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INDUSTRY INTERFACE

TOP FINTECH PREDICTIONS:

What the Future Looks Like

Researchers, influencers and academics from across the fintech and wealth management space came together for Apex Clearing's inaugural Industry Interface roundtable to discuss the ongoing digital transformation of financial services. Here are key takeaways, insights and analysis as well as what these insiders predict will define the industry and separate the winners from the losers moving forward.

"The goal of this roundtable was to find out what is working and what is not for modern investors and how to drive true disruption of the industry going forward."

— **Bill Capuzzi,** CEO, Apex Clearing

From mobile banking apps to robo-advisors and peer-to-peer lenders, the ongoing fintech revolution of the financial sector has radically transformed the nature of the relationship between financial organizations and consumers. The industry is still in the early innings of this shift, as disruptors in the space are increasingly launching new products and services with NextGen and digitally-oriented consumers in mind.

Over the next decade and beyond, innovation and emerging technologies such as artificial intelligence, machine learning and virtual reality will continue to reshape the financial services landscape. This transformation will continue to make the act of managing finances more convenient, engaging and impactful for end consumers while creating new opportunities for tech startups and forward-looking asset and wealth managers.

Traditional financial firms that resist change and fail or refuse to embrace technology amid this backdrop will come under significant pressure. These firms stand to miss out on new business opportunities and, even worse, may lose the clients they have.

These were among some of the top predictions made at Apex Clearing's inaugural Industry Interface roundtable.

Researchers, influencers and academics from across the fintech and wealth management space discussed the current state of the industry and what the future looks like.

"The door of opportunity is wide open for fintech firms and solution-focused entrepreneurs to transform this industry with emerging and new technologies,"

said **Ron Fiske**,
Managing Director,
Beacon Strategies, LLC and
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"There was a consensus that technology will be very impactful – especially in wealth management over the next five years," said **Gavan Corr**, Co-Founder, Qarik Group. "However, [there is] a lot of diversity of opinion about which technologies would enforce that change and which areas of the business would be changed the most."

According to the roundtable, the largest trend currently transforming the industry is the convergence of traditional financial services activities and banking. In fact, many firms are now providing as comprehensive an offering as available to investors with the hopes of them having no need for a local bank at all. This window into investing, earnings and spending offers a unique perspective on an investor's financial health and wellness, giving firms the inside track into becoming the primary source of wealth management for these types of investors.

Here are the other top predictions for the future of the industry, as well as the underlying opportunities and likely winners and losers to come from each.

Outsourcing and Acquiring Innovation: Smaller Firms Driving Change

As firms grow, innovation becomes much more difficult. The demand for human and capital resources to support existing businesses often overwhelms any emerging innovation that may be generated within the firm.

And since the demand to become ever more efficient seemingly never ends, much of the capital allocated within large private and public firms tends to focus on existing process improvements, versus paradigm shifts and new product capabilities. Not to mention, public companies are mostly driven by quarterly earnings cycles. This being the case, large public companies will not likely be the source of large-scale innovation within wealth management and fintech.

"We all come from different backgrounds, but we are all aligned on the fact that we need to innovate – we need to adopt disruptive technologies and better serve our customers,"

said **Lindsay Davis,**
Senior Intelligence Analyst,
CB Insights.

Given this reality, the larger legacy financial firms pivoting to keep up with the industry are increasingly outsourcing innovation. This makes sense, given that even tech leaders like Amazon, Apple, Google and Microsoft over time began outsourcing as they became too big to innovate.

Smaller firms, which are unencumbered by existing legacy operations, are capable of both imagining new products and capabilities and can focus time and money towards making these new products a reality. As a result, larger firms tend to buy firms like this to build out their new product and capability pipeline.

Strategic partnerships are also being used by traditional firms as a way to keep up with the pace of the industry's disruption. Other models that allow larger firms to fill innovation gaps include licensing, white labeling capabilities and digital solutions.

These key trends are already reshaping the industry and will continue to do so. In addition to meeting the market demands of digital consumers, it is leveling the playing field for up-and-coming product and tech-focused entrepreneurs. Meanwhile, many consumers have no knowledge of these relationships between the front-facing brand that they engage with and the back-end technology and data provider.

Traditional Wealth Management is Dying: Here's Why

"One purpose of our roundtable was to determine the top challenges facing all of us and figure out the right solutions to bring to the table," said **Hannah Grove,** Chief Marketing Officer, PEAK6, Apex Clearing.

Complacency is slowly killing off traditional wealth management firms. A heavy emphasis on increasing AUM and basis point fees in an environment where market appreciation (rather than organic growth) has resulted in growth has made it easy for many firms to opt for cruise control. A new interest in financial wellness, where advisors work with clients on their complete financial scenario across numerous disciplines, is also challenging the legacy model where all roads lead to professional money management, typically a simpler, less diversified business.

This is one likely result of advisor and end-client demographics that are working against the industry. According to global consultant Simon-Kucher & Partners, the advisory profession has an average age of 55+ (and rising), with one-fifth of practitioners aged 65 or older, and their typical client is a Baby Boomer, aged 64.

In fact, the demographic wave of retirements that is expected to hit the financial advisor profession is profound, with up to 40% of advisors expected to retire over the next decade. There is no proven pathway to recruit, in large numbers, the next generation of advisors into the profession, which has led to much consternation.

The other major demographic challenge facing the industry has received much less scrutiny. According to our recent white paper, The Next Digital Divide: The Role of NextGen in Valuing Advisory Practices, the lack of younger clients being serviced by today's investment advisory firms will have a negative effect on their valuations in the coming decade. Advisors will need to focus on NextGen investors if they want to maintain or grow their practice going forward.

The Solutions: What Modern Consumers Want

Signals continue to emerge that clients want to have a more active role in shaping their financial experience. One example is the growing trend of impact investing which allows investors to have input into how their money is deployed.

However, many advisors have shown reluctance to embrace a more collaborative role in portfolio construction and management. This is evidenced by low-to-no utilization of collaborative tools embedded in many applications, including financial planning applications.

Asset managers of the future must learn that offering a digital experience is not just about attracting millennials and younger clients. Employing a flexible approach and dealing with clients in the way they want to be dealt with is critical to maximizing the engagement and driving loyalty among investors in the coming decade.

Smartphones and the use of omnichannel support in retail have attuned users of all ages and wealth levels to customization, convenience and self-service models. These are already priorities for today's biggest fintech disruptors and will be what defines the industry and separates the winners from the losers moving forward.

Digital engagement and coaching are the right approaches to acquire NextGen clients and build loyal long-term relationships. Fintech applications are taking the lead from social networking platforms in an effort to create and nurture a sense of community among its client base.

New offerings in digital wealth management are already pushing the envelope on how frictionless a client experience can be. And the desire for frictionless processing will, over time, further remove barriers between wealth management firms and banks and other financial providers, including insurance firms helping to make the goal of financial wellness a reality.

However, this won't diminish the role of the advisor, but instead it will continue to enhance it further.

When we connect these dots, it is clear that the wealth management firms that survive into the future will be the ones that focus less on deploying products and more on delivering experiences, advice and overall financial wellness.

"At the University of Michigan, we have done a lot of research [on consumer] interaction with new technology, particularly automation—and results consistently show us that people still prefer the human touch,"

said **Andrew Wu,**
Faculty Director, Michigan Ross Fintech Initiative and Assistant Professor of Technology and Operations and Finance, Michigan Ross School of Business.

Fintech Revolution: Winners and Losers

"This roundtable, which brought us all together to focus on trends, opportunities, winners and losers in the industry, enabled us to generate some new ideas and new thoughts,"
said **Craig Iskowitz**, CEO and Founder, Ezra Group, LLC.

Over the next five years, we expect to see a dramatic shift of the entire wealth management space as the pace of the fintech disruption intensifies.

Some likely winners will include wealth management firms that embrace a cross-channel approach to customer engagement. It is no coincidence that the largest digital and robo capabilities are provided by the largest wealth management and asset management firms. These firms have begun to incorporate their digital direct-to-consumer offerings into a continuum of offerings that range across much of the net worth and behavioral spectrum of end investors.

And, of course, another winner will be the tech providers who build and provide these solutions to traditional and other young firms. The top priority for these companies is enabling their clients to provide the most secure, seamless, fast and engaging experiences to consumers. These solutions can help entrepreneurs bring new ideas to life, as well as catapult promising early-stage startups to a new level.

Other expected winners will include data owners, as one of the most significant trends in the coming decade will be the ability to leverage all the various financial data that exists into creating a better client experience. The ability to predict behavior based on this data is the next generation of predictive analytics and will become an integral part of financial services offerings. This will allow wealth management firms to recommend more tailored courses of action to investors, based on their actual and future needs.

What may hold back this new product delivery are issues around data privacy. These issues are forefront in Europe and, increasingly, states like California that are enacting laws surrounding data and what firms may do with the client data they capture.

On the other end of the spectrum, many of today's business models will likely become obsolete within the next decade as new technologies emerge and new disruptors enter the market. Asset and wealth managers who refuse to innovate or upgrade their offerings can expect to lose their client appeal.

The one-size-fits-all model will also likely see its last day in the years ahead, as it is already becoming a thing of the past. The same goes for companies that choose volume over specialization. These companies that overextend and attempt to service both large and small clients will likely struggle to survive during the continued digital transformation of the space.