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Retail Trading Ripe for Fintech Disruption

Start-ups in the capital market space are a small part of the fintech world but find multiple opportunities to disrupt retail trading.

There are currently around 8,000 fintech start-ups globally, revolutionising lending, retail banking and banking processes. But less than 10 percent are in the capital markets space and an even smaller segment in retail trading. They also receive a disproportionately small amount of funding, roughly 4 percent of the US$96 billion of venture capital funding.

Although they are currently a small segment, retail trading fintech firms are rising fast and are likely to accelerate a rush of entrants into the space, according to our report,**Fintech and The Disruption of Retail Trading: Trends and Case Studies**. Based on an analysis of disruptive fintech firms and interviews with more than 20 fintech start-ups and subject matter experts, we found multiple drivers that present huge opportunities for these players.

Firstly, the growing sophistication of big data and visualisation tools helps consumers to monitor and source deals online, easily access data and trends through AI and machine learning tools. They use real time dashboards that track their wealth. Retail investors demand online platforms to source trading strategies, help them analyse potential trading opportunities and execute trades at a low cost.

Secondly, major changes in pension schemes around the world, such as shifts from defined benefits to defined contributions, puts more investment capital in the hands of retail investors who need to balance short-term with long-term investing.

Thirdly, regulatory changes, such as **PSD2** in Europe, enable both consumers and businesses to use third-party providers to manage their money. The monopoly that banks have traditionally held on their customer account information and payment services is weakened. This opens the way for these parties to build financial services on top of banks' infrastructure.

Fintechs to watch

In our report, we identified fintech firms we believe are exhibiting disruptive potential by attracting new target segments through better user experiences and interfaces, leveraging cutting-edge technology and democratising trading tools and data.

There are several types of fintech firm that embody these traits, which we categorise into the following:

- **Robo-advisors 1.0** are firms that rely on user-friendly platforms to create smooth experiences, often attracting millennials who don't have experience trading in capital

markets. They keep costs low by offering algorithm-based advice and investing in passively managed ETFs or stock indices. Some even offer zero-cost brokerage fees and profit instead by charging interest on margin trading.
One example is **8 Securities**, Asia's first $0 commission robo-advisor service. Their target user is 37 years old, has US$100,000 in assets and typically wants to allocate around 75 percent to the market while keeping 25 percent in cash. Some 90 percent of their users are passive investors and use their robo-advisor enabled app. The company currently has US$1 billion in turnover and is used in 60 countries.

- **Robo-advisors 2.0** enable more sophisticated trading strategies and analytics, such as alpha generation/smart beta strategies, algorithmic strategies and analytics capabilities. They are also able to charge higher management fees than their 1.0 counterparts.
  Alpha Architect, for example, provides active management suggestions similar to traditional asset managers. Their revenue model is an advisory one, charging 25 basis points on assets under management.

- **Robo-advisors-as-a-service** offer white label solutions (a product made by one company but branded and sold by another) to financial institutions, which integrate them as extensions of existing CRM tools. **Bambu** is a B2B robo-advisor service providing white label solutions to financial institutions. It supports goal-based investing and the company signed a proof of concept with Standard Chartered Bank in April this year.

- **Market intelligence providers** are often social platforms that enable traders to interact and share trading strategies and trading algorithms. Fintechs such as **Call Levels** and **AlgoMerchant**, for example, use technology to help retail investors uncover trading opportunities based on technical and fundamental analysis. Call Levels partnered with Singapore bank DBS's trading platform, DBS Vickers, in 2016 to provide market monitoring services to investors.

- **Portfolio analytics/monitoring tool providers** furnish advanced analytics and monitoring to retail traders.
  Canopy (Metisis), for example, provides B2B2C client portfolio reporting and analytical solutions to family offices and wealth managers. The company has formed a partnership with Credit Suisse.

Where retail fintech is heading

As our report shows, fintechs are operating along various dimensions of retail investing. Some are largely independent, offering end-to-end onboarding and trading services, while some are focused on the user experience, operating on a partnership level with banks and financial institutions. Regulations can create barriers, but they can also create regulatory arbitrage opportunities or open new ground for fintechs to play on.

We believe that we will see more developments fuelled by technology. For example, similar to the way YouTube recommends your next video or Amazon recommends your next purchase, fintechs could eventually optimise their recommendation engines to tailor trades to optimise clients' portfolios. Similarly, since robo-advisors gather a wealth of trading data, in the future they may be able to monetise this data as a revenue stream by offering market intelligence. Further, since access is increasingly easier, it is likely that investors will use several robo-advisors to manage their money, like they use several bank accounts today. This will present opportunities for multiple robo-advisors with different value propositions. One, for example, could offer thematic investment strategies or goal-based savings or even aggregate and monitor one's investments.

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