, and competitors? 2) What is the wealth management industry? 3) Who are the main players in the wealth management industry in the Netherlands? 4) What methods could be used to investigate the level of attractiveness and threats and what method is most applicable? 5) What are the indicators of the model chosen and are they complete? 6) Is the chosen method perfect or could it be modified for optimal application? 7) How can the indicators be defined? 8) What are the results of the application of the chosen model? When answers to these questions are found, 9) a conclusion can be drawn about the level of attractiveness for entrants and the level of threats for established competitors and Private Bank X in particular.

5.1. Industry attractiveness, threats, entrants, and competitors

Industry attractiveness can be defined as the magnitude and ease of making profit, in comparison with the risks involved, that an industrial sector offers. It is based on the number of competitors, their relative strength, width of margins and rate of growth in demand for its goods or services (Business dictionary, 2016). This means that the model used to analyse the attractiveness should at least capture the mentioned indicators. Secondly, a threat is a negative event that can cause a risk to become a loss, expressed as an aggregate of risk, consequence of risk, and the likelihood of the occurrence of the event. For business, this can be defined as a factor or force in an organization's external environment that are out of its control, and can directly or indirectly affect its chances of failure (Business dictionary, 2016). Thirdly, entrants are market participants that have recently entered a market or industry sector (Business dictionary, 2016). Also known as a new member of competition (The free dictionary, 2016). Further, a competitor in the wealth managing business can be defined as a company in the same industry which offers a similar service.

The presence of one or more competitors can reduce the prices of the service as the companies attempt to gain a larger market share. Competition also requires companies to become more efficient in order to reduce costs (Webfinance, 2016). Furthermore competition is mostly analysed on price, quality, assortment, location, service, and publicity levels (Ondernemersplein.nl, 2016)

5.2. The wealth management industry

Wealth management is the consultative process of meeting the needs and wants of affluent clients by providing the appropriate financial products and services. Wealth management entails coordinating a team of experts to address the needs and wants of affluent clients (Forbes, 2016). The wealth management industry delivers services to high-net-worth individuals, business owners, families, institutes and charities that in many cases spread capital in order to spread risk. The wealth management industry is an industry with many competitor's worldwide. In principle, due to internationalization, the availability of digital pay systems and currencies used over more countries, the industry could be seen as a worldwide industry. On the contrary the spread of the clients' capital across wealth managers is also done within the country of origin of the client. As mentioned before, in order to clarify the boundaries of this paper, the focus is clearly put on the wealth management industry in the Netherlands. Wealth management is an investment-advisory discipline that incorporates financial planning, investment portfolio management and several other aggregated financial services. This paper as mentioned before focusses on the investment advisory branch with the focus on (private) investment portfolio management.

5.3. The main players in the wealth management industry in the Netherlands

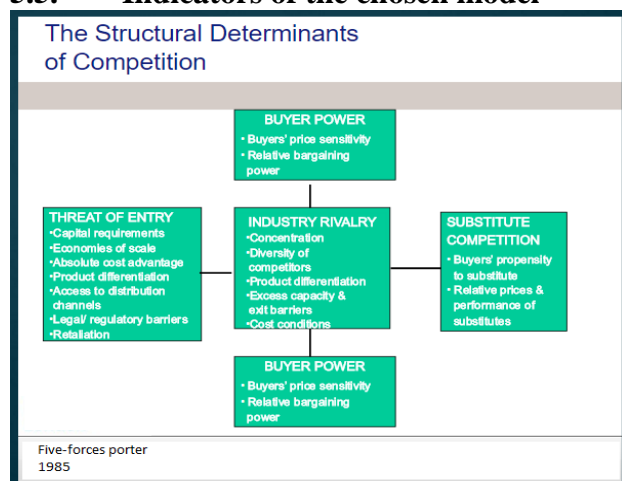
The current wealth management industry structure in the Netherlands is determined by the key elements of the industry's structure. The key elements consist of the main players. In order specify even more, there should be made a difference between: private banking, institutionalized wealth management and fund houses. All subsectors within the wealth management industry make use of the same tools and investment strategies, nevertheless their clients are different, they have different motives as well as that they offer different investment packages. In principle, could the tooling of robo advisors be the same for all three subsectors. When looking at the institutionalized wealth managers categorized on assets managed, BANK X is not even in the top 9 in the Netherlands (FTM, 2011). See table 4. BANK X's market share of the so-called fund houses division is as measured in 2015 in the Netherlands about 5.1% (AF Advisors, 2015). See table 5. This is not the market where BANK X Private Bank X operates. The private banking where BANK X Private Bank X devision operates in, consists of a few big players in the Netherlands. The current major players in private banking in the Netherlands at random order are: Van Lanschot Bankiers, Insinger de Beaufort, Rabobank Private Banking, Triodos Private Banking, Guidato Family Office and BANK X Private Bank X (Ten Have 2011 CM). Further there is Binck and Alex.nl mostly for 'execution only' clients (Fondsnieuws, 2011). When is only looked at cumulative return, ING takes 50% where Van Lanschot and BANK X Private Bank X both take 38% (Beleggers belangen 2012). See table 6. Purely market share-wise BANK X Private Bank X is the biggest Private bank in the Netherlands with a market share of 23-26% (INGsprinters.nl, 2016). Which causes BANK X's private bank, Private Bank X to be guaranteed for 10% of

BANK X's overall profit which was 475mln in the first quarter of 2016 (INGsprinters.nl, 2016).

5.4. The level of attractiveness and threats.

So, there has always been the perspective that a comprehensive and appropriate definition of an industry is a major necessity in developing a competitive strategy. The structural analysis of an industry should provide an appropriate framework in order to determine the boundaries of an industry at a high level. Any definition of industry mainly involves the issues such as the ways of determining the boundary between competitors and substitute products, the existing companies and potential competitors as well as existing companies and buyers and suppliers (Porter, 1990). Further as mentioned in chapter 4.1 the model should capture the number of competitors, their relative strength, width of margins and rate of growth in demand for its goods or services. There are different models for assessment and analysis in firms, companies and industries and they include Porter's five competitive Forces, Porter's diamond model, the information space model, the new product development process, the PEST analysis, the SWOT analysis, the value net model, the competitor analysis model, the UN development programme for pillars and mapping, the strategy matrix model, the force field model and the national innovation system. This study, utilizes Porter's five force model in contrast to other models that focus mainly on their own business and a few competitors. Porter's five force model is thus chosen because of the perspective that this model is the most comprehensive model. A model that fits in order to investigate competitiveness within the complete wealth management industry in the Netherlands, including focus on the Automated Portfolio Management industry.

5.5. Indicators of the chosen model



In 2008, Porter wrote a paper about adding: Customer loyalty, Ease of exit, and Industry profitability, to the force 'Threat of entry'. Chosen is to modify the model, by including these indicators in order capture a more complete view of the industry.

5.6. The optimal application

An industry's environment exists of suppliers, competitors and customers. According to Robert M. Grant (2009) the starting point for industry analysis is a simple question: 'What determines the level of profit in an industry?' Profits earned by firms in an industry are determined by three factors: 1) The

value of the product to customers, 2) The intensity of competition and 3) The bargaining power of producers relative to their suppliers and buyers (Contemporary strategy analysis, 2010). According to Porter's five forces competition framework, the model identifies structural variables influencing competition and profitability. The framework identifies the profitability of an industry as determined by five sources of competitive pressure. In this model, five forces should be mainly taken into account in competition, the collective strength of forces determines the potential profitability of business. The five forces model indicates the reason for current situation of profitability in an industry and explains that companies can include the conditions of their industry only by understanding these forces. (UOT, 2016). With an industry being 'the set of companies which supply the same service'. The most important operation of a business is to increase competition in the industry in which it operates (Dewitt and Meyer, 2008). The level of the competition is determined by five forces of competition that include three sources of 'horizontal' competition: competition from substitutes, competition from entrants, and competition from established rivals; and two sources of 'vertical' competition: the power of suppliers and power of buyers. (Porter, 2010) The strength of each of these competitive forces is determined by a number of key structural variables (Porter, 1985). See table 2.

One of the major criticisms made by experts on the five forces model of Michael Porter is that the model implicates that competitors, suppliers nor buyers are communicating with each other. The model implicates there are no interactions or relationships between them. Another main critical point made by strategists is that the five forces model should have been the 6 forces model. They consider the influence of the government, in such size that it should be considered a 6th influential force. In the case of FinTech, which is analysed in this paper, there could be thought to stress regulations more in this paper. In a report written by Michael Porter, he responds to these criticisms. According to Porter, the model is currently in its optimal way, there should not be forces added or eliminated. He argues 'The supplements can only be influential as the factors affecting any component of competitive model, and thus they indirectly affect the competition within the industry.'

5.7. The definition of the indicators

In the industry analysis, the application of Porter's Five Forces Analysis Model, there are, as mentioned before, five forces indicating an industries profitability and attractiveness to enter. The model is analysed out of the perspective of the established players facing possible threats. Every force consists out of multiple indicators that determine the outcome of the force. To make sure the indicators correctly determine the force's outcome. Every indicator is ranked in a three-point scale system, indicating the amount of threat experienced by current players in the industry with, 'High', 'Moderate', or 'Low'. So, a 'low' means a low threat for the established players and a 'high' means an advantage for newcomers. Chosen is for a three-point scale ranking system instead of many other ranking systems like the Likert scale because when determining the level of threat with more scale options, the chance of the paralysis of analysis principle would be very high. 'Getting lost in the middle' would not contribute to clear analysis.

An attractive alternative of scaling would be quantifying the model. A mathematical model would in some cases be preferable but the idea of translating the five-forces into a general mathematical model runs counter to the very idea Porter

had when he wrote his book. Porter's five forces framework is a heuristic, (not a number based model) that helps to structure the process of an industry analysis. With a mathematical model, you would create a limited, but rigorously determined set of variables whose interactions are investigated in-depth, which is very interesting for a bank like BANK X but the chance of missing out variables as well as not completely covering subjects would be high. Frameworks as an alternative attempt to capture much more complexity of industry competition. As Porter (1991: 98) writes: "Frameworks identify the relevant variables and the questions which the user must answer in order to develop conclusions tailored to a particular industry or company." As such, frameworks or mathematical driven attempts try to blend scientific knowledge with the practical and context-specific knowledge of practitioners. In Porter's SMJ article *Towards a Dynamic Theory of Strategy* he discusses the issue and confirms the idea that it should not be converted to a mathematical model. (Approaches to theory, 2013). So, the clearest way to differentiate from what is impacting the industry attractiveness by still using heuristics and not a mathematical model is the three-point scale ranking system. In this way, the boundaries of the level of threat experienced by the established competitors are very explicit. See table 8.

5.8. The results of the chosen model

The next paragraphs help identify and analyse five competitive forces that shape the industry. These help determine an industry's weaknesses and strengths. See table 8.

5.8.1 Threat of entry

The entry levels of an industry determine the attractiveness for newcomers to enter the industry. If the entry of new firms is unrestricted the rate of profit will fall toward its competitive level. The threat of entry rather than actual entry may be sufficient to ensure that established firms constrain their prices to the competitive level. The entry attractiveness to an industry mostly depends on the barrier to entry which consists not only of the starting barrier but also of the sunk costs. A barrier to entry is any advantage that established firms have over entrants. The Principle sources of barriers to entry are: Capital requirements, Economies of scale, Absolute cost advantages, Product differentiation, Access to distribution channels, Government and legal barriers, and Retaliation by established producers. (R.M. Grant 2009) Including the addition of: Customer loyalty, Ease of exit, and Industry profitability (Porter 2008)

Capital requirements: Starting a wealth management firm requires high capital. To compete on the level of the main players in the industry, a firm needs even more capital because of the high costs of services, jurisdiction and governmental requirements. Only to reach the breakeven point, tens to hundreds of millions of euros are needed (Offshorecompany, 2016), assuming average industry fees. Entrants would need powerful investors and high subsidies. (Low)

Economies of Scale: Due to the scale advantages held by the current main players in the Dutch wealth management industry. Entrants would experience a disadvantage because of average higher fixed costs for providing the same service as competition. For entrants gaining many customers will be problematic, this is mainly due to the hassle of switching from bank (ACM, 2014). (Low)

Absolute cost advantage: Opportunities in providing services with absolute cost advantage are huge. Technology oriented companies, like Google, Facebook and Apple but also smaller entrants, possess the advantage of technological knowledge, patents and intellectual property rights (Oxford University & World Bank, 2015). Patents on innovative technology could be a very high threat for current players in the industry (Wall Street Journal, 2016). In this way, entrants could provide more or better services with lower expenses than competitors. (High)

Product differentiation: The differentiation of a product that a wealth manager offers is essential to a customer, the upcoming generation clients that chose for a wealth manager because of its product choice is bigger as ever before (Financial Times, 2016). The automated product services that some banks offer are one of the main reasons customers chose for the bank as wealth manager. Now, Start-ups, smaller banks and bigger innovators in the industry (e.g. Google, Facebook, and Apple), are developing tools that more and more approach the level of a fully integrated advisor. These systems are already replacing real (human) advisors. Which is one of the main reasons smaller firms enter the industry with digitalized advice systems having the main advantage of digital efficiency and intellectual property rights. (High)

Access to distribution: The path through which the service provided by banks arrives to the customer is easy accessible, this is mostly done digitally by a platform an e-mail or by mobile. (High)

Government and legal barriers: Legal barriers are very high due to nationwide as well as European guidelines and laws. In return the government is supporting technological developments which would make it easier for entrants but the governmental policies to operate in wealth managing business are higher since the crisis of 2007 (ESMA, 2016). (Low)

Customer loyalty: Clients tend to be moderately loyal to their firms, although many clients are not very satisfied with the services provided, the number of clients switching is low. But if they are switching, they prefer to switch among established names in the industry (in the short run -5y). (In the long run +5y), newcomers can achieve a trustful name which increases the chances of clients switching. High amounts of clients directly switching to newcomers in the industry is unlikely (ACM, 2014). (Moderate)

Ease of Exit: Lack of capital and infrastructure or not meeting legal demands, would suggest an exit. Serving high amounts of clients does not ethically make it easy to exit (BANK X, 2008) (Nationalizing existent players that failed). When demands are not met, and the relative new firm is not 'too big to fail', an exit will be rather efficient. (Moderate)

Industry profitability: Industry profit levels are still approximately 20% lower than pre-crisis levels. But 46% of the people working or investing in wealth managing firms still think the industry is very attractive for its profits (Oliver Wyman for J.P. Morgan, 2014). (High)

Retaliation by established producers: Established players in the industry are taking technological developments and newcomers very serious, the chances for them to enter without being in scope is almost impossible. Existing players will do everything to keep their place in the market, more than 70 billion was spent in 2014 and 2015 by established players on FinTech (Accenture, 2016). (Low)

5.8.2 Rivalry between established competitors

Rivalry between established competitors is like an attempt to achieve a position and is usually done by the use of tactics like price competition and advertising campaigns (Porter 1990). For most industries, the major determinant of the overall state of competition and the general level of profitability is competition among the firms within the industry. (R.M. Grant 1998). The intensity of competition between established firms is the result of interactions between six factors: Concentration, Diversity of competitors, Product differentiation, Excess capacity and exit barriers, and Cost conditions including the scale economies and the ratio of fixed to variable costs (Mr Pouya 2005).

Concentration: The current major players in private banking in the Netherlands at random order are Van Lanschot Bankiers, Insinger de Beaufort, Rabobank Private Banking, Triodos Private Banking, Guidato Family Office and BANK X Private Bank X (Ten Have CM, 2011). Further there is Binck and Alex.nl mostly for 'execution only' clients (Fondsnieuws 2011). Purely market share-wise BANK X Private Bank X is the biggest Private bank in the Netherlands with a market share of 23-26% (INGsprinters.nl, 2016). (Low)

Diversity of competitors: The current wealth management industry in the Netherlands tends to have a monopolistic competition, Private Bank X is having the largest market share in the Netherlands. The closest competitors have a significant market shares as well which is a moderate pressure for BANK X. The diversity seems mainly to come from the entry fee, the service differentiation and the degree of integrated digitalization which is among most banks around and about the same levels (Vermogensbeheer.nl, 2016). (Moderate)

Product differentiation: Clients always want the best and thus chose for premium products. If a company is able to offer these premium products/services it is a high advantage, if competition possesses these products it is a huge disadvantage. At the moment, ING is developing a business-to-consumer (B2C) robo advisor that also can execute algorithm based core tasks like asset allocation (ING, 2016). In comparison to other firms in the industry where for the greater part model portfolios are still made by real human advisors. (High)

Excess capacity and exit barriers: Competition can disrupt the industry in such a way that, too many product/services are offered chasing too few buyers. A shakeout ensues, with intense competition, price wars and company failures. This would mainly be an issue for the established competitors when new players arrive at a stage where their name has gained trust which makes clients switch between firms, resulting in a too high spread. (high)

Cost conditions: Fixed fees asked by all the established wealth managers are around and about 0,5% of the invested capital per year. The variable fees mostly depend on the clients' initiative to buy or sell derivatives frequently. (Vermogensbeheervergelijking.nl, 2016). Clients have a relative low cost of switching between competitors. A few banks like Rabobank even offer a free switching service (Rabobank, 2016). (High)

5.8.3 Power of buyers

The buyers compete with the industry by an effort to reduce prices. They always try to get a product that has best quality or offers more services. They also let rivals compete with each

other which can in effect reduce the profitability of industry. The capability of any important customers group in the industry depends on the customer's situational characteristics in the market. Further their capabilities depend on the relative importance of the purchases from the industry compared to its overall activities. (Porter, 1985) According to Porter, the two main factors to determine bargaining power of buyers are the buyers' price sensitivity and the relative bargaining power.

Cost of product relative to total cost: Clients have a moderate sensitivity in premium advice, they are paying for a higher quality (better advice). They are also becoming more watchful of excessive premium in relation to product quality, this increased mainly after the financial crisis. For the firms the cost of product relative to total costs is relative low due to economies of scale nevertheless new regulatory requirements after the crisis increase costs. (Moderate)

Product differentiation: There already is a broad pallet of products available in the industry, nevertheless differentiation is still possible mostly technological differentiation and costs/price differentiation. (high)

Competition between buyers: There are many 'buyers' in the industry, according to officials some buyers ask price concessions. In reality, this is hardly given because of the strict company-wide rules. (Low)

Size and concentration of buyers relative to producers: At the moment, it seems like there is a balanced supply and demand (no proof). (Low)

Buyers' switching costs: Clients have a relative low cost of switching between competitors. A few banks like Rabobank even offer a free switching service (Rabobank, 2016). (moderate)

Buyers' information: Firms like Morningstar make information widely available (Morningstar, 2016) (High)

Buyers' ability to backward integrate: Backwards integration would not be applicable, buyers could start managing wealth themselves but will always need the technology for, which carries along high fixed costs. (Low)

5.8.4 Power of suppliers

Analysis of determinants of relative power between the producers in an industry and their suppliers is precisely analogous to analysis of the relationship between producers and their buyers. The only difference is that it is now the firms in the industry that are the buyers and the producers of inputs that are the suppliers. The key issues are the ease with which the firms in the industry can switch between different input suppliers and the relative bargaining power of each party (R.M. Grant 2009)

Suppliers can exert bargaining power on participants in an industry by raising prices or reducing the quality of purchased goods and services. Powerful suppliers can thereby squeeze profitability out of an industry. The power of each important supplier depends on a number of characteristics of its market situation and on the relative importance of its sales or purchases to the industry compared with its overall business (Porter 1989). **Cost of product relative to total cost:** According to officials, digital analysis tools and manpower are the major cost however are necessary for operations. An increase in those costs would have a big negative effect on profit. These costs are mostly

fixed, in long term agreements because fluctuations would otherwise directly affect the core business. (Moderate)

Product differentiation: There are not many suppliers to choose from but the services most used (Reuters and Bloomberg) suffice. New suppliers could disrupt the market of analysis tools only in favor of the wealth management industry (The Baron, 2015). (Low)

Competition between suppliers: Competition between suppliers is high although there are only two big players that take the greater market share (analysis programs). Bloomberg takes 33% market share and Reuters takes 24% which is together the greater part of the market (The Baron, 2015). The rest is divided among smaller providers. This results in a moderate threat. Technology companies experience a moderate level of competition; they keep each other in balance. (Moderate)

Size and concentration of suppliers relative to producers: As mentioned before there are only a few big suppliers in contrast to many companies that need supplies. Nevertheless, it seems there is enough competition between the two big suppliers to create a balanced market. (Moderate)

Suppliers' switching costs: The actual cost of switching between supplier is not very high, nevertheless, because contracts with program suppliers are mostly long term. Acute switches would dramatically increase cost levels. Moreover, the employees working at a wealth managing firm get used to working with a certain program. When is switched to another program, they need to be re-educated which creates a high cost as well. (High)

Suppliers' information: The information suppliers possess is very broad. The program suppliers are in many cases also the supplier of the information available about the market. (High)

Suppliers' ability to backward integrate: The ability of suppliers to backward integrate is in general plausible. However as is focused on the Dutch wealth management industry, the chance and ability to backward integrate is considered very low. (Low)

5.8.5 Competition from substitutes

The price a customer is willing to pay for a product or service depends, in part on the availability of substitute products. The absence of close substitutes for a product means that customers are comparatively insensitive to price. The existence of close substitutes means that customers will switch to substitutes in response to price increases for the product. So the extent to which substitutes depress prices and profits depends on the propensity of buyers to substitute between alternatives. This in turn, depends on their price performance characteristics. The more complex the product and the more difficult it is to discern performance difference. (R.M. Grant 1998).

Buyer propensity to substitute: Buyers have a high propensity to substitute among established players in the industry although the hassle causes slow response of clients switching. The market changes. This does not mean that newcomers cannot create an established name and offer respectable substitute products. In the next few years existent players will be most attractive but over time (+/- 5 years) this can change. Like Binck bank was also able to create a good reputation (Binck investors, 2016). (High)

Relative prices and performance of substitutes: Most wealth managers' performance levels are about the same levels of

return. The spread of costs charged, is not in wide ranges as well. This creates a high threat for the industry because newcomers can completely disrupt the market when better returns are achieved or when costs / price levels are highly decreased (Vermogensbeheervergelijking.nl, 2016). (High)

5.9 Conclusion about the level of attractiveness for entrants and the level of threats for established competitors and Private Bank X in particular

All forces together deliver the outcome of the industry attractiveness and potential profitability. For current established wealth managing players like BANK X Private Bank X, the main question is: 'Will they succeed in competing with companies already specifying in robo advice entering the wealth management industry?' One can never draw firm conclusions on a heuristics model, however with this model one can very well approximate the level of threat generated. According to table 8 the level of attractiveness for newcomers will mostly be determined on their ability to differentiate in order to attract clients of the established firms. By using different business models, structures and products. For the existent players, this directly is the biggest threat. The current established players in the industry and BANK X Private Bank X in particular, experience a moderate to high threat. This makes the industry less attractive for them. This conclusion is based on: 1) The moderate threat of entry. 2) The high threat of rivalry among established competitors. 3) The moderate to high threat of buyer power. 4) The moderate to low threat of supplier power. 5) The high threat of substitutes. All in all, despite the robust character of the industry, the attractiveness for newcomers is moderate to high, which indicates a moderate to high threat for the current established players in the industry.

6. STRATEGIC OPPORTUNITIES

In regard of optimization, the opportunities are within the internal process. In principle the wealth management structure of BANK X can be brought back to a structure of 3 concepts. 1) Investing yourself, 2) Investing together with the bank, 3) Let the bank invest for you. For the first concept no regular (human) advisor or robo advisor is needed since the client invests completely by him- or herself, the client only makes use of the programs the bank offers. For the other two concepts, there are now regular advisors. At the moment, for the private bank there is an automated portfolio manager for 'investing together with the bank' and 'let the bank do the investments for you' as well as there are regular advisors. For the retail bank there is an automated portfolio manager for 'investing together with the bank' and 'let the bank do the investments for you' as well as there are regular advisors. At the moment, for the private bank there is no robo investor available that can be used by clients as well as by the bank. There is a clear gap that could be filled in making sure the retail bank and the private bank both have a digital system that allows the bank as well as the client to use it. As mentioned before the pillars of BANK X are: Sustainable profitability, sustainable customer growth, innovation, processes and systems (simplify and improve), and leadership (pro-active mindset of personnel). The system that could fill this gap would preferably be one system that would run for the retail and the private bank. In this way it would highly contribute to the pillars in regard of innovation and simplified processes and systems, which in return should help the sustainable profitability and customer growth.

In regard of the industry analysis, newcomers must overcome many obstacles (like: regulations, distribution channels, marketing, attracting clients etc.) to get a place in the market

where they can compete with firms like BANK X Private Bank X. Many newcomers will not survive but BANK X has the power to supply newcomers with the resources (tangible and intangible assets) to overcome those obstacles. Philip Morris' strategy of acquiring anti-smoke campaign companies, is now guarantying for 20% of Philip Morris' profits (Ustinc, 2010). BANK X could acquire those high potential entrants, so they are not a threat but an opportunity for BANK X to conquer the industry. One should of course make sure the right people are attracted to make sure such acquisitions are adopted into the organization. But when executed in a right way, technological gaps could be filled and threats would be turned into opportunities.

In regard of solutions within the bank to keep making high profit margins there are market segmentation solutions. This research paper is written in regard of the top segment of the market. Private Bank X delivers as mentioned before services to high-net-worth individuals. According to the industry analysis, the threats in this wealth managing industry is becoming high. Private Bank X is part of a bigger organization BANK X . Which also delivers services to low-net-worth individuals. Not only at the top but also at the underside of the market is still a lot of profit to gain. BANK X lately launched a new financial housekeeping application called GRIP (BANK X, 2016). At the moment, this financial application gives clients more sight on their financial status and expenses. An opportunity for BANK X is to expand this application to a wealth manager for low-net-worth individuals. In this way, low-net-worth clients could for example acquire advice about saving or investing money via this application. For instance, to pay their children's tuition fee for college. In addition, such application can also use the opportunity to cross sell mortgages, loans or other financial products the bank offers. So this would be an alternative to cover potential losses of one department with potential profits of another department.

In perspective of product differentiation, there are many opportunities for BANK X. Most wealth management firms will more and more go to a digitalized way of advising. BANK X could also offer this digital form of advice however in addition still offer advice by human advisors as well. Newcomers could have the advantage of technological lead, BANK X has the advantage of experience in the business. There will always be clients that prefer a cup of coffee with their advisor instead of having a conversation with automated voice systems like Apple's SIRI. BANK X Private Bank X could do both, not only renewing systems but also just adding systems to increase the option pallet. A good example is the aircraft industry. People traveling by airplane have the safe feeling that pilots are steering the plane, although in reality, everything from take-off to landing is done by an automated pilot. These (real) pilots are only there to control the system. This creates a safe feeling for passengers. If the bank applies this to their investment banking department. The bank will need less (real) advisors. In this way the firm can cut personnel costs. Less workforce means less people that need to managed. In effect, the bank creates the opportunity to cancel out many layers of management. The organization will become flatter which decreases bureaucracy and increase the quality level of communication. In return these contribute to the pillars that indicate BANK X's success. An example of this improved, easier level of communication is the exceptional way the mobile payment application Tikkie was launched. Through direct communication with the highest level of management. Moreover, within every layer of the organigram of Bank X excluding the managing board, there have been conducted interviews. Every employee interviewed

(among them managers) confirm that there is place for automation within their department and that they see it as an improvement if the organization would be flatter. Which confirms the theory that (besides the must of innovating to stay competitive) the organization itself demands robotized and flatter structures as well. So if the banking industry will actually switch to an technology oriented business HR practices will be the main challenge (see implementation table 7). So, BANK X could renew systems but above all, add systems to their ongoing operations. As long as BANK X makes sure the client trusts BANK X's products, their employees and their company, the clients will keep coming back (Jordan Belfort 'Wolf of Wallstreet', 2013)

6. CONCLUSION

All outcomes, definitions and analyses like Porter's model are based only on the information available, which is always limited to a certain extent. Further, All forces considered, the industry is entering times of disruption, times were mostly technological, legal and Human resources developments will break or make a business. Times where specialists, analysts and techie's will have to rise up. An era where rivalry between established competitors will be high and where substitute products increase threats for current players in the industry. But the developments in the industry also offer opportunities where businesses can be optimized, and when used in a right way disruptions give opportunity to improve, differentiate and conquer the industry.

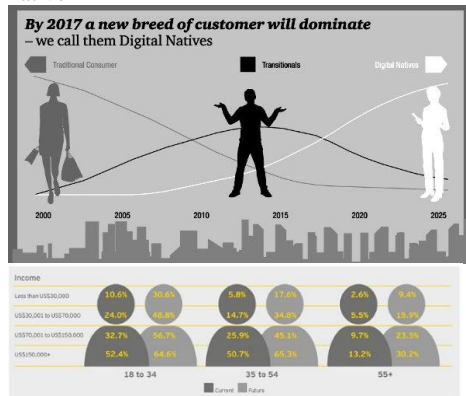
7. APPENDIX

Table 1, DEEPLIST-framework

1. Demographic factors

- Yearly rise of the number of FinTech start-ups
- There is a rise of mergers and acquisitions between corporates and start-ups
- The big companies participating in FinTech at the moment are: IBM, HP, Microsoft, Dell, Accenture
- The top innovative firms are: ShongAn Insurance, Oscar, Wealthfront, Qufengi.com, Funding Circle, Kreditech, Avant, Atom, Klarn and Ourcrowd
- The biggest Investors in FinTech are: Citi Ventures, JPMorgan, Case&Co, Goldman Sachs, Barclays, Morgan Stanley
- The banks most active in investment funds for FinTech start-tups are: Santander, HSBC, Sberbank, BBVA, Citi, Commerzbank, Barclays, Bank of Ireland, ABN AMRO, Deutsche Borse Group and UniCredit
- Start-ups with high potential (expected growth rate), to watch in 2016: Betterment, CommonBond, Orchard Platform, WePay, Kabbage, TransferWise, Meniga, Coinify
- USA has the highest activity in FinTech in the world however specialists say Europe has to follow quickly

- The best adaptors of FinTech services are millennials which are also mostly highly educated
- Need of mobility and service platforms could be explained by the fact that there will be more than 4.8 billion mobile phone users in the end of 2016
- Early stage (A,B) adaptors consists for 87% out of men and 13% out of women
- Later stage (C) adaptors consists for 88% out of women and 12% out of men
- The customer of the future will be a digital native



2. Economic factors

- Only for Start-ups there are collaborative government and financial services authority offering tax incentives.
- Total Global investment in FinTech was 50 billion between 2010 and 2015, in 2016, 26 billion has been spend already.
- Medium-sized firms face future funding problems
- In cyber security 860 million pounds has been invested only by the UK, more than 8 billion worldwide.
- There is a Shift in amount of jobs offered as well as the kind of jobs requested
- Local financial services can become global financial services due to subsidies given by governments because of the positive influence it has on a countries economy
- Where banks sometimes lack funds, companies like Apple and Google invest heavily in new financial services like ApplePay and Google Wallet which creates a shift in the current pay system
- Due to industry fragmentation profit margins are declining for banks
- Funds raised for FinTech services, 29% banking lending, 25% Payments Loyalty e-commerce, 17% securities wealth management, 15% financial healthcare tech, 10% Financial management solutions, 2% Insurtech, 2% Financial BPO
- Another big disruptor for banks in general will be Blockchain. At the moment, the bigger part of the profit generated by banks is profit through transactions. Blockchain is a system that can automatically do this in a safe and cheaper way. Banks will lose huge

amounts profit when this online system goes operational. This does not particularly affect the wealth management industry but it does have a huge effect on the banks in general. Since wealth management is a division of the general bank and this is a FinTech development, it is to be found highly worthy to mention. An opportunity would be to invest in Blockchain development companies.

- Due to increased regulations it is difficult for financial institutions and FinTech companies in particular to comply with the regulations since risk management processes are still fragmented and manual. Banks are aiming to avoid penalties coming from non-compliance regulations but since rules are changing fast, fines can take down institutions.
- Companies can (and will have to) save on operating costs by cutting down processing time of various activities and optimizing channel use

3. Environmental factors

- FinTech front runner hubs at the moment are New York, London, Singapore and Tel Aviv,
- Ecologically seen, FinTech developments have a positive influence on the environment because these services overtake services that cause higher environmental pollution
- FinTech hubs that are upcoming and are expected to be future frontrunners are Oslo, Amsterdam, Copenhagen, Stockholm and Helsinki
- Start-ups benefit from the increasing pressure on banks to grow their business capturing new segments of the market.
- Due to many traditional institutions and many start-ups in the financial technological market the quality of services develops fast, gaps like 'customer engagement' and 'tools related to PFM gamification' can be filled by entrants (specialist businesses), taking over niche markets.

4. Political factors

- Hot spots with governmental support in terms of tax subsidies, incentives, incubators, angel funding: London, New York city, Singapore, Hong Kong, Luxembourg, Berlin Amsterdam
- Privacy and safety issues created by technological developments cause new movements in political landscapes that can cause a change in regulations
- The financial technological industry fulfils the needs of the customers, which causes a very positive public opinion.

5. Legal factors

- Local policies do not allow quick cheap licenses for start-ups
- Companies will have to cope with local regulations like those of the AFM in the Netherlands as well as more and more specific broader regulations like those of the ESMA (European securities and Market Authority) in the European union
- Patents and licenses on inventions improve difficulties for late movers
- Increasing regulations like the Dodd-Frank Act, Volker Rule and Basel III, with stricter compliance requirements necessitating the need for more agile systems
- There is a consumer need for specific safety regulations in financial services to ensure safety of personal information and money.
- Internal systems and incorporate increased security measures need to be strengthened in the whole industry as well as for firms specific
- Digitalization trends in the industry cause a need of advanced authentications and secure access methods including adoption of biometrics
- Institutions like google, Facebook, apple use data in a commercial way, they sell user data to their clients, this does not fit the regulations of banks so financial supervisors will have a breaking effect on potential risk if companies like google, Facebook, and apple get into the banking industry. Which is a threat for those companies but an advantage for the current companies in the industry

6. Informational factors

- Current banks lack application program interfaces
- Due to cloud solutions, there are lower investment needs in hardware, software, and related manpower.
- Hybrid solutions and Cloud solutions will require security, privacy, performance, and regulatory requirements, the industry will thus need other expertise in financial data management
- Data access will become dependent on the availability to cloud access, the shift from tangible data to intangible databases moves towards online cloud data only
- Due to advanced analytics more personalized services can be provided but will also be required
- the need for information is higher than ever before, in order to deliver products that create a 'bestfit' as well as products that are attractive for clients, companies are leveraging advanced analytics to derive insights about customers and detect and mitigate risks. The need for big data analysis is greater than ever before to compete.
- Advanced analytics can enable to perform advanced tasks such as predictive analysis,

data mining, big data analytics, simulation, optimization and location based intelligence. Financial technological start-ups can now derive intelligence that directly affects their business strategy by analytics

7. Social factors

- Through mergers and acquisitions cultures of start-ups and mature companies do not match
- Customers' trust was lost in traditional institutions due to: High cost, slowness, lack of transparency, lack of good UX, no great mobile apps, bad customer service and the credit crisis.
- Because other applications that are not necessarily financial technological applications have very high user adaption, customers' expectations are creating a need for innovative products and services in the financial world too. 24% of overall new analytics initiatives are customer experience based
- Reasons why FinTech solutions were sought:
- Reasons for customers not using FinTech solutions



8. Technological factors

- The industry has a high rate of change due to direct major investments in research and development

- Further difficulties arise protecting intellectual properties in technological developments of firms
- Developments of technology goes faster than the access to technological solutions for customers
- Multiple groups have different stages of adaption (see demographics)
- User interfaces are still too much made out of companies' needs instead of customers' needs
- Smartphone applications are changing the way banking services are utilized by customers
- The current evolving industry experiences due to the competition for banks from non-banks, migration from archaic legacy systems to more agile architectures as new channels and products are introduced
- Disrupted ledger technology is expected to eliminate businesses' (banks in particular) need for managing multiple database reconciliation structures and enhance the transparency of transactions into the future, disrupted ledger allows for the distribution, verification, and recordkeeping of transaction information more effectively and quickly in a decentralized manner
- These informational developments create more data driven insights, however this also creates a dependency on data driven insights to formulate business strategy and make crucial decisions, along with enhancing risk management and compliance effectiveness
- The current spectrum of financial services exists mostly of: Transfers, Micro-/P2P-/P2B-lending, Crowdfunding, crowd investing, online trading and personal financial management. The three biggest rising are

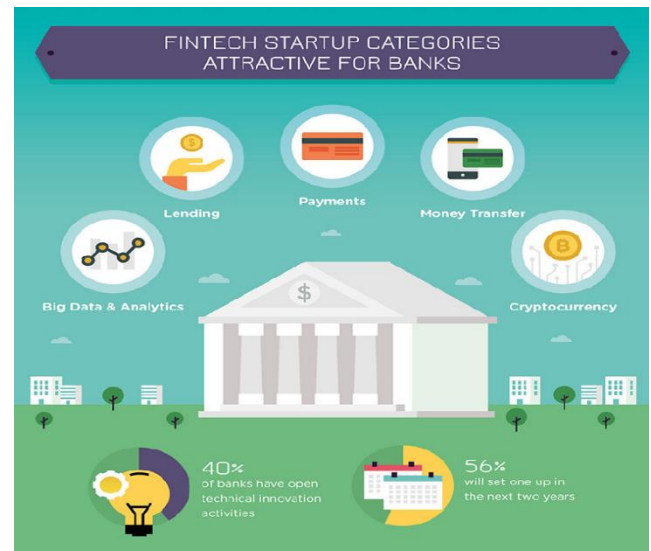


Table 2, The structural determinants of the five forces of competition

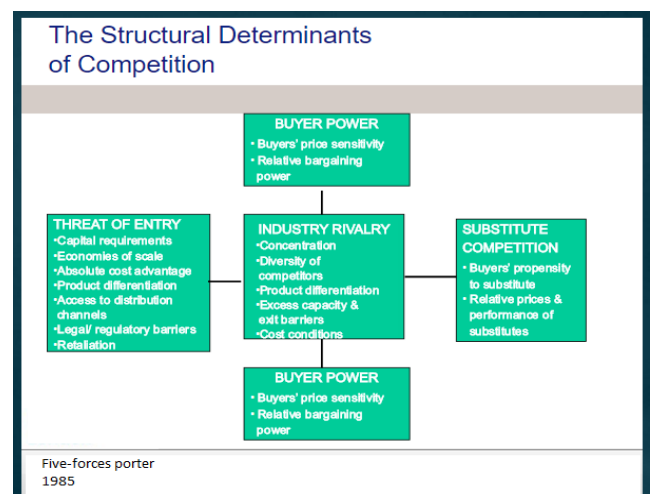


Table 3, Investment packages

Beleggingsvormen

| Beheer | (Private/Retail) | | | |
|--------|--------------------------------|--|--|---|
| | Advies | Comfort (Duurzaam) Beleggingsadvies (Private) (Triple A) | Actief Beleggingsadvies (Private) (Triple A) | Trading (Private/Retail) (Triple A / APM) |
| Zelf | Zelf Beleggen (Private/Retail) | | Zelf Beleggen Plus (Private/Retail) | |

Inspelen op Marktentwikkelingen





Table 4, The Dutch wealth managers in world ranking on amount of assets managed.

| | | |
|----------------------------|--------------|------|
| 41 | ING | 416 |
| 45 | APG | 389 |
| 49 | Rabobank | 341 |
| 73 | Aegon | 224 |
| 99 | PGGM | 147 |
| 128 | Mn Services | 99 |
| 174 | SNS | 55 |
| 238 | Delta Lloyd | 32 |
| 252 | Van Lanschot | 30 |
| Totaal (miljarden dollars) | | 1733 |

Source (FTM 2011)

Table 5, Market share division fund houses

NN Investment Partners
 Robeco
 Aegon
 BlackRock
 Delta Lloyd Asset Management
 Actiam
 ABN Amro
 BNP Paribas Investment Partners
 Kempen
 Achmea
 Other non-Dutch
 Other Dutch

Source: AF Advisors

Table 6, Cumulative profit

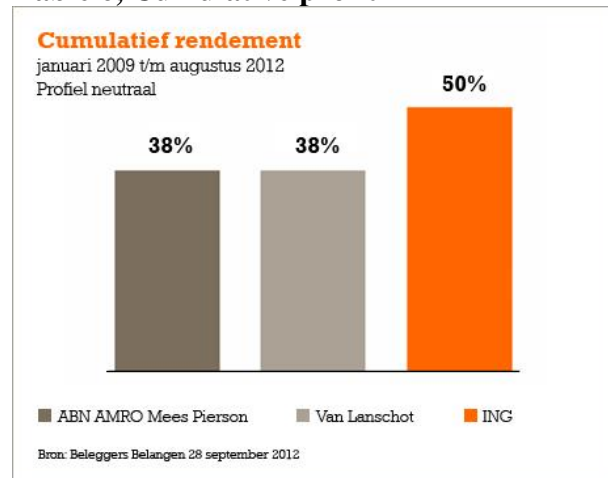


Table 7, Additional HR implementation consult

An organization exists out of people, those people have a certain function. In this function a person does a certain practice, wants a certain practice and has a certain behaviour in the practice. Every aspect will have to change into the direction of the new company. A known way to investigate the capacity of personnel to change is to rank a person's overall capacity on a scale from 'one' to 'five'. Every person needs to be investigated by what their abilities are, what their willingness to change is, and what their capacity to change into the new function is. The key people ranking a 'four' or 'five' will need to be rewarded and the people ranking a 'one' must be released. For people ranked with a 'two' or 'three' the management will have to decide if it is worth re-educating them or if it is better to release them and recruit a new workforce. For the Key people, the benefits could be improved because they need to be the motivated pillars in the translation to the new organization. In general, in the translation, people under 35 years old are safe, they can easily adapt to new organizational behaviour and structures. People above 55 years old are safe because they will just make it to their pension. The major ethical problem for the management, considers the people between 35 years old and 55 years old, in practice they will not easily adapt in the translation. Which causes that many people of that age group will be released within the bank, and will not easily find new jobs, like the pilots mentioned earlier (Charles Darwin theory). As the specialist (mentioned before) expect, there will be three major job groups in banking: specialists, analysts and techies. To keep those people in the firm and to recruit people fitting those categories, BANK X should improve their employee experience. Which means the facilities at the bank for the personnel should improve, so work is not only experienced as work but it feels like it is the employee's life. This can be done by fulfilling peoples' life needs (Maslow pyramid). For example, organizing events, so employees are mixing private life and work life, which can result in people having their friends at work, so they want to go to work. This improves the productivity of the key employees in an organization. In these times of change the organizational culture will completely change, new leaders will rise and IT, HR and Compliance will be the core of the translation to survive in times of disruptive elements like financial technology (4000 jobs that will be automated Deloitte UK and Michael Osborne and Carl Frey Oxford University's Martin School, 2015).

Table 8, Porter's five forces analysis

| Force | Indicator | Explanation / Data | Level of Threat | Source |
|---|---|---|-----------------|---------|
| Threat of entry | Capital requirements | Starting a wealth management firm requires high capital. To compete on the level of the main players in the industry, a firm needs even more capital because of the high costs of services, infrastructure and governmental requirements. Only to reach the breakeven point, tens to hundreds of millions of euros are needed (GlobeNewswire, 2016), assuming average industry fees. Entrants would need powerful investors and high subsidies. | Low | 1 |
| Threat of entry | Economies of Scale | Due to the scale advantages held by the current main players in the Dutch wealth management industry, entrants would experience a disadvantage because of having higher fixed costs for providing the same service as competitors. For entrants gaining many customers will be problematic, this is mainly due to the hassle of switching from bank (ACM, 2016). | Low | 2 |
| Threat of entry | Absolute cost advantages | Opportunities in providing services with absolute cost advantages are huge. Technology oriented companies, like Google, Facebook and Apple but also smaller entrants, possess the advantage of technological knowledge, patents and intellectual property rights (Oxford University & World Bank, 2017). Patents on innovative technology could be a very high threat for current players in the industry (Wall Street Journal, 2016). In this way, entrants could provide more or better services with lower expenses than competitors. | High | 3&4 |
| Threat of entry | Product differentiation | The differentiation of a product that a wealth manager offers is essential to a customer, the upcoming generation clients that choose for a wealth manager because of its product choice is bigger as now before (Financial Times, 2016). The automated product services that some banks offer are one of the main reasons customers chose for the bank as wealth manager. Now, third-ups, smaller banks and bigger investors in the industry (e.g. Google, Facebook, and Apple), are developing tools that move and more approach the level of a fully integrated advice. These systems are already replacing real (human) advisors. Which is one of the main reasons smaller firms enter the industry with digitized advice systems having the main advantage of digital efficiency and intellectual property rights. | High | 3 |
| Threat of entry | Access to distribution | The path through which the service provided by banks arrives to the customer is easy accessible, this is mostly done digitally by a platform or a mail or by multiple. | High | |
| Threat of entry | Government and legal barriers | Legal barriers are very high due to the extensive as well as European guidelines and laws. In general the government is supporting technological developments which would make it easier for entrants but the governmental policies to operate as wealth managers become more higher since the crisis of 2007 (ESMA, 2016). | Low | 4 |
| Threat of entry | Customer loyalty | Clients tend to be moderately loyal to their firms, although many clients are not very satisfied with the services provided, the number of clients switching is low. But if they are switching, they prefer to switch among established names in the industry (in the short run <5%), (in the long run >5%), newcomers can achieve a fruitful status which increases the chances of clients switching. High amounts of clients directly switching to newcomers in the industry is unlikely (ACM, 2016). | Moderate | 5 |
| Threat of entry | Line of Exit | Lack of capital and infrastructure or not meeting legal demands, would suggest an exit. Serving high amounts of clients does not ethically make it easy to exit (ABN AMRO, 2006) (Outmaneuvering current players that failed). When demands are not met, and the relative new firm is not 'too big to fail', an exit will be rather efficient. | Moderate | 6 |
| Threat of entry | Industry profitability | Industry profit levels are still approximately 20% lower than pre-crisis levels. But 46% of the people working at investment or wealth managing firms still think the industry is very attractive for the profits (Oliver Wyman for the 2017 Morgan, 2014). | High | 9 |
| Threat of entry | Elimination by established producers | Established players in the industry are taking technological developments and newcomers very serious, the chances for them to enter without being in scope is almost impossible. Existing players will do everything to keep their place in the market, more than 70 billion was spent in 2014 and 2015 by established players on FinTech (Accenture, 2016). | Low | 10 |
| rivalry between established competitors | Concentration | The current major players in private banking in the Netherlands at random order are Van Lanschot Bankiers, Banque de Bruxelles, Rabobank Private Banking, Quilès Private Banking, Quilès Family Office and ABN AMRO Private Banking (Van Hare CM, 2011). Further there is Bank and Alnus and Alnus for 'exclusive only' clients (Eendmans, 2011). Private member there is via ABN AMRO (Jenkinson) is the biggest Private bank in the Netherlands with a market share of 11-20% (INGInvestment, 2016). | Low | 11 & 12 |
| rivalry between established competitors | Diversity of competitors | The current wealth management industry in the Netherlands tends to have a monopolistic competition. Monopolistic is having the largest market share in the Netherlands. The closest competitors have a significant market share as well which is a moderate pressure for ABN AMRO. This diversity seems mainly to come from the entry fee, the service differentiation and the degree of integrated digitization which is among most banks around and about the same levels (Vermogensbeheer.nl, 2016). | Moderate | 13 |
| rivalry between established competitors | Product differentiation | Clients always want the best and thus chose for premium products. If a company is able to offer these premium products, they are very high due to the extensive as well as European guidelines and laws. In general the government is supporting technological developments which would make it easier for entrants but the governmental policies to operate as wealth managers become more higher since the crisis of 2007 (ESMA, 2016). | High | 14 |
| rivalry between established competitors | Excess capacity and exit barriers | There are many 'newcomers' in the industry in such a way that, too many product services are offered causing too few buyers. A subsequent excess, with intense competition, price wars and company failures. This would mainly be an issue for the industry. For the firms the cost of product relative to total cost is not a high cost to exit. | High | |
| rivalry between established competitors | Cost conditions | Fixed fees asked by all the established wealth managers are around and about 0.5% of the invested capital per year. The variable fees mostly depend on the clients' activities to buy or sell derivatives frequently (Vermogensbeheer.nl, 2016). Clients have a relative low cost of switching between competitors. A few banks like Rabobank even offer a free switching service (Rabobank, 2016). | High | 15&16 |
| Buyer power | Cost of product relative to total cost | There is a moderate pressure for ABN AMRO. This diversity seems mainly to come from the entry fee, the service differentiation and the degree of integrated digitization which is among most banks around and about the same levels (Vermogensbeheer.nl, 2016). | Moderate | |
| Buyer power | Product differentiation | There already is a broad palette of products available in the industry, nevertheless differentiation is still possible mostly technological differentiation and cost-price differentiation. | High | |
| Buyer power | Competition between buyers | There are many 'newcomers' in the industry, according to officials some buyers ask price concessions. In reality, this is hardly given because of the strict competition rules. | Low | |
| Buyer power | Size and concentration of buyers relative to producers | At the moment, it seems like there is a balanced supply and demand (no proof) | Low | |
| Buyer power | Buyers' switching costs | Clients have a relative low cost of switching between competitors. A few banks like Rabobank even offer a free switching service (Rabobank, 2016). | Moderate | 17 |
| Buyer power | Buyers' information | Firms like Monnet have made information available (Monnet, 2016). | High | 18 |
| Buyer power | Buyers' ability to backward integrate | Backwards integration would not be applicable, buyers could start managing wealth themselves but will always need the technology which is among most banks around and about the same levels (Vermogensbeheer.nl, 2016). | Low | |
| Supplier power | Cost of product relative to total cost | According to officials, digital analysis tools and managers are the major cost however are necessary for operations. An increase in those costs would have a big negative effect on profit. These costs are mostly fixed, in long term agreements because fluctuations would otherwise directly affect the cost business. | Moderate | |
| Supplier power | Product differentiation | There are not many suppliers to choose from but the services most used (Deutsche and Bloomberg) suffice. Suppliers could disrupt the market of analysis tools only in favor of the wealth management industry (The Banker, 2017). | Low | 19 |
| Supplier power | Competition between suppliers | Competition between suppliers is high although there are only two big players that take the greater market share (analysis programs). Bloomberg takes 37% market share and Reuters takes 24% which is together the greater part of the market (The Banker, 2017). The rest is divided among smaller providers. This results in a moderate threat. Technology companies experience a moderate level of competition, they keep each other in balance. | Moderate | 20 |
| Supplier power | Size and concentration of suppliers relative to producers | As mentioned before there are only a few big suppliers, however there is enough competition to create a balanced market. | Moderate | |
| Supplier power | Suppliers' switching costs | The actual cost of switching between suppliers is not a very high, nevertheless, because contracts with suppliers working are mostly long term. Active switches would dramatically increase cost levels. Moreover, the employees working at wealth managing firms get used to working with a certain program. When it is switched to another program, they need to be educated which creates a high cost to exit. | High | |
| Supplier power | Suppliers' information | The information suppliers possess is very broad. The program suppliers are in many cases also the supplier of the information available. | High | |
| Supplier power | Suppliers' ability to backward integrate | The ability of suppliers to backward integrate is in general plausible. However as is focused on the Dutch wealth management industry, the chance and ability to backward integrate is considered very low. | Low | |
| Competition from substitutes | Buyers propensity to substitute | Buyers have a high propensity to substitute among established players in the industry although the banks cause less response of clients switching. The market changes. This does not mean that newcomers cannot create an established status in the industry. In the last few years, existing players will be the most attractive but over time (2-3 years) this can change. Like Bank bank was also able to create a good reputation (Bank, investors, 2016). | High | 21 |
| Competition from substitutes | Relative prices and performance of substitutes | Most wealth managers' performance levels are about the same levels of return. The spread of costs charged, is not in wide ranges as well. This creates a high threat for the industry because newcomers can completely disrupt the market when better returns are achieved or when costs - price levels are higher decreased (Vermogensbeheer.nl, 2016). | High | 22 |

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