Building a Vibrant WealthTech Ecosystem in 2020 (and Beyond)

By **Vijay Rajendran**
Head of Corporatre Innovation and Partnerships, 500 startups

and **Katrina Vassell**
Corporate Innovation and Parnerships, 500 Startups

Vijay Rajendran

Vijay is an innovation leader and technology investor with a history of advising global companies, coaching startups, developing new markets and creating innovative products and services, especially in those industries disrupted by digital. Vijay has expertise in Innovation Strategy, Corporate Venture Capital, International Business Strategy, and Design Thinking. He previously served as Director of New Ventures at BBVA and is a multi-time founder. Vijay has experience working across a number of industries including financial services, energy, power, mobility, eCommerce, and CPG; as both a founder and management consultant. He holds an MBA and an MS in Foreign Service from Georgetown University and a Bachelor of Science from Boston University.

Katrina Vassell

Katrina has experience advising global institutions on the application of emerging technologies in the financial services space. Previously she served as a product strategist and consultant at Ernst and Young, where she designed and tested the viability of digital products and business models. She holds a Bachelor of Science in Business Administration from Georgetown University's McDonough School of Business.

Building a Vibrant WealthTech Ecosystem in 2020 (and Beyond)

By **Vijay Rajendran**
Head of Corporatre Innovation and Partnerships, 500 startups

and **Katrina Vassell**
Corporate Innovation and Parnerships, 500 Startups

WealthTech ecosystems from Silicon Valley to New York and Geneva have spurred innovation by connecting companies, startups, investors, and external partners across the globe. At 500 Startups we anticipate that incumbent wealth managers will have an increasingly outsized role to play in startup ecosystems, particularly in the WealthTech space given the trends on our radar.

WHAT IS WEALTHTECH?

A combination of the words wealth and technology, WealthTech falls under the broader umbrella of financial technology (FinTech). WealthTech involves the application of digital solutions to improve wealth management and investing throughout the value chain.

At 500 Startups, we increasingly see WealthTech as digital solutions unbundling the private bank. In addition to digitizing existing offerings such as investment management and advisory, new technologies are improving the customer experience beyond its digital interface and re-bundling solutions around holistic value propositions.

Advancements in artificial intelligence, machine learning, quantum computing and more are enabling new capabilities for wealth managers and their clients. For example, artificial intelligence and machine learning once used to detect fraud can be used to automatically manage spending and budgeting. Quantum computing can power investments in high return alternative assets ranging from private equity to real estate, venture capital, and even art.

Integrated account views can help wealth managers gain more holistic views of their clients to offer relevant and timely services.

While the culture of wealth management has been traditionally risk averse, wealth managers must uplift their technology to meet elevated customer expectations. By working with rather than against new entrants, wealth managers can bolster their expertise with the technical capabilities required to provide unparalleled insights to clients.

WHAT IS A WEALTHTECH ECOSYSTEM?

Any startup ecosystem is comprised of startups, corporates, governments, investors, and others collaborating to drive technological innovation and economic development. Along these lines, a WealthTech ecosystem is made of WealthTech startups and relevant stakeholders bringing new technology to the traditional wealth management space.

In a thriving WealthTech ecosystem, coordination and aligning incentives creates value for all participants:

- **Startups** can gain access to funding and new markets, uncovering innovative products and services that disrupt industries, accelerate progress, and attract self-sustaining cycles of investments
- **Corporates** can learn about new technologies and uncover complementary capabilities with startups to modernize their offerings
- **Governments and foundations** can forge resilient connective tissue between other ecosystem players to achieve impact-focused goals that help a local community, city, or region achieve intergenerational prosperity
- **Investors** can gain strategic and economic benefits by investing in startups with empowered founders and access to markets

Leveraging a WealthTech Ecosystem to Navigate the Wealth Management Landscape
By engaging across a WealthTech ecosystem, both traditional wealth management firms and startups can better navigate today's industry trends, from shifting customer preferences to new regulatory hurdles.

CATERING TO SHIFTING CUSTOMER PREFERENCES

In the coming years, an estimated $30 trillion or more of wealth will be passed from Baby Boomers to their heirs, mainly Millennials. With this shift in wealth comes a shift in goals, motivations, and values.[1] For example, two-thirds of millennials view their investment decisions as a way to express social, political, or environmental values.[2] Disruptors like Betterment and Wealthsimple have reacted with a range of socially responsible investment (SRI) options to appeal to values-driven millennial investors.

At 500 Startups we have invested in Ethic, a tech-driven asset manager that powers the creation of sustainable investment portfolios. Ethic helps family offices, health advisers, and endowment foundations provide customized insights to clients on sustainability issues they care about while meeting financial goals. We see wealth managers leveraging technology to adapt their clients' investment needs to meet socially responsible criteria.

ADDRESSING REGULATORY HURDLES

On a global scale, the wealth management industry is becoming more regulated. Governments are advocating for transparency in compliance through new regulations such as the United States' Foreign Account Tax Compliance Act, the UK's offshore investments Reporting Funds Status (RFS), MiFID II, the European Union's General Data Protection Regulation (GDPR) and more. Standards have also increased in privacy policy, data management, and cybersecurity.

Since the global financial crisis of 2008, banks have developed internal policies and procedures to meet changing regulatory standards and are in a position to help WealthTech partners meet new demands. Both legacy banks and WealthTech startups can benefit from the support and guidance of governments in adapting policies and procedures to regulatory standards.

ALLEVIATING MARGIN PRESSURE

The race for transparency along with increased competition have led wealth managers to

1 *https://www.pwc.ch/en/publications/2018/new-ecosystens-in-wealth-management.pdf*

2 *https://www.pwc.ch/en/publications/2018/new-ecosystens-in-wealth-management.pdf*

offer passive investment management and automated solutions at lower costs. The 2018 FA Insight Study, which surveyed nearly 400 established wealth management firms, revealed that average profit margins in 2017 were 19.7%, down from 24.4% in 2016.[3]

Meanwhile, robo-advisors and other WealthTech startups have developed algorithmic systems to assess customer risk profiles and offer new products and investment strategies at competitive rates. Some robo-advisors like Albert, a 500 Startups portfolio company, even mimic the human interaction of financial advisors. Albert connects users with financial guidance from an artificial intelligence program nicknamed Albert Genius, which is built to offer suggestions on how to manage finances.

While new entrants in the WealthTech space threaten incumbents by offering lower-cost services, they also bring exciting opportunities for collaboration. To compete with new entrants and automate traditional services at scale, banks are collaborating with technology startups through various means:

- **Acquisitions:** Banks are acquiring WealthTech startups to access new markets and bolster their technology. Recently Goldman Sachs acquired United Capital for the technology infrastructure to service mass-market customers with a net worth between $1 million and $15 million.[4]

- **Partnerships:** Banks can also partner with WealthTech startups to increase margins without the capital commitment of an acquisition or investment. For example, Wells Fargo started collaborating with SigFig in 2016 for customers to use the robo-adviser's technology and wealth management investment tools.[5]

- **Strategic Investments**: Strategic investments are another path for banks to learn and benefit from disruptive technologies. BlackRock has invested in Robo-advisors (e.g. Scalable Capital) since June 2017.[6]

KEYS TO A VIBRANT STARTUP ECOSYSTEM

Today's wealth managers need to continually earn and justify their fees with performance and unique client insights. By building a strong WealthTech ecosystem, banks can learn

3 *https://www.forbes.com/sites/gauravsharma/2018/01/15/mifid-ii-will-put-pressure-asset-managers-fees-and-increase-competition/#6a4b2df7ab0f*

4 *https://citywireusa.com/registered-investment-advisor/news/five-burning-questions-about-goldman-sachs-post-750m-united-deal/a1234326*

5 *https://www.reuters.com/article/us-wells-fargo-technology-exclusive-idUSKBN13A1YB*

6 *https://s3-eu-west-1.amazonaws.com/drake-blog-content/wp-content/uploads/2016/09/21113915/DrakeStar-Partners-2019-WealthTech-Report.pdf*

about shifting consumer preferences, better navigate regulatory hurdles, and incorporate new technologies to operate at scale. Meanwhile, startups can gain access to expertise, capital, and markets, which corporations are increasingly in a position to offer. At 500 Startups we anticipate that the symbiotic partnership between new ventures and corporates will contribute to the success of WealthTech ecosystems across the globe, benefiting governments, investors, and the community as a whole.

What is holding the Wealth Management industry back? The culture of wealth management has traditionally been risk-averse and slower to adopt new technologies. Shifting consumer expectations will rewrite the prerequisites for competition, pressuring wealth managers to adopt digital solutions and transparent pricing structures. Wealth managers need to work together and invest or partner with startups to bring new capabilities such as digital user experiences and sophisticated tools for investment that cannot be found elsewhere. The future of WealthTech depends on not just a few big banks setting the standards, but on the most trusted names in the industry adopting and integrating new products, services, and business models.