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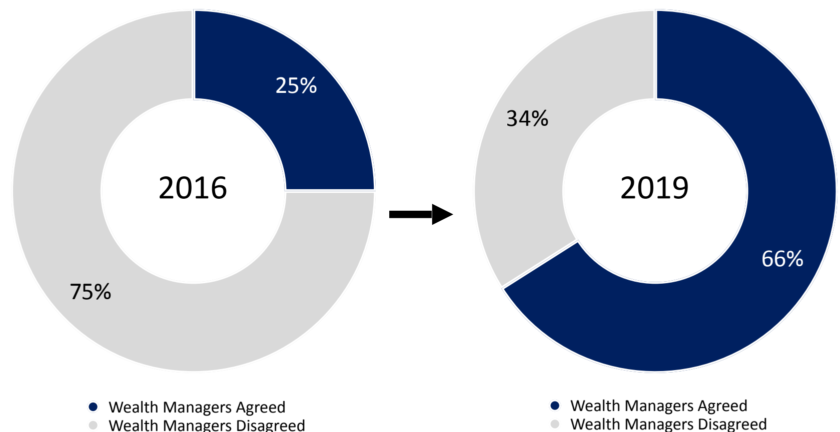
As Wealth Managers Embrace FinTech, Are Firms Pursuing Related Acquisitions and Funding?

Two decades into the 21st century, the traditional model of wealth management continues to evolve, as the quality and breadth of the invisible ones and zeros of software code challenge the primacy of face-to-face service in cementing and extending client relationships. In response, much of the industry is aggressively updating and adding to its technology capabilities.

"The dynamic playing out across the banking landscape — from retail to private wealth management — is one where technology-driven offerings and platforms increasingly define the brand and the personal relationships underlying the business," Forbes Insights and Temenos wrote in an introduction to their recent report on "The Next-Generation Wealth Manager."

Digitization is Essential For Communication and Service Enhancement



Source: FORBES INSIGHTS

Indeed, current events may accelerate the technology imperative as wealth managers recognize the particular importance of a robust digital platform during a crisis, when communication and data are at a premium but hand-holding may prove difficult at best and impossible at worst if staff is forced to work remotely. "Those firms that predominantly rely on in-person meetings may not be able to serve their clients right now," Alois Pirker, research director at consultancy Aite Group, told Professional Wealth Management in March. "I would expect this current crisis to be a boost for digital transformation projects."

The Forbes and Temenos survey, which predated the coronavirus pandemic, drew responses from 305 wealth management executives

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and 105 high net worth individuals, and what it found is instructive, in particular a growing sense of urgency within the industry regarding technology. Nearly two-thirds of wealth managers said digitization is "essential for communication and service enhancement" compared with just one-quarter in 2016. On the client side, 87% said they "are accepting of technology in their investing experience," up from 74% in 2016.

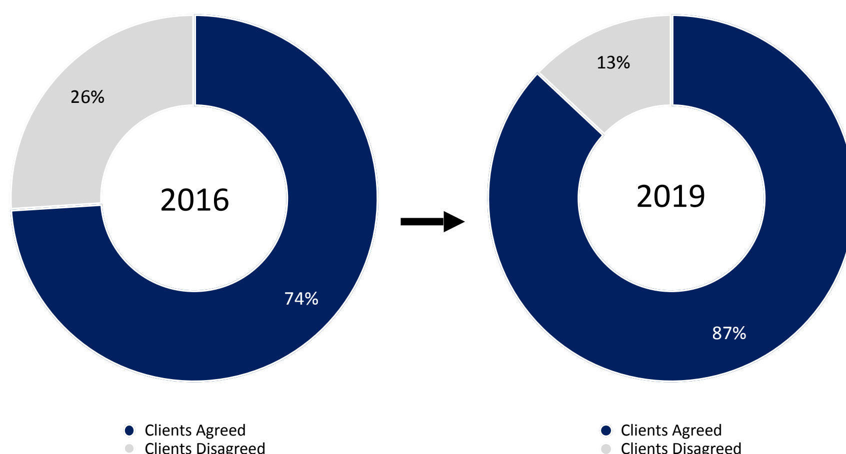
Gerd Leonhard, an advisor to wealth managers, told Forbes Insight that while the human factor remains significant for many clients, that alone won't garner praise. "[Wealthy individuals] will not be satisfied with an organization full of great people who are completely behind on everything else," he said. "They expect complete coverage of technology all the way to the cutting edge of things — applications and mobile, for example."

Within that context, artificial intelligence looms as the emerging star quarterback that can gather disparate data into a comprehensive and customized client game plan, and wealth firms are rapidly buying in. In the survey, at least 80% of executives called AI "important" or "highly important" in 10 separate areas posed by Forbes Insights, including data analysis and personalized insights (86%), overall client experience (82%), operational efficiency (82%), and investment advice (80%). The responses in eight of the 10 areas rose by double-digit percentage points from just the previous year's survey. Similarly, when **Morgan Stanley** (NYSE: MS) polled 400 of its investment clients last year, 51% said they were incorporating AI into their decision-making, nearly double the level in 2016, while just one in 10 indicated they had no interest.

Backed by technology, including better data, wealth managers are also taking a more holistic approach that captures the big picture of a client's life and goals — from spending habits to social concerns to retirement objectives — before mapping out a plan and portfolio. This marks something of a departure from a traditional investments-oriented/performance process. "Our industry is undergoing an evolution from a product sales mindset to one that centers on customer financial wellness," **MyVest** CEO Anton Honkiman told *Financial Planning* last year. "The key ingredients are customer data and goal-based financial planning."

Based in San Francisco, MyVest offers a wealth management platform that client **TIAA** found so compelling it acquired the firm in 2016. At the time, TIAA praised MyVest's "engineering and design expertise, coupled with its deep knowledge of wealth management," saying it would "help us find new ways to simplify the complex — and often daunting — world of personal finance our clients navigate." TIAA had previously worked with MyVest on investment and tax-related services for individuals and post-acquisition added digital advice, financial planning capabilities, and a robo advisor.

In addition to front-office capabilities, MyVest software covers the middle office, which includes such tasks as trade and position reconciliation and performance reporting. Others, like **UiPath** and **WorkFusion**, offer robotic process automation solutions employed by various industries. In financial services, these tools are commonly used to streamline back-office administrative and support functions. Then there are the full-service providers such as **Envestnet** (NYSE: ENV) that have comprehensive internal capabilities.



Source: FORBES INSIGHTS

With profitability being challenged by low-cost passive products and fee compression, back-office costs are an obvious candidate for technological disruption. But Accenture says "in the rush to equip advisors with the best digital technologies, the back office is sometimes neglected," even though a "modern back office" can save a wealth manager millions of dollars. The consultancy advises wealth firms to avoid silos altogether, saying that clients "expect an exceptional experience tailored to their needs, regardless of which channel or area of the organization they are dealing with."

Based on the experience of some of its North American clients, Accenture says a seamless thread between the front and back offices has created more transparency, "so teams no longer need to waste time manually sharing client information." That is freeing up advisors to "spend less time worrying about processing and administrative issues from back office, and more energy focused on understanding and engaging their clients' needs."

There have been numerous deals involving technology providers serving the wealth management industry in whole or part, with a once-diverse financial planning universe in particular having experienced significant consolidation in

recent years. Several, including TIAA's acquisition of MyVest, are being driven by the major asset and wealth managers. For these firms, a fintech addition meets internal client needs but also provides a service it can sell external business clients. **Fidelity Investments**' 2015 acquisition of **eMoney** (reportedly for some $250 million) gave the asset management giant a leading platform for advisors, for example.

BlackRock's (NYSE: BLK) ubiquitous Aladdin platform, which serves the range of asset managers and is estimated to have about $21 trillion in assets, provides a showcase for just how attractive technology offerings can be on a grand scale. The company's technology revenue, largely driven by Aladdin, approached $1 billion last year compared with $595 million in 2016, with about 30% outside the U.S.

BlackRock has capitalized on Aladdin's technology to fuel the Advisor Center, a comprehensive platform that offers a variety of portfolios and investment options as well as other tools for advisors. "By providing better technology for the wealth management industry," the company wrote in its 2018 annual report, "BlackRock is forging deeper relationships with more financial advisors than ever before, which will drive future asset management flows."

Last December, **Invesco** (NYSE: IVZ) expanded its digital wealth business by acquiring **RedBlack**, a specialist in portfolio rebalancing and trading technology with more than 150 clients and $350 billion in platform assets. RedBlack was one of the last remaining independent rebalancing specialists. "The addition of RedBlack demonstrates our commitment to continuously strengthening our global digital platform, further enhancing the solutions we offer to meet the evolving needs of advisors, our clients and the industry," said Martin Flanagan, president and CEO of Invesco.

That deal is in line with similar transactions the Atlanta-based asset manager has made in recent years, including last August for **Portfolio Pathway**, a small portfolio management platform, and in 2016 for digital wealth provider **Jemstep**. In January, **Citigroup** (NYSE: C) introduced a Jemstep-powered digital investing platform, Citi Wealth Builder. The platform matches Citi customers to one of six portfolios based on risk tolerance, retirement goals and savings, and manages monitoring and rebalancing.

Within the wealthtech industry, a major deal last year between two large providers saw Envestnet pay $500 million in cash and shares for **PIEtech**, which serves tens of thousands of financial advisors with its MoneyGuide financial planning software. The deal established Envestnet as a leader in financial planning, in line with a strategic goal of creating a "financial wellness" network that incorporates a comprehensive advice function. The acquisition also extended Envestnet's reach among advisors.

PIEtech's subscription-based revenue model enjoys 96% recurring revenue and 50% EBITDA margins, but those attractive financials aside, PIEtech was seeking to latch on to a broader platform to compete with eMoney. In reviewing the deal with analysts, Envestnet's late CEO Jud Bergman said PIEtech had "experienced some of the limits of being a single-point provider in a platform world." In a second acquisition last year, Envestnet acquired **PortfolioCenter**, which provides portfolio management and reporting technology solutions for independent advisors, cutting the deal with owner **Charles Schwab** (NYSE: SCHW).

In another 2019 deal designed to enhance a buyer's portfolio and competitive position, **Orion Advisor Services** acquired a smaller financial planning platform, **Advizr**. Founded in 1999 and majority-owned by **TA Associates**, Orion creates portfolio management software with a focus on performance. (In January, *Barron's* reported that TA "is expected" to put Orion up for sale soon with a price tag of around $1.9 billion.) Prior to the Advizr deal, Orion counted 1,800 clients and $800 billion in assets under administration, but relied on outside financial planning software. "Our advisors are seeing competitive threats from some of the robo advisors," Orion CEO Eric Clarke told *Citywire* in discussing the deal. "Schwab and Vanguard are offering planning very competitively. We want to make sure that the advisors that we serve have a competitive offering to those other offerings."

Clarke told *InvestmentNews* that his clients were doing financial planning for only 30% of their household accounts, leading the firm to seek an in-house "best-in-class" option. By January of this year, Orion announced that 500 new firms had adopted its expanded platform in the six months since the acquisition while AUA had reached $1 trillion. "Financial planning and client engagement have proven to be two of the most consistent drivers of advisor value," Clarke told Technology Tools for Today.

Broadridge Financial Solutions (NYSE: BR), a leading provider of technology-driven solutions to the financial services industry, announced multiple transactions last year, the largest being the $300 million purchase of Toronto-based **RPM Technologies**. That deal broadens the New York-based firm's wealth management solutions in Canada, where RPM serves a blue-chip roster of bank and wealth management clients. In Broadridge's earnings call last August, CEO Timothy Gokey said the addition of RPM "extends and deepens our already strong relationship with several leading Canadian banks and brings newer relationships as well."

Referring to the smaller deals last year, Gokey called them "great examples of how targeted tuck-in acquisitions broaden our product lineup, deepen our relationships with key clients, and drive attractive long-term returns." One was for **Rockall**, a software provider for securities-based lending and collateral management solutions for wealth managers and banks.

With plenty of capital seeking opportunities in the tech sector, fintech firms have been active fundraisers. Amid the crisis in March, performance reporting software provider **Addepar** — which started life in 2009 during the last financial crisis — raised an additional $40 million from

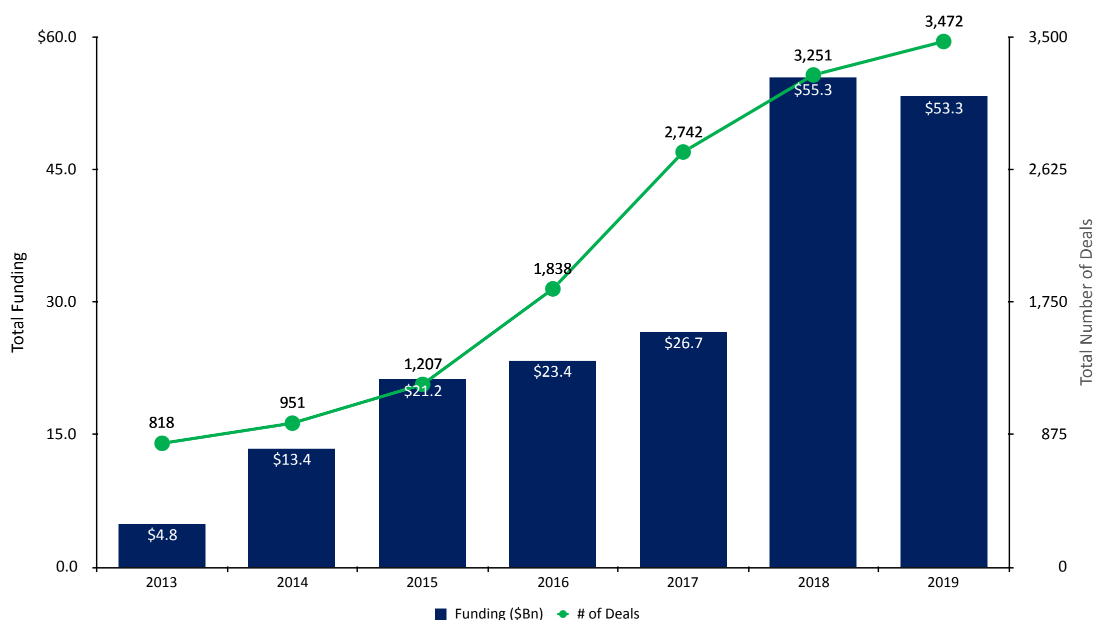
WestCap Group. The private equity firm said Addepar "is uniquely positioned to provide solutions and insights during times of extreme market volatility." Addepar, with $1.7 trillion on its platform and performance reporting capabilities for alternatives, said the capital will be used to "invest heavily" in research and development and market expansion.

In a second major fundraising completed in March, alternative investments platform **iCapital Network** raised $146 million in a round led by Chinese insurance giant **Ping An** (SEHK:2318). The company plans to invest the funds into research and development and other growth initiatives.

Last summer, turnkey asset management platform (TAMP) **AssetMark Financial Holdings** (NYSE: AMK) did a public offering that raised $275 million. Founded in 1996, the fast-growing firm generated annual average revenue growth of 19% in the three years through 2019 (total: $418 million), with 99% recurring and EBITDA margins of 26%. The company has $62 billion in assets on its platform and serves some 8,000 advisors, targeting firms with between $50 million and $500 million in assets.

In the first quarter of this year, AssetMark also closed on its 2019 acquisition of **OBS Financial**, a TAMP that serves more than 300 financial advisors and 21 banks. In discussing its acquisition strategy during an earnings call last August, AssetMark President and CEO Charles Goldman said one element involves "smaller TAMPs that are subscale [whose] assets we can bring onto our platform and meaningfully create a better experience for advisors and clients."

The technological advances driving the wealth industry are taking place amid a revolution in the larger financial services industry that has placed fintech front and center. PwC's 2019 Global Fintech Report showed that 48% of financial services firms "have embedded fintech fully into their strategic operating model." Importantly, executives "already fully engaged with fintech" are more likely to express confidence about future growth than those who are not. Another 36% say they have a "formal, documented fintech strategy" that has not been fully embedded.



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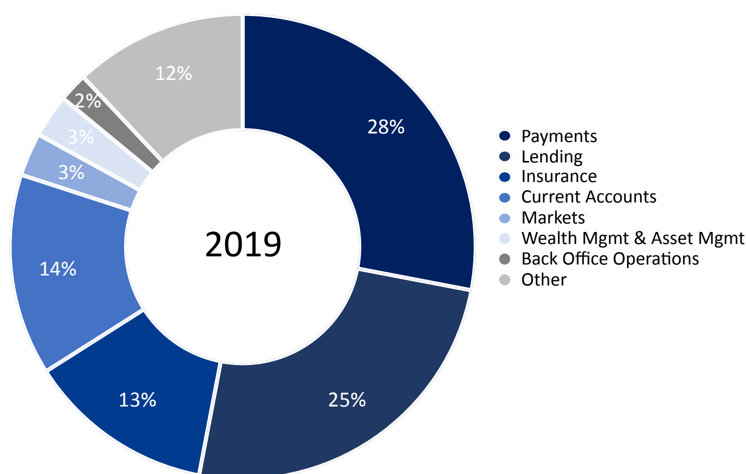

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In 2019, fintech investment topped $53 billion, double the level during the same period in 2017, according to Accenture, with activity accelerating in the second half of the year ($31 billion). The U.S. accounted for half the total, joined by the UK ($6.3 billion) and emerging markets such as India ($3.7 billion), China ($1.9 billion) and Brazil ($1.6 billion). Average deal value last year was $15.4 million, 2.6 times larger than in 2013.

Wealth and asset management-related tech accounted for just 3% of 2019 funding value compared with 30% in 2018, a roller-coaster pattern also evident in 2016-2017. By number of deals, the wealth and asset management tech share has

been steadier, comprising between 6% and 8% annually between 2016 and 2019. Payments and alternative lending were the hot subsectors last year, combining to total 53% of funding value. Separately, fintech unicorns — the 67 venture-backed firms valued at $1 billion or more — reached an aggregate valuation of $245 billion as of mid-February 2020, according to CB Insights.

In a report released in February, Business Insider Intelligence referred to the robust activity in the fintech world to proclaim that the industry has reached a "watershed moment ... with the once clear distinction between fintechs and financial services proper now blurred significantly." Traditional financial institutions are now "investing in, acquiring and collaborating with their fintech rivals."

In the near term, however, the coronavirus crisis has emerged as a considerable wild card. The fintechs that started up after the 2008 crisis and have enjoyed stable business conditions are being forced to grapple with their first — and unforeseen — crisis. Among those firms and others, the ones with the smallest margin for error and the least flexibility will endure the most pain, as customer demand declines, working capital is squeezed and pressure to cut employees grows.

B2B firms with recurring revenue and long-term contracts are less likely to be immediately impacted by the short-term uncertainty than B2C and B2B2C businesses, which are more exposed to a sharper contraction as restrictions and financial stress impact consumer activity. As just one early example of the impact on consumers, established payments processor **Square** (NYSE: SQ) told investors on March 24 that its gross processing volume among retailers had declined 24% over a recent 10-day period compared with 2019. Accordingly, the company withdrew its financial guidance for 2020 "given the uncertainty around" the virus.

For investors, the crisis creates negotiating leverage that — combined with a more prudent approach to spending — will place pressure on targets for favorable deal structures and terms, whether that involves funding or an outright acquisition. In a related vein, if the IPO market becomes a victim of market turmoil, as is likely, investors who had been planning to cash out of their fintech holdings via the public markets could instead turn to private buyers.

Although the challenges wrought by the virus are considerable, the current disruption should strengthen the fintech industry longer term by underlining the significant benefit digitization provides in maintaining operations during a crisis. In March, Doug Christensen, executive vice president for customer relationship software provider **Tier1 Financial Solutions**, told Finance Magnates that his company's clients were looking to "potentially do more with technology, not less, as they think about the impact of servicing and managing their client needs and mitigating risk.... whether it's coronavirus-drove change or some other market-moving consideration, we see a greater need for fintech solutions." ▲

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