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Clients' digital ways have advisers jumping headfirst into fintech

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The wealth management industry is driving more money into the financial-technology sector, as asset managers and investment firms rush to keep up with client expectations.

Over the past five years, the rise of financial technology within the wealth management space has rapidly transformed the way financial advisers conduct their businesses. As clients become more digitally savvy, the industry is facing an avalanche of even more change to come, says Ian Russell, president and chief executive of the Investment Industry Association of Canada.

"A wider shelf of financial products, integrated with financial advice and delivered with increased technology, has improved the value of financial services and the convenience of access for clients, setting high standards for service and raising client expectations," Mr. Russell said in an industry note last week.

Last week, Power Financial CEO Jeff Orr told reporters he plans to invest more money in fintech startups as the company looks to find technologies that can be incorporated into its business model and avoid disruptions that have hurt other sectors.

Widely known on the Street for its empire of financial advisers and investment products, Power Financial has spent $320-million in the fintech sector - with more than half the funds being allocated toward online robo-adviser Wealthsimple.

Startup financial-technology companies, commonly referred to as "fintech" providers, typically offer clients financial-service products that are more cost effective and easier to access than traditional bank offerings.

Since 2015, venture-backed fintech companies based in Canada have raised more than $900-million – with $200-million raised in just the first quarter of 2018, according to data provided by OMERS Ventures.

The disruptive influence of technology happened first in the travel and consumer retail sectors, but the next phase will include financial services, says Eli Broverman, co-founder of U.S. online portfolio manager Betterment.

“What we are going to see in this next wave is there is a bigger [effort] involved with growing those businesses,” said Mr. Broverman, during a keynote speech at the Canadian Funds Summit in Toronto. “The businesses tend to be heavier in regulation, products are more complex and the adoption tends to take a bit longer.”

Despite the early stages taking a bit longer, Mr. Broverman said he continues to see investors making more concentrated bets in fintech. Five years ago, there was only one venture capital round in the United States that exceeded US$100-million for a fintech business. Since then, financing has rapidly grown with more than 12 fintech “mega rounds” happening in the country – totalling more than US$2.2-billion in the first quarter of 2018.

While initially seen as a disruptor to the investment adviser, robo-advisers, such as Betterment and Wealthsimple, have now been working alongside the wealth-management industry launching business platforms for financial advisers who want to incorporate more automated procedures for client account openings and portfolio construction.

“It’s been well documented that moving processes like on-boarding clients, building and tracking financial goals and account reporting to digital, increases customer satisfaction,” said Josh Book, CEO and founder of ParameterInsights Inc., a financial-services research and consulting firm. “If businesses can’t even do these things well in our digital world, they are at risk.”

Asset managers WisdomTree Asset Management Canada and BlackRock Inc. both made announcements this month related to their investments into digital tools that will help propel the growth of exchange-traded funds assets among tech-savvy clients and advisers.

WisdomTree launched a portfolio management tool for Canadian advisers that can analyze more than 40,000 Canadian and U.S. mutual funds and ETFs, and 7,000 U.S. equity securities. The company originally launched the tool in the U.S. market last year, which incorporates data analytics from FinMason, a fintech and investment analytics firm.

In the United States, investment giant BlackRock Inc. announced it led a US$50-million investing round in microinvesting site Acorns, a mobile app that allows novice investors to dump spare change from everyday purchases into diversified ETF portfolios that include both BlackRock and Vanguard funds.

BlackRock declined to say how much it had specifically invested in Acorns but in a statement, Rob Goldstein, BlackRock’s chief operating officer, said “by deepening our understanding of how [Acorn’s] customers use investment technologies, we can apply those learnings across BlackRock to evolve the products we build for our distribution partners.”