# Where startups are leading, traditional banks are rushing to catch-up

*The fintech ‘revolution’ has sometimes seemed to promise more than it could realistically be expected to deliver. In part this could be claimed to be inevitable, given the vast expectations placed onto the sector right from its very inception.*

Temps de lecture : minute

---

*4 November 2020*

Whilst the notion that the extreme turmoil of 2008 would lead in short order to a wholesale restructuring of global financial markets and institutions seems implausible today, there can be no doubt that the entrance of a host of disruptive and technologically-savvy startups has had and is currently having a major impact on the way financial services are produced and consumed.

Nowhere is this truer than in the field of wealth management, where many fintech startups have built up a commanding lead over their larger, more cumbersome rivals. Not one of the banking sectors most visible offerings, wealth management services have traditionally been a relatively minor part of large financial groups offerings and have been targeted almost exclusively towards high net worth individuals.

Whilst there are several competing criteria to judge who meets the bar to be considered a high net worth individual, a generally accepted measure is someone with at least $1M in liquid assets. Wealth management therefore revolves around designing bespoke investment strategies for members of this group and charging lucrative fees for their efforts.

# When markets are volatile, which way do you turn?

One unintended consequence of the regulatory reforms that followed the 2008 crisis was the intensification of the pre-existing dichotomy between financial strategies that thrive on risk, and those that thrive on stability. The post-crash regulatory requirement for banks to hold more capital to act as a buffer against potential losses from another downturn did serve the desired effect of nudging them away from riskier strategies and back towards more traditional and long-term stable revenue sources.

However, with interest rates at record lows and still showing little sign of recovering to pre-crisis levels, banks have been forced to seek new sources of income. Whilst there are investment strategies championed by a number of high-profile macro hedge funds like Brevan Howard that actively seek out volatility as the backdrop against which they argue they can best outperform the market, most investors, and therefore most investment service providers, prefer a little more stability and predictability to their returns.

In this context, the sometimes overlooked field of wealth management was quickly identified as a key potential driver of revenue growth. In fact, almost all the mainstream banks are currently keen to diversify into this sector or to grow their existing offering. In order to do so, they often have to learn lessons from the fintech startups who have quickly gained market share and brand recognition here.

# The fintech recipe for success in wealth management

The great draw of wealth management from the banks POV is the stable revenue streams that can be gained from managing client’s wealth. These are seen as infinitely preferable to much more volatile revenue streams from trading activities (where the investment banks would have looked for growth opportunities in the past), or more cyclically-exposed revenues from traditional lending (where the retail banks have seen their margins so brutally squeezed). As such, wealth management is rapidly becoming one of the most competitive areas of finance, with everyone from major investment banks to established names from the high-street, and of course a plethora of fintech startups, actively competing on both price and non-price terms.

## There are three main reasons the fintechs are currently leading the mainstream banks in attracting new wealth management business

1. With significantly lower overheads than established banks, the first advantage startups have is in affordability. By undercutting the often exorbitant fees charged by their larger competitors, several fintechs have been able to gain significant market share and are thus starting to achieve the kind of brand recognition essential for continuing this growth trajectory. The best example of this is London-based investment provider Moneybox, which recently passed the symbolic threshold of having 400,000 customers active on their platform. Founded in 2015, Moneybox secured £30M in new funding back in June, 2020, which will allow the firm to continue tailoring the service they provide primarily via their app to the needs of their expanding client base.

2. In addition to simply offering broadly comparable services at a lower cost, many startups follow-up this advantage by combining it with a USP allowing them to unlock some corner of the market harder to reach for the big banks. For example, a market segment who have

traditionally been underserved for wealth management advice has been those below the threshold to be considered as high net worth, who none-the-less may have non-trivial amounts of money to invest and may be willing to pay fees for reliable, applicable and data-driven advice such as that available from Moneybox and others. In fact, something of a desperate scramble is underway amongst the established banks to reposition themselves to sell wealth management services to young professional types who may have tens of thousands rather than millions to invest. With this in mind, Morgan Stanley recently completed the purchase of both Eaton Vance, a US-based assets manager, and online low-fee brokerage ETrade in a series of moves designed to better position the Wall Street firm to attract exactly the kind of sub-high net worth individuals it had previously overlooked. The success of this repositioning is still to be seen, and Morgan Stanley's share price didn't jump dramatically when these two deals were closed within days of each other, suggesting a certain degree of scepticism about this venture has already been priced in.

3. Finally, and perhaps most obviously, the fintechs often have the lead in terms of the technology that they bring to bear on the problem in hand. This serves to emphasise that transparency of fees and ease of access, which have been hailed as the democratisation of investment advice, are not the end of the advantages enjoyed by fintechs in this sector. So-called robo-advisors, where financial advice is dispensed online with minimal human interaction, have succeeded in gaining public trust quicker than might have been anticipated, and are again showing that there is appetite for financial advice derived from the operation of an algorithm, or occasionally an AI system, that will analyse your needs and wants and provide structured recommendations. Enjoying a public profile on a similar level to Moneybox, Nutmeg has been one of the UK startup sector's big successes here, and by marrying robo-advice to an easily accessible

online trading platform Nutmeg has emphasised how the fintech approach to wealth management is not merely a tweak or alteration to the traditional model, but a whole new product-experience aimed at a generation of digital natives confident to transact the majority of their financial dealings online.

## Competition or concentration?

As such, wealth management has come to represent a large and growing market, increasingly important within financial services in general, where fintechs are leading and bigger banks are following. However, it is still an open question whether the medium to long-term dynamic of the market will more closely resemble competition or concentration. Of note in this regard are two recent examples: the acquisition by insurance giant Aviva of Cardiff-based AI wealth management startup Wealthify, and the move to majority ownership of Third Financial, a fast-growing investment platform and software provider, by technology investor, Grafton Capital. For the established financial institutions, the quickest way to expand their capabilities in low-fee wealth management is to go out and buy a startup or an SME who is already doing it really well. More M&A activity of this type is therefore to be expected over the coming quarters and years; the main driver is the perennially present but increasingly pressing need to secure steady revenue streams amidst market volatility, and that imperative is unlikely to go away anytime soon.


À lire aussi

Where next for European fintech after the Wirecard debacle?

---

Article écrit par Oli Weiss