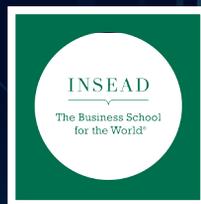


Fintech and The Disruption of Retail Trading:

Trends and Case Studies



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Trends and Case Studies

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Introduction

Of the approximately 8,000 Fintech start-ups globally, only less than 10% are in the capital markets space, and an even smaller segment in retail trading. Moreover, these start-ups currently only receive a disproportionately smaller amount of funding - roughly 4% of the total \$96 billion of venture capital funding.

Despite it being a small segment at present, we believe key drivers of Fintech in retail trading are on the rise and will accelerate start-ups into the space. Such drivers are evolving customer needs, technological advances and the growing availability and variety of data that can be harnessed.

The trends at the institutional level may be a foreshadow to the disruption in retail trading - Bridgewater hiring IBM's Artificial Intelligence (AI) head to start an AI team, Two Sigma poaching Google engineers, Goldman's reduction of 600 cash equity traders to be replaced with computer engineers.

There has also been a rise of "Quantamental" strategies, combining fundamental investing with quantitative strategies - these include BlackRock, Point72, Third Point.

For this report, we have been selective of what defines a disruptive Fintech company, from a run off the mill software solution provider. To us, a disruptive Fintech start-up in retail trading must exhibit at least one of the following characteristics

- Attract new market segments through better UI/UX
- Leverage cutting edge technology to provide more efficient solutions
- Democratize sophisticated trading tools

Our scan revealed that start-ups which meet such criteria are mostly in the business-to-consumer (B2C) space, though some new entrants have entered the business-to-business-to-consumer (B2B2C) space. The B2B (business-to-business) largely remains dominated by traditional software companies, providing incrementally better solutions.

Our comments and analyses are based on data provided by industry recognized sources, and a number of interviews with Fintech start-ups as well as subject matter experts. Our case studies illustrate the trends identified. We hope this report will provide useful insights to venture capitalists, start-ups, financial institutions, and other stakeholders including policy makers and regulators.



Theodoros and Warren

What drives Fintech in Retail Trading?

“DATA ACCESS, PREDICTIVE ANALYTICS, AND MACHINE LEARNING WILL DRIVE INVESTMENT INNOVATION”

Zhi-Ying Ng, Forrester

EVOLVING CONSUMERS NEEDS

Do-it-yourself-online mentality.

From flight tickets to insurance, consumers are choosing to monitor and source the best deals online. Retail traders are also demanding online platforms to source trading strategies, and desire tools which can help them easily analyze potential trading opportunities.

Changes to pension schemes

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.

TECHNOLOGICAL BREAKTHROUGHS

Rise of cloud and fast computing

Sufficient computational power can now be offered on the cloud, which could enable retail traders to easily access more sophisticated tools.

Artificial intelligence and machine learning

Machine Learning and AI provide powerful tools to analyze data, trends, and combine different sources of information to better understand and make decisions about the markets. These developments enable possibilities for new strategies to generate alpha.

Blockchain

Innovation around blockchain technology has the potential to make trade execution and processing faster and more transparent, through distributed clearing and settlement, by-passing traditional clearing houses.

GROWING AVAILABILITY OF DATA THAT CAN BE HARNESSSED

Analytics and monitoring

With the sophistication of big data and visualization tools, retail traders are demanding better portfolio analytics and monitoring tools at their fingertips.

Innovative data sources

As traditional alphas are getting tougher to exploit, traders are turning to innovative sources of data such as social media influence or Google product searches to develop new strategies.



PASSIVE /NEW

Traders

Goal based

approach to determine trading strategy

Automated

Rebalancing

Simple to use

thematic/recommendation based engine

Low cost

brokerage

ACTIVE/SELF DIRECTED

Traders

Signals generation,
analytics and monitoring

Low cost
brokerage

Sophisticated
strategies

Share strategies,
connect with
community of traders

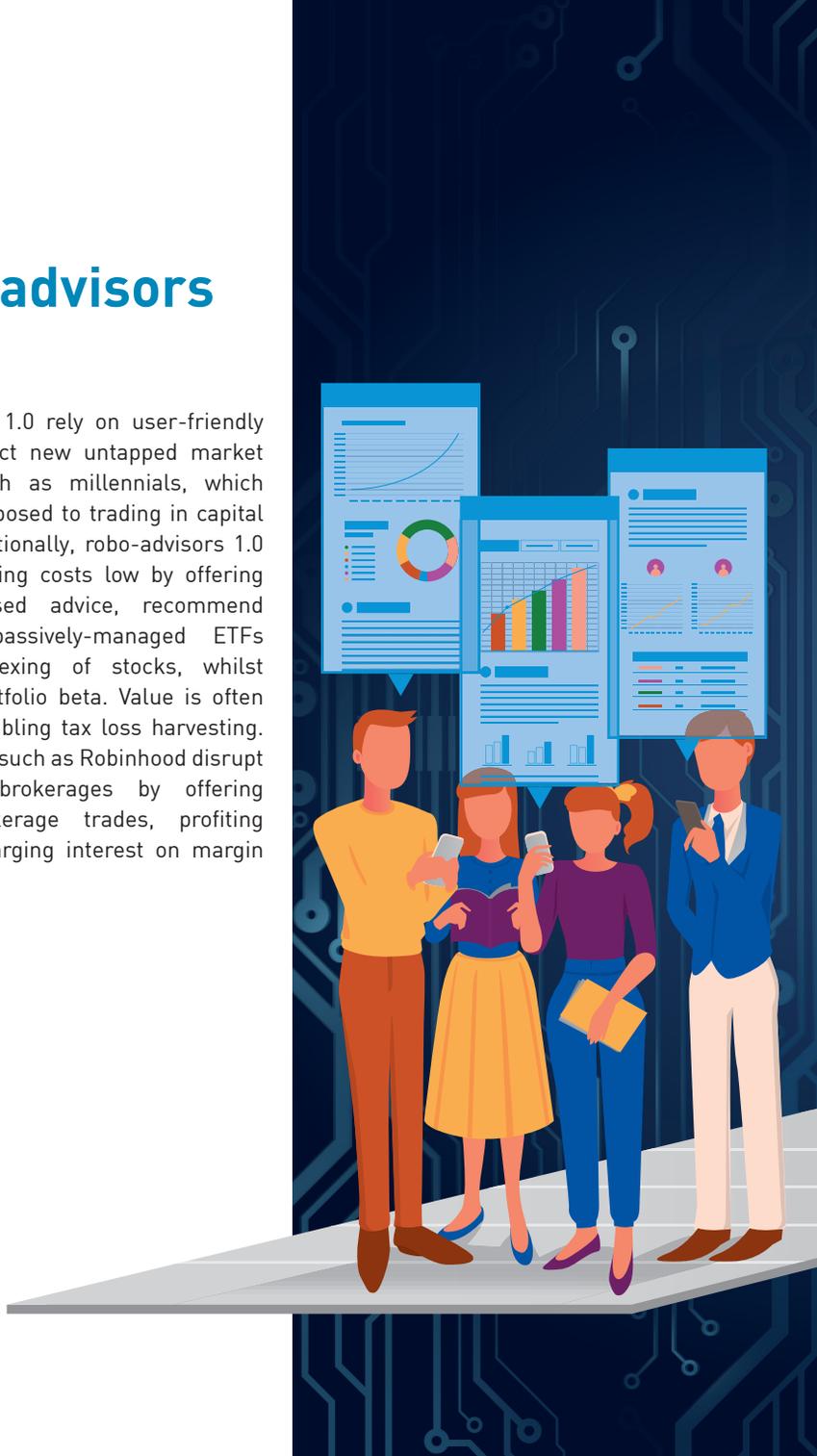
Platform with
data and ability to
backtest trading
strategies

2

TYPES OF RETAIL TRADERS

Robo-advisors 1.0.

Robo-advisors 1.0 rely on user-friendly UI/UX to attract new untapped market segments such as millennials, which may not be exposed to trading in capital markets. Functionally, robo-advisors 1.0 focus on keeping costs low by offering algorithms-based advice, recommend trading of passively-managed ETFs or direct indexing of stocks, whilst optimizing portfolio beta. Value is often created by enabling tax loss harvesting. Robo-advisors such as Robinhood disrupt conventional brokerages by offering zerocost brokerage trades, profiting instead by charging interest on margin trading.



8 Securities



securities

” OTHER ROBO-ADVISORS THAT ARE PURELY FRONT-END, IF THEY DON'T DO BROKERAGE AND EXECUTION HOW CAN THEY BE CONSIDERED ASSET MANAGERS? ”

Mikaal, CEO

Company description

8 Securities is Asia's first \$0 commission stock trading and robo-advisor service. Their target user is around 37 years old, has \$100,000 USD in assets and asset allocation of 75% in the market, 25% in cash. 90% of their users are passive investors which use their robo-advisor enabled app, and 10% of active investors which use their app to trade.

Why interesting

Free brokerage fees is a way to acquire users, real monetization will be via interest on margin trading similar to Robin Hood in the US. See regulation as their competitive edge and barrier to entry, as they are one of the few that are licensed in China and Japan.

Company is also growing fast, with a \$1B turnover, used in 60 countries but primarily in HK and Japan.

Robo-advisors 2.0.

Robo-advisors 2.0 are characterized by those which offer features which put more sophisticated trading strategies and analytics at the fingertips of a retail trader, such as alpha generation/smart beta strategies, algorithmic strategies, risk management tools, or portfolio tracking and analytics capabilities. This is the space that may threaten to also disrupt parts of the active management ecosystem. Robo-advisors 2.0 may also be able to charge higher management fees than their predecessors Robo-advisors 1.0.



Case Studies

Alpha Architect



alpha architect

“WE ARE QUITE UNIQUE IN OUR CUSTOMER ACQUISITION, HAVING STARTED WITH A BASE OF FOLLOWERS THAT FOLLOW OUR INVESTMENT STRATEGIES THROUGH OUR BLOG”

Jack, CFO

Company description

Robo-advisor with a focus on value and momentum factor exposures.

Their primary channel for user acquisition is through their blog, which has a following of users.

Why interesting

Unlike other robo-advisors that just use standard modern portfolio theory, they provide active management suggestions similar to traditional asset managers.

Revenue model is an advisory model, charges 25 basis points on assets under management.

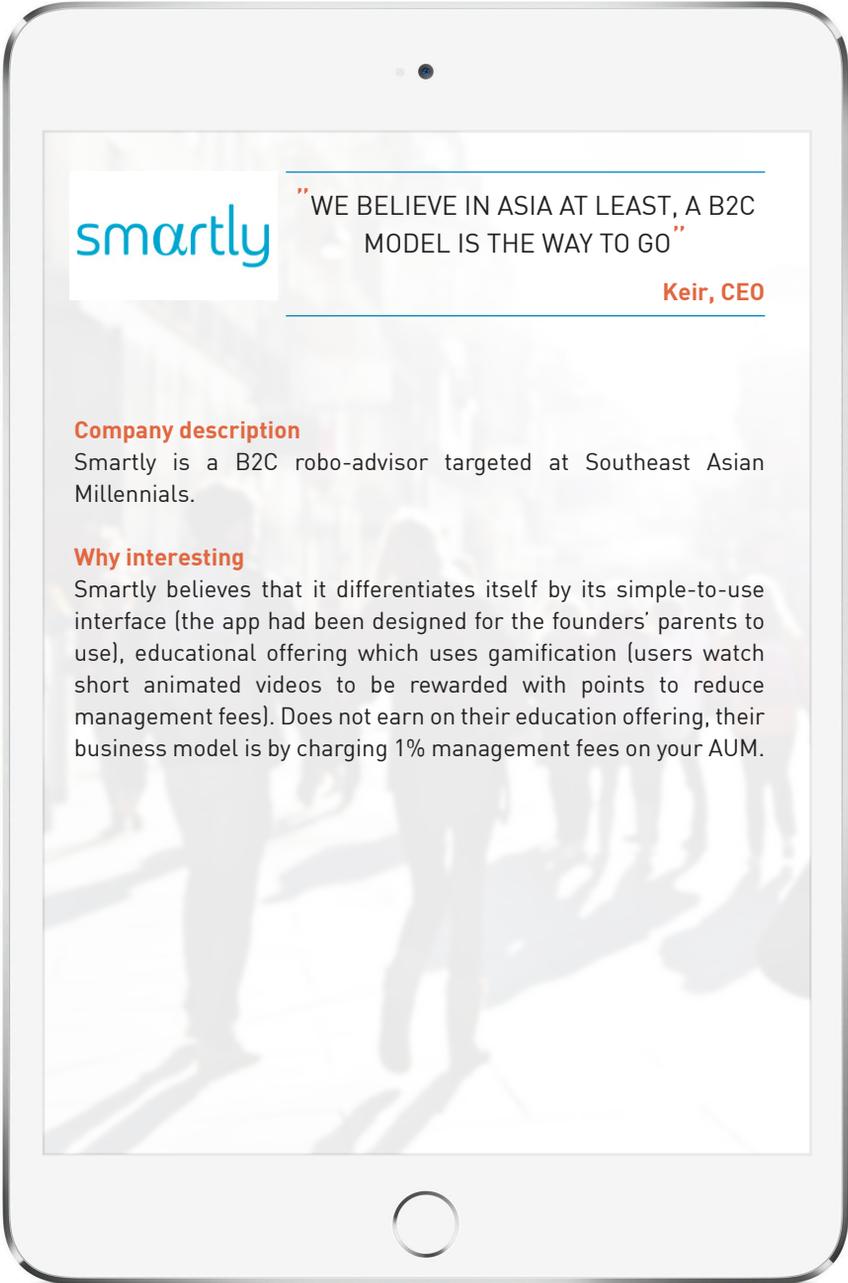


Robo-advisors- as-a-service

Start-ups in this space offer white-labelled Robo-advisor 1.0 solutions to financial institutions, which in turn integrate them as extensions of existing CRM tools which wealth advisors use to acquire new customers. Examples include Smartly and Bambu.



Case Studies
Smartly



smartly

“WE BELIEVE IN ASIA AT LEAST, A B2C MODEL IS THE WAY TO GO”

Keir, CEO

Company description

Smartly is a B2C robo-advisor targeted at Southeast Asian Millennials.

Why interesting

Smartly believes that it differentiates itself by its simple-to-use interface (the app had been designed for the founders' parents to use), educational offering which uses gamification (users watch short animated videos to be rewarded with points to reduce management fees). Does not earn on their education offering, their business model is by charging 1% management fees on your AUM.

Case Studies

Bambu



” AS WE ARE ONE OF THE FIRST FEW IN THIS SPACE, A LOT OF WHAT WE DO IS RAISING AWARENESS AND EDUCATION ”

Aki, CEO

Company description

Bambu is a B2B robo-advisor that provides white-labelled solutions to banks and financial institutions. Signed a proof of concept with Standard Chartered bank in April 2017.

Why interesting

What Bambu does is “goal-based investing”. Going from “what” you are investing into to “why” you are investing. Their platform focuses your investment around as many

investment goals as you want, e.g. retirement, children’s education, travel.

Believes in different approaches to enter different markets; In Hong Kong, one can partner with financial institutions, while in Indonesia it might easier to partner with a big e-commerce provider to acquire users. Revenue model is an advisory model, charges 25 basis points on assets under management.



Market Intelligence

Discover new strategies

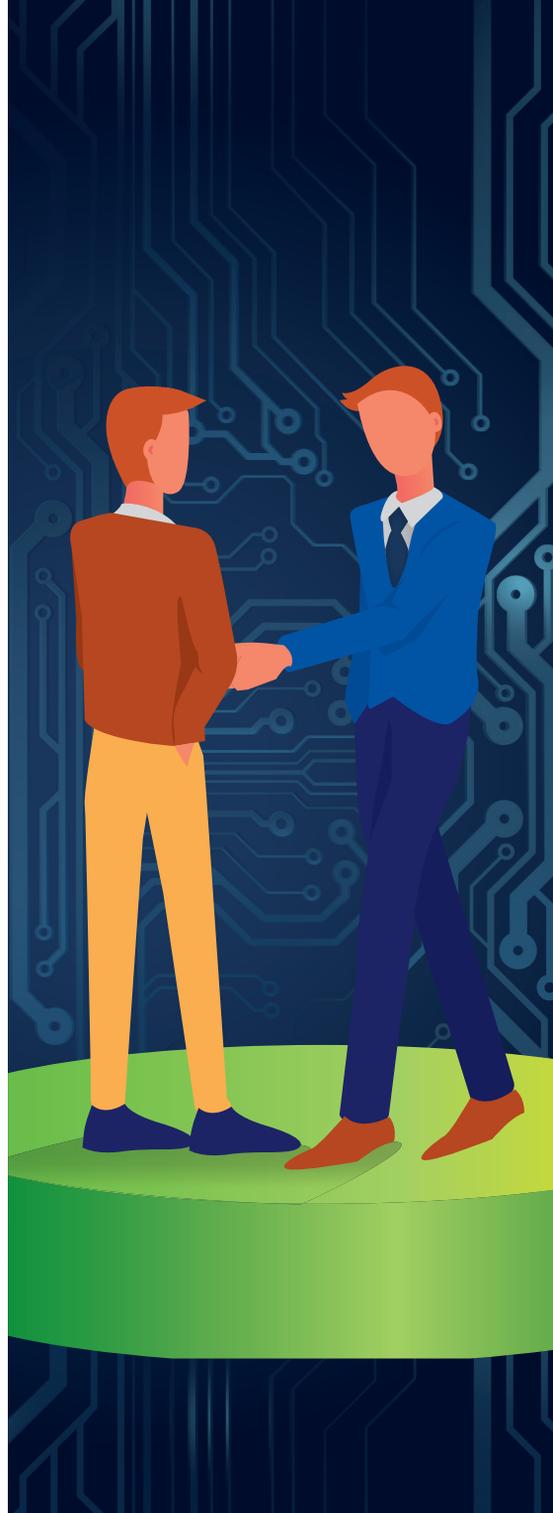
Social platforms such as Ayondo allow traders to interact and share winning trades. AlgoMerchant, CloneAlgo and Quantopian allow traders to copy winning trading algorithms. AlgoMerchant goes one step further to allow direct execution of these strategies through their platform.

Test out trading strategies

In the past, retail investors had to write their own code from scratch to develop trading systems. Startups are democratizing the space to make this process easier, such as Quantopian which provides a platform to allow traders to generate and back-test new strategies.

Signals generation

Call Levels, Stockpickr and AlgoMerchant are Fintechs which harness technology to help retail traders uncover trading opportunities based on technical and fundamental analysis. Call levels has partnered with DBS's trading platform (DBS Vickers) in 2016 to provide market monitoring services to investors.



Case Studies
Tixguru



tixguru

“WITH MORE DATA PROVIDED BY BANKS OR BROKERS ON CLIENT PORTFOLIOS, WE CAN EVEN DEVELOP MORE SOPHISTICATED SOLUTIONS IN PORTFOLIO MANAGEMENT”

James, CTO

Company description

Tixguru applies quantitative analysis and AI neural networks to forecast a stock’s upside/downside probability. Their proprietary model creates a probability of upside rating from 0-100%, for traders to use in their stock screening. Decided to adopt a B2B2C model to bypass regulatory hurdles.

Why interesting

Tixguru believes they are the first in Asia to be in this space. Though hedge funds may have components of quant analysis for screening, Tixguru is the first to democratise both quant and AI technology to the retail market.



Portfolio analytics/ monitoring

Start-ups in this space provide advanced analytics and monitoring to retail traders. Financial analytics provider Addepar announced a partnership with Morgan Stanley in Jan 2017 to provide its analytics as a differentiated service offering for high net worth clients to track portfolios. Another example is Mesitis in Asia which seeks to bring sophisticated tracking tools to retail traders.



Case Studies

Mesitis



Company description

Mesitis provides B2B2C client portfolio reporting and analytic solutions for family offices and wealth managers. Also has a B2C offering costing \$10,000 per year that only targets high net worth individuals of net worth over 30 million.

Why interesting

Their competitor is Addepar in the US, in Asia they are one of the only ones in this space. Barriers of entry is not too high for their type of business, but getting good partners is, and Mesitis is definitely ahead

“REGULATION WON'T DRIVE ADOPTION; MARKET FORCES WILL. ONCE A CERTAIN BANK HAS OFFERED AN ANALYTIC PRODUCT TO ITS CUSTOMERS, CUSTOMERS OF BANK B WILL START TO DEMAND THIS AS WELL”

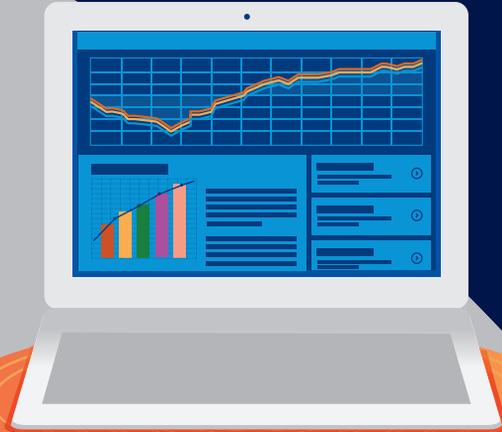
Takeshi, CEO

of the game having secured Credit Suisse as a partner. Since most individuals - not only high net worth - also have multiple bank and investment accounts, there could be a real need for such a solution. provider to acquire users.



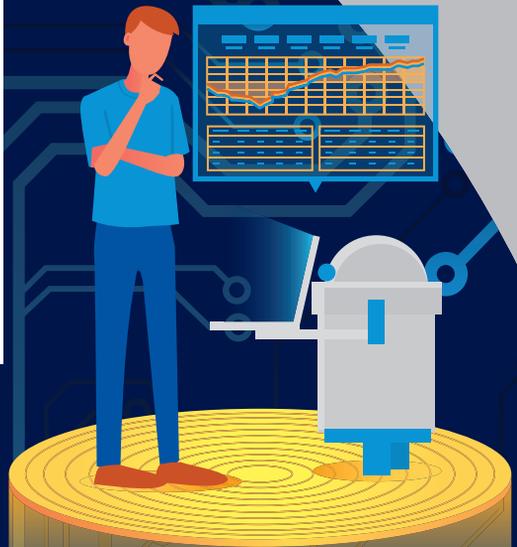
1. Robo-advisors differ in their partnership model with banks and financial institutions

Some are largely independent and use the partnership to get past regulation (Smartly); Others are end to end from onboarding to execution of trades (8 Securities); Some just are involved in the user experience (Bambu).



2. Regulation driving opportunities

Regulation such as PSD2 in Europe presents opportunities for retail trading platforms to integrate with consumer bank accounts in a more holistic investment management approach.



Where is Fintech in retail trading this heading?



3. The future of trading could be AI-based trade recommendations

Similar to how Youtube recommends your next clip and how Amazon recommends your next purchase through machine learning, Fintechs such as Tixguru could eventually optimize their recommendation engine to tailor trades to optimize your portfolio needs.

4. Data as a business model

Since robo-advisors have visibility over their customer's trading data, in the future, they may be able to further monetize this as a revenue stream by offering this data as market intelligence.



5. The nature of diversification signals room for multiple players

Similar to how individuals have multiple bank accounts, most investors may use several robo-advisors to manage their monies. This will drive demand for multiple robo-advisors with differentiated value propositions (some may offer thematic investing; others goal-based savings etc), and also the demand for Fintechs that provide services to aggregate and monitor your investments.

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He graduated first in the MIT class of 1995 dual degrees in Mathematics, won medals in international mathematical Olympiads, and European awards for business case studies.

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Warren is currently FinTech Strategist at DBS Bank, rated the world best digital bank. Main portfolios are establishing the bank's accelerator program and developing API partnerships. Warren has experience in deals across early stage investments, having worked in venture capital in Silicon Valley and Singapore, and PE/ M&A deals commercial due diligence as a strategy consultant. Experienced with start-ups as an entrepreneur, investor, mentor, and managing accelerator programs. Attended Masters in Finance from INSEAD on an INSEAD scholarship, and BBA (Hons) in Finance from NUS on a Singapore government undergraduate scholarship.

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About LIFE SREDA

Life.SREDA VC is an international venture capital firm, established in 2012 and headquartered in Singapore. Being one of the first FinTech-only non-corporate VC fund in the world, we have already invested in more than 20 FinTech companies around the world through our 2 funds: Life.SREDA I (\$40M) and Life.SREDA II Asia (\$100M).

Life.SREDA VC is headed by Slava Solodkiy, listed as one of TOP35 most influential fintech-persons in the world (according Institutional Investor magazine) and one of TOP100 innovative bankers in Asia (according to NextMoney), and Igor Pesin, who serves as CFO and Investment Director of the fund.



About EAST VENTURES

East Ventures aims to bring success to ventures by providing early stage seed capital to promising startups. With a total of 5 offices in Jakarta, Tokyo, and San Francisco, our global team has invested in over 150 companies across Asia and the US. Our portfolio of companies focuses on commerce, social, game, SAAS, and mobile services.

Our investment team consists of experienced professionals that allow us to provide a strong network across Asia.

East Ventures actively involves in community development and capacity building via its coworking spaces called EV Hive in Jakarta and Tangerang (Indonesia), and Hive Shibuya in Tokyo (Japan).

This book is designed and illustrated by

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