# The Evolution of Fintech, the Modern Investor, and Tomorrow's Advisors

SigFig Research

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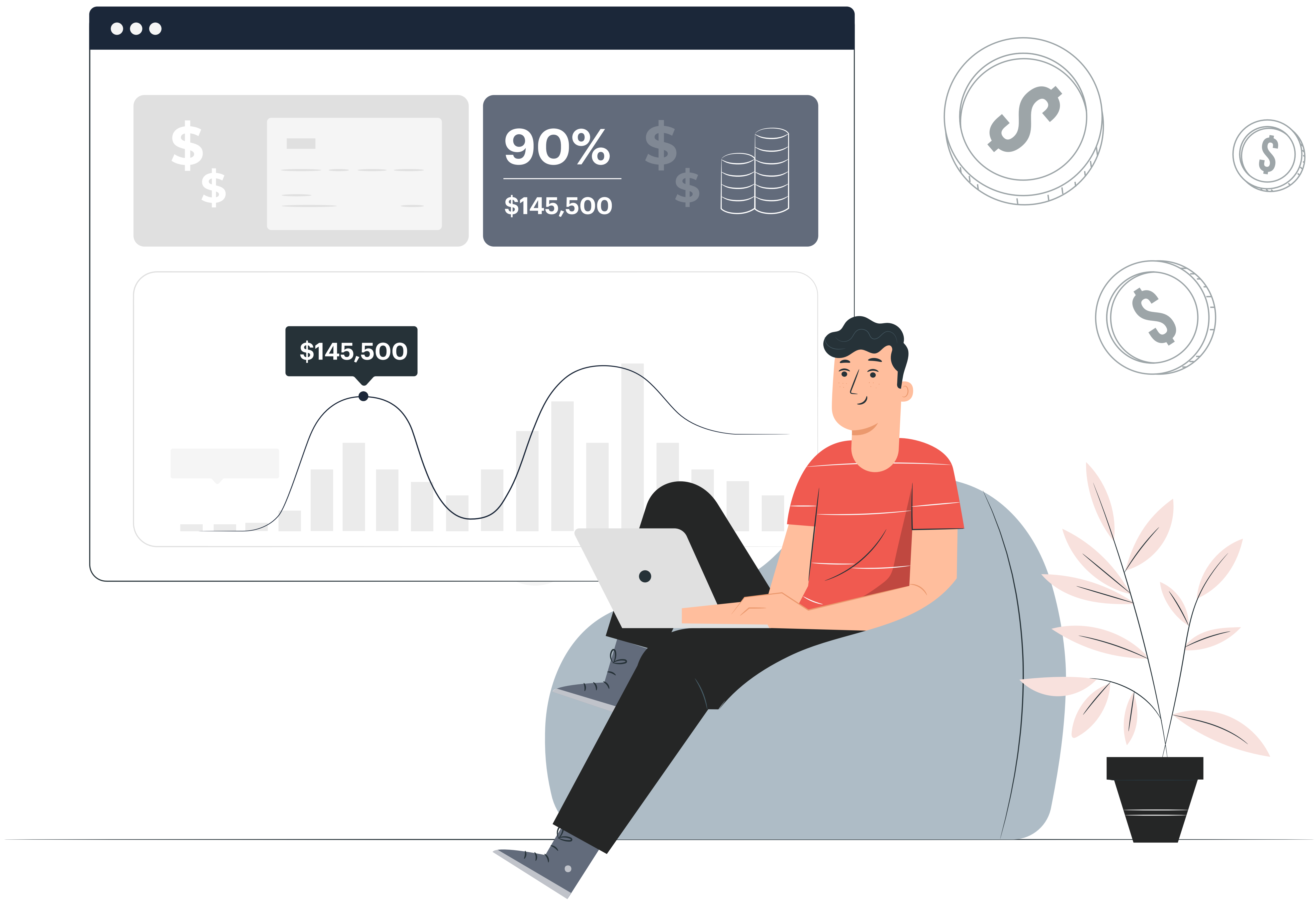
# Executive Summary

**Financial technology** has revolutionized money management and the investor experience. Investors are more tech-savvy and, therefore, more critical about digital capabilities than ever before, which places substantial pressure on wealth management providers and advisors. Those who incorporate frictionless UX and robust features into their platforms will likely be competitive — those who don't may lag behind indefinitely.




## Key Takeaways

The line between advised and self-directed investors appears to have blurred, but technology may be the key to securing and retaining additional clients.

More capital flowed into fintechs in 2021 than all of 2017, 2019, and 2020 combined — raising the industry's growth trajectory and presenting a major opportunity for firms to stay ahead of the curve by augmenting their platforms.

Technology has transformed investing, giving rise to a new generation of tech-savvy investors who are finicky about digital platforms but deeply desire financial guidance.

Many advisors have already lost business due to inadequate technology. Acceptance and adoption of third-party digital tools may separate the winners from the losers in the advisory space.

## Blurred Lines:

# Advised vs Self-directed Investors


This is how we see the average, run-of-the-mill investor in 2022. They take a keen interest in daily market movements, whether they're experienced or not. They're open to trying just about any app if it can help them manage their money. They might have subscriptions to investment research platforms so they can stay up-to-date on their holdings. They may even be outspoken with their stock opinions on social media — possibly cheering their tickers on.

You might assume the picture we've painted describes a self-directed investor who's adamant about managing their own money and controlling their financial future, right?

Not necessarily.

In our tech-enabled, investor-centric world, the above description could just as easily apply to advised investors. That's because evidence suggests the line between self-directed and advised investing has blurred. In many cases, the activities and preferences of these categories overlap.

Greg O'Gara and William Trout of Javelin Strategy & Research explored this phenomenon in a recent report, *Technology Redefines Traditional Notions of Investor Behavior*.  According to their research, almost half of advised investors have a self-directed brokerage account.

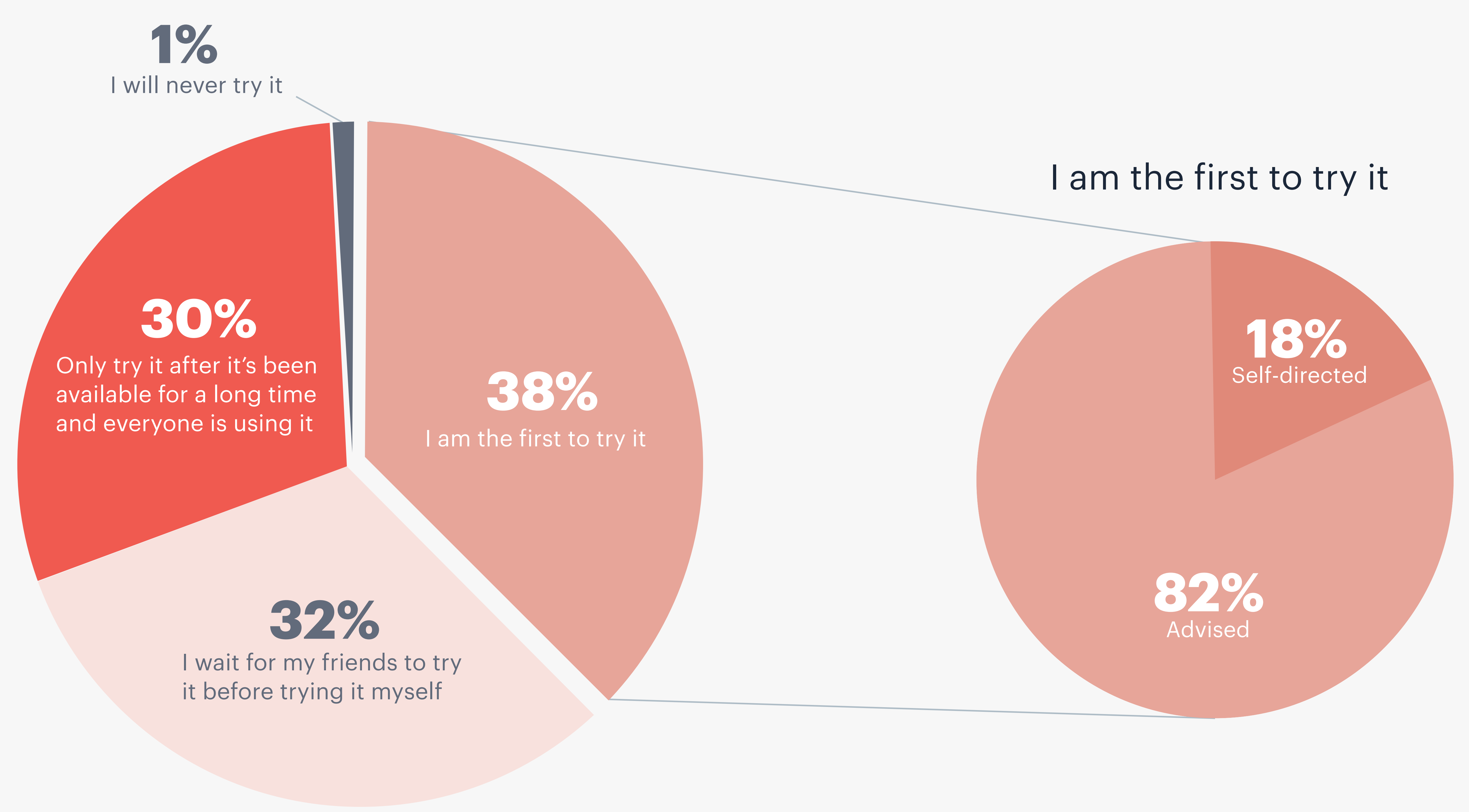
In years past, advised investors would typically lean on their advisors and embrace the set-it-and-forget-it approach. Now, many seem to want active involvement in their wealth management — whether that's analyzing portfolio performance or researching potential investments.

What's driving this shift? It seems to be attributable, in large part, to the evolution of fintech and the everyday retail investor.

Advised investors, in particular, are not only open to new technology, but they may even view themselves as financial pioneers. Of the investors that Javelin surveyed, 38% considered themselves as early adopters of new technology. Of that subset, 82% were advised.

## Advised Investors are Early Adopters of New Technology

Figure 4. Percentage of Investors Willing To Try New Technology (Rounded)




*Source: Jovellin Strategy & Research, 2021*

As O'Gara and Trout point out in their report, "Anything [investors] cannot accomplish, enjoyably use, or flexibly integrate from their primary provider, they will seek out for a better digital experience and enhanced functionality."

It's fair to assume that providers that fail to adapt alongside tech innovation will be left in the digital dust. Before we explore how advisors can understand the wants and needs of the new age investor and potentially speak to those investors, let's explore how we got here.

> Javelin research found that **70%** of advised investors had analyzed their portfolio's performance in the last 30 days. Nearly two-thirds had performed investment research.

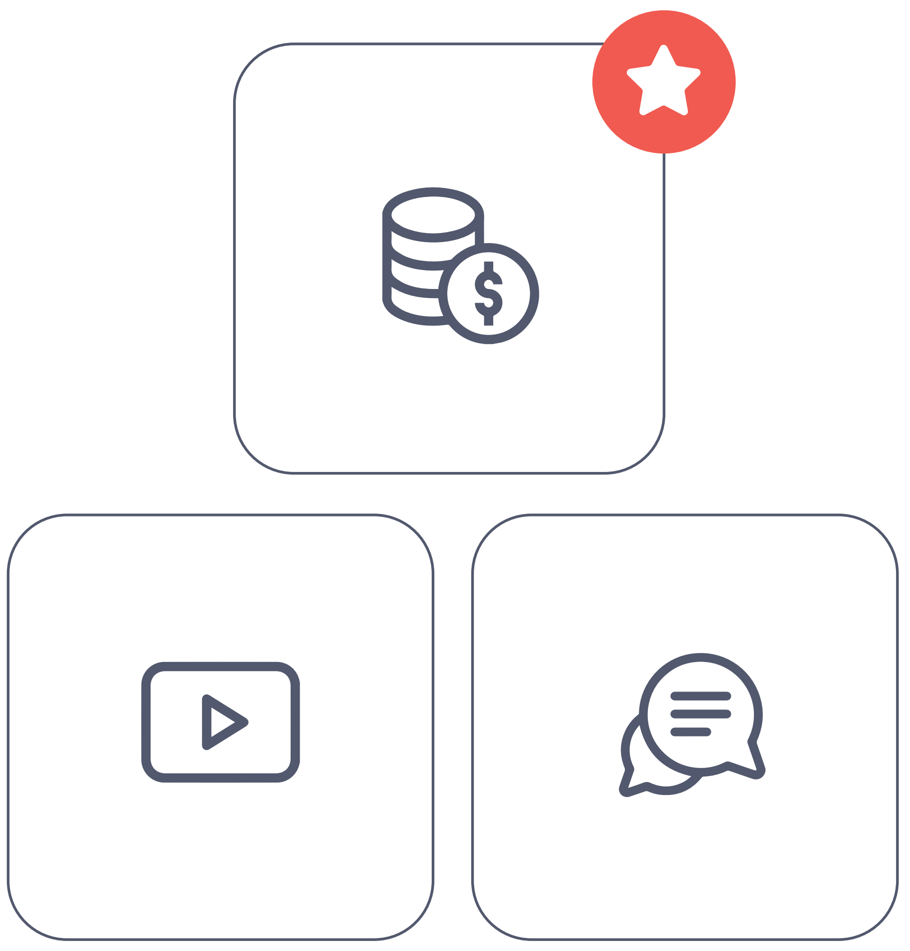
## Fee-Fin-Fo-Fum:

# The Story Of Fintech's Rise

It's reasonable to say that successful financial institutions will don the "fintech" label at some point in the near future. That's because it's hard to imagine any company, let alone those in the financial sector, surviving in a digital-focused world without investing in technology in some way, shape or form..

If there were any doubts that tech-infused finance was on the rise, 2021 erased them. Data suggests that fintechs have eclipsed the "trending" phase and reached mass adoption.


According to last year's research, close to 90% of US consumers relied on technology to manage their finances — a massive 52% increase compared to 2020. For context, fintech is now more prevalent in terms of usage than video streaming services **(78%)** and social media **(72%)**.[2] To put that another way, if you were to pluck a stranger out of a crowd, there's actually a better chance they have a fintech app on their smartphone than a social media app. (Although they likely have both.)



But what's driving the continued proliferation and assimilation of fintech? Let's explore the forces behind financial technology's surge.

## Open Banking Revitalized Competition

The advent of open banking provided a solution to the financial system's innovation problem. Through the deployment of application programming interfaces (APIs), open banking allows third-party fintechs to access consumer financial data. Armed with this information, fintechs can then develop new apps and features based on consumer pain points and general holes in the traditional financial management process.

This open-tech ecosystem has already caught on with most consumers. According to a MasterCard survey, 81% of US respondents had connected their primary bank accounts to third-party financial apps — over 90% in the cases of Millennials and Gen Z.[4]
More importantly, almost half of all respondents were using fintech for investing purposes.

Even though open banking reinvigorated competition, an opportunity also emerged for mutually beneficial partnerships between banks and fintechs. Layering APIs on top of legacy infrastructure expedites product development and bridges the gap between technologically-wanting consumers and technologically-deficient banks.

According to ***Plaid***, the three highest-rated benefits of fintech are:

**82%** Easier tracking of finances

**81%** More control

**79%** More choices

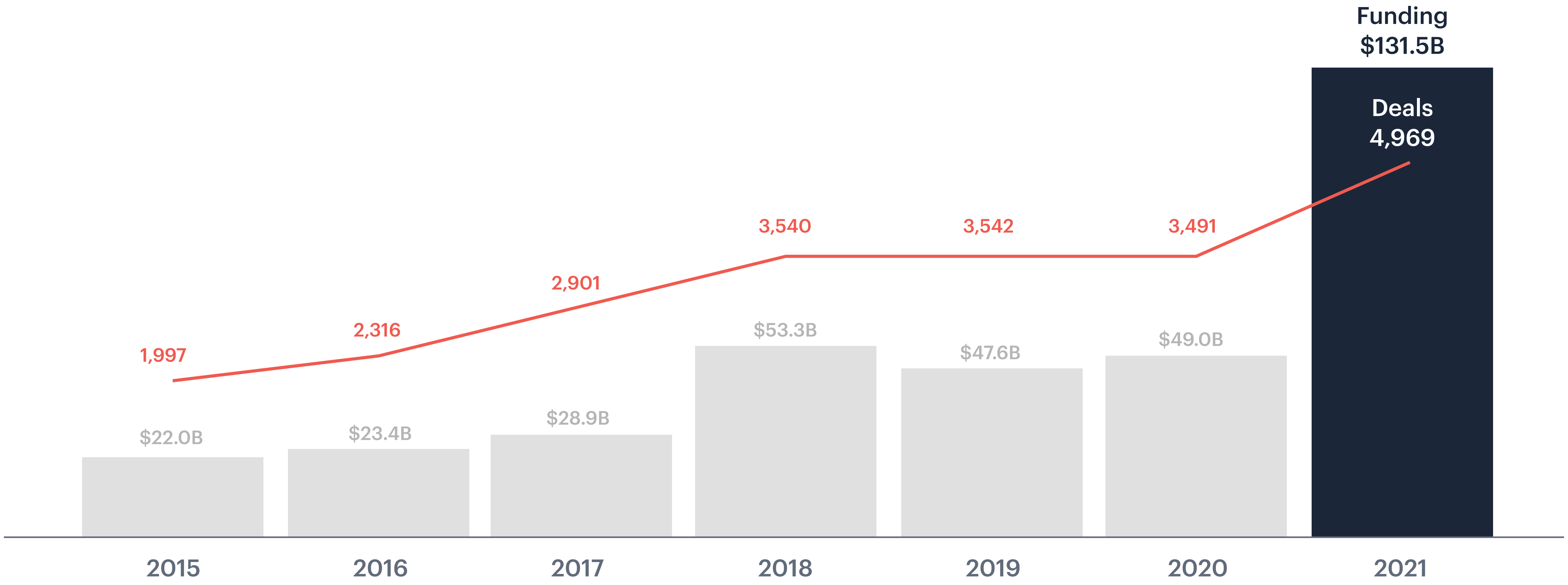
## Numbers Don't Lie. Follow The Money.

If you want proof of fintech's rise, just follow the money. Capital is flowing into the fintech space at a feverish pace.[5]

According to a CB Insights report:

In **2015**, there were 1,997 fintech deals worth approximately **$22 billion** across the globe.

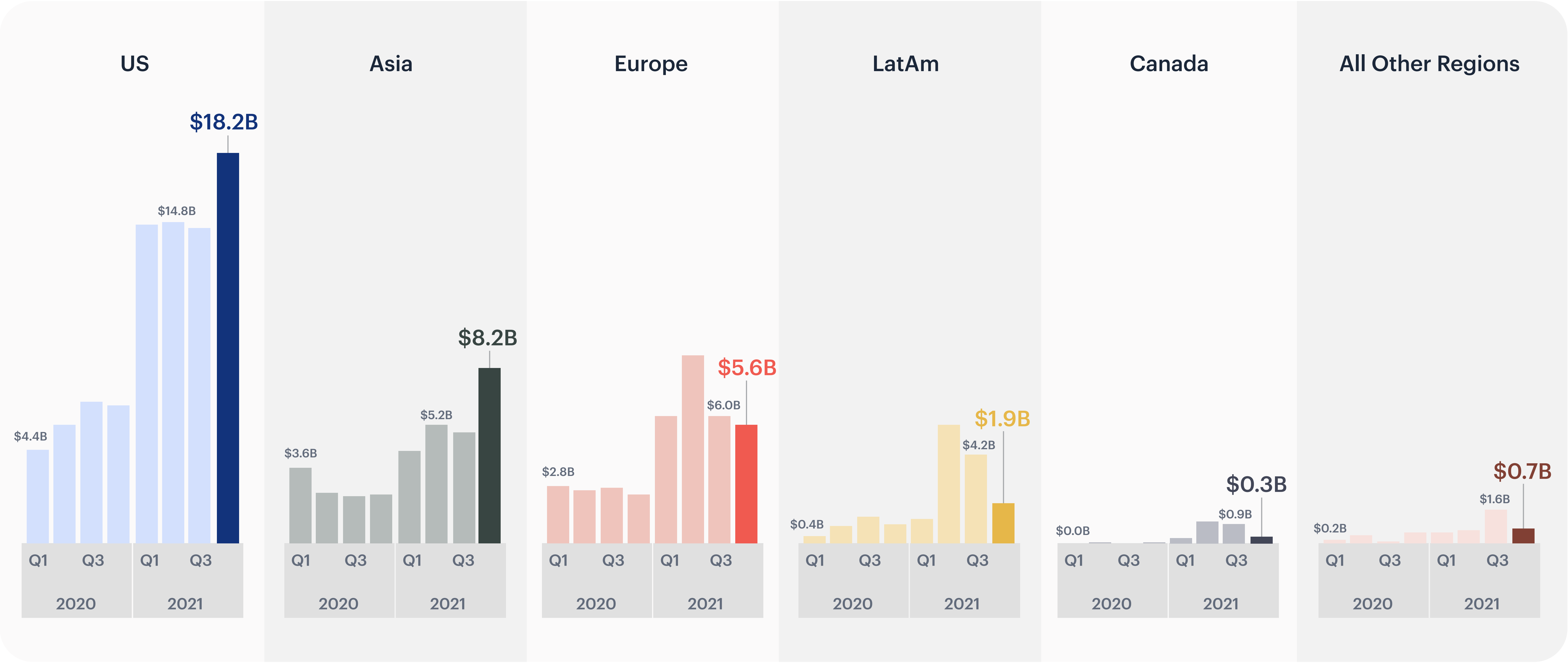
In **2021**, those figures swelled — a record **$131.5 billion** of funding across nearly 5,000 deals.




*Source: CB Insights, State of Venture, January 2022.*

Each quarter of 2021 saw more capital raised than all of 2015 combined. Fintech was the clear frontrunner in the funding space, as fintech startups accounted for 21% of all venture dollars. Moreover, one out of every four unicorns belonged to the fintech industry.[5]

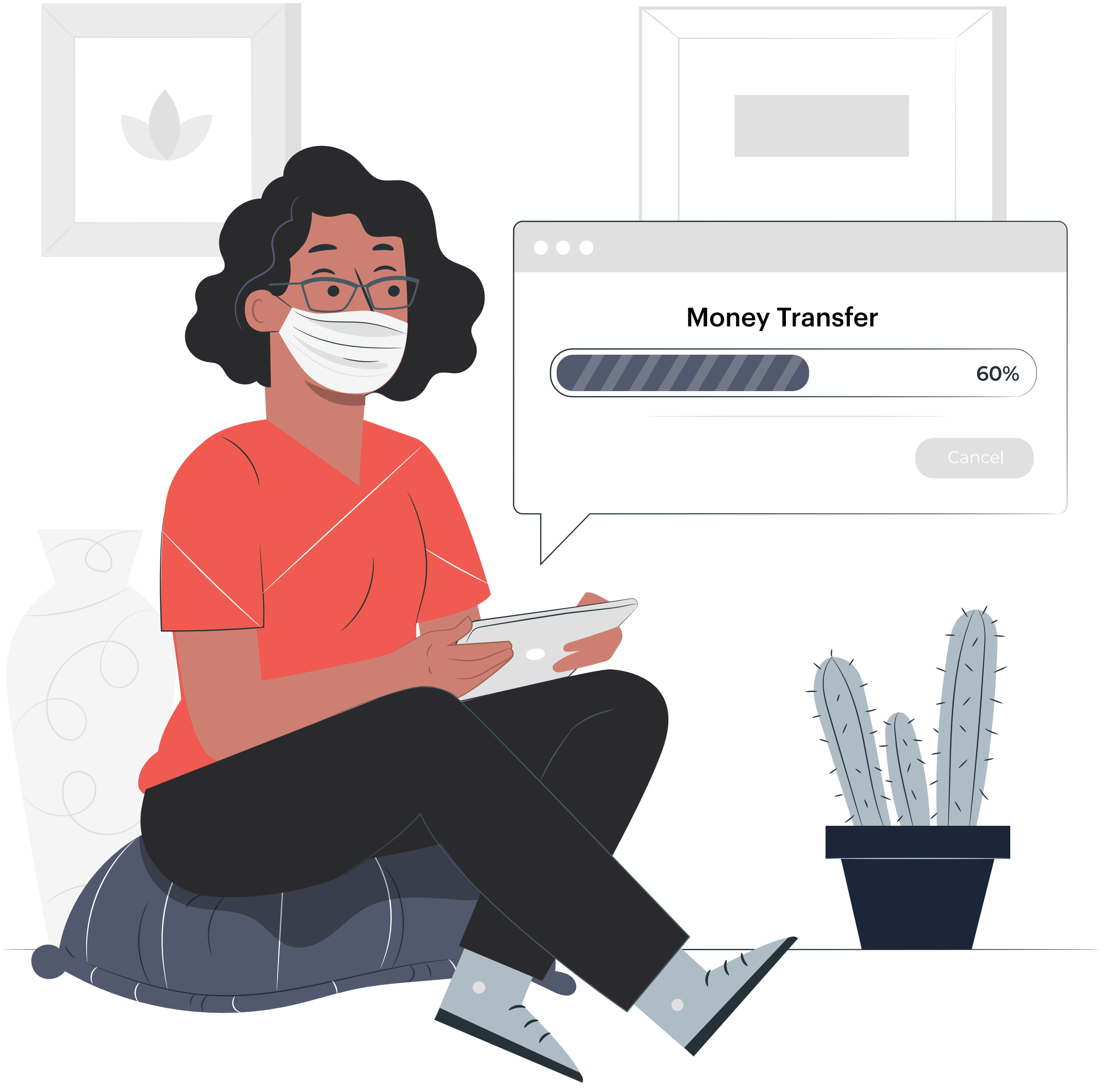
The US has been the predominant force behind fintech's meteoric ascent. For instance, in Q4 of 2021, US fintech funding totaled $18.2 billion, while the rest of the world accounted for $16.7 billion.



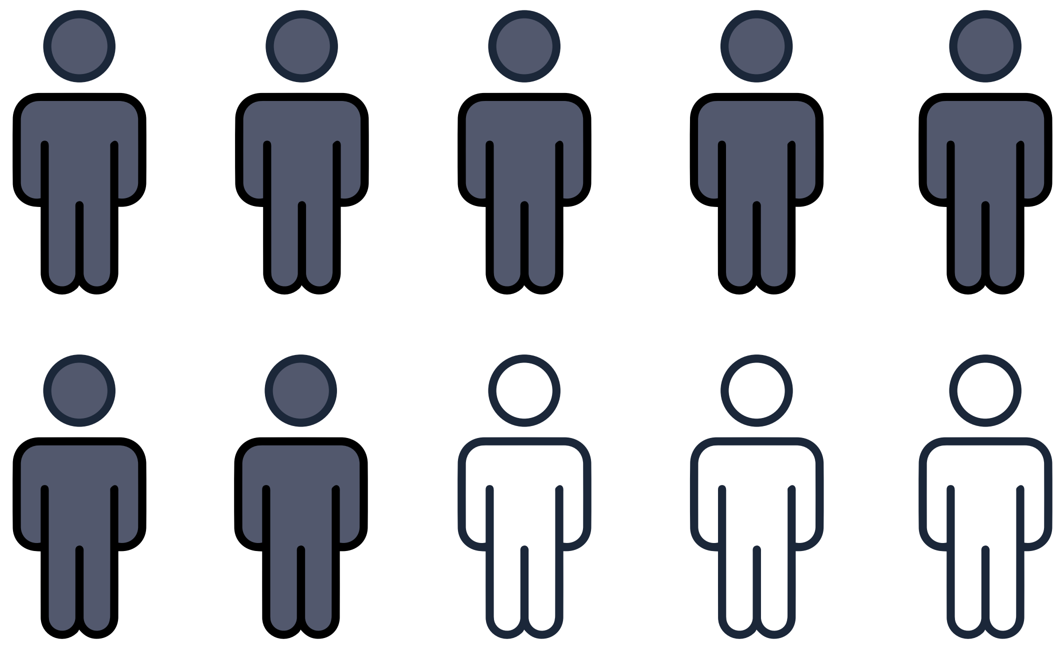

*Source: CB Insights, State of Venture, January 2022.*

## The COVID-19 Pandemic Accelerated Digital Adoption

It's not a secret — people increased their usage of technology during the pandemic across all walks of life. Personal finance was no exception.




Before the pandemic, 37% of users reported interacting with their fintech apps on a daily basis.[6] Today, that figure has jumped to 48%. This activity probably isn't a trend — it appears to be an ingrained habit with staying power. Anywhere from 80% to 90% of existing fintech users expect to continue utilizing fintech for money management across all use cases (e.g., banking, investing, paying bills, etc.).[6]



**According to a *Plaid* survey, nearly 7 in 10 respondents leverage technology as much as possible to oversee their finances.**

# The New Breed Of Retail Investor

Investing has come a long way over the last three decades. E*Trade revolutionized the practice as one of the first companies to offer online trading. Robinhood paved the way to commission-free trading. Coinbase connected eager traders with speculative digital assets. Collectively, fintech proliferation has engendered a new generation of tech-savvy investors, who Charles Schwab has dubbed “Generation Investors” or “Gen I.”

These investors may be inexperienced, but they represent a sizable portion of the market (estimated at 15%) and they’re hungry to take control of their finances and grow wealth.[7]

According to a Schwab study:

**94%**
of Gen I want access to information and tools so they can perform their own research

**90%**
of Gen I want educational materials to improve their investing skills

**82%**
of Gen I are open to working with an investment professional who can provide ongoing help and guidance

We believe several movements have catalyzed this influx of new investors.

# Innovation Changed The Consumer Mindset

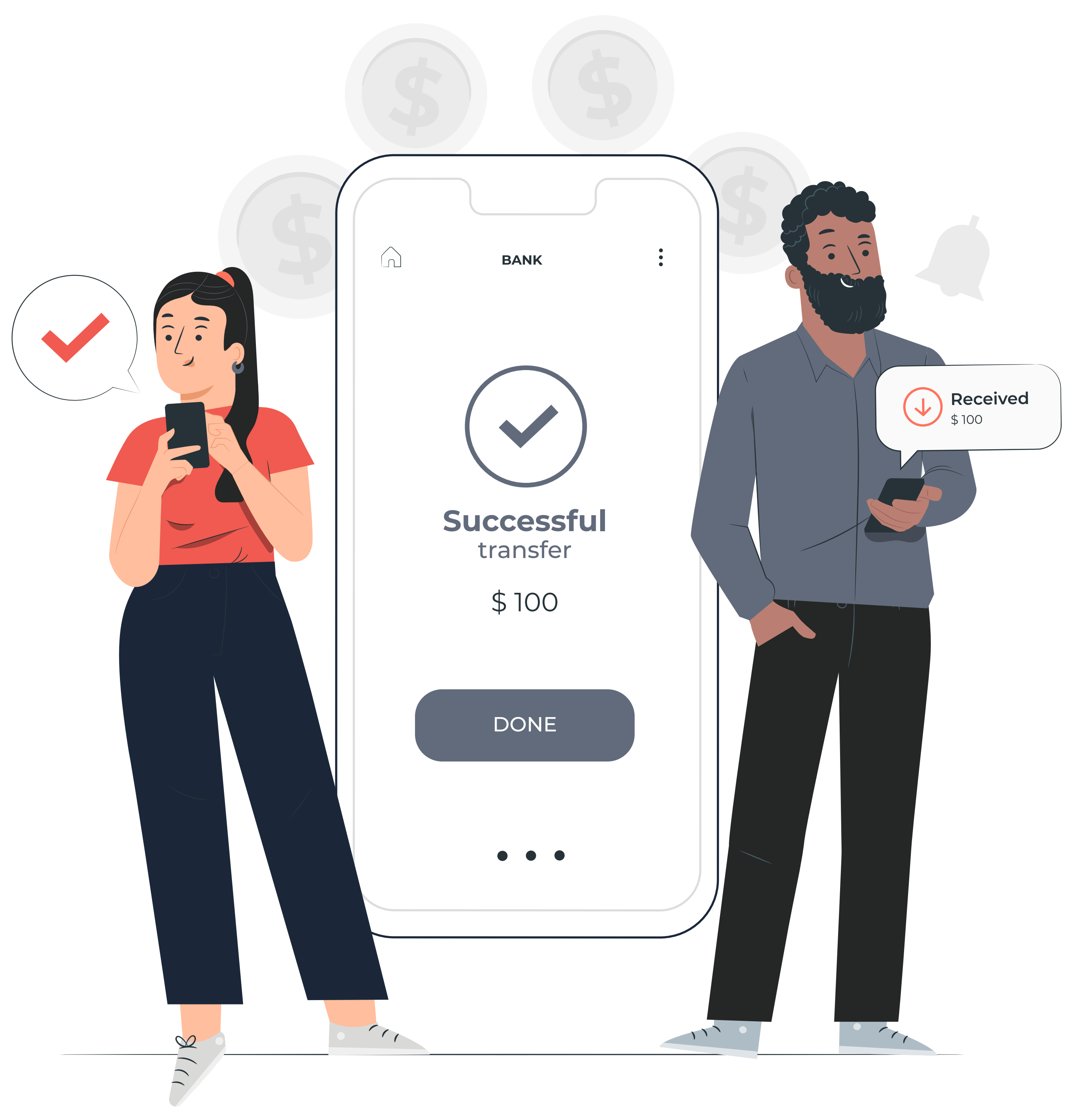
There was a time when certain experts argued the Internet was a fad. Almost three decades later, the information superhighway is as ubiquitous as air. And much to no one’s surprise, it’s had massive implications on the way people live — including how we manage money.

If the Internet changed the game, smartphones changed the rules. Apps and user-friendly interfaces made money management more straightforward, convenient, and, most importantly, transparent. Slowly but surely, people have grown to trust technology with their finances,

Millennials trust fintechs (75%) almost as much as traditional institutions (79%), finds a report by Plaid. Gen Z actually trusts the former (66%) more than the latter (63%).[8]

Many dipped their toes in with activities like paying bills, managing bank accounts, and sending money to friends and family. Now, they’re leaning on this familiarity and confidently exploring additional use cases, including investing and financial planning.

According to a MasterCard survey, 46% of fintech users leverage a digital app or platform for investing purposes and 36% utilize technology for financial planning — most of these users started doing so in 2021.[9]



## The Wealth Castle's Gates Have Lowered. All Are Now Welcome.

Fintech's boom has benefited the everyday investor enormously, as investors now have much wider access to financial services. If yesterday's barriers to entry were akin to castle walls, today's are more like waist-high picket fences. Brokerage platforms are expected to offer investor-friendly features like nominal or nonexistent account minimums, fractional shares, and zero-commission trading. Or else they may not be able to compete.

In that sense, usability has become a distinguishing feature for platforms as well. Investors have an arsenal of tools at their disposal, if they so choose.

If they want to aggregate accounts for a comprehensive overview of their finances, they can. If they want to track financial goals with dynamic visuals and projections, they can. If they want a platform with extensive research features, they can find one.

## Communal Hubs Shattered The Opaque Glass That Siloed Personal Finance

Thanks to trading apps, buying shares of trending stocks is basically as easy as publishing a tweet. But who's to say you can't do both?

The Internet not only paved the way for fintechs to grow but also fostered an everlasting cultural movement — community building. People are more willing than ever to share personal financial information and opinions on social media platforms like Twitter, Reddit, and TikTok.

These communal hubs have enabled unprecedented levels of transparency, insights, and accountability. In the context of investing, people can readily offer investment analysis and opine on market movements, whether they're experts on the subject or not. While this can lead to misguidance and ill-informed decisions, it's also shed light on the collective power of individual investors.

Look no further than the recent "meme stock" revolution, which witnessed a David-and-Goliath-esque battle between retail investors and some of Wall Street's biggest investment funds. For instance, Melvin Capital lost billions of dollars betting against meme-investor-favorite GameStop, eventually leading to the hedge fund company's shutdown.[10]

# Investors Still Need Advisors. But Advisors Likely Need to Adapt.

Where does this leave the financial advisor — a traditional role in a modernizing field? You'd think a fintech surge and an emerging investor profile that prioritizes personal control would challenge the very existence of human advisors. But that's not necessarily the case.

The vast majority of investors — regardless of age, experience, and advisor usage — seem to appreciate the value and skills of financial professionals. And that appears to hold true even when pitted against technological innovation.[11]

According to a Charles Schwab survey:

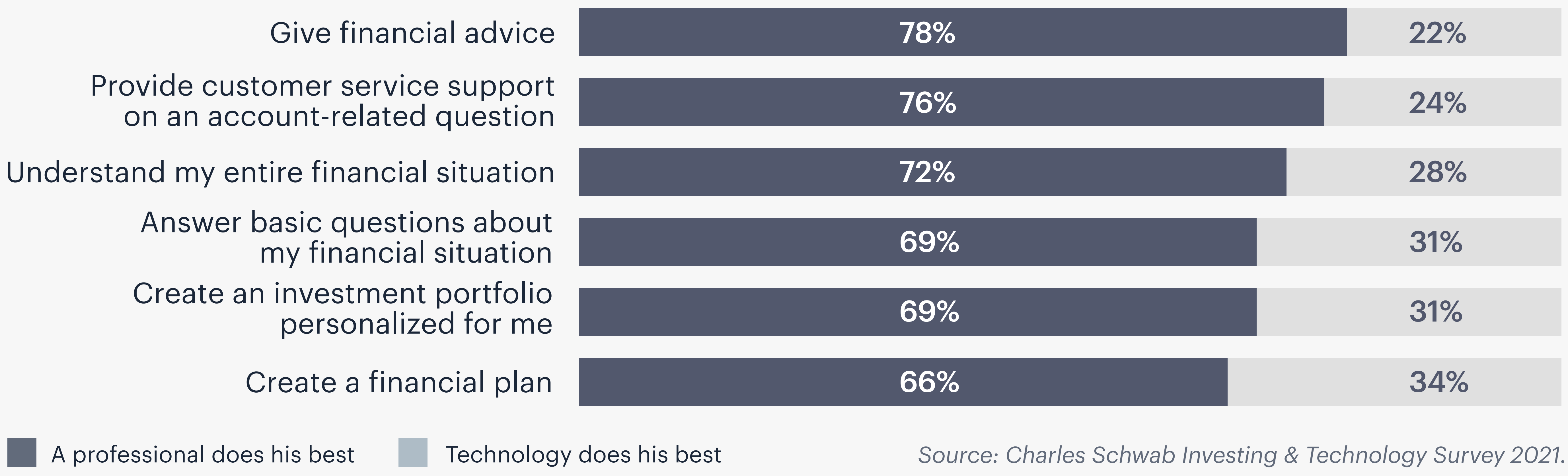
**78%** of investors thought financial professionals were better at giving financial advice than technology

**72%** thought financial professionals were better at understanding their entire financial situation

**69%** thought financial professionals were better at creating a personalized investment portfolio

**66%** thought financial professionals were better at creating a financial plan

### Sentiment Around Financial Professionals vs. Technology (All Investors)



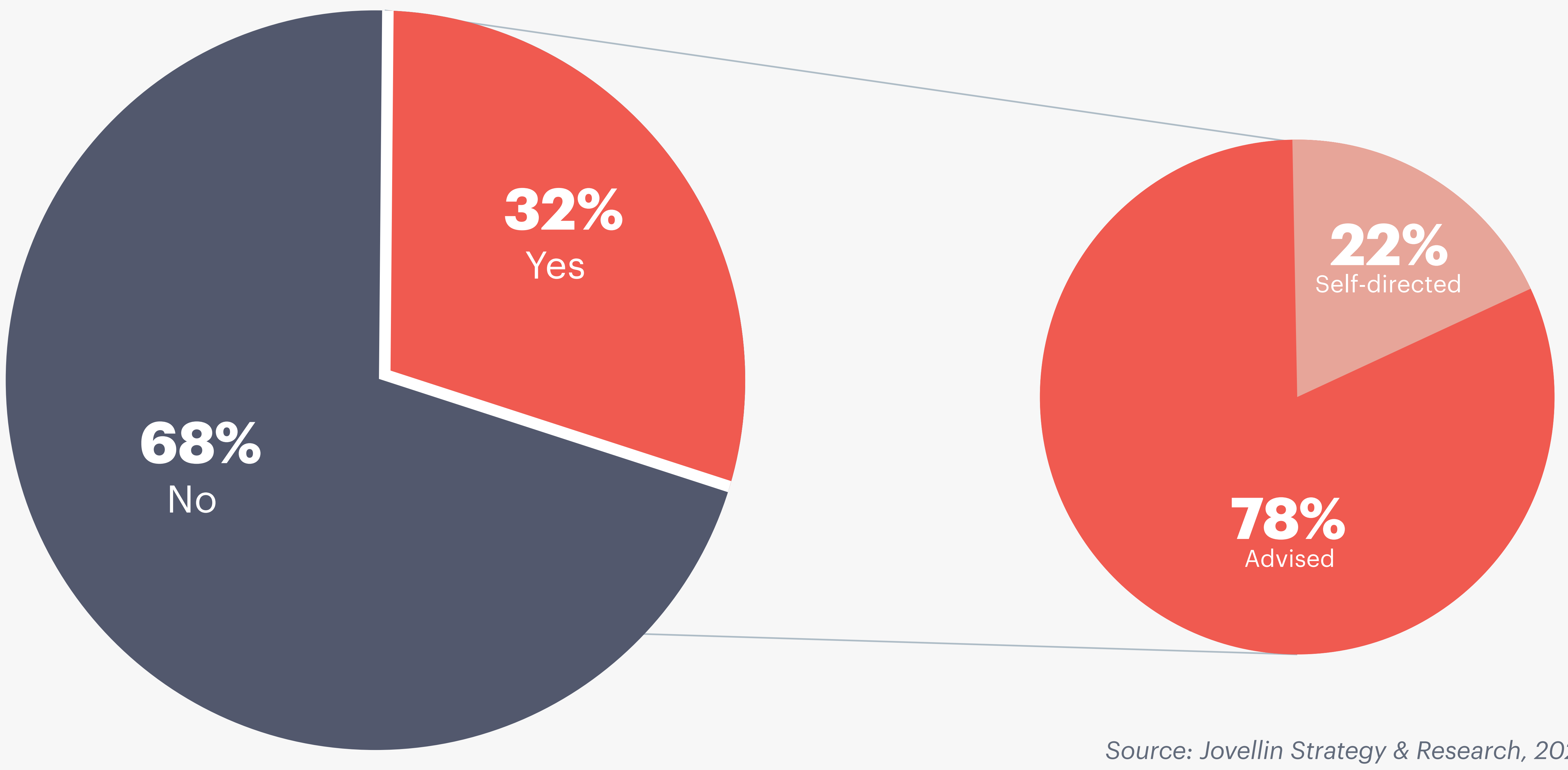

*Source: Charles Schwab Investing & Technology Survey 2021.*

Per this data, investors still need advisors, but the relationship and expectations have changed due to technology's increasingly larger role in wealth management.

It seems clear that investors can (and do) venture beyond their primary platform to explore other options, especially advised investors. According to Javelin's research, roughly one third of investors used third-party financial tools in the last year. Of those investors, 78% were advised.

## Wake Up Call: Investors Are Going Outside Their Primary Platform Provider To Use Third-Party Financial Tools (In The Past Year)

Figure 5. Of the 32% of Investors who use third-party tools, 78% are Advised Investors

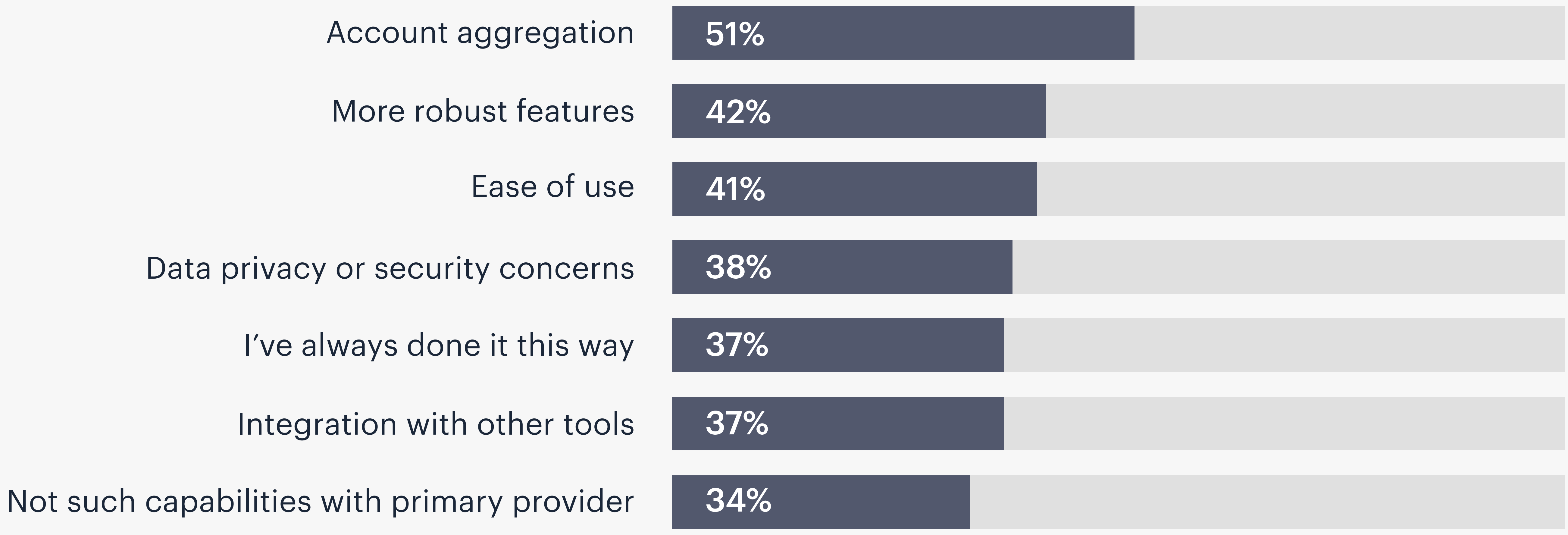



*Source: Jovellin Strategy & Research, 2021*

Why test the waters elsewhere? The three most cited reasons were account aggregation, more robust features, and ease of use. In other words, investors appear to have a desire for more functionality and control than their primary wealth management platforms could provide.

## Why Are Investors Seeking Third-Party Solutions?

Figure 6. Over 50% of Advised Investors are seeking better Account Aggregation Tools




*Source: Jovellin Strategy & Research, 2021*

Additional research by J.D. Power demonstrates that only one out of every two seasoned investors is committed to their brokerage firm.[12]

Gen I investors are twice as likely to switch providers. The predominant drivers of this attrition risk? Yet again, they report underwhelming products, services, and tools as the major reasons.[12]

We believe tech has democratized personal finance, particularly in the realm of wealth management. The data and industry trends suggest that investors have embraced fintech similar to how consumers embraced search engines and the smart phones. Many investors today seem to expect a seamless, straightforward user experience with powerful features and helpful insights.

If a financial institution's digital platform underdelivers, investors likely will look elsewhere.

## Financial Technology:
# Ideally A Partner, Not An Adversary

While it's easy to pit traditional financial advisory services against technology offerings, it would be prudent to pair them together. Why? Because the wealth management firms of tomorrow will likely augment their expertise with technological capabilities to stay competitive and enhance their services. Those who don't will probably lag behind.

The evidence suggests that much of the industry has already started to reach this conclusion.

A recent ***Broadridge*** survey found that roughly

**8 in 10**
advisors had lost business due to inadequate technology

**74%**
of advisors wish their firm had better access to digital tools[13]

By incorporating third-party digital tools, advisory platforms may plug holes in the investor experience — such as cumbersome UX, static account data, or lack of big-picture direction – or increase efficiency. Moreover, these tools may also uncover a trove of client data, which advisors can use to improve client relationships and assess their business and operations.

For all of these reasons, **SigFig** sees this as a pivotal time in the financial services industry with an opportunity to implement change that benefits the investor as well as the advisory firm, and we believe it starts with deploying state-of-the-art technology.

*We can help with that.*

We have designed **SigFig's Digital Advice and Digital Advice Pro** products for advisors to appeal to different types of clients, including self-directed and advised clients. Both products provide elegant dashboards, dynamic features, and comprehensive oversight, while also streamlining the advisor's client management responsibilities so they can prioritize their strong suit and core function — advising.

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