Wealth management, why the time for fintechs is now

Fintech has changed how we transact, from digital payments and cross-border transfers to market-stall traders taking card, it has revolutionised the world in uncountable ways. Everything from proptech platforms to personal investment portals, they are all fintechs, they manage money - quickly, cheaply and efficiently.

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Yet, fintech VC investment is slowing. According to the *State of Fintech 2022 Report*, global fintech investment activity declined steadily throughout 2022, dropping by 46% from 2021.

For any startup entering the game today a big purpose & vision isn’t enough, and they need to also have a very clear niche and customers waiting; from earning funding to growing their user base, it’s a difficult world out there. So where do the golden opportunities lie? My view is most certainly wealth and asset management. Unlike the wider banking sector, wealth and asset management have been relatively slow to embrace digital transformation. But our industry can’t wait any longer; customers are changing fast, demanding new approaches that risk leaving existing incumbents behind.

Underserved and misunderstood

The wealth landscape is shifting. By 2030, Gen X and Millennials will hold a greater share of global wealth than Baby Boomers, and it’s creating major waves because these generations are frustrated with how things are being done. They don’t see themselves, their values, or their needs reflected by the private bankers, or wealth advisors who dealt with their parents and grandparents. They feel either excluded or, even worse, patronised, especially when they show an interest in digital assets like crypto and NFTs. This group is also heavily influenced by social media where a new breed of financial advisor connects with them in a completely different way.

Not only have wealthy Gen X and Millennials been largely ignored, they are being forced into a system never built for their needs or values. With the democratisation of investment, the established order looks even more outdated. Fintechs have the power to rewrite the rules and realign the system for the individual investor, serving mass affluent investors, HNWIs and UHNWIs.

Integration and impact

Wealth managers aren’t used to considering the customer from an end-to-end perspective. Firms focus on what happens once investors come on board rather than exploring the bigger picture. If they looked at the entire journey, they would see it increasingly starts with self-directed investment, even the wealthiest clients are attracted to the accessibility and flexibility of platforms like eToro and Nutmeg. eToro reached 20 million active users and generated $1.2B in revenue in 2021, underscoring the benefits of giving customers what they want when they want it and adapting as needs change.

When younger investors do eventually get approached and onboarded by IFAs, they are on multiple different platforms, so there is a lack of integration from day one and holistic view of their overall wealth portfolio. Unlike sectors such as healthcare and retail, there is no continuation of experience in the wealth management journey. The need for integration also links back to investors wanting their personal preferences and values reflected. They want to invest with more purpose and have sustainability integrated into their portfolios instead of everything being handled separately and pieced together by different departments using different tools.

Fintechs can play a big part in developing a more holistic approach. Just like Apple Health created a digital front door for health and wellness, while Revolut did the same for personal finance, there is the same potential (and urgency) here. Ultimately they have the power to create a new model where investors, independently of their size, are the drivers of their own wealth journey, rather than just a mere passenger in it, as they've been so far.

And it doesn’t stop there - the digital front door is the foundation for so much more. Once we have a unified view of information, we go from segregated data across multiple feeds to having a much bigger wealth and asset management data repository. Investors of all ages want to be in control of their data and see how it's being used, opening up avenues for fintechs in data management, analysis, investment, and even trading. It will allow us to explore AI in exciting ways and use correlations from the past to manage risk in the future. It also paves the way for an ecosystem environment combining best-in-class products, where IFAs are free to work with multiple wealth management providers, almost like an app store, where each product is just a “Lego” brick which can be combined to create a completely personalised solution and experience.

Playing to win

Opportunities are rife for fintech startups, but what’s the secret sauce to success? Firstly, they need to think ahead and outside of the box. Digital-only is not enough; they need to be digital-first, connecting with customers where they actually are, not where they want them to be. Then concentrate on execution. It doesn’t pay to go too big too soon, much better to stay laser focused and agile, getting the product out there fast and course correct if necessary. It’s about attracting people and evolving with their feedback; build with the customer, not for the customer.

The second essential component is discipline. Many startups fail because of a lack of discipline and governance. Yes, agility is important. However, that doesn’t mean forgetting the rules of good business. Having a strong disciplined team is also essential. While AI will result in leaner workforces, ChatGPT and co shouldn’t replace core management. It’s wise to choose people with different strengths and skills – one pragmatic, one creative, and one visionary, for example.

Partnerships are key to successful innovation and growth. No one can change the world alone, even the corporate giants; there are plenty of examples of those who have tried and failed. Startups should look for existing ecosystems and networks, where they can collaborate and learn with other innovators, and connect with customers and other financial institutions quickly.

When it comes to reaching the customer, companies must be very clear about who they are targeting as opposed to trying to be everything to everyone. If it’s a B2C concept, social media and influencers are having a real impact on the industry.

So much has changed in the wealth management sphere already, and we’re just seeing the tip of the iceberg, and fintech startups are perfectly placed to take advantage of that. We need innovative ideas and entrants to disrupt the established paradigm and rebuild trust with today’s clients for a stronger, more sustainable and socially responsible economy.

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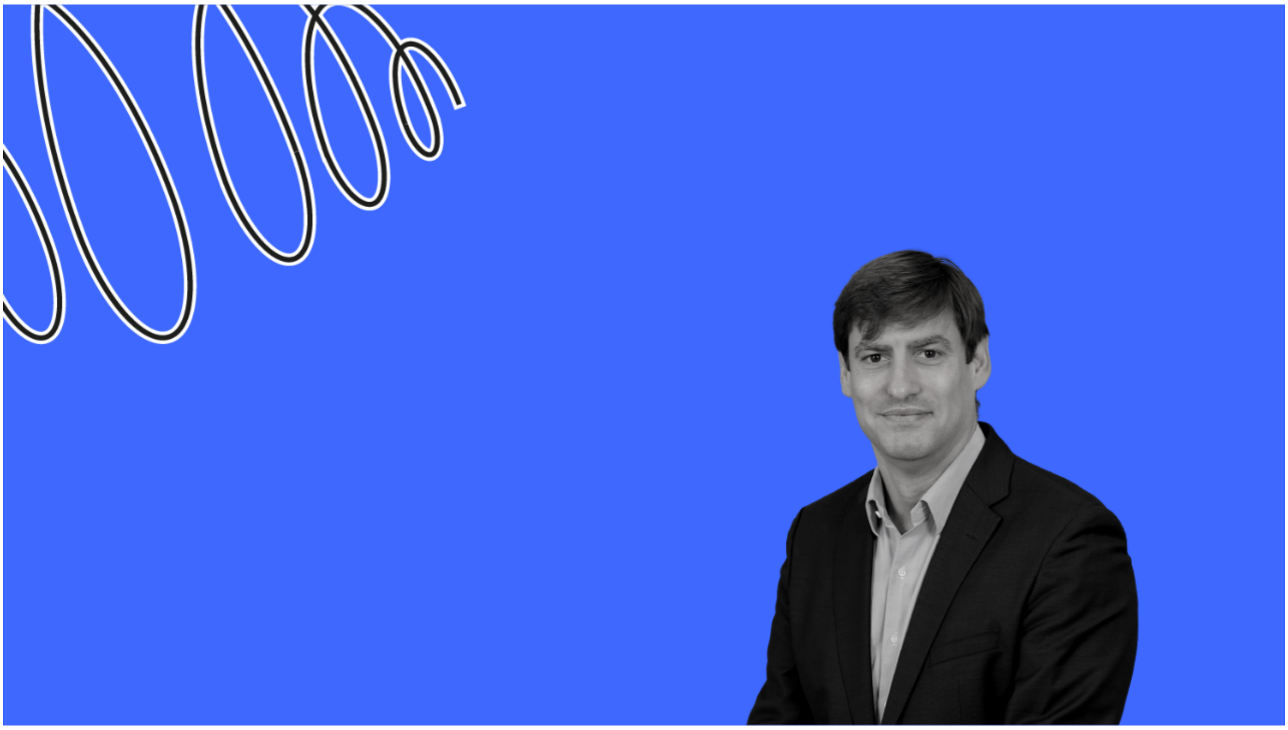

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