Sifted/Reports

Wealthtech

The new app-driven world of investment

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Wealthtech

The new app-driven world of investment

Wealthtech: the new app-driven world of investment is a Sifted Intelligence report, sponsored by TrueLayer. The world of wealth management is changing fast, with more and more people — especially the young who have not traditionally been clients of wealth managers — looking to get involved, and drawn to new kinds of assets, like cryptocurrencies and non-fungible tokens, or NFTs. Digital trading platforms, namely robo-advisers, have promised to bring wealth management to the masses. By interviewing leaders at wealthtech startups, VCs and accelerators, this report will examine some of the trends that are likely to stick, as well as the challenges that remain for startups, entrepreneurs and, indeed, regulators, as the wealthtech sector continues to boom.

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Contact Christopher Sisserian, head of Sifted Intelligence via chris@sifted.eu

Contents

6 questions to Francesco Simoneschi

Cofounder and chief executive of TrueLayer

The growth of wealthtech in recent years has been driven in part by changes within the wider fintech ecosystem, among them the adoption of open banking. Founded in 2016, London-based TrueLayer is at the forefront of the open banking revolution, responsible for more than half of all open banking traffic in the UK, and providing technology for the creation of a wealth of open-banking-based services. The company raised $130m in September 2021, at a valuation of over $1bn.

Here, Francesco Simoneschi, TrueLayer's cofounder and chief executive, talks about the rise of wealthtech and the role that open banking can play in the continuing (r)evolution.

What are the key trends we're seeing in the wealthtech space?

Our company started in fintech in a generalist category, but if you slice and dice this category we've been working with companies in wealthtech since the beginning. It isn't surprising to see the whole space is moving very fast towards digitisation. It's now moving into the most traditional areas of finance; more established companies are coming to market with their own digital version of more traditional practices. Retail customers that are not experienced in financial services and financial markets are being empowered by a number of trends: mainly, the availability of information. I can go on the internet and very easily educate myself about a trade, read a number of different opinions, even create participating communities that are actively talking about financial related topics. And then use all this knowledge on platforms that are very easy to access. This is a trend that is going to be very hard to stop. And we are going to see this market continue to evolve at a very, very rapid pace.

Are there parts of this industry that haven't moved as fast as you expected them to?

The industry went really well into removing fees, and making sure that simple financial products were available to consumers in a way that was really transparent, and easy to access and administer. Now, with open finance, we have an opportunity to really embed way more data and to make those more vanilla portfolios way smarter.

What role do you see for open banking in the growth and proliferation of wealthtech?

We are at a point in time where many people think building an investment app is as easy as building a picture editing app, but it's not. It's operationally very hard, and we know because we have the experience of our customers. Open banking can help remove friction, but it can also help businesses to go faster and streamline many processes that today are very convoluted. Open banking is an accelerating factor for this whole vertical to keep growing.

Do you expect to see a tightening of regulations around wealthtech?

It's always going to be a little bit of a catch up game where innovation pushes a little bit forward, and then regulators need to ask themselves the question: 'Is this innovation creating systemic risk that we need to compensate for, or not?' I think that regulators need to clearly make sure that the businesses are well equipped for taking that source of responsibility. We need to assume this responsibility in a healthy manner.

How has the pandemic changed wealthtech?

There has been a big shock in behaviour, our consumer spending, and the net result is a seismic shift towards digital services plus more availability and more time for people to take an active role in investment. I think the end result has sometimes been hyper-engagement, with applications like Freetrade, Trading212, or Robinhood in the US. If you look at the last few decades, the world has been polarising into people with financial assets and people without, and the growth of those financial assets versus fixed incomes has just been outstanding. My hope is that by lowering access we are going to see the pie redistributed in a fairer way.

Do you think back end technology has been slower to develop?

It's very natural that the front end is growing faster than the back end. It's easier to iterate on a mobile app than asking 10k banks in Europe to sign up to instant payments. You have to make sure the old world still functions, there's no switch on and off moment into something new and modern. This means layering up different parts of the stack, and this is a very slow moving exercise. If you look at crypto, it's a good example of features and aspects of innovation that could be integrated into more traditional finance. I think the world will be a lot about that, having some sort of new back end capabilities that can breach the old world. I think that we're at this sort of tipping point now.

TrueLayer founders Luca Martinetti and Francesco Simoneschi

Introduction

A brave new, app-driven world

Automated investing tech is cracking open the staid world of wealth creation and management

We live in a brave new, app-driven world of wealth creation and management. Gone are the days when those with capital put it in the hands of wealth managers, who invested on their behalf and simply reported successes (or failures) in monthly or quarterly reports.

While investing in property, mutual funds and other long-standing asset classes are never likely to go away, a new generation (and some of the older ones too) are demanding more control and accountability and are increasingly confident in going it alone, with all the risks that entails. And a new cohort of startups and investors are increasingly helping to meet those needs.

In July, App Radar, a software company that helps apps and mobile games be found within app stores, reported that around 6.4m UK adults, 12% of the adult population, now use at least one investment app to manage their savings, almost double the number from March 2020. Meanwhile, the top 10 investment apps have gained an estimated 1.6m users on the Google Play Store over that same period. UK-based money management app Plum was one of the biggest winners, App Radar found, with over 380k new users, an 80% increase.

In this Sifted report, we're looking at the newest generation of wealthtech startups that are doing things a little differently. Their focus is still on enabling consumers to save and invest conveniently and cheaply. But by swapping clunky acronyms with chatbots, simple interfaces and personalised features, these startups are also giving the sector a user-friendly makeover.

A WEALTH OF NEW ASSETS

Today, a proliferation of wealthtech platforms and apps are allowing users to invest for themselves, often commission-free, with just a click of a button, while new wealth-generating assets like cryptocurrencies or non-fungible tokens (NFTs) are spreading like wildfire. In short, we are seeing a seismic shift in the way people are managing their money, and what they invest in.

"You've got new asset classes like crypto and NFTs and you've got fractional access to things like property and private equity and venture capital, asset classes that have historically not been accessible to the everyday retail investor," says Matt Ford, a partner at Mouro Capital, a VC firm focused on those shaping the future of financial services.

> "We are seeing a seismic shift in the way people are managing their money, and what they invest in."

Ford points out that traditionally, if you were on the wealthier side, you had a financial adviser who curated an investment strategy for you. "They would be that advice layer between all the different asset classes and strategies that are out there, and the investors on the other side." Now we've seen an unbundling of that, and algorithm-driven portfolios, or 'robo-advisers', have definitely come into that space, he says.

"There's a proliferation of asset classes, a democratisation, and then a rebundling of those asset classes back together as people realise that actually planning and managing wealth is incredibly complex," he adds.

APPS, DIGITAL ASSETS LURE YOUNG TRADERS

The world of wealth management is changing fast, with more and more people – especially the young who have not traditionally been clients of wealth managers – looking to get involved, and drawn to new kinds of assets, like cryptocurrencies and NFTs.

"Investors are looking for secure and simple ways to gain exposure to digital assets. It's a very exciting new asset class, and we're seeing the investor interest is really high, both from a retail and increasingly from an institutional perspective," says Diana Biggs, chief executive of Valour, a digital asset wealth manager based out of Switzerland, and a former global head of innovation at HSBC Private Banking.

> **"Investors are looking for secure and simple ways to gain exposure to digital assets. It's a very exciting new asset class."**
>
> ***Diana Biggs**, chief executive of Valour*

Biggs adds that as recently as 2017 there was some activity around digital assets, but it was still early and far more niche. "Now, we have people that are understanding [the potential here]. Also, with central banks flooding markets with cheap money and inflating asset prices, [and] people staying at home and being forced to learn to be digital first if they weren't already, we're shifting into a world where that is actually the norm," she says.

Others also see a surge in growth, partly linked to the global pandemic and partly to the growth and visibility of trading apps like California-based Robinhood. The app became a phenomenon this year when young traders used it to boost the value of struggling companies like GameStop — an event that shook Wall Street.

"Over the last two years it's like an acceleration process," says Benjamin Chemla, chief executive and cofounder of Paris-based social-first retail investor platform Shares, which raised $10m in seed funding in August 2021.

"In Europe, we went from the first generation of trading apps, platforms that basically have been translating Robinhood into the European market, creating easy-to-use, commission-based trading platforms. We went from this first movement of democratisation of finance to a second movement, a social movement. We are at the very beginning of this movement," he adds.

FOR THE MASSES

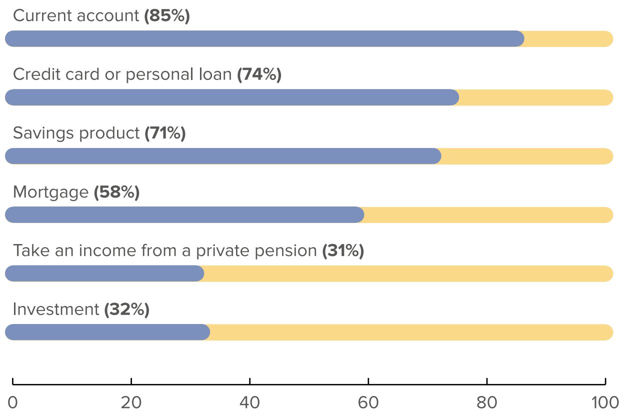
Digital trading platforms, namely robo-advisers, have promised to bring wealth management to the masses. In many ways they have succeeded, but the gap between those who are and are not able to access traditional financial advice has only widened, and many remain intimidated by the prospect of investing without professional guidance.

Even so, we are seeing a rising number of younger people becoming actively involved in their wealth management. Millennials, those born between 1981 and 1996, have changed their investment habits the most

Case study UK: only 1 in 3 feel confident in making their own investments

Consumers' confidence in choosing financial products for themselves

***Source:** Open Money*



since the pandemic began, according to a global survey conducted by Natixis/Statista, with 23% investing more during the course of the pandemic (with 32% increasing their trading activity directly or through online platforms).

At the same time, younger investors seem to have a stronger focus on the impact of their investments, with around a third of millennials often or exclusively using investments that take environmental, social, and corporate governance (ESG) factors into account, according to a May 2021 survey by The Harris Poll. That compares with 19% of Gen Z investors, 16% of Gen X and just 2% of baby boomers. Those in the industry say that impact investing is likely to be an increasingly important trend going forward.

However, the rapid pace of change is also throwing up new challenges. Part of this is around consumer protection, since money can be lost just as easily as it can be earned through stock picking platforms like Robinhood and eToro, as well as in often-volatile cryptocurrencies and other assets. In August, the UK's Financial Conduct Authority (FCA) said that it was unable to oversee the UK arm of cryptocurrency exchange Binance, one of the largest in the world, highlighting the "significant risk" to investors caused by the complex and risky products offered by the exchange.

The FCA banned the sale of cryptocurrency derivatives to retail investors in the UK in June, while continuing to allow their spot trade.

WORK TO DO

Those involved in the nascent wealthtech sector see significant potential in developing the back end technology used by the incumbents.

"I think there is still very little tech in wealth management today," says Mounir Laggoune, chief executive of French wealthtech startup Finary.

"We're very much on Day 1 of it being a trend or transforming an industry," adds Tom McGillycuddy, cofounder of UK-based social impact investing platform CIRCA5000 (until recently known as Tickr). "What you have is a lot of tools put into people's hands that are

like the old industry. You might have a layer on top, but underneath it's still all the same products provided by the asset [or investment] management industry," he says.

McGillycuddy also suggests that a lot of the people coming into investing nowadays have been sold a meme of what investing is. "They've been sold this short-term instant gratification version of investing," he says.

> **"We're very much on Day 1 of it being a trend or transforming an industry."**
>
> ***Tom McGillycuddy**, cofounder of CIRCA5000*

Sites like Reddit and Twitter are awash with investment tips and discussion from (often) inexperienced investors. As such, a growing responsibility of companies like CIRCA5000 is to bring back proper investment principles and proper long-term thinking. "We, as a company and as an industry, need to make that as appealing as the instant gratification stuff," he says.

From one-click trading platforms to social media and cryptocurrencies, it's clear that today's investors are shaped by fresh perspectives and rapidly changing technologies. By interviewing leaders at wealthtech startups, VCs and accelerators, this report will examine some of the trends that are likely to stick, as well as the challenges that remain for startups, entrepreneurs and, indeed, regulators, as the wealthtech sector continues to boom.

Chapter I

Wealthtech for the people

Europe's wealthtech startups are finding their feet, from robo-advisers and digital brokers to back-office software innovations helping the industry to digitalise

Of all the oddities of life under lockdown, the 'meme stock' phenomena, in which retail investors flooded money into obscure stocks like GameStop, was especially memorable, as was the gyrating price of bitcoin. While some experts worried about citizens losing their savings in a maniacal market — the 'tulip craze' for the digital era — it showed just how enormous the retail investor community had become, in the US at least.

The country has been an innovation hotbed in wealthtech, from Wealthfront and Betterment, two market leaders in the robo-advisory industry allowing people to invest in financial products using a smart, automated, and low-cost model, to digital broker Robinhood, which recently went public and was a key player in allowing the day-trading phenomena that swelled GameStop's share-price (the brokerage also sparked outrage and questions of fairness when it was forced to temporarily limit trades in GameStop due to financial requirements it faced because of the surge in trading).

But the drivers of wealthtech are structural and global, including a long-term low interest rate environment pushing consumers to explore higher-yielding products, a demographic shift, with younger people more interested in investing, and the enabling technologies of fintech.

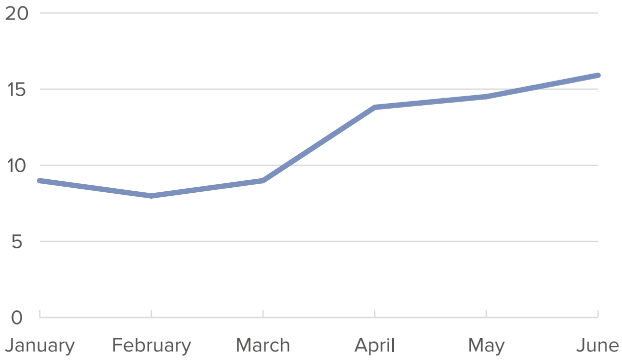
"Savings and wealth are a multi-trillion-dollar market," says Johan Brenner, Stockholm-based general partner at Creandum, the early-stage venture firm, and cofounder of eTrade, a European digital broker. "The zero-interest rate environment has created a pension gap problem in many countries and that, together with zero commission models, has lowered the threshold for consumers to get into this market. The big picture is in favour of wealthtech."

Nutmeg

Retail stock trading jumped in 2020 thanks to social media frenzy

Retail stock trading as percentage of total stocks traded

Source: *Bloomberg Intelligence*



A EUROPEAN FLAVOUR

European startups are following their US peers in the consumer wealthtech space. London's Nutmeg, for instance, is a similar platform to Wealthfront, although lacks some of the latter's more sophisticated financial planning analytics.

A clean interface, effective marketing campaign and strong brand have pushed Nutmeg to market dominance, raising funding from big finance players like Schroders, Balderton Capital and Goldman Sachs along its journey towards the over £3bn in assets under management it currently holds. The company was recently acquired by JP Morgan, the investment bank, which started working with Nutmeg as a partner in developing its 'Smart Alpha' product and was evidently impressed enough with its technology to purchase the 2012-founded platform.

"JP Morgan acquiring Nutmeg was quite surprising because it was a pretty high price for a business that's still not profitable," says Mounir Laggoune, CEO of French wealthtech startup Finary. He adds that JP Morgan had tried to build something similar in-house and it had never worked "so they just bought it. I think there will be a tonne of M&As, because the banks will eventually notice that they just don't have the skills to do the technology themselves."

"There's no doubt that's the direction of travel," says Mark Pearson, founder of early stage VC investor Fuel Ventures, who thinks market incumbents will increasingly look to agile startups to quicken their innovation journey. "The younger generation are using all these alternative [digital] solutions so give it 10 or 20 years and the older customers are gone. While they have deep pockets, they [established financial players] are going to have to innovate."

Christian Gabriel, cofounder of Capdesk, which helps startups manage staff equity allocation, thinks robo-advisers and fintechs are looking at ways to use their platforms to deepen their engagement with the growing army of Europe's tech millionaires and billionaires. "In Europe, which is a little bit behind the US, we're seeing the first companies issuing equity, and now we're seeing the first equity boom. A lot of these people are going to be the next high net worth individuals. Businesses like Nutmeg, Revolut and Moneybox are Trojan horses to get [rich] millennial[s] to sign up and manage their assets."

> **"Businesses like Nutmeg, Revolut and Moneybox are Trojan horses to get [rich] millennial[s] to sign up and manage their assets."**
>
> ***Christian Gabriel**, cofounder of Capdesk*

Germany's Trade Republic is Europe's other big business to consumer, or B2C, investing success story; in May 2021, the Berlin-based startup raised one of the biggest investment rounds in European fintech history to reach a $5.3bn valuation. Europe is also home to a raft of low-fee digital brokers including Bux, eToro, Revolut and Freetrade, along with crypto-only startups like Bitpanda.

More focused players are also emerging to cater to specific demographics and tackle still-considerable obstacles to investing among the public. London-based Hapi, backed by the Entrepreneur First accelerator programme, is an investment platform designed for families. Cofounder Youssef Darwich, formerly a staffer at business to business, or B2B, fintech Tide, created the company because he felt robo-advisers were targeting already-savvy consumers who knew their way around markets and had a clear idea of their financial planning goals.

Trade Republic founders

He also believed family wealth management brought distinctive challenges that were not served by user-agnostic platforms. "Fintechs are generally built for single users and not families," says Darwich. Hapi, still in beta test mode, is building and exploring a range of products from trusts to tools allowing couples to project their combined pensions.

Cem Eyi, cofounder of The Beanstalk App, agrees that the existing product landscape was not designed for the masses. The UK government, for instance, launched the Child Trust Fund in 2005, which issued a £250 voucher for every child, topped up with another £250 if they were low-income. It was later replaced with the tax-free Junior ISA. This spawned investment products that were either overly geared to wealthy parents who already had accounts with investment providers or were delivered through specialist Junior ISA funds with relatively high fees and inconvenient processes such as in-branch appointments. "In our view, it is not easy for parents to put money away for their kids, the products are often of poor value and confusing and require minimum commitments," says Eyi. "Innovation hasn't reached children's savings and investments just yet and we're trying to change that."

DIGITISING WEALTH MANAGERS

A second big trend is B2B startups helping wealth managers to digitalise. The sector is known to be conservative, especially in Europe, and is somewhat cautious about moves into alternative assets like private equity, venture capital, real estate, and hedge funds. “More and more money has flown into alternative products as investors grow frustrated with the volatility [of public equities markets] and low interest rates,” says William Rudebeck, founder of London-based Bite Investments, an alternative investments platform.

Developer-friendly, ‘open banking’ software can help wealth managers handle their operations more efficiently, from smoothing the client onboarding process to tracking what their clients are interested in. According to Rudebeck, it can reduce manual processes and minimise the errors resulting from re-keying data as well as improve compliance in areas like ‘know your customer’, or KYC, regulation, which requires banks to check that potential customers are not involved in money laundering or terrorism.

Wealth managers need to quicken their step, experts say, as their customer demand shifts, and that will mean doing more with digital. “Asset managers realise they can’t sell funds by banging out a fact sheet once a month, and on the wealth management side it’s no longer enough to have five or six [investment] baskets,” says Jamie Keen, cofounder at Fund Sense, a low code/no code startup that brings automation and artificial intelligence to the wealth management industry. “People are used to the Netflix or Amazon experience and want a hyper-personalised service. If wealth managers don’t modernise, they will lose their clients who are more willing to switch than ever before.”

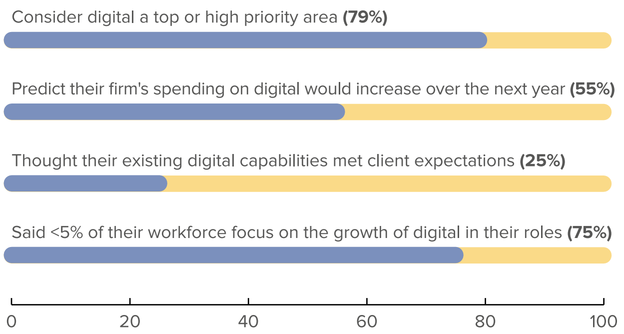
> **“Wealthtech will eventually replace all financial advisers and wealth managers entirely.”**
>
> ***Craig Anderson**, partner at Pentech VC and board member of Nutmeg*

Companies like TrueLayer and Fund Sense are building application programming interfaces (APIs) that connect the often-complex legacy and backup systems used by wealth managers and their low-code/no-code approach allows them to quickly demo ideas and empower clients to take on the technology themselves. Andy Keen, brother to Jamie, and Fund Sense’s other cofounder, predicts that machine learning and natural language processing will be of growing importance in the years ahead in the B2B space. Some experts point to a more radical future, in which the entire industry is out-competed by technology. “Wealthtech will eventually replace all financial advisers and wealth managers entirely” predicts Craig Anderson, partner at Pentech VC and a board member of Nutmeg.

Asset managers are struggling to strengthen their digital capabilities

Survey of 40 of the largest global asset managers on digital readiness

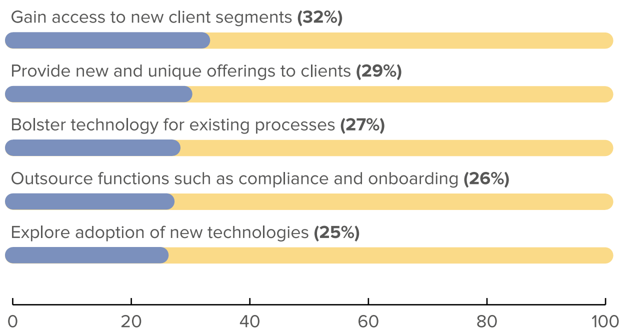
***Source:** Alpha FMC*



Wealthtech partnerships improve customer experience and reach

Wealth management firms' top reasons to partner with wealthtechs

***Source:** World Wealth Report*



\Wealthtech

Chapter II

Making wealthtech work

Europe is a few years behind its Atlantic neighbour and may have to reckon with the challenges hitting the American frontrunners

To date, few US wealthtech giants have tapped into the European market. Robinhood scrapped its plans to open in the UK and neither Betterment nor Wealthfront have sought entry to the market yet. Likely, the huge size of their home market opportunity, and the regulatory complexity of Europe, especially now the UK is a separate geography, has deterred them. "The US is the largest capital market in the world and is one regulatory market with one consumer tax situation," says Johan Brenner, general partner at Creandum VC.

Cocooned from US competition, Europe has had the space to build its own companies. To be sure, many are clones or copycats of their US peers. Nutmeg's founder was doing an MBA in the US when he saw the rise of platforms like Wealthfront and decided to bring the idea back to Britain.

The buoyant market in the US and large IPOs, such as that of Robinhood, could also benefit Europe, predicts Mark Pearson, founder of Fuel Ventures, the early stage VC firm. "Large VCs realise that Europe is the next destination. If multi-billion-pound businesses can be built in the US, they can be built here," he says. He thinks the validation of wealthtech IPOs state-side, combined with the liquidity they have given early investors, could see more mega-rounds on the continent in the coming months and years. "It's ok if Europe is a couple of years behind. It can take the best of the US and innovate our own things too."

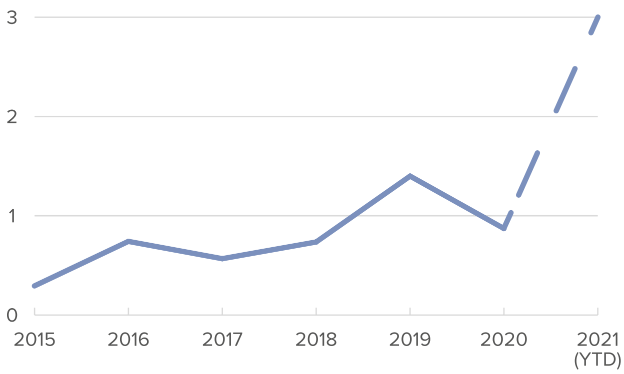
> **"It's ok if Europe is a couple of years behind. It can take the best of the US and innovate our own things to."**
>
> ***Mark Pearson**, founder of Fuel Ventures*

Investors clearly back the sector and are making their bets. "There is huge year-on-year growth in capital invested by VC and private equity, and I feel confident that will continue to grow," says Craig Anderson, partner at Pentech VC and a board member of Nutmeg. European startups are proving attractive to US investors too. Peter Thiel-backed Valar Ventures led Bitpanda's

2021 has already seen record funding levels for wealthtech

VC funding into European wealth management startups (€bn)

***Source:** Dealroom*



$170m raise in March 2021. US venture firm Sequoia led Trade Republic's Series C fundraising round and fund giant Fidelity is an investor in equity management platform Capdesk. "Fidelity is looking at Capdesk as a strategic play against Carta [an equity management software startups] in the US, which was eating into its business on their home turf," says Pearson of Fuel Ventures.

Currently, the UK and Germany are Europe's wealthtech hotspots. "London is the capital of Europe in terms of wealth management," says William Rudebeck, founder of Bite Investments. Brenner, of European venture firm Creandum, thinks the UK's leadership is partly down to the rate of equity savings and the size of its financial market although Brexit has dented this somewhat.

"Within the eurozone countries, especially Germany, there has been little savings in equities but that is changing as millennials come into the market and people realise they need to do something with their pension gap," he says. Brenner adds that Sweden is a vibrant market because its "banking and wealth management is the most competitive in the world in terms of margins. Companies coming out of Sweden have had to compete [and win] in that market".

Michael Meyer, managing partner at Middle Game Ventures, reckons European wealthtech entrepreneurship is "booming" thanks to a new generation of millennials and Gen Z who are more interested in risk-taking. Greater regulatory support, especially driven by the UK Financial Conduct Authority's (FCA) Project Innovate scheme to encourage financial sector innovation "has had a massive change on the continent" too, Meyer adds.

Other supports include changes to tax codes, led by the UK but increasingly gathering momentum in Europe, and offering greater relief on stock options which is helping founders build and incentivise teams in the startup phase. Finally, Meyer thinks state-linked investment entities like British Patient Capital, Enterprise Ireland, France's BPI and German state investment group KfW, have all helped early-stage companies. "This is allowing Europe to go past the US in many ways."

Yet there is still market fragmentation which could limit growth. "One of the drawbacks in such a regulated area is that it's difficult to take what you've built and go into other markets," says Youssef Darwich, cofounder of Hapi, the still-in-development investment platform designed for families. The eurozone is a single regulatory market which allows for 'passporting' across borders, but markets still have different savings characteristics that wealthtechs must localise, says Brenner. "You still need to cater to local adaptations to get product-market fit".

Hapi

"We've not seen a pan-European robo-adviser yet," says Pentech VC's Anderson. "Where they have moved into other countries, I'm not convinced they've been wholly successful. It's somewhat surprising, they tend to be specific. At the same time the market within countries like France or Germany is big enough to build a business on its own".

"One of the drawbacks in such a regulated area is that it's difficult to take what you've built and go into other markets."

***Youssef Darwich**, cofounder of Hapi*

GETTING THE BUSINESS MODEL RIGHT

European startups can learn lessons from the US, where early hype around wealthtech has given way to a more nuanced reality, with some highly successful businesses and others that have disappointed.

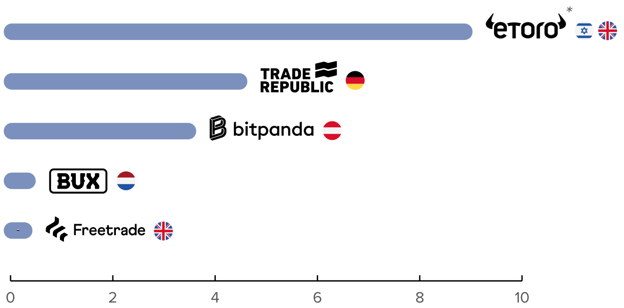
"In the US there were hundreds of wealthtech businesses that didn't work out very well," says Michael Meyer at Middlegame Ventures. He includes in the category of damp squibs those businesses focussing in areas like financial literacy, budgeting, and person-to-person platforms and "even robo-advisery, outside of the likes of Wealthfront and Betterment." He thinks companies have been more successful in passive investment platforms and innovations that democratise access to capital markets through 'fractionalisation' which allow, for instance, a retail investor to get $10 off an Apple share if they can't afford the whole share price.

B2C wealthtech startups need to figure out how to combine low-cost services with a long-term business model, a challenge they share with many fintechs still struggling to prove they can turn a profit without increasing fees. Some are betting that deepening the product offering will help them differentiate. Germany's Trade Republic is focusing its business on both convenience — offering the longest trading hours in Europe — and advanced stock search and news feeds, for instance, with a plan to expand into savings and ETFs, according to Creandum's Brenner.

European trading platforms are seeing eye-watering valuations

Europe's top low-fee trading platforms by valuation (€bn)

Source: Dealroom



** latest pre-IPO valuation*

Some experts believe a conventional B2C model — fees taken from the assets under management (AUM) model — might get tough in the years ahead. "The AUM model is coming under pricing pressure, especially when you look at how low the fees are in the US," says Hapi's Darwich. This will be especially challenging for smaller players who cannot leverage huge scale economies. Hapi is exploring a range of revenue options ranging from subscriptions to chargeable products, such as for example setting up a trust fund.

Some investors believe that while the low fee model is a margin challenge, if you have the "right structure and patience, you can build a significant business in this space," says Brenner. "The best robo-companies are those that earn trust over time, not just through marketing, but through patience".

For the B2B sector, the key challenges are winning clients as a smaller brand or new market entrant, as opposed to the big, industry-agnostic automation and workflow companies that they might otherwise hire to help them digitalise. "There are a few industry-agnostic process management players that did not have that understanding of the financial services market," says Jamie Keen at Fund Sense. "They hit a brick wall if they lose a month having to explain what a KIDD [key investor information document] is". Rather than trying to offer large-scale IT projects, Fund Sense looks to add value in a specific workflow and build out the relationship over time. "We are happy to prove our worth with a little project rather than a major one. Then the client gets their heads around building one workflow, why not look at others? In the end, it's all workflows".

IN THE REGULATOR'S CROSSHAIRS?

Regulatory change could also impact the sector especially in areas like digital trading. Robinhood's share price took a tumble recently when the SEC indicated that it was reviewing the rules around payment for order flow — in essence, a revenue stream in which digital brokers sell trading data to market participants. This constitutes around a quarter of Trade Republic's revenue indicating such trends could be relevant in Europe, although not devastating. Creandum's Brenner points out that payment for order flow is a long-standing model in brokerages.

Another potential flashpoint is the gamification of investing. Once again, Robinhood has been at the forefront, criticised by some for its attempts to lure users into excessive trading. At the company's nadir, one young user committed suicide because of losses he erroneously thought he had accrued. "Digital brokers are democratising trading, but this is not without risk and regulators need to look at this and probably need to do more," says Anderson at Pentech VC.

> **"Digital brokers are democratising trading, but this is not without risk and regulators need to look at this and probably need to do more."**
>
> ***Craig Anderson**, partner at Pentech VC and board member of Nutmeg*

"In equity investment certain people want to trade more and others less, and many want both, to feel involved in the market and to have long-term savings," says Brenner. "Some assets they will trade, some are long-term. That creates an environment where there's interest in the capital market and what you trade with and what you lead. It's also the responsibility of us in the market to foster that kind of thinking."

Wealthtech

Chapter III

The future of wealthtech

Crypto, ESG investing, social media and regulatory scrutiny will all help shape the industry

After a whirlwind year, successful wealth management startups are now in a position where they must learn the lessons from their newfound popularity, as well as leverage technology to continue their growth and innovation.

The pandemic sped up trends that were already taking place, with a rise in wealth management apps and platforms, and younger generations increasingly engaged in where, and in what, they place their money. Going forward, we are likely to see these trends continue, as well as stronger focuses on areas like impact investing and the social media side of investing.

However, questions remain over how far the 'tech' in wealthtech has really transformed the industry.

DEMOCRATISED WEALTHTECH

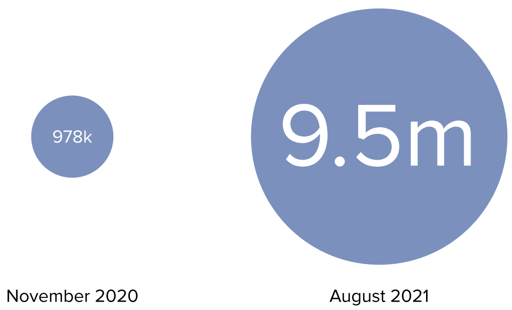
One key trend in the coming years could be the growth of platforms focused on the community side of investing and wealth creation, especially those that can offer a bit more protection and authority than the likes of free-for-all Reddit-based investment forums.

Recent years have shown the power of democratised wealthtech, with the rise in social-media-inspired investment strategies. However, this comes with inherent risk, opening up opportunities for platforms that can channel this social aspect of investing in a more controlled way.

Within less than a year, the membership of investment-focused subreddit WallStreetBets grew by close to 10x

Members of the WallStreetBets subreddit

Source: *Breakout Point*



"There is always a risk when you invest in stocks, whether it's through an adviser or by yourself directly," says Benjamin Chemla, chief executive and cofounder of Paris-based social-first retail investor platform Shares, which was founded earlier this year and raised $10m in seed funding in August. Investors on Share can make trades, manage their portfolios, and discuss investments, while also receiving detailed market insights.

> **"We have a financial-crime department, a support team, a compliance department, and a third of all our funding is invested towards building a safer and secure place."**
>
> ***Benjamin Chemla****, chief executive and cofounder of Shares*

"If you think about a platform like Shares, we're building a social media, for sure, but within a trading platform that's fully regulated," says Chemla. "Each of our users will have to go through a verification process to verify his identity. We have a financial-crime department, we have a support team, we have a compliance department, and a third of all our funding is invested towards building a safer and secure place," he adds.

TOWARDS A CRYPTO FUTURE

Many believe that cryptocurrencies are not only here to stay, but will grow in importance in the coming period, as will the platforms that allow investors to buy, hold and sell them.

"Crypto infrastructure for this next phase of institutionalising the crypto market and prepping it for moving past just the insider crowd to a more institutional product, that's white hot," says Michael Meyer, managing partner at Middlegame Ventures.

Auction for The Pixel *NFT*

Meanwhile, the rise of digital assets like NFTs may have taken many by surprise over the last year or so, but others see them as a natural addition to the luxury goods market for the super wealthy.

"People ask why would one spend $1.7m on a JPEG," says Diana Biggs, chief executive of Valour, a digital asset investment firm. "I think it's the same as asking why somebody would spend tens of thousands on any piece of art, or expensive purse or car. It's a status symbol, but it's a status symbol for the metaverse, for this completely new paradigm that we're entering."

"Where you're having very rapidly this new class of wealthy individuals, those become their sort of wealth signal," she adds.

IMPACT INVESTING

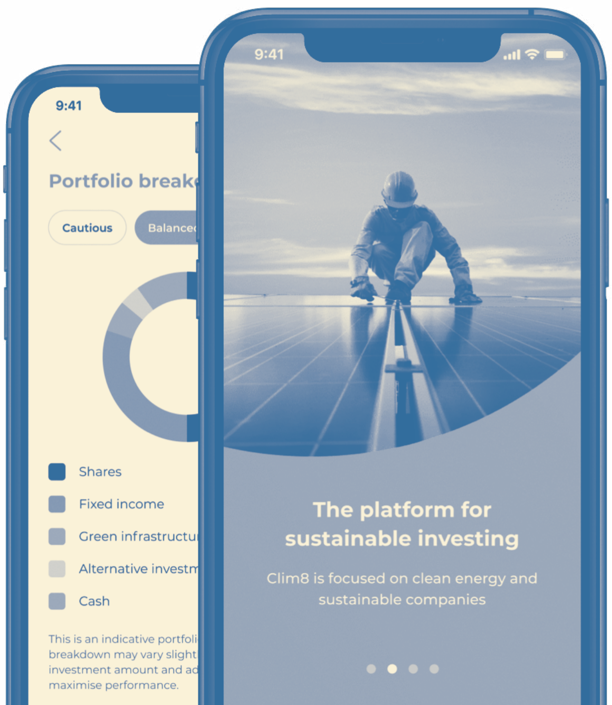
Another increasingly important trend in wealthtech is the rise of impact investing. In the past, investors could invest to get the best returns possible, or invest to also have a social impact, but rarely both.

"I think what we are seeing is that the performance returns you can get from investing in companies that are making a difference can be very good. That's probably news to a lot of people," says Duncan Grierson, CEO and cofounder of Clim8 Invest, an app launched earlier this year focused on climate change-related sustainable investments.

While a third of millennials now often or exclusively use investments that take environmental, social, and corporate governance (ESG) factors into account, according to a May 2021 survey by The Harris Poll, Grierson says there's a definitional issue around impact investing and ESG. "I think what we found just in the last few months is there's more and more scrutiny being applied to ESG investing," he says. "There is no written-in-stone definition of what ESG is and the kinds of companies you have to have in there."

In fact, a lot of ESG funds have as their top investments Big Tech firms, the likes of Facebook, Microsoft, Spotify and Alphabet. "Those are good companies, they're not fossil fuel companies, and they are trying hard to limit the carbon footprint of their own operations, but they're not impact companies, they don't have a product that is having a positive impact on climate change," says Grierson.

Clim8 Invest instead focuses on clean energy, clean tech and smart mobility. "Companies that are having a positive impact on carbon, and that's not the case for a lot of ESG funds."

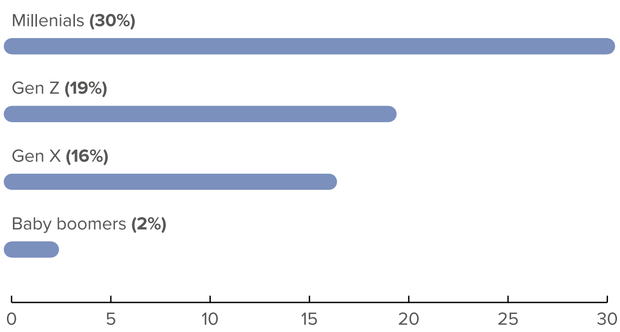


Clim8 Invest

1 in 3 millenials often or exclusively use investments that take ESG factors into account

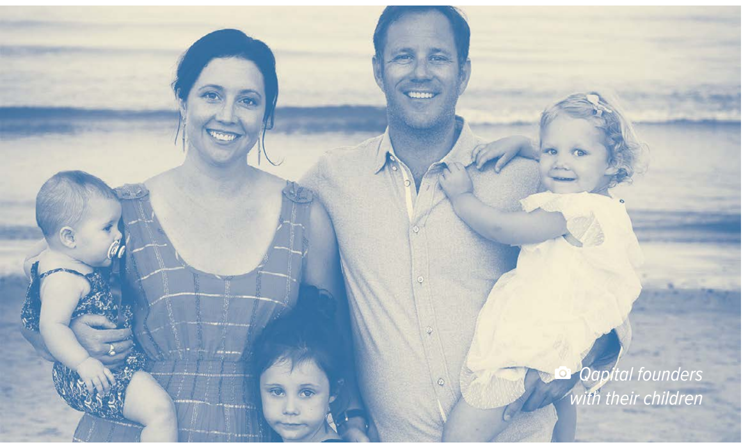
Frequent usage of ESG investments by generation

Source: *The Harris Poll*



They are not alone. We are seeing a rise in the number of wealthtech startups that have a more impact-investing focused mission, and that believe there is a massive demand for this, especially among younger investors. “In 10-15 years time impact investing will just be called investing,” says Tom McGillycuddy, cofounder of UK-based social impact investing platform CIRCA5000 (until recently called Tickr), which was founded in 2018 and already has more than 140k users, 90% of who are first-time investors.

“Soon it will be the third dimension alongside return and risk when considering an investment,” he adds. “It will be 10-15 years, and then beyond that it will be ‘Why did we ever not consider this?’”



Qapital founders with their children

LOOKING AFTER OTHERS

Wealthtech platforms are also beginning to look at how couples and families manage wealth as a group, whether this is building pots of money for the future or to give to their kids when they get older.

“Heavy fintech users are getting older, their lives are getting more complicated, and they're getting to a point where they have more wealth or they're inheriting more wealth so they're going to demand more robust products than perhaps what they got before,” says Katherine Salisbury, cofounder and co-CEO of Qapital, a Swedish-born, New York-based startup that has created a user-friendly savings app for individuals as well as couples.

Salisbury says that, to date, there has been little invested in the couples wealth management space; less than $10m in the US compared to billions in the non-couples space. “It seems as though people haven't really tackled this,” she says.

> **“Are we gonna see inflation rise, and what does that ultimately mean for this kind of low interest rate environment?”**
>
> ***Matt Ford****, partner at Mouro Capital*

CHALLENGING TIMES AHEAD

After a period where most retail investors can feel pretty good about their returns, some involved in the wealth management industry are now predicting a more challenging period ahead, with profits harder to come by and investment strategies increasingly important. This could be damaging for younger retail investors, in particular, who have only often known the good times.

“Post-covid, are we gonna see inflation rise, and what does that ultimately mean for this kind of low interest rate environment? I think that could fundamentally change a bunch of stuff,” says Matt Ford, a partner at VC firm Mouro Capital.

"In a bull market, lots of strange things happen. NFTs, Dogecoin, meme stocks, the Robinhood bros, all of that stuff is fun while there's a bull market, but it's going to be brutal when there's not," adds Middlegame Ventures' Meyer.

Meyer says that when the tide goes out lots of rocks will be exposed, "and it will be a very unpleasant time," though when that might happen is unclear since there has been excess in the market for a number of years.

Still "anything that is focused on individual investors who have not ever experienced a bear market is going to be extraordinarily ugly," he says. "The far-out in the risk spectrum in the crypto world will be sharply curtailed, far-out in the alternative asset world, where you're allowing individuals access to that, will [also] be sharply curtailed. I do think the Robinhood market will be severely impacted by a correction," he adds.

CIRCA5000 founders

PUTTING THE 'TECH' IN WEALTHTECH

While wealthtech has grown impressively in recent years, there is still a strong sense that the technology behind it has failed to develop at a significant speed.

> **"I think there is very little tech in wealth management today."**
>
> ***Mounir Laggoune**, chief executive of Finary*

"There's not much underlying deep innovation," says CIRCA5000's McGillycuddy. "There's like a surface layer of innovation, which is really in acquisition and a demographic kind of innovation — who's coming to the industry, which is great — but I think the plumbing, what's behind the scenes, hasn't really started to change yet."

"I think there is very little tech in wealth management today," agrees Mounir Laggoune, chief executive of French wealthtech startup Finary, which allows investors to track all their investments, regardless of asset class, automatically and in real-time.

Laggoune says the best example is private banks, which are the biggest players in this market but are lagging when it comes to tech solutions. "If you go to a wealth manager today, he will spend most of his time managing administrative stuff, running reports and doing stuff that adds no value to your account. You will pay for something that's not a good service and that's the whole problem, they have no tech."

"What's winning now is anything in the middle or back office that is digitising, allowing simpler processes and much more straightforward, safer processing," says Middlegame's Meyer. "The exciting stuff is more around ESG, anything ESG is just white hot," he adds. "Tokenising real estate, tokenising alternative assets, that's [also] getting a lot of attention."

McGillycuddy believes that technological changes will start to occur in the short term, but the overall shift will likely take decades, even if pieces are in position that weren't there a few years ago.

"I think for all of us that are coming now, that are offering wealthtech solutions, whether it's savings, investments, whatever, it couldn't have been done 10 years ago, because I don't think the market was there," he says. "It's taken the external trends to speed up and shift in order for us to have a product that would appeal to more than 100 or a thousand people."

A WEALTHIER FUTURE

The rise of wealthtech is only going to grow, with an increasing focus on technologies and startups that are able to curate investment opportunities and offer user-friendly platforms for retail and institutional investors alike. There is also going to be a strong demand for access to alternative asset classes like cryptocurrencies, as well as new ways of storing wealth.

“We've got loads of new wealth that has moved onto the blockchain, which is something that we've never seen before,” says Mouro Capital’s Ford. “That’s a technology change that has actually created pots of cash that essentially needs to be either held in assets that you think are going to continue to be appreciating, or allocated into new digital assets,” he adds.

CIRCA5000’s McGillycuddy believes that we'll see more wealthtech partnerships going forward. “There are wealthtechs that are set up to be B2B to the old industry, whether that's banks, asset managers, whatever, and that will continue,” he says, though for CIRCA5000 they are more likely to partner with other fintechs rather than traditional financial services businesses, “because they're just not set up to integrate with us, and they’re very slow to make decisions.”

> **“Wealthtech space is booming, and the next few years could be among the most exciting.”**

For others, the interesting trends to watch are those around how wealthtech platforms make their money. Qapital’s Salisbury believes we are likely to see more conversations going forward around how wealthtech platforms are funded, especially around commission-free or subscription based models.

“We went subscription pretty early, and we get challenged to rethink it all the time,” she says. “I find this really fascinating and how this is all going to shake out over the next few years in terms of customers wanting to pay for products themselves and not become the product, or do they prefer getting things for free and become more comfortable with becoming the product themselves.”

One thing everyone agrees on, however, is that the wealthtech space is booming, and the next few years could be among the most exciting.

> **“Now you have 10 brokerage accounts, because why not, and you have five different crypto platforms.”**
>
> ***Mounir Laggoune**, chief executive of Finary*

“Crypto is actually the catalyst,” says Finary’s Laggoune. “A lot of younger investors, the first investment they make is in crypto, and they don't do it via a HSBC account, they do it on Coinbase. Some younger clients don't even have a normal bank account anymore.”

“Our parents' generation generally had one bank account,” he adds. “Now you have 10 brokerage accounts, because why not, and you have five different crypto platforms.”

It’s a brave new world indeed.

Finary

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