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The Golden Key to Digital Wealth Management
Executive Summary

Wealth Management is in the early stages of digitization, with multiple innovations being launched by Fintech Startups, Financial Institutions, and Internet Platforms. The golden key to Digital Wealth Management will belong to the platforms that integrate customer needs by providing relevant, customized, and compliant insights and tools.

Digital Wealth Management is in a nascent phase, compared to innovations in Payments and Consumer Banking. However the same forces that drove these innovations – 24/7 digital delivery, compliance, contextual relevance and transparency on fees – are now also driving changes in Digital Wealth Management.

In this White Paper we describe the early days of Digital Wealth Management innovation coming from Fintech Startups, Financial Institutions, and Internet Platforms. We are currently in the phase when many of these new services focus on being better or cheaper or faster by doing one thing and only one thing; the startup mantra is that focus wins.

During the next phase, we foresee a movement towards integration to provide a more holistic and customer centric service. These separate services will be integrated onto platforms by using Open APIs and customer centric user experience design. These integrated platforms are the ones that will hold the golden key that will unlock value in Digital Wealth Management.
Introduction

Digitization of Wealth Management is happening at different speeds in the three regions, U.S., Europe, and Asia. In developed markets, there is pressure to change business practices because of low cost competitors and in the underserved emerging markets, new business practices are being implemented with few legacy constraints. Three very different types of companies compete to win customers - Fintech Startups, Financial Institutions and Internet Platforms.

We define wealth broadly as any amount of capital (small or large) that is allocated to financial assets. A significant part of Digital Wealth Management innovation targets people who have been excluded from traditional Wealth Management businesses because the amounts they have to invest are too small for the economics of traditional Wealth Management to work (referred to as the unadvised).

The core existing Wealth Management business subsector is not yet seeing a lot of this disruption because the traditional High Net Worth client (mostly older, living in America and Europe) is not demanding so much change, but this is just the normal trajectory of disruptive change that comes first from those excluded from the old way of doing things. However, even in this core market the demographic time bomb (when the wealth transfers to the digital native next generation) is ticking and there is a lot of debate on the optimal strategy to prepare for this.

These trends are driving the transformation for service providers in the Wealth Management business including brokers & dealers, investment banks, asset managers, private banks, retail and commercial banks, exchanges, and the entire world supporting these service providers (e.g. research, custody & compliance).

In this White Paper we look at the main drivers of the digitization trend, originating from increasing regulation and from changing customer expectations. The resulting innovations are classified in three main Wealth Management clusters:

- New tools for research, risk management, trade processing, compliance and reporting.
- New business models offering better, faster, cheaper variants of existing services in investment management and brokerage.
- New marketplaces, new managers, and new financial products that are changing the way capital and risk are allocated.
Customer - and Regulatory - driven Transformation

Digitally savvy end-customers are the new cross-generational norm across all geographic regions. They have already driven change in consumer banking and now they are driving change in Wealth Management. One can see breakdowns by age, sex, geography and other cohort analysis and this nuance matters for specific campaigns, but the big picture is that we all live on mobile devices that are connected 24/7 and this changes customer behavior and expectation.

There is a domino effect in play that starts from the end-user expectations and travels through the B2B2C value chain. End-customer expectations are shaping up new business practices for those serving them. A customer centric approach is replacing a product centric approach.

There are four main end-customer expectations driving change:

- **Digital** and 24/7 delivery of services
- **Compliant** and user-friendly service
- **Content** that is customized and relevant
- **Transparent** fees and performance data

Digital and 24/7 is a broad trend that is universally affecting all financial services. Wealth Management has no choice but to respond and adapt to this universal driver. The need for digital and 24/7 does NOT exclude the need for human-delivered service and much of the innovation includes an appropriate mix of automation and personal service. Digital and 24/7 is the core driver that enables innovators to meet other expectation drivers:

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Digital & 24/7

Customized & Relevant               Transparent investment               Compliant & user friendly
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The second driver, compliant but still user-friendly, relates to the multiple fast-changing regulations around capital markets and investments. Wealth Management is one of the most heavily regulated financial services sectors. End-customers have to be compliant within their tax-residency jurisdiction but also to be cross-border compliant as a global trader/investor. The entire life cycle of a customer relationship, all the way from onboarding to serving the client, is affected by the expectation of a seamless but compliant service. Customers expect an army of compliance officers working for them personally.

The third driver, customized and relevant content, originates from the democratization of services that were previously only available to Institutions and Ultra HNW Family Offices. Customers expect a tailored service to create wealth that is designed based on their personal investment objectives, life stage, risk profile, location and compliance jurisdiction. They expect access to thorough and relevant investment insights for all asset classes and geographies.

"Customers expect an army of financial analysts working for them personally."
The fourth driver, transparent fees and performance data, also relates to the democratization of services and originates from the fact that customers expect higher investment returns by paying lower fees and having online, real-time access to investment performance. Customers increasingly will not tolerate hidden fees and want to be able to monitor their risk/return net of fees; in many jurisdictions this is now the regulatory baseline. Customers expect full disclosure of compensation for all those involved in producing investment products.

Luckily technology can replace the need for most of these armies of financial analysts, risk managers, and compliance officers. Technology is an enabler for all these customer needs, provided that those involved in the value chain adapt their services and, in some cases, change their business model.

The advisory model, for example, is already challenged due to the low cost offering of the first generation of Robo Advisors; this impacts the fee & performance transparency expectations. At the same time, financial advisors have tremendous opportunities to re-bundle and integrate the fragmented, best of breed Fintech offerings to meet the new customer needs and expectations.

Keeping the end-customer engaged through any of the digital channels is pushing financial professionals to broaden their offering to serve the diverse needs of end-users (research, execution, risk management, passive & active investing, beta, smart beta and alpha).

Technology is enabling such integration through Open APIs and the democratization of proprietary tools that can now be delivered via the cloud to a mobile device. This is creating new sources of value that we describe in the “Three clusters of Digital Wealth Management innovation”.

This reordering of the value chain is also driven by the partnerships amongst the three innovators: Fintech Startups, Financial Institutions, and Internet Platforms. The combination of fast-paced innovation launched by Fintech Startups (or from intrapreneurial subsidiaries of financial institutions that operate like startups) and the scale of Internet platforms is shaping the next wave of Digital Wealth Management.

“The Fintech Convergence will result in platforms that are serving end users in a better, faster, and cheaper way.”

These partnerships also blur the lines between a Fintech startup that grew up and became regulated and a Bank that became more digitized and automated. This is what we call the Fintech Convergence. You can start from Fin or you can start from Tech, the destination will be a platform service that is better, faster and cheaper for end users.

“Keep your existing customers on your service” is the motto of the platform providers that are shaping this wave of Digital Wealth Management. These platforms grow by enabling cross selling of diverse services. Their vision is a one-stop shop that enabled the integration of all customer needs on one platform through an ecosystem of service providers.

Compliance, historically viewed only as a cost, is becoming a source of top line growth by reducing friction in the on-boarding process.

Although Wealth Management is in the early stages of digitization, the transformation is accelerating because Wealth Management can leverage earlier Fintech innovation in other verticals such as payments and brokerage as well as in underlying technology such as cloud, open source, big data, Artificial Intelligence, API and Chatbots.

Digitization is also beginning to blur the lines between retail bankers, private bankers, asset managers, brokers, family offices and self-directed investors. End users increasingly use all financial products and all investment strategies and want to be served at the same point of sale. The same individual can be passive and active, conservative and opportunistic, long-term and short-term, conservative and innovative - often on the same day. Customer-centric thinking does not pigeonhole people into pre-defined product categories. As a result, we are heading towards an integration of capital markets that will focus on serving the demanding expectations of an increasingly tech savvy and tech empowered end user. The Wealth Management business, using a complex global capital markets infrastructure, faces a critical integration challenge.
Three Clusters of Innovation

We classify the innovation into three clusters:

**New tools** is a cluster including all the tech enabled capabilities for investment research, risk management, trade processing, compliance and reporting. These tools can serve any of the market players at the B2B level - Fintech Startups, Financial Institutions, and Internet Platforms - and some seek to serve end users directly.

**New business models in investing and brokerage** that are partly commoditizing the advisory, asset management, and execution process by offering better, faster, cheaper variants of existing services.

**New marketplaces, new managers and new financial products** are challenging how and where capital and risk is allocated. This results in the creation of new value chains, network effects, and new distribution channels. Capital markets are being transformed.

All innovations are forcing the various stakeholders in the Wealth Management space to offer more value to their customers for less! All innovations are benefiting primarily the end customers. These innovations are travelling from one region to another, as bridges are being built between regional hubs. Fintech is a global trend. An innovation that starts in Europe may move and be adapted in Asia or vice versa. Service providers everywhere are under pressure and in some cases, threat. At the same time, they are presented with new opportunities.

New Tools

Welcome to a world that is offering new, cheaper, digital 24/7 tools for professionals (asset managers, financial advisors, etc.) and end-users (DIY traders/retail investors):

Analysis of financial data and text, from a Siri-style service is available for investors, analysts and traders globally. **Kensho** is a U.S. based startup that impresses users by the simplicity with which one can phrase a complex inquiry and receive a quick and comprehensive answer (#AskKensho example: What is the effect of populist votes such as Brexit, historically on the local currency?). Kensho for individuals can be accessed through a subscription-based service [CNBC PRO](https://www.cnbc.com/subscribe/) (in partnership with CNBC).

Not your grandpa's stock screener, **CapitalCube**, offers real-time fundamental analysis for more than 50,000 global equities and ETFs for users to discover or validate investment ideas in multiple countries. In addition to all real time financial ratios, subscribers can screen by Valuation Characteristics, Growth Expectations, Dividend Quality, Accounting Quality, Corporate actions, and other criteria. **Advise Only** is an Italian Fintech that is democratizing the space by offering retail risk management and investment tools that were only available to HNW investors.

Alpha generation from unstructured non-financial data, is another area of focus of early stage Fintechs. **Sentifi**, is a Swiss startup with a global presence that leverages an artificial intelligence algorithm, parsing millions of unstructured data and financial market voices on the Internet, to assist in making better financial decisions via a freemium service. They offer different products (myMarkets for individuals; myPublishing for media, myCompany for stakeholders). **Acuity Trading**, is a UK based company offering widgets (the Radial Gauge) with sentiment data, plug & play integrations to trading platforms and bespoke solutions that are visual early alert systems. **Yukka Lab**, is German based, and targets retail active traders and professionals, with three products: SentiTrade, Senticomm, Portofolio Simulator.

We also see even more tools with a B2B focus (selling to financial Institutions) as well as B2B2C ventures that work through channel partnerships. Big Tech firms are also active in this vertical market.
For example, Salesforce, the cloud pioneer, has moved into the Wealth Management vertical and has been offering software suites for professionals to lower their Customer Acquisition Cost.

**Scaled Risk** is a French startup offering real time risk management, trade analytics, and fraud detection on the cloud. It is aiming to be the next generation software solution for managing financial institutions of any size by leveraging Big Data algorithms. **Fincite**, is a German Fintech with a full stack offering, starting from account aggregation, to asset allocation and rebalancing. Fincite’s offering is modular and contextual so that financial service providers using it can design customized solutions for their clients.

**Investglass** out of Switzerland, has built a full stack offering from on-boarding clients, to customized and contextualized asset management, all the way to compliant reporting, by using AI and robotic process automation. **BondIT**, is a platform out of Israel focused on fixed income markets, from building portfolios, optimizing holdings and analytics. **Prophis Technologies**, is a UK based big data company; leveraging graphic database technology to create dependency graphs, offering new and timely insights from structured data. **AlgoDynamix**, is another UK based Fintech democratizing forecasting and risk management. **Qumram**, a global startup of Swiss origin, solves the internal digital accountability and transparency problem for financial institutions; this is a subscription based offering for risk managers and compliance that is already used by UBS. **Suade** and **FundsApp** are next generation Regtech platforms. Suade is leveraging big data analytics for real-time compliance management and FundsApp, is focused on automating shareholder disclosure requirements.

**ExtractAlpha** (Asia) is an example of integration and unlocking value through multiple partnerships with both incumbents and Fintechs in all three regions (America, Europe & Middle East, and Asia). They offer institutional investors unique, actionable global data sets and quantitative equity models. **ExtractAlpha** curates data from TipRanks (ranking anyone providing financial recommendations – Middle East), **Estimize** (crowd sourcing earnings estimates - U.S.), **Factset** (incumbent focused on data and analytics - U.S.), **EidoSearch** (Fintech for predictive analytics; also in partnership with StockTwits - Americas), **AlphaSense** (intelligent financial information research engine), **AlphaLetters** (quantitative research - US), **TIMGroup** (platform for investment software and analytics - UK).

**New business models in investing & brokerage**

Online brokerage was the ‘90s disruptor in Wealth Management and now it is being disrupted by freemium brokerage services, such as **Robinhood** in the U.S., **iDealing** in Europe and **8 Securities** in Japan. Digitization of Wealth Management makes the standalone brokerage business increasingly unsustainable. Brokerage businesses are reinventing themselves by integrating additional capabilities into their “execution only” services, such as investment discovery tools for long-term investors, DIY tools for traders, and a variety of cross-selling financial services for customers. Revenue sharing partnerships are being formed and platforms are emerging that enable the integration of multiple services in the Wealth Management value chain via Open APIs.

“Brokerage businesses are being reinvented by integrating investment discovery tools and a variety of cross-selling financial services”

Robinhood has already expanded to Asia through a partnership with Baidu that allows them to tap into this mass market of Chinese citizens without having to get Chinese government approval. Their UK launch is still pending. **iDealing** is the European startup offering zero commission execution for stocks for Euronext and advancing the “race to zero prices for execution”. **Degiro**, who is active in 17 European countries already, is offering institutional level execution prices to retail.

More traditional global brokerage businesses that are reinventing themselves are Interactive Brokers (from America) and Saxo Bank (from Europe). Interactive Brokers acquired **Covestor**, a next generation Robo Advisor that offers clients access to managers (rather than ETFs) and separate managed accounts capabilities. Saxo Bank has launched **Saxo Select**, another next generation Robo Advisor, through collaboration with Blackrock, and has launched an OpenAPI that is available on the programmable web. Recently, they also launched an online trading platform for bonds, offering online access to retail in an asset class traditionally inaccessible. In Europe, **BinckBank** a Dutch online broker acquired in March 2017 one of the larger (in terms of AUM) European robo-advisor startups, **Pritle**. This is the first M&A move in the space.
The U.S. has undoubtedly led the first wave of Robo Advisors, with standalone startups like Betterment, Wealthfront and Personal Capital that have reached noticeable scale and are now integrating other Fintech services towards a broader financial services offering. Wealthfront, for example, the second largest standalone Robo Advisor, has integrated into their new dashboard the digital wallet, Venmo, the real estate agency, Redfin, the lending marketplace, Lending Club, and the digital currency exchange, Coinbase. Betterment has partnered with Uber to offer drivers a savings and IRA service.

The partnership trend and the enhancement with additional services, continues to permeate the sector with retail banks, private banks, investment banks, investment firms, and financial advisors, adapting to this new business model in different ways. ING Diba in Germany partnered with EasyFolio, a German Robo Advisor, offering three basic portfolios, easyfolio30, 50 or 70. ING, a second round disruptor in online banking, has also launched its own Robo Advisory service in France, Coach Epargne, which is a smartphone app, personalizing financial advice from budget and savings decision-making all the way to basic financial asset investing. ING Spain and Poland also have their own versions of such online offerings. Chebanca, the Italian digital retail bank launched by incumbent investment bank MedioBanca, has also added a Robo Advisor service, YellowAdvice. Skandiabanken Norway’s first digital-only challenger bank has partnered with Quantfolio, a Nordic Fintech, that offers Machine learning-based investment advice and portfolio construction.

This is more evidence that platforms are integrating multiple services for end-customers, with the aim to become a one-stop shop. All these low cost passive asset allocation offerings, now coined “first generation Robo Advisors” became more mainstream when Vanguard, Charles Schwab and Blackrock stepped into the market. Europe and Asia are following the US lead albeit with a lag. Currently in Europe there are 64 Robo Advisor startups, close to a third are in Germany and a smaller group based in the UK. Customer acquisitions costs (CAC) remain high and scaling Robo Advisors has proved challenging. In Europe, only 7 out of the 64 startups have crossed the €100m in AUM. These are CheBanca (Italy), FeelCapital (Spain), Moneyfarm (Italy, UK), Nutmeg (UK), Scalable Capital (GE, UK) and Prite (NL – recently acquired).

Next generation Robo Advisors are those allocating investments not only to ETFs, but also to other asset classes (e.g. stocks, mutual funds, private equity) and are focused on risk management for re-balancing rather than basic MPT (Modern Portfolio Theory). These businesses may also allow for partly discretionary management (i.e. 100% auto asset allocation) and partly DIY (non-discretionary management) and some offer limited human advisor capabilities.

Hedgeable is probably the first U.S. Robo Advisor to offer equity crowdfunding (in partnership with CircleUP) and investing in Bitcoin. They have recently, opened up their API on the Programmable Web. Scalable Capital is a German next generation Robo Advisor that was also launched in the UK offering basic asset allocation services and separately managed accounts, using a risk management driven process. Descartes Finance is a Swiss platform that selects investment strategies through partnerships and offers a platform for portfolio management for DIY mass affluent investors. Alpima, a UK based Fintech, offers a subscription based service to customized rule-based investing. Personalized strategies, modular architecture, high-end risk management at a fourth of the usual cost. WealthObjects is a UK Fintech, aiming to capture the B2B market by offering modules to build customized robo-advisor solutions.

We foresee that the next-generation Robo Advisors will continue to enhance their value proposition. Platforms will offer more flexibility in Wealth Management (partly passive, partly active), broaden their asset offerings and eventually integrate more services to cover additional customer financial needs ranging from basic consumer banking functions, to the more sophisticated wealth creation tools and services. Much like brokers, aren’t “execution only” anymore, financial advisors, aren’t only for HNW. Technology is being used as an enabler for the reshaping of financial services. We are seeing early evidence of platforms integrating customer needs, through partnerships and revenue sharing. APIs will be broadly used as connectors of additional customer-centric services. Account aggregation is just one example, in personal financial management and wealth management, that will be widely adopted especially as PSD2 becomes a reality. Ewise, out of Switzerland, is one European player positioned in this space.

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“Partnerships of all sorts are creating customer centric platforms.”

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“Next generation Wealth Management services are launched and the Open API platform approach has been initiated.”
The Golden Key to Digital Wealth Management

New Marketplaces and Managers and Financial Products

The emergence of platforms continues in areas beyond brokerage and traditional investing (e.g. public equities, corporate bonds, mutual funds and ETFs).

Marketplace Lending platforms are the most well known example of new marketplaces. Lending Club and OnDeck in the U.S. are publicly traded platforms and SoFi, looks like a unicorn in the sector as it is growing through vertical integration into a neon bank². Globally there are thousands of lending platforms with various offerings, consumer, business, invoice financing, payday, student etc. Europe may not be leading the marketplace lending space in terms of size, but it is leading in terms of listed investment vehicles (e.g. Funding Circle Income Fund (FCIF), GLI Alt Fin (GLAF), P2P Global investments (P2P)) and self-regulatory industry associations³. The UK P2P finance association has been instrumental in the European space; Funding Circle, Zopa, Ratesetter, and ThinCats are a few of the members. Favorable tax treatment of P2P loans in the UK, has been the key towards P2P loans becoming a mainstream asset class. Lending on any of these platforms is becoming a high yielding, short duration investment alternative for retail and for financial advisors or wealth managers to consider in their fixed income allocations. The secondary market is also developing with tools for managing P2P loan portfolios, comparisons and education and awareness initiatives: OrcaMoney, Orchard Platform, FundingXchange.

We are also seeing banks partnering with these new marketplaces to cross-sell their services to the bank clients. A couple of examples of such integrations are: (a) Metro Bank in the UK that has partnered with Zopa to lend out its deposits; (b) PostFinance in Switzerland, in partnership with the lending marketplace, Lendico, out of Berlin; to serve their Swiss corporate client needs; (c) ING and Kabbage for SME lending in Europe.

In the mortgage sector, we are also seeing disruption originating from the US and currently spreading over to Europe. Jungo is Dutch startup looking to disrupt the mortgage market. Habito is a digital mortgage broker out of the UK with an AI chatbot for advice. Atom Bank, the UK challenger bank, will be spending its recent 100mil funding round towards a “Residential Mortgage” button that promises to be: “Spreading the Atom magic, available through mortgage brokers very soon”.

Switching from fixed-income marketplaces to private equity marketplaces, where there is regulatory driven innovation starting to happen. The traditionally opaque private equity markets are starting to be disrupted. This trend is democratizing access to private markets that clearly offer value to equity investors, especially as the trend for corporations to stay private becomes the new norm. The U.S. is leading the democratization in this area, by passing legislation that opens up the access to invest in these markets, through the JOBS ACT, Title III. Angel List and CircleUP, are two U.S. Fintechs disrupting the traditional VC model and opening up the opaqueness of the market. In Europe, we mention SyndicateRoom offering co-investing opportunities with business angles in the UK, Investiere democratizing access to Swiss startups and Crowdhouse.ch democratizing the Swiss real estate market. At the same time, a more avant-garde (for the moment) disruption is emerging in funding early ventures and offering liquidity to investors. The ICO (Initial Coin Offerings) market are paving the way towards Capital Markets 2.0 by allowing early stage ventures to crowdfunding their projects on the Blockchain with the issuance of tokens that can subsequently be traded⁴.

“P2P loans can be an alternative investment in the fixed income part of your portfolio.”

“The democratization of the traditionally opaque private equity investing has started.”

"More detail in The vertical integration of SoFi has the core entry point right! - Dailyfintech SoFi buying Zenbanx either signals the first Mega NeoBank or a unicorn losing the plot - Dailyfintech"

"More detail in A little bit of P2P is all I need - Mambo in Lending - Dailyfintech"

"More details in Briefing on Colored Coins - IPO, ICO, IEO - DailyFintech"
Lending and equity crowdfunding marketplaces are creating new investment alternatives. At the same time, social trading platforms are allowing a new breed of asset managers to obtain a performance track record and offer alpha performance at a lower cost than traditional hedge fund or other active managers.

Etoro, ZuluTrade, Darwinex, are a few examples of European origin social trading platforms that were launched with a focus in the FX markets but have moved into equities and options. Whether the next Soros will emerge from such platforms is yet to be seen. Wikifolio is an equity thematic marketplace, based out of Austria that facilitates the process of issuing and listing a thematic structured product. Quantopian, out of the US, has a unique positioning as the first crowd sourced hedge fund created by filtering investment algorithms and funding those selected in one hedge fund vehicle. All these platforms, are challenging the traditional selection process of asset managers.

Disruption is threatening traditional financial service providers (loan originators, asset managers, VCs) but at the same time, creating new possibilities in terms of financial products and distribution channels.

Conclusion – Towards Integration

Digitization of Wealth Management is happening and although it is scattered, we are starting to see bridges built between Fintechs or between established financial service providers and Fintechs, and tech companies and Fintechs.

There is a domino effect in play that starts from the end user expectations and travels through the B2B2C value chain. End-customer expectations are shaping up new business practices for those serving them. A customer centric approach will gradually be replacing a product centric approach. Fintechs are solving one problem at a time and by doing so they are offering a significantly better, faster and cheaper service in one single domain. Customers however, need a more integrated service.

Now the challenge for financial institutions with an established customer base, is to offer better, faster, cheaper plus a more integrated service. This has become possible through the cloud, mobile, and APIs. Incumbents are well placed to win this race because of their existing outreach, but Fintech scale-ups are competing fiercely.

The golden key to Digital Wealth Management will belong to the platforms that integrate all customer needs by providing relevant, customized, and compliant insights and tools.

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