Cooperation is the Emerging Wealthtech Trend

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As we close 2019, it is clear that wealthtech is continuing to gain momentum within the industry. According to Pitchbook, for full-year 2018, wealthtech funding reached a high of 275 deals with $3.4 billion, an increase from 248 deals valued at $2.3 billion the year prior.

But as these start-ups are maturing into growth companies and established institutions are adopting technology for fear of being left behind, the industry is at a critical inflection point. For startups and incumbents alike, this means a two-way dialogue to create mutually beneficial partnerships because the incumbents need the innovative ideas and technology of the start-ups just as much as the startups need the strong support of the incumbents.

The “smarter” incumbents rely heavily on the start-ups to achieve a disruptive mentality and on technology to drive the digital strategies and platforms. As such, we see an uptick in news about strategic partnerships between incumbents and startups. This cooperation trend is happening across the board with emerging companies partnering to their profile and competitiveness against the slower moving incumbents.

This emerging cooperation between incumbents and startups is most evident when looking at the digital strategies across the wealth management industry. Incumbents, such as RIA custodians and broker-dealers, are learning lessons from the big tech firms and rapidly maturing startups by adding new software and APIs. These additions range from integrating low- and high-touch robo-advisors to digitizing key operational workflows (account opening, financial planning and portfolio management), and improving the investor experience.

Middle and back office operations are key areas to improve the scale of all of wealthtech players since it is solely focused on the cost side of the equation. The move to automate or digitize trading and post-trade functions in the back office allows for advisors to take control of their trading like never before while achieving scale at the same time. New efficiencies in the middle and back office of wealthtech are achieved by eliminating cumbersome, manual processes and improving existing processes.

Millennial investors now expect a user/investor experience that closely resembles the ease of use now commonly built by venture capital-backed startups. This is now possible with the emerging API economy being built and used by wealthtech players, specifically the Silicon Valley companies. As such, the experience is rapidly improving because players are differentiating and competing at this new level. The companies most successful at winning the user experience among the millennial demographic will be the firms best positioned to deliver new investor services tomorrow.

Middle and back office automation and the ease-of-use experience is being driven by cooperation between the incumbents and startups. Plaid acquiring Quovo to bring together banking and investment accounts to improve overall automation and Flyer and Riskalyze joining up to build Connected Trading are two examples of digitizing middle and back office operation using APIs. Recently, Envestnet | MoneyGuide teamed up Advisor Innovation Lab to improve the client and advisor user experience, another example of cooperation.

As we look to 2020, we expect to see additional cooperation between startups and incumbents. If you are an incumbent without a startup partner or a startup with an incumbent partner, take heed. Strategic cooperation is the emerging trend in fintech. While both stand to benefit from partnering, the real winners are the investors. ■

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