



Innovation for retail investment

ROUNDTABLE ON FOSTERING RETAIL INVESTMENT IN CAPITAL MARKETS

7 February 2017, Rue Van Maerlant, 2 – B-1049 Bruxelles

Opportunities of innovation for retail investment



Setting the scene



Where do we see innovation ?

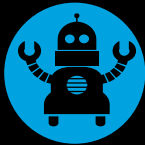


Illustration 1: The rise of Robo-Advisors



Illustration 2: Identity management



Illustration 3: Disruptive models

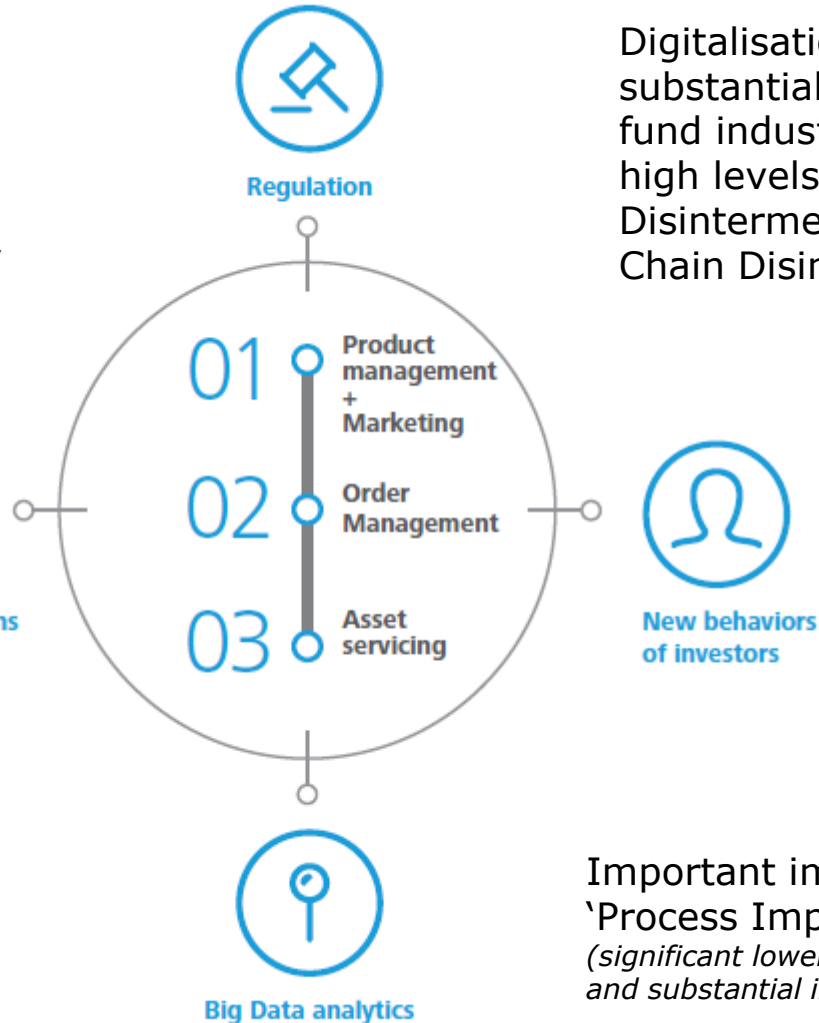


4 Megatrends impacting investment management

Setting the Scene

22%* of new technology investments in FSI are for financing **disruptive** FinTech solutions (e.g. Blockchain, Automation, Robotics, Big Data and Biometrics)

- 
- FinTech innovations**
- Blockchain
 - Machine learning
 - Digital investments
 - Cybersecurity
 - P2P lending
 - RegTech



Digitalisation will have a substantial impact on the fund industry as it can create high levels of 'Client Disintermediation' and 'Value Chain Disintermediation'

Important impact in relation to 'Process Improvement'
(significant lowering of costs (>30%) and substantial improvement in quality)

* Source: "FinTechs can help incumbents, not just disrupt them", July 2016



Current distribution landscape will evolve in many directions

Setting the Scene




 Leading distribution channel

Breakdown of distribution channels per country of distribution for the retail investors

%

	Retail bank	Private bank	Insurance	IFA	Supermarket	Direct	Funds of funds	Institution / Corp.
France	28%	12%	21%	4%	1%	1%	9%	26%
Germany	47%	12%	18%	12%	2%	-	1%	4%
Italy	67%	7%	13%	9%	1%	-	6%	1%
Spain	68%	5%	4%	5%	1%	-	9%	11%
UK	8%	6%	16%	48%	4%	2%	7%	12%

Source: Deloitte estimates based on Cerulli data

	Key features	Relevance to digital strategy
Direct distribution	<ul style="list-style-type: none"> • Communication with end investors • "Component" to "outcome" approach 	 <ul style="list-style-type: none"> • Social media • Robo advisory
Wholesale	<ul style="list-style-type: none"> • Facilitate fund acquisition process • Full distribution support capabilities 	 <ul style="list-style-type: none"> • Fund platforms • Fund supermarkets • Online advisers
Institutional	<ul style="list-style-type: none"> • Facilitate cross-border regulatory reporting 	 <ul style="list-style-type: none"> • Pension funds • Asset management • Banking



New solutions are emerging within the shareholder services value chain which offer significant new opportunities

Where do we see innovation ?

Emerging Trends in Wealth & Investment Management



Digital channels

- Online, mobile and social becoming primary channels; users expect tech augmented interactions



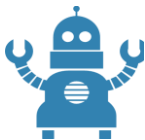
Social Media

- Social media enables mass collaboration, real-time communication and fast D2C engagement



Analytics

- Big data analyzed to gain insights into client/channel behavior
- Product and trading data analyzed for risk/reward of investment strategies



Automation

- Digital-only AM start-ups begin to fully automate the IM lifecycle with traditional models becoming obsolete
- Technologies allow for scalable operations at low cost



Digital security

- Cyber security risks

Responses

- Complement traditional channels with digital solutions
- Invest in infrastructure for digital services
- Provide multichannel access to advisors

- Proactively interact with clients
- Enable insights by analysing social data

- Offer specialized analytics tools to clients, enriched with performance and risk metrics
- Analyze trading and behavioral patterns to detect fraudulent activities

- Automate selected trading and portfolio building activities
- Develop automation for back and middle office processes

- Raise risk awareness
- Launch innovative security

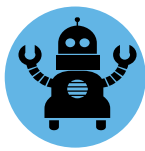


Illustration 1: The rise of Robo-Advisors

Betterment

- + Smart Rebalancing +0.4%
- + Global Diversification +1.4%

US Market

- Market Mistiming -1.25%
- Expensive Investments -1.25%

Typical Investor

Better returns.

The Betterment portfolio is designed to achieve optimal returns at every level of risk. Through diversification, automated rebalancing, better behavior, and lower fees, Betterment customers can expect **4.30% higher returns** than a typical DIY investor.

Featuring Tax Loss Harvesting+

Our **Tax Loss Harvesting+** systematically finds embedded capital losses to lower investment taxes and increase after-tax returns.

Advice that's catered to you.

Customized portfolio allocation.

Each investment portfolio is designed to get customers optimal investor returns. Our **goal-based investing framework** and advice algorithm let customers know if they are on track to reach their **investment goals** like Retirement or a Safety Net Fund, in seconds.

Automation and passive investing.

We recommend a globally-diversified, passive portfolio of 12 asset classes, tailored for your risk and time horizon. Years of research and Nobel Prize-winning Modern Portfolio Theory are the foundation of our **proven investment method**.

Smarter automation means one less thing to think about.

Schedule Deposits

Auto-deposits help keep your goals on track with scheduled, recurring deposits.

Invest Excess Cash

SmartDeposit puts more of your money to work by automatically investing your excess cash.

Rebalance Efficiently

Every time you make a deposit or receive dividends, we intelligently **rebalance your portfolio**.

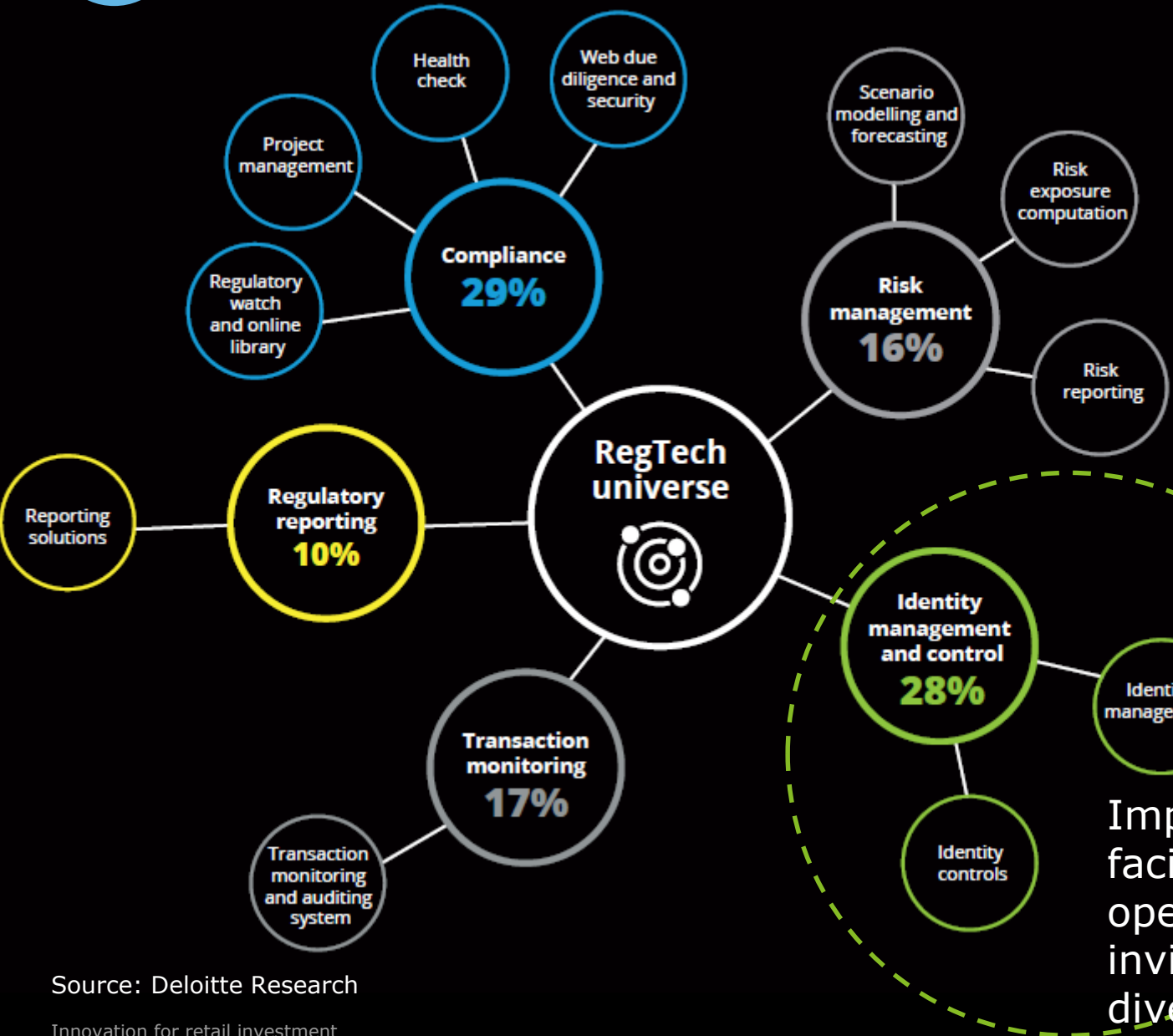
*Food for thought:
Direct investment – The Betterment example*

- \$3B AUM (2015)
- Goal based, not product centric
- Personalized
- Fully mobile
- Fractional share value added functions (scheduled deposits, cash excess investment, rebalancing)

Estimates for the future robo advisory market by several well known institutes predict between €2 trillion and €3.7 trillion in assets under management in 2020



Illustration 2: Identity management



kyc.com | The future of client due diligence

Standardise KYC processes and centralise operations around client onboarding and account management.

Kyc.com enables firms to connect due diligence data to address KYC, financial regulation, tax and counterparty requirements.

Firms benefit from an industry led policy standard for KYC data quality and completeness as well as lowered costs and simplified processes.

By enabling firms to industrialise business critical due diligence processes, kyc.com helps them to quickly become eligible and ready to transact.

10 of the largest global banks are currently signed up in contractual negotiations with kyc.com

1,600+ buy-side and corporate clients registered

Food for thought: KYC.com

- Industrialization of AML/KYC processes

Improved and facilitated account opening processes will invigorate investment diversification

Source: Deloitte Research

Innovation for retail investment



Illustration 3: Disruptive models

eToro English Why eToro Log in

The World's Largest Social Investment Network

Join millions of traders who discovered smarter investing by automatically copying the leading traders in our community.

[Trade, Copy & Get Copied](#)

[Join Now](#)

or, connect using [Facebook](#) or [Google](#)

Innovative digital solutions may disrupt traditional asset management distribution models

Potential disruptors:

- Social investing
- Blockchain & smart contracts
- Non traditional players (e.g. Apple, Facebook, Google, Amazon, eBay)

Food for thought: Direct investment – The eToro example

- Collaborative platform
- Over 4.5 million users in more than 170 countries worldwide; thousands of new accounts created every day
- Users manage their funds through online investment platforms including active trading community

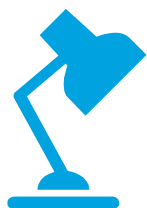
Closing remarks



FinTech and RegTech represent a major opportunity to reduce costs, enhance service levels and increase efficiency



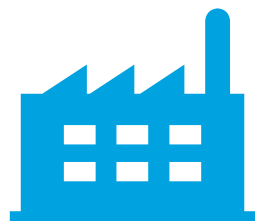
A new generation of clients with different and specific behavior features creating challenges and opportunities in the servicing model



Service providers of alternative asset classes are reviewing their operating models to efficiently support growth and reduce costs



Regulators' support will be essential to stimulate the adoption of innovative solutions



Asset servicers open up to 3rd party service providers (incl. new entrants) for specific tasks



X-border distribution support will become one of the main differentiators in shareholder servicing



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