September 2021

Thought Leadership.

Embedded wealth management:

a $100 billion market opportunity hiding in plain sight

additiv

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Foreword

The term ‘embedded finance’ seems to have become ubiquitous of late. It refers to the business model whereby financial services, now digitized, can be offered through any distribution channel.

Embedded finance has become possible, and an imperative, thanks to the confluence of various market trends:
- Open banking legislation that has encouraged data sharing among an ecosystem of players.
- New technology, such as APIs, that make it easier to interact across platforms.
- Non-financial competitors, such as Amazon, who are offering their own financial services, forcing financial institutions to choose between either partnering or going into head-to-head competition with them.
- Customers who are becoming harder to reach via finance-specific channels, making it more difficult to up-sell and cross-sell, and increasing attrition.

In short, the distribution of financial services is reaching an inflexion point.

What’s so exciting about embedded finance is that financial products become integral parts of existing services and are offered at the most relevant point in the user journey. This is transformational, because it removes friction and the cost of shopping around, which dramatically increase adoption.

Examples we’ve seen so far include buy-now-pay-later loans embedded into online checkouts, payments embedded into food ordering or mobility apps, and travel insurance offered at the time you book a holiday. But we’ve barely scratched the surface of what embedded finance can do.

In this report, we focus on one of the more unexplored and potentially significant areas for embedded finance: wealth management. This is a $100 billion revenue opportunity for providers, and we outline what we consider to be some of its most promising use cases.

Our long-held conviction is that eventually everything will become a service. Or, put another way, everything will be embedded.

I hope you enjoy this report and look forward to hearing your thoughts.

All the best,

Michael Stemmle
Founder and CEO, additiv

Executive summary

Fintech evolution has been coming in waves. Embedded finance is the latest, and most significant, so far.

The first phase of the fintech evolution was about making banking more accessible, and the second was about improving banking services.

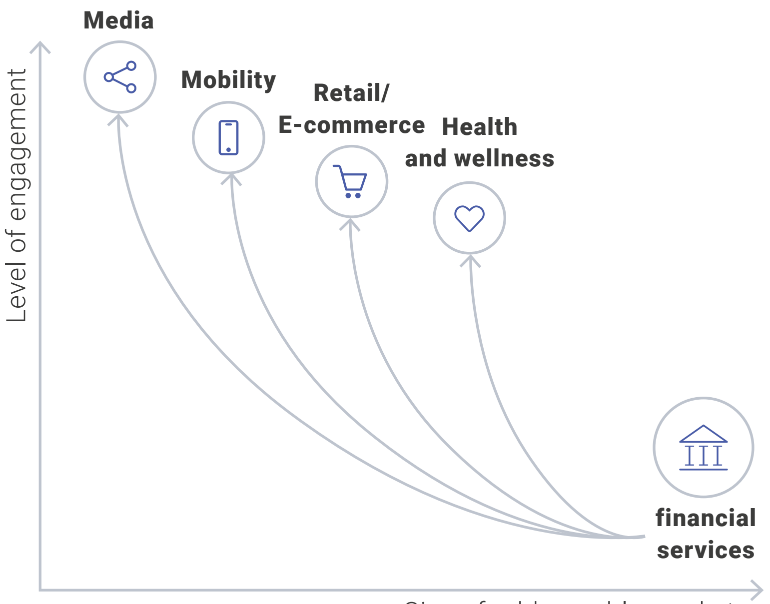
The third and latest phase takes things even further. It's about unbundling distribution and manufacturing so that financial services can be embedded into third-party channels and into existing user journeys.

Embedded finance has several benefits:

- It reduces friction by putting relevant services in front of customers when and where they need them, on the platforms where they live their digital lives, instead of forcing customers to look for an offering.
- It creates greater personalization by leveraging what companies already know about their customers.
- It helps to grow the market for financial services by allowing firms to cater to specific customer needs, instead of developing products first and only then figuring out the market fit.

In short, embedded finance benefits both customers and brands.

Putting financial services into channels with higher engagement



Source: additiv

Where the customer is (where they spend their online lives)

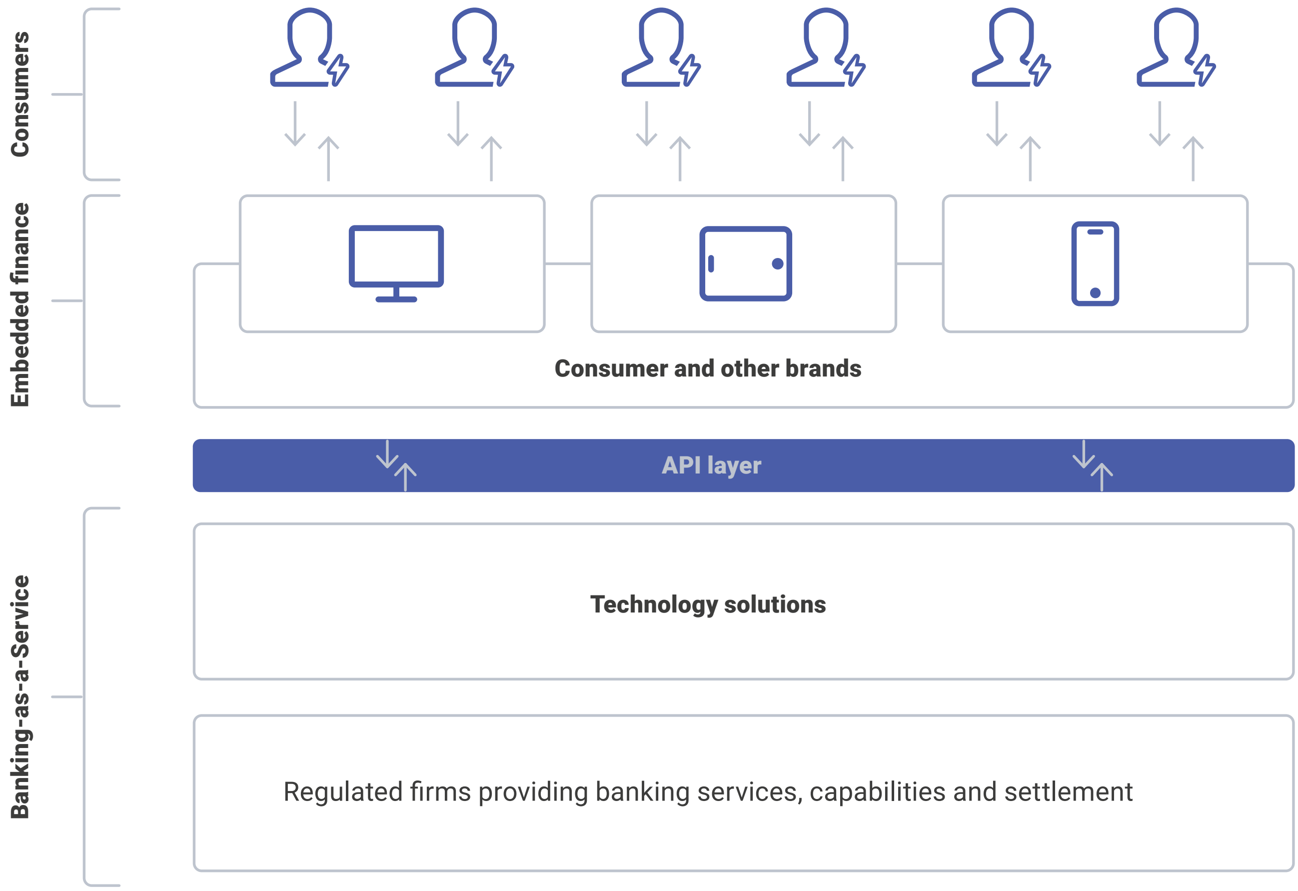
When it's relevant (context-driven)

What they need (adapting the form)

For the firms that team up to offer consumers embedded finance, the economic incentives are powerful.

For financial services firms, the Banking-as-a-Service (BaaS) players, embedded finance promises to open up a larger addressable market with lower costs of customer acquisition.

For companies (brands) looking to embed finance into their existing offering, embedded finance promises to generate additional customer loyalty that can be translated into lower customer attrition and higher customer lifetime value.



Source: additiv

In this report, we’ve identified six channels where wealth management could be embedded, capturing $100 billion in revenue that wealth managers and their brand partners are currently missing out:

1. **Retail and challenger banks**, who are ideally placed to increase customer lifetime value by becoming the bridge to embedded saving and investment services.
2. **Employee financial well-being platforms**, who can steer employees towards even better financial decisions by helping them manage their money more smartly while positioning themselves as the gateway to embedded wealth management services.
3. **Asset managers**, who can reach customers directly through online channels and bundle asset management with embedded wealth management.
4. **Health insurers**, who have unique insights into their customers’ lifestyles, are ideally placed to help them save for a more comfortable retirement.
5. **Pensions providers and life insurers**, who can bring siloed retirement and wealth decumulation services together into one unified, transparent process.
6. **Consumer platforms**, whose strong customer engagement, rich data sets, and appeal with younger demographics, ensure that they are ideally placed to embed wealth management services into their existing offerings.

Regardless of which route you choose, the embedded wealth management market is both large and largely untapped – an opportunity not to be missed by fast movers.

Inserting financial products into contextual user journeys

Customer context	Pension	Life insurance	Health insurance	Asset management	Financial health	Retail	Retail banking

Embedded journeys	Plan my retirement; Provide for my family in the event of an early death; Provide for a comfortable retirement; Get on top of my spending and cash out; Turn my savings into investments with returns
Intelligent services	Automate my investing; Personalized advice; Rebalance my portfolio; Draw down my savings in a sustainable way; Accumulate my savings in a sustainable way
Financial products	Structured products; Tax-free savings; Model portfolios; Target date funds; Active funds; Passive funds
Capabilities	Know Your Customer; Identification and authentication; Payment processing; Custody; Trading
Transactional rails	Domestic payments; International payments; Bond markets; Equity markets; Derivatives

Source: additiv, adapted from 11:FS

Making financial services more accessible to everyone

The problem of financial inclusion persists. The headline number of 1.7 billion unbanked people has improved materially (from 2.5 billion in 2014), but it remains high. Furthermore, it masks the significant pockets of underbanked demographics, such as SMEs who are short of $1.5 trillion in funding according to the World Bank or – more pertinent to this report – the millions of people with investable assets who do not receive professional investment advice.

The answer to the problem of financial inclusion still lies in technology.

The answer to the problem of financial inclusion still lies in technology. Advances in cloud computing and mobile banking are lowering costs. All else being equal, this should make financial services more affordable and more accessible to a greater number of people.

However, lower costs by themselves won't solve the issue. The way financial services are sourced and distributed must also change. It's not enough for them to be more available overall. There must also be greater personalization and convenience of use. This requires business model change.

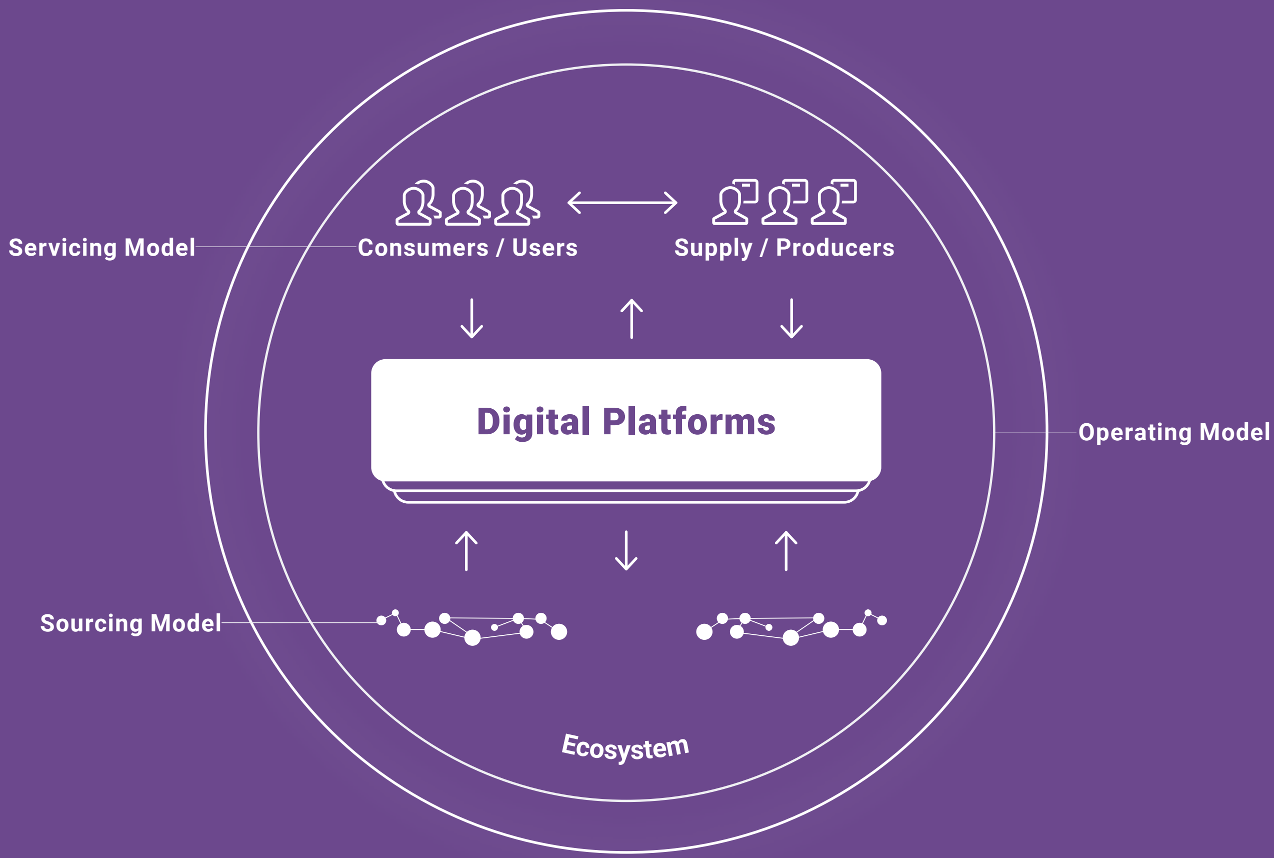
Business model change is needed

The key to improving customer outcomes lies in coming together with other parties to form ecosystems. In an **ecosystem** set-up, various parties combine their strengths and core competencies and pool their data to create network effects that make the service better for every additional customer.

Practically speaking, in an ecosystem model, ecosystem partners can focus on what they do best, which might be distribution, manufacturing specialized products and services, or operating the network by providing the **platform** that facilitates the interaction between these different parties.

For the customer, it brings more choice, lower transactional costs, more personalized services (given the data sharing) and greater convenience. Ecosystem-based models are powering the evolution of fintech.

Digital business model innovation



Source: additiv

“Platform ecosystems consist of two basic components: One is the platform itself. Secondly, it consists of an ecosystem that develops and centres around this platform. The platform is thus the basis for this ecosystem and responsible for its development.”

Business Ecosystems – Partnership of equals for corporates, SMEs and startups (2019) by Lingens, B., Böger, M., Gackstatter, S. and Lemaire, A.

Embedded finance: the next phase of fintech evolution

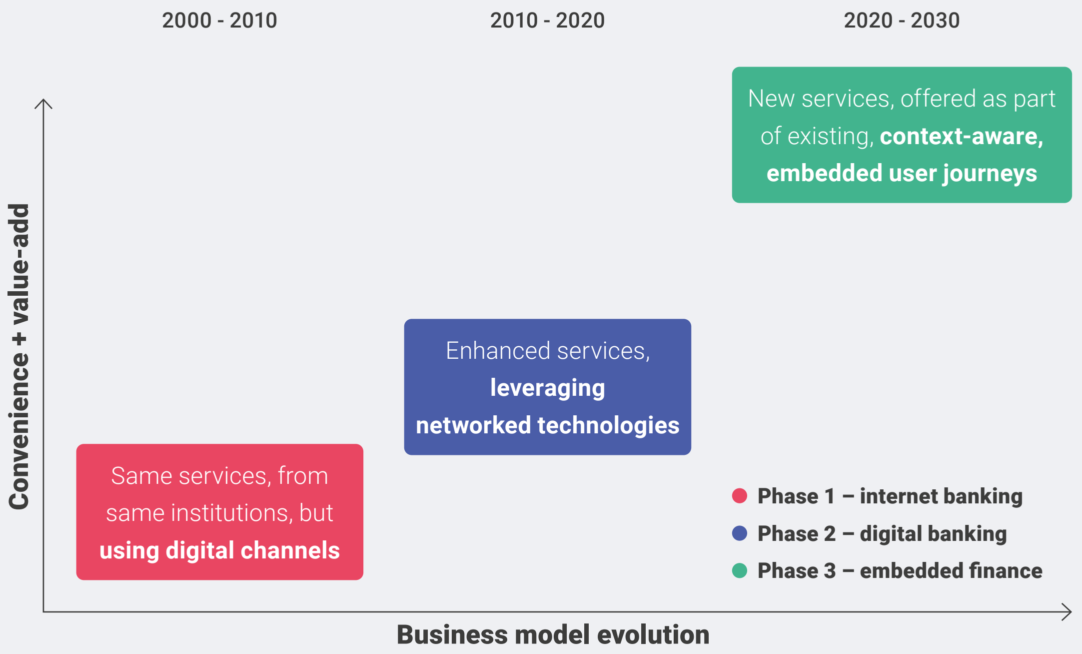
The digitalization of financial services is entering a new phase.

The first phase was about **improving access**. Banks made it possible for customers to access their services any time they liked through an online portal and, later, through a mobile app. But their services remained largely the same.

The second phase was about **enhancing those services**. We saw peer-to-peer and marketplace lending emerge, for example, which brought individual lenders and individual borrowers together. We also saw the emergence of automated investment services, which use algorithms to invest people's money into ETFs and other instruments without the need for human advisors. But these services are still provided by specialist firms.

The third phase, powered by business model change, is about **embedded finance**. This entails making financial services available to customers over non-financial channels as part of existing user journeys.

Embedded finance is the third phase of fintech disruption



Source: additiv

Embedded finance: advantages that can address financial inclusion

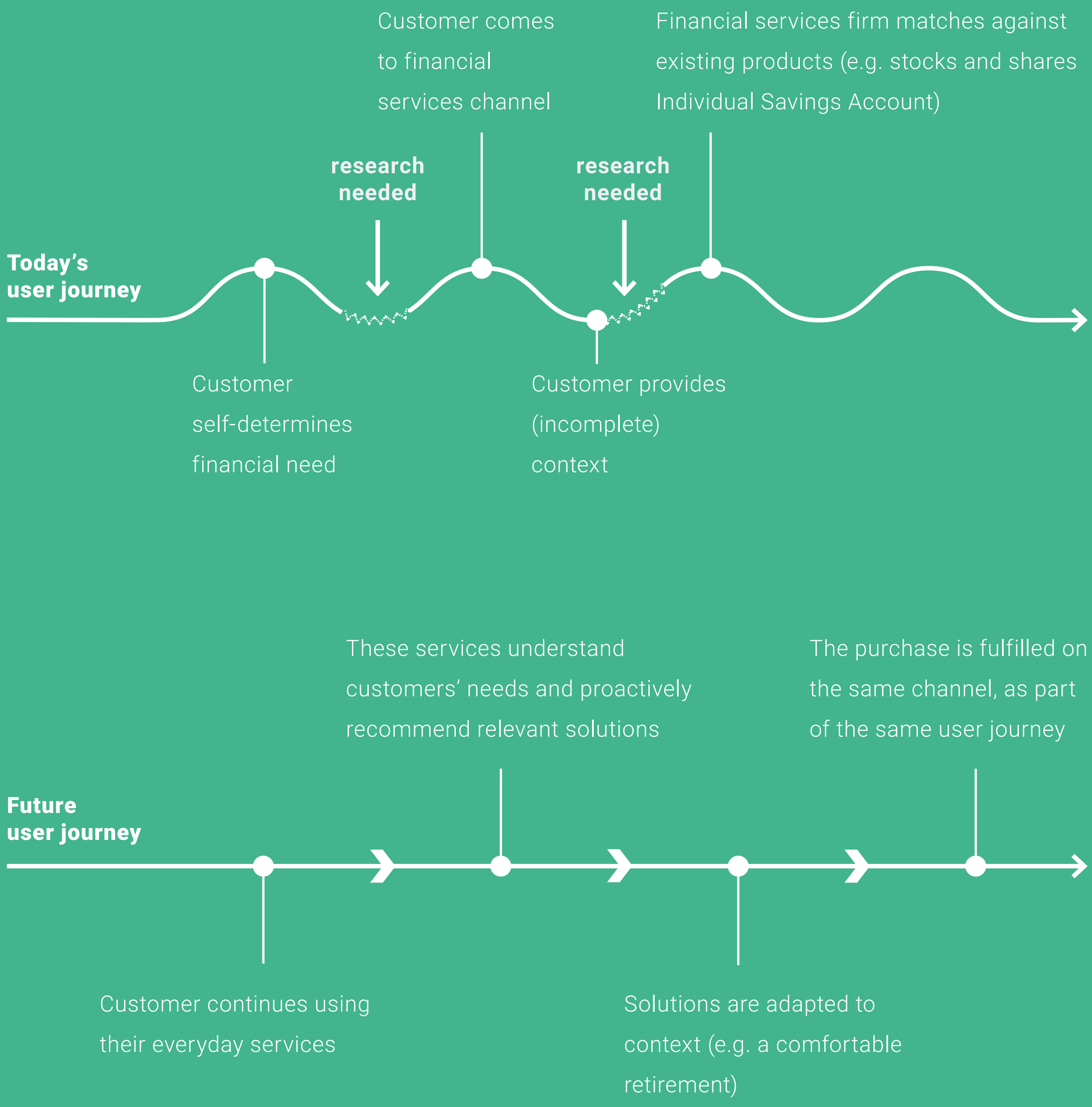
Embedded finance has four advantages over the traditional model:

1. It **reduces friction**, because the customer doesn't have to switch channels.
2. It introduces **more context**, because the channel where the service will be provided already has a lot of data about the customer. The service will also be more personalized and relevant.
3. It's **proactive**, in that it can anticipate customers' needs instead of forcing them to seek solutions to those needs themselves.
4. It's **adaptive**. The customer's need determines the solution. For example, instead of creating a store card and having to figure out how to market it, a customer's desire to pay by installments can drive product design.

Embedded finance promises to significantly boost financial inclusion. Because it matches financial services to context and provides them when they're relevant over existing channels, it addresses many of the distribution, discovery, and information asymmetry challenges that have plagued traditional financial services in their quest to reach everyone.

With embedded finance, we look set to get much closer to having supply meet demand for the first time.

Selling products becomes addressing customer needs



Lowering friction, improving conversion, growing addressable market

Source: additiv

Improve the quality of your advice with the right investment suitability solution

In order to avoid the many complexities, legal, and compliance issues faced, fintechs and financial companies are partnering with banks providing Banking-as-a-Service. This is to obtain banking capabilities (regulatory solutions, originate loans, hold deposits, receive direct deposits, etc.).

Regulatory pressures also affect wealth management offerings, and in particular, the advisory process of banks. Product risk classification can be used in a client-friendly and transparent way for the suitability assessment from a product to a portfolio view. The methodology is adapted to private banking (or wealth management) clients, resulting in a comprehensive risk indicator enabling a consistent and coherent comparison between different asset classes. Credit Suisses' Product Risk Classification (PRC) provides valuable support for the fulfillment of regulatory requirements (MiFID, Fidleg, HKMA) in a cost-efficient way.

PRC is used to evaluate the financial risks of individual investment products and assigns each investment product a specific risk category. It is used to assess whether the client can bear the financial risks associated with the investment product and to identify suitable products from a large product universe – thus it addresses the appropriateness and suitability needs in advice.

The method of risk assessment developed takes into account the three key financial risks of an investment product: market risk, credit risk and liquidity risk. All three aspects are examined monthly, based on the historical data, before being combined in a PRC value on a scale of 1 (very low) to 5 (very high). Using a sound, independently validated procedure, this enables a straightforward risk classification to be derived.

We offer comprehensive support for the investment suitability process in wealth management. With over 150,000 investment instruments already classified, Product Risk Classification (PRC) enables wealth management providers to improve the quality of their advice while addressing regulatory issues in a cost-efficient way. PRC can be also calculated ad hoc for all investment products of the client universe.

Mauro Bizzarri

Head Regulatory Products, Credit Suisse

Business case for embedded wealth management – for financial firms and brands

Embedded finance's benefits for consumers – greater access to more personalized, more convenient, and more intuitive financial services – are clear.

But what about the benefits for financial services firms and non-financial brands? To understand the compelling logic for them to work together to make embedded finance possible, we must look at how digitalization has changed the dynamics of demand and supply.

As supply has increased, customers have become more time and attention-poor and, therefore, harder to reach.

In the past, it was hard for financial services firms to scale. There were large upfront investments needed in computer hardware and software, one-size-fits-all licenses that required large amounts of capital to be set aside, and physical distribution costs. Since then, as in many other industries, digitalization has lowered costs and, in turn, the barriers to entry. Now, scarcity has moved from supply to demand – or, more precisely, attention.

One of the more serious consequences of this is that customer acquisition costs (CAC) have increased. ARK Invest believes these stand at $1,500 per customer, on average. This has created a significant hurdle to profitability for new entrants, such as challenger banks or robo-advisors, who must derive enough lifetime value from customers to recoup these costs.

Furthermore, these new entrants also need to build brands. This should not be underestimated. It's increasingly not enough to just reach time-poor consumers. Consumers want an engaging experience and to feel something for the brand. Many of the most successful fintech companies over recent years, such as Square, have built strong brand loyalty (Square customers now even wear Square apparel). This raises the profitability bar even higher.

In this context, the possibility of distributing through high volume third-party channels to existing, engaged customers is highly appealing, because:

- It dramatically cuts CAC, improving unit economics.
- It gives access to much larger volumes of business, spreading fixed costs and boosting overall profitability.
- It saves on branding costs.

A proven BaaS model to complement traditional offerings

Banking-as-a-Service (BaaS) isn't a new concept for us at Saxo Bank. We've been offering financial institutions the opportunity to embed our broker and custodian services alongside their existing products since 2008. Our BaaS model complements our financial services offering and supports our aim to democratise trading and investing.

When looking at the value BaaS brings, it's evident in that this model now represents around 40% of our business! Financial institutions (FIs) saw us building our brand and our market presence and wanted to do the same quickly without having to build the capabilities themselves. It meant that FIs who didn't offer broker or custodian services could now offer these. For those who already operated in this space, they could expand into new geographies or offer additional functionality without the need for an expensive, time-consuming project. With BaaS, FI's don't have any capex or upfront opex costs and our services can be fully incorporated within six months. Even though it is out-of-the-box, the FIs can still fully configure and tailor the solution according to their individual needs such as making it relevant to their market. And of course we provide the scale, so our FI partners don't need to.

Our model gives our FI partners access to our broker and custodian services by seamlessly embedding our UIs and portal into their infrastructure. Every aspect of our Saxo mainstream service can be offered to the end customer, however, the customer believes that they are still in their FIs platform because the UI is completely FI branded. We can also use their authentication and security so there is no need to go through the identification and verification (ID & V) process more than once in an online session. However, at Saxo we don't have access to the customer or their data – the FI maintains full control. They own the customer and manage all elements such as the fees, risk, margin etc. Ultimately, it means that the FI can focus on what they do best: servicing the customer.

The benefit to our FI partners is clear, and, aside from the obvious opportunity for us to broaden our product reach and trading volumes with minimal customer acquisition costs, it also helps to drive our innovation. Our FI partners bring insight into every aspect, including delivery mechanism, product enhancements etc. Much of our development has been driven by partners asking for specific tools and functionality. This is then incorporated into Saxo Bank's mainstream proposition and then offered back to our FI partners who are embedding our services.

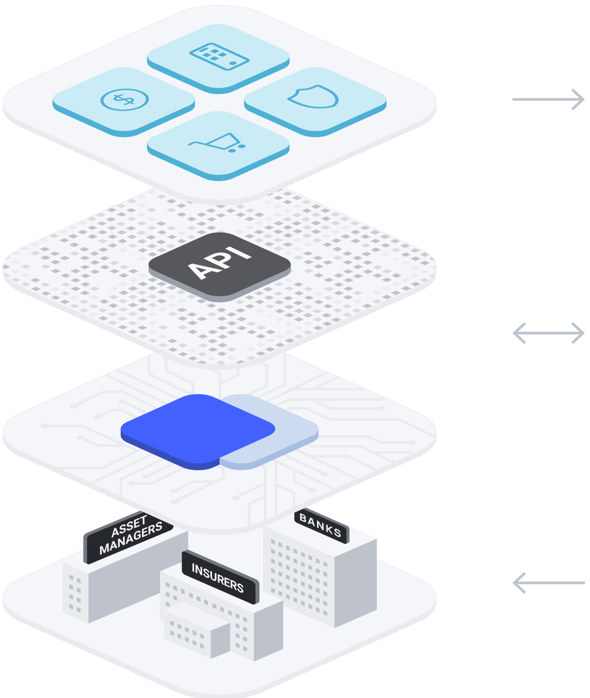
Nicholas Wright
Director of Institutional Sales, Saxo Bank

As a result of embedded finance, fintechs that are little-known to consumers and only have one or a few products lines, can get access through brand partners to sufficient volumes to make their businesses highly profitable.

Take Klarna, a Swedish lender specializing in buy-now-pay-later credit, for instance. In 2020, it generated over $1 billion in revenue and reached a market cap of $45 billion.

But the opportunity hasn't been lost on large incumbent banks either. Universal banks such as Standard Chartered and Goldman Sachs have also launched BaaS platforms, Nexus and Marcus respectively, in order to capture this nascent opportunity and generate greater economies of scale.

Embedded finance vs Banking-as-a-Service



Embedded finance
The consumer or financial brand embeds regulated financial services into context-relevant user journeys

The platform partner orchestrates demand and supply interactions, and sources and integrates third party services

The underlying financial services provider grows its customer base by offering its regulated services over third-party distribution channels

BaaS

For the brands that choose to embed financial services into their existing offerings, there is also significant appeal.

For some, it's about capitalizing on customer attention to grow profits, helping financial services firms reach their customers in exchange for a revenue share.
But for most, it's more indirect: creating a more convenient customer experience by providing access to valuable products at the right time. This increases customer loyalty and lifetime value.

Embedded finance: a game-changing opportunity

Embedded finance is about abstracting banking and insurance functionality into technology. It enables any brand or merchant to integrate innovative financial services into their offerings and customer experiences, rapidly and at low cost.

Put simply, embedded finance is about enabling any business to manage and sell innovative financial services, seamlessly integrating creative forms of payment, debit, credit, insurance or even investment into their end user experiences.

The new business model archetype needed is based on platform thinking and platform economics, and highly suited to an increasingly platform driven digital economy.

Platform thinking means leveraging the creativity and resources of third parties to create greater value for your customers and markets, rather than trying to serve customers only with your own products.
In practice, this means exploiting advanced digital technologies and different ways of capturing value. Platform-based business models dominate in an increasingly hyperconnected digital world, due to their powerful underlying economics. They focus on exploiting and monetising ‘intellectual capital' (encapsulated in software) and ‘relational capital' (connections between multiple parties), which have near zero marginal costs, rather than asset-heavy ‘human capital' (people) or ‘financial capital' (money).

While these concepts and principles are second nature to Venture Capitalists (VCs), big tech and tech entrepreneurs, they are new to most leaders at banks and insurance companies (and to most traditional sectors).

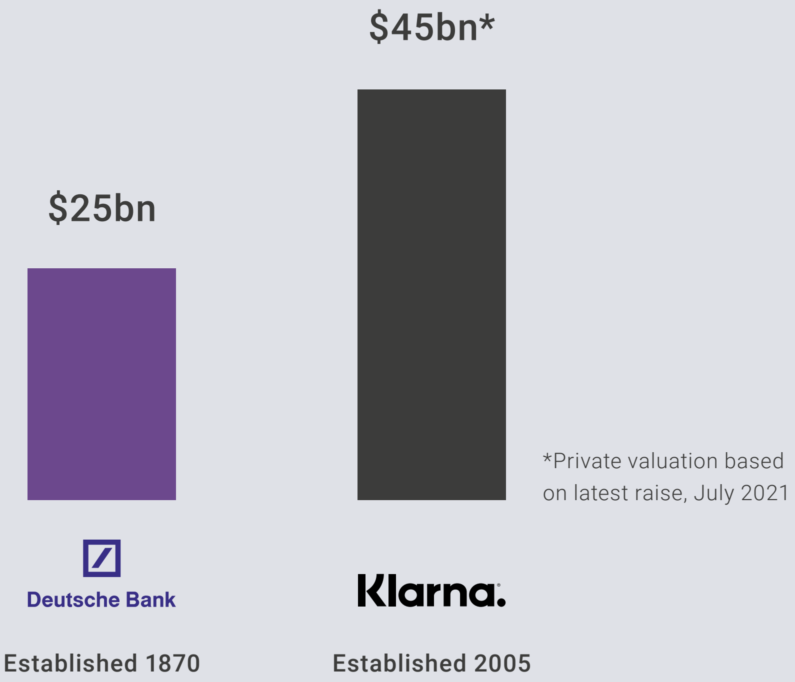
Addressing the recurring financial business today – embedded payments and beyond
The simplest example of embedded finance in action is paying for an Uber ride. You don't get out your credit card at the end of the journey. Uber product designers have enabled payments to be embedded into your experience of getting a lift and, for the driver, into their experience of getting paid the right amount at the right time.

Payment facilitation companies like Stripe and Square have grown rapidly over the last ten years by enabling this sort of capability for digital companies.

Complexity increases as you move from payments to debit, credit, insurance and investments, thus from a simple transaction to a recurring business. But if you are a merchant or brand in any sector, you want to make your propositions to customers as attractive as possible.

Klarna has grown into a $45 billion company – $20 billion more than Deutsche Bank – by enabling brands to offer innovative credit solutions at the point of purchase, for example by paying in instalments.

Klarna: worth more than Deutsche Bank because it is better embedded into modern commerce activity



Source: Simon Torrance, 2021

Embedded insurance is now fast emerging too, enabling your car share service, for example, to come automatically with mobility insurance, or your new camera to come with theft and damage protection right out-of-the-box as part of the overall price. Embedded wealth services will be next.

New revenue opportunities at very low marginal cost

Embedded finance – as opposed to reselling financial services – is attractive to digital brands and merchants because it creates new revenue opportunities at very low marginal cost (the brand already has a customer base). It enables new customer experiences that drive loyalty and repeat purchase and allows merchants to capture more of the economics of the relationship.

For many software and platform businesses, financial services are, and will increasingly be, a very lucrative addition to their core business. As the Chinese proverb says: "The best time to plant a tree was twenty years ago. The second best time is now".

Simon Torrance

Helping companies transform their business models with digital platforms, ecosystems and ventures. www.embedded-finance.io

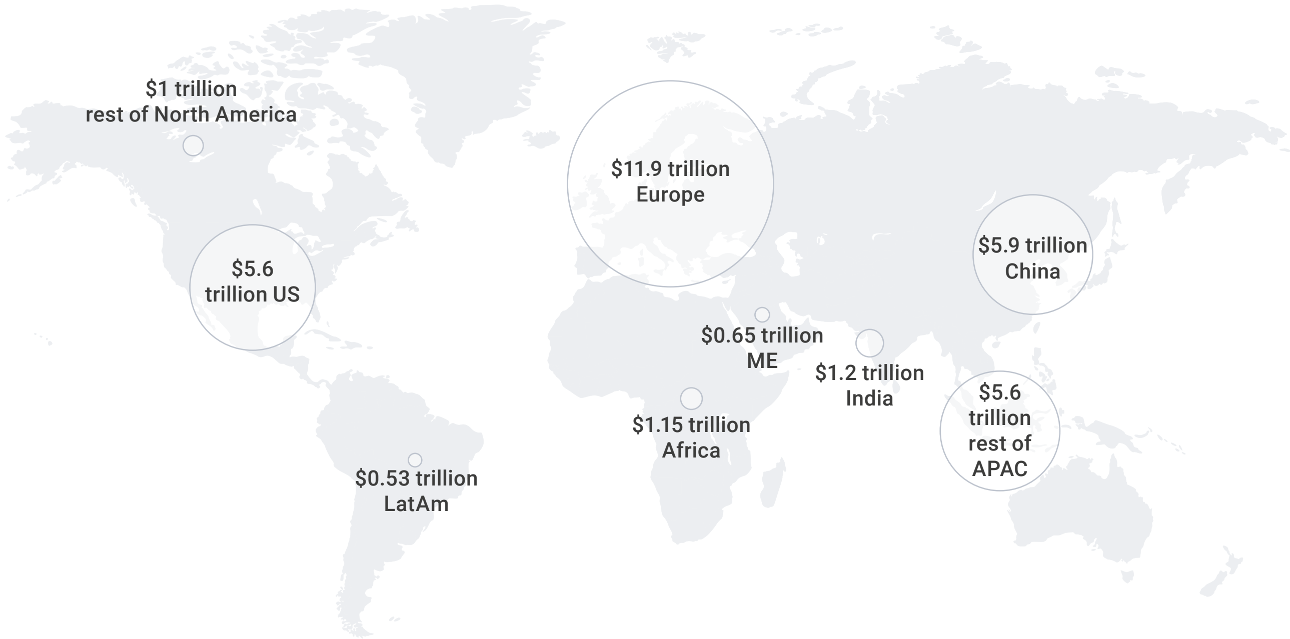
Size of the market opportunity for embedded wealth management

Embedded wealth management is an untapped opportunity which, in our view, could increase the size of the wealth management market by up to c.$33 trillion in assets.

In this section, we explain how we arrive at our market size estimates. We created a bottom-up model by country and by customer demographic, based on underlying data from the World Bank and the most recent Credit Suisse Wealth Report. This gave us a global market of up to $33 trillion of investable assets which are not professionally managed.

The embedded wealth opportunity in numbers

An addressable market of $33 trilion in assets



To translate assets into a market size by revenues, we assumed that, on average, wealth managers (and their partners) could earn 30 basis points for managing those assets – resulting in a revenue potential of $100 billion in fees.

For completeness, we also estimated – in line with many projections for embedded finance markets – what the uplift to valuations could be. For this, we put revenues on a 10x multiple, which gave us a potential value creation of $1 trillion.

Leveraging BaaS to reach a broader demographic

At Kidbrooke, we believe the biggest appeal of Banking-as-a-Service (BaaS) for wealth management is in achieving a significantly shorter time-to-market for digital or hybrid wealth services to be offered to end customers.

Essentially, products provided through BaaS enable financial institutions (FIs) to easily and quickly gain access to sophisticated and extensive analytical capabilities often not possible to develop in-house – without sacrificing flexibility. This argument becomes more evident when BaaS tools and services are compared to more classic white-labelled solutions, where use cases and customer experience elements would come pre-configured. This way, the embedded nature of BaaS empowers banks, insurers and wealth managers to retain ownership of the customer experience itself, with API-based delivery mechanisms making all the difference.

The value of BaaS is further compounded when you review the opportunity to reach a broader demographic. BaaS allows for greater cost efficiency, which in turn empowers wealth managers to target a wider audience outside the classic affluents and high networth indviduals (HNWIs). It enables wealth managers to reach segments which they previously could not service due to high production costs and, in turn, allows players to embed wealth management services into their offerings to gain a wider reach.

In addition, BaaS can enable a broader set of products if seamless analytics comes pre-integrated. These analytical tools consider the entire end-customer balance sheet to allow wealth managers to offer both guidance and advice around a broader set of products than what would typically be possible.

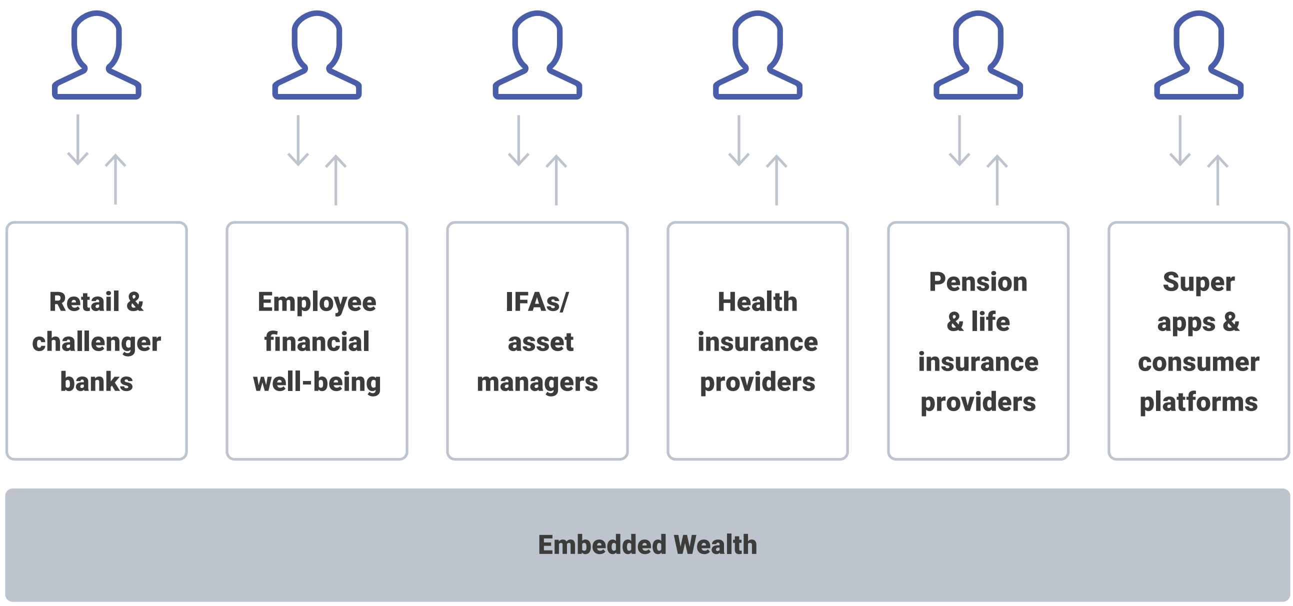
Overall, we see an accelerating trend in HNWIs both embracing and quickly converting to digital channels. Given this, skipping the next generation of PDF reports and going straight into providing interactive and visually intuitive solutions may be a smart choice.

Fredrik Davéus
Chief Executive Officer, Kidbrooke

Use cases for embedded wealth management

There are many examples where wealth management could be embedded into financial and non-financial services. In this report, we'll discuss the six use cases we believe present the most compelling opportunities.

Six key use cases for embedded wealth



Source: additiv

Retail and challenger banks

One of the biggest challenges faced by retail and challenger banks is high cost of customer acquisition, which is estimated to be as high as $1,500.

This high customer acquisition cost (CAC) is compounded by the fact that these banks – especially challengers – tend to offer a limited set of products. First of all, this makes it hard to generate a high lifetime value to compensate for the high CAC. Worse, it puts customers at risk as they become more affluent and their needs become more complex.

A clear solution to these problems – high CAC and higher churn – is to embed wealth management services.

First of all, this would provide an additional revenue stream. Secondly, it would enable these banks to retain customers as they move through the lifecycle from earning to saving to wealth creation. There may also be additional benefits by partnering with large wealth managers, as these will confer security and stability that will also help with customer retention.

We estimate that offering investment products doubles lifetime value within the second year of acquiring a new customer.

The reason for embedding wealth services instead of building them is manifold and includes speed to market and leveraging the skills and expertise of specialists.

Customer lifetime value: net margin contribution per new customer over time

Source: aperture, 2021

Supporting wealth preservation and growth through embedded finance

TNEX is Vietnam's first digital-only bank and Vietnam's first platform to offer free everyday banking for life. Our initial target segments are Generation Z consumers with a Total Available Market (TAM) of 20 million consumers and micro merchants with a TAM of four million. From a wealth management perspective, our segment isn't what you'd call a typical target customer, they aren't high net worth individuals (HNWIs) or fall near a mass affluent criterion.

But that doesn't mean that offering products to support their wealth preservation and growth isn't important or that it won't be mutually beneficial. In TNEX we believe that it makes it even more important. It is our responsibility and part of our stated mission to help our customers through the journey to a more sustainable financial life. To make this happen, the platform is ecosystem based, it integrates with partners to ensure that we can support and improve as many aspects of our customers' lives as we possibly can.

We believe to deepen and broaden any ecosystem, it's so important to focus on what you do best and for everything else, partner with specialists that are the best. Our platform has zero technical debt, it is digitally native, allowing us to quickly leverage partner and fintech APIs to assemble the experiences our customers need. Since we launched TNEX at the start of 2021 we have made over four million external API calls, and counting!

Right now, we are using partnerships to offer motor insurance and in the next three months we will be offering life assurance, mobile phone insurance and health insurance. We also provide Banking-a-a-Service (BaaS) and are in the process of integrating with an ecommerce provider and two universities to provide smarter payment rails.

From an infrastructure perspective, we don't have a physical data center: we are an AWS first cloud platform. From a software stack we are modular and real-time, using open-source or SaaS only, and we are powered from front to back by advanced data science.

Embracing the super app ecosystem concept, we'd love TNEX to be the only app our customers would ever need. The TNEX ecosystem is made up of four integrated customer platforms: Financial/Banking, Emotional & Physical Wellness, Social Interaction and Merchant Marketplace.

Our financial platform delivers everyday banking: current accounts, small ticket lending, payments, deposits, physical and virtual cards, PFM, POS QR, etc. Our ecosystem also provides our customers with a place where they can chat and message each other, digitally sell online to offline, apply for a job, find accommodation, track and improve their physical and emotional health, earn money, win prizes. They can even do their daily shopping cheaper through our merchant offers marketplace.

We are striving to be customer holistic. One of the first questions when you login is: “how do you feel?” “Why do you feel good today?” “Did you eat well?” etc. Customers can answer with a TNEX emoji and then track their happiness over time or against their friends. By having insight into our customers’ state of mind we can support their financial well-being. So, for example, if a customer doesn’t have enough money towards the end of the month to eat, we’ll send them a free TNEX-QR code for one of our merchants, so they can afford to eat and we offer them advice on how to use TNEX-Personal Financial Monitoring (PFM) to better manage their money going forward. In TNEX, I insist that the “how and when” of our customer interactions always try to reflect our core values and help deepen our customer loyalty.

As well as providing tools to preserve wealth, we are also releasing products and features to generate wealth. In August and September, we will begin to offer innovative products in the areas of inclusion driven investment and behavioral saving.

In summary, our financial products are invisible and only appear when they are required to support our customers’ lifestyles and future plans. And it doesn’t matter if it’s embedded wealth management or embedded taxis, it’s about having an experience that cares about their needs. Accessing financial products when needed within a couple of clicks. The concept of embedding is not just about the product. It’s about the whole willingness to change culturally, and to assess the value of innovation (and the willingness to ‘test and learn’). For success you must create loyalty, not buy loyalty. You must support customers’ lifes, their dreams and their future, and make this a reality.

Bryan Carroll

Chief Executive Officer & Co Founder, TNEX Bank

Employee financial well-being

Employee financial health is becoming a major concern for employers. The reason is that financial health carries over into the workplace, especially given the strong causal link between financial health and mental health. And, this is not a low income-only phenomenon: up to 30% of middle income earners have no money left at the end of every month after mortgage and other outgoings. Here are a few statistics that underline the scale and pervasiveness of an issue that for many has worsened because of the pandemic:

Job productivity:

78% of employees under financial stress experience lower productivity. (Source: MSA)

No emergency coverage:

51% of the Americans could not cover three months cost of living. 28% have no emergency savings at all. (Source: bankrate)

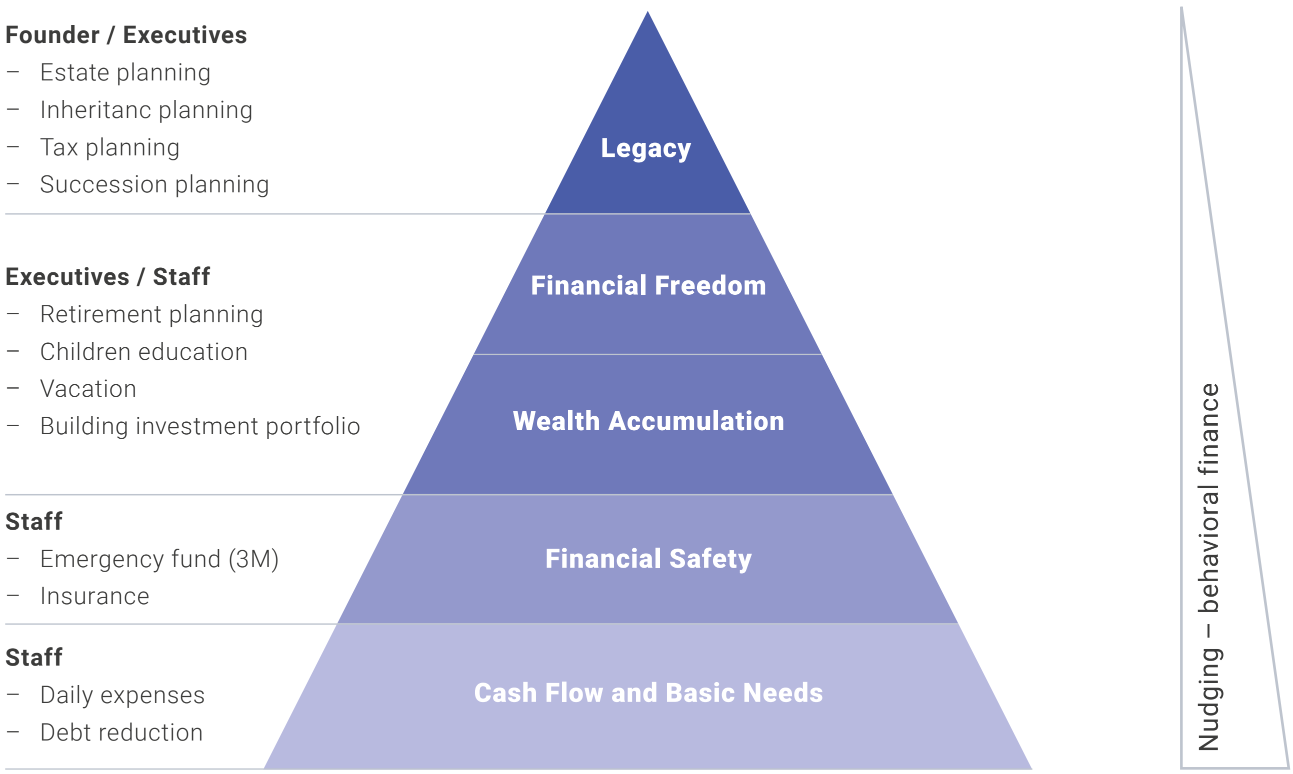
High debt burden:

world debt reached a new all time high in 2021. (Source: UN)

Rising mental issues:

73% of US citizens quote worries about finance as their number one stress factor. (Source: Capital One, CreditWire)

Solution and product components along the hierarchy of financial needs



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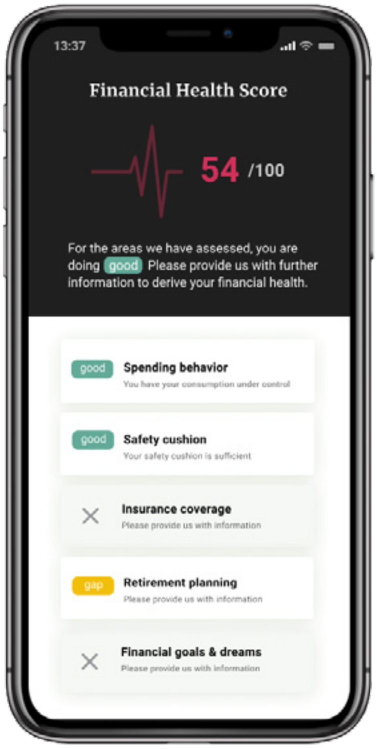


Source: additiv

Employers are stepping in to help employees with their financial planning by embedding wealth management services into their employee platforms.

By doing so, they help employees take control of their personal finance, identifying problem areas and moving them gradually up the hierarchy of financial needs, from reducing debt through to saving, investing, and ultimately thinking about their legacy.

In return, employers not only benefit from having employees who are less stressed and more productive, but their employees also reward them with higher loyalty at a time when employee acquisition costs and time are rising.

Health insurance platforms

Individuals tend to have a lot of touchpoints with health insurers. They need to provide data about their health, pay invoices, and submit claims for reimbursement.

This has two implications.

Firstly, there are a lot of opportunities for health insurers to introduce wealth management services into existing user journeys and processes.

Secondly, health insurance platforms have a lot of information about individuals' health and life expectancy which they can use to give relevant and proactive advice.
In effect, health insurers can provide the financial incentives their users need to live longer, happier lives and invest in a manner that ensures a comfortable retirement.

Life insurance and pensions providers

The shortfall in retirement assets is a ticking timebomb. In the 20 largest OECD countries alone, there is more than a $78 trillion deficit in pension assets. Furthermore, a combination of rising life expectancy, low interest rates and conservative investment strategies means that this gap is increasing. This leaves individuals needing to take more responsibility for their retirement planning, and opens the opportunity for those companies that can help them.

Embedding wealth management into their offering creates a compelling opportunity to grow wallet share, but also to improve retention.

Life insurers and pension providers are both part of the process of preparing for retirement, but neither takes an active role in wealth management at present because the process is siloed. Occupational pensions are considered independently of personal pensions, which are considered independently of life insurance, which is considered independently of wealth management.

Embedding wealth management into their offering creates a compelling opportunity to grow wallet share, but also to improve retention.

Life insurance and pension providers can leverage their existing relationship and position of trust to supply additional services, breaking down the silos and bringing these traditionally separate products together in one place.

In addition, instead of losing the assets when a customer retires, they can retain them and generate more revenue by embedding a decumulation service that helps retirees draw down their wealth sustainably and systematically, or even pass it on to the next generation.

IFAs and asset managers

In the face of increased costs (especially from compliance), as well as decreasing margins, asset managers and IFAs (Independent Financial Advisors) are looking for new revenue opportunities and embedded wealth management provides a strong case.

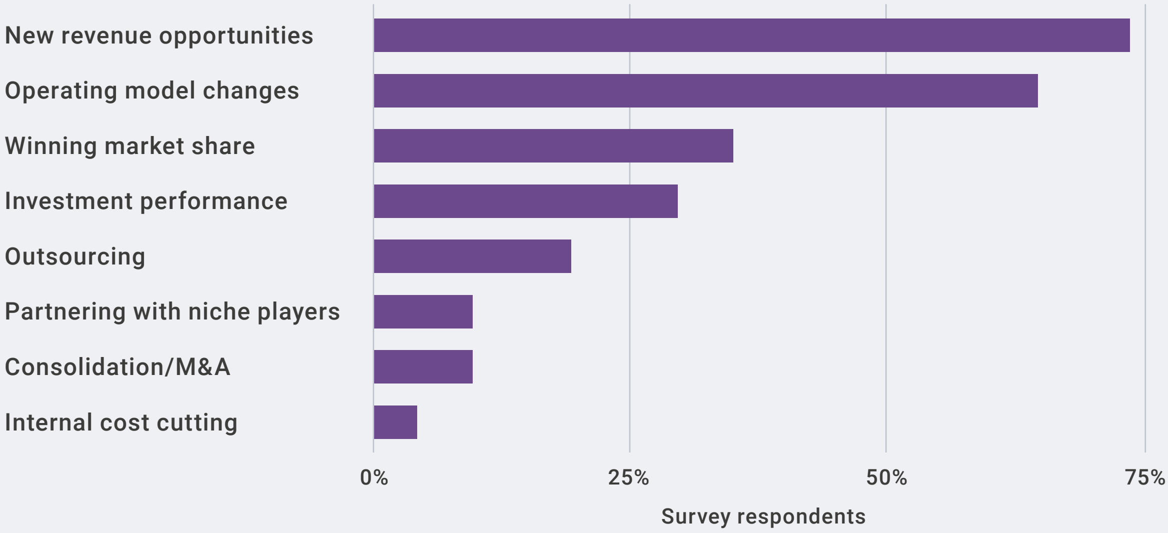
However, for asset managers, the opportunity is a bit different than for others. Until now, asset managers have operated a B2B2C model, distributing their funds and services through other businesses such as private banks and brokers.

But as Vanguard has demonstrated, the internet offers the opportunity to reach customers directly, cutting out intermediaries.

How is this embedded wealth management, you might ask, if intermediaries are being removed and not added? Well, because the direct-to-customer (D2C) model makes it possible for the asset management services or IFAs to be extended with wealth management.

With a direct relationship – and all of the context and insight this brings – asset managers and IFAs can go further than automated investment advisors, offering a broader range of assets together with the wealth management advice customers need (and increasingly desire) to make smart investment choices – all within the same relationship or app.

Which of these growth and/or efficiency layers will provide most benefits to firms in the asset management industry?



Source: Accenture/ICI operations study 2020

Enabling context driven embedded finance through APIs

To understand the real value that embedded wealth brings, it's important to recognize how it services market needs. At Bricknode, we mostly see financial assets as commodities, therefore, when conducting self-directed investments, the only concern should be how to buy or sell in the cheapest possible manner, as how self-directed investments are bought and sold does not create any added value for the customer. The value that embedded wealth offers the customer however is in combining different financial assets and the ability to enable them to be bought or sold at the most appropriate time.

The true benefit of embedded wealth can of course only be realized with powerful APIs. These form a critical part of our Brokerage-as-a-Service offering to support embedding wealth services. Brokerage-as-a-Service enables businesses to offer an automated investment product for funds, stocks, bonds, currencies and more, while the back-office operations, reconciliation and reporting are all outsourced to Bricknode. The APIs allow asset management companies to integrate such services to support their customer journeys seamlessly and with plenty of scope for customization.

Investment in APIs has been key for us to provide the range of capabilities and add-ons that businesses expect while also ensuring they are straightforward and easy to work with. Through our end customer portal's graphical user interfaces, financial institutions can seamlessly integrate their asset management services into platforms to create context-relevant user journeys. Simplicity is key and we are continually investing heavily into expanding and making our APIs even more user friendly.

Stefan Willebrand
Chief Executive Officer, Bricknode

Super-apps and consumer platforms

The problem with any financial services channel is that, while trust may be strong, engagement is not high. People use these channels to execute specific operations – paying an invoice, for instance – but they don't engage much beyond that. This means there are fewer cross-selling and up-selling opportunities, which makes customer acquisition costs higher for existing customers.

Consumer and super-app platforms tend to have the inverse problem: high engagement, but relatively low trust. We're happy to chat on WhatsApp or buy products from Amazon, but we generally don't want to have our checking account or wealth with them.

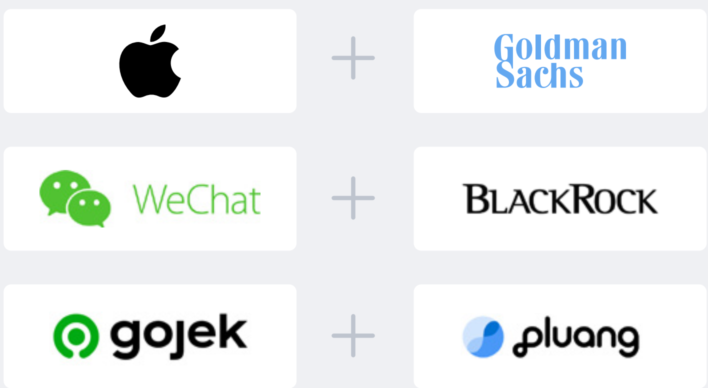
This is why embedded finance works so well for consumer platforms. It leverages these platforms' high engagement and combines it with the trust offered by a regulated financial services firm. In doing so, it leads to higher adoption of financial services with much greater convenience and higher conversion.

There are also two other strong benefits that consumer platforms bring.

Relative to most channels, they have a lot of consumer data, which helps them to make more relevant and contextual offers.

The other benefit is that they attract a broader demographic than some of the other channels mentioned above. For example, they skew above average towards younger people, where wealth management penetration tends to be lower.

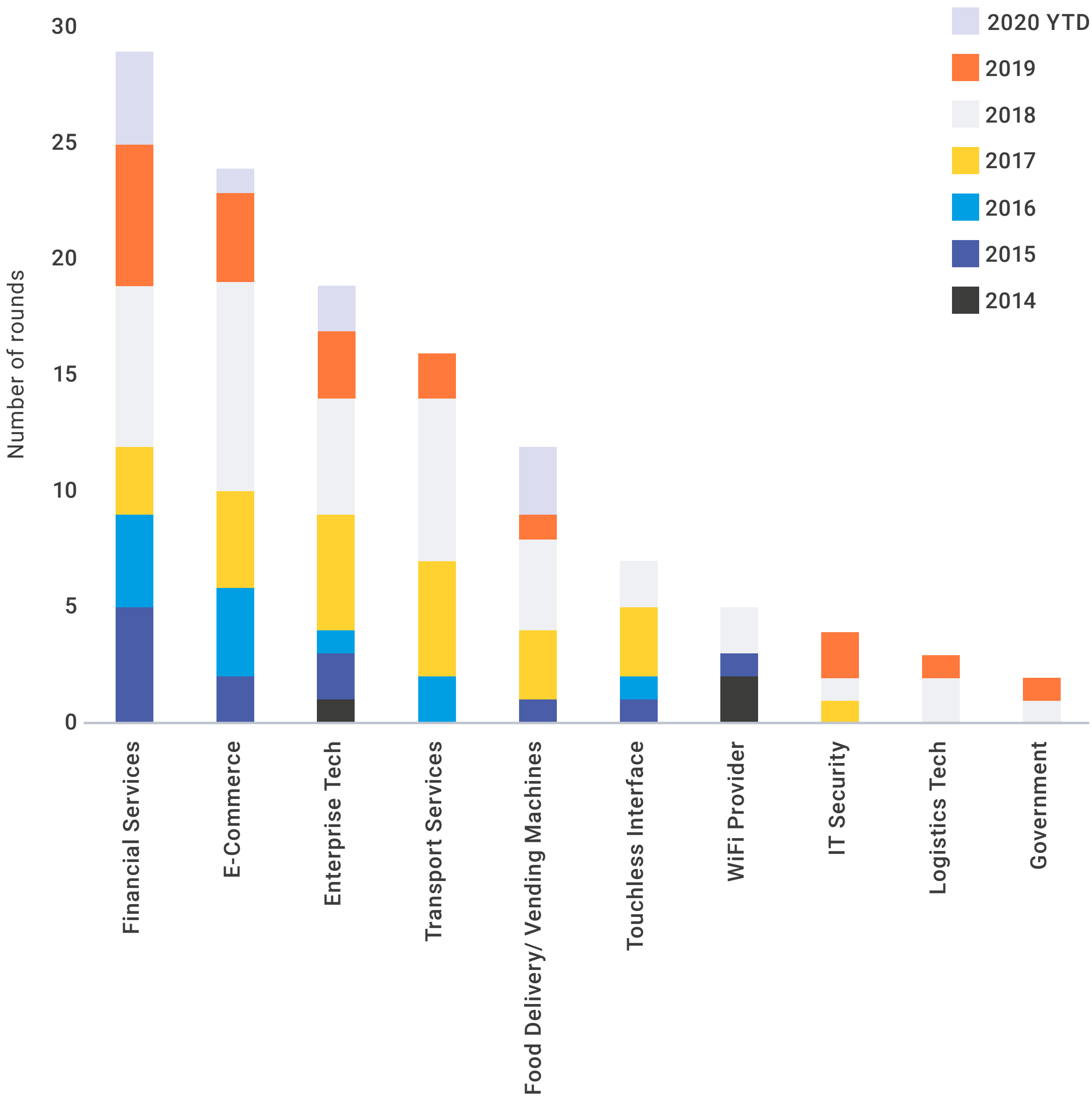
Examples of consumer platforms with embedded finance



Source: additiv

Ant Group's Venture Capital investment over time combining financial services and e-commerce*

(*Includes subsidiaries)



Source: Prequin Pro.Data as of October 2020

Delivering embedded wealth value through the public cloud

Public cloud technology now plays a crucial role to help financial institutions (FIs) target, acquire, manage and grow their customer base securely. They realize the cloud can help them achieve this in a robust, agile and scalable way while rapidly establishing partnerships. Specifically, providers are combining cloud platform components – and especially data and analytics services – with Software-as-a-Service (SaaS) offers from other providers. And cloud-based platforms are more frequently used to manage APIs to integrate with third party partners and service providers, supporting embedded finance models. In the new world of embedded finance (including embedded wealth), integration with external systems and data from multiple service partners is very important. It requires handling large volumes of customer data, deep analytics of a customer's spend behaviour and preferences, as well as connecting and sharing insights with partners. Adopting the public cloud to create 'cross industry data exchanges' brings more customer insights and provides specific products and services as required. It also facilitates the need for a robust API management capability to securely share data across systems and organizations. And in the Asia Pacific (APAC) region, we are now seeing even non-traditional FI players offering similar embedded (wealth) products using the power of the public cloud.

Using public cloud infrastructure, and the platform services it offers, it's much easier to launch new products and services. This is helping embedded wealth, and other financial product creators, quickly design, build and launch products aligned to customer needs and make changes (based on customer feedback and usage patterns). The traditional approach of sourcing monolithic solutions and creating the required infrastructure cannot scale up to support new product launches at the speed that is needed.

Bringing in massive volumes of data for analysis, and then fine-tune the offering and expose it to first and third party providers for end customer use is also not sustainable. The public cloud overcomes this, providing all the necessary infrastructure, platforms and development toolkits to develop embedded and new banking products (including wealth) and easily exposing them through third party financial service providers. Furthermore, the cloud offers asset managers and their partners help to create opportunities for advanced new administrative platforms that enhance productivity and reduce cost. As more Banking-as-a-Service (BaaS) and embedded finance models emerge, banking will become increasingly 'eco-system' centric, requiring scale, connectivity and interoperability plus data and information management, with security as a core component. But it will only be successful through the adoption of emerging cloud-based technologies to drive down unit costs and bring efficiency.

For more insights from Microsoft, see the recent additiv/Microsoft white paper:
"Embedded Wealth in APAC: how to access a $32billion opportunity"

Basudev Banerjee
Industry Leader – Financial Services, Microsoft APAC

ESG and its importance when embedding wealth

The pandemic and the impact that it has had on everyday life has increased interest in Environmental, Social and Corporate Governance (ESG). Financial advisors along with private and institutional investors are no exception. Global initiatives, including the United Nations Climate Change Conference (SOP26) and European Green Deal, serve as constant reminders of the prevalence of sustainability topics, and as a result, many investors now consider sustainable investment a key component of their portfolio.

However, including ESG in a portfolio is becoming more than a 'nice to have'. New regulations, such as the Sustainable Finance Disclosure Regulation (SFDR), already require investors to disclose sustainability information. The EU Taxonomy, a transparency tool introducing mandatory disclosure obligations for companies and investors according to a classification system, will come into force in January 2022. In the medium term, several global initiatives are slowly taking shape, such as mandatory reporting according to the Task Force on Climate-related Financial Disclosures (TCFD) for G7 countries and the International Financial Reporting Standards (IFRS) Foundation work to develop mandatory climate disclosures standards. In the U.S., the Congress has just passed ESG company disclosure standards (consistent with disclosure requirements).

Overall, any type of embedded wealth platform needs to incorporate sustainability solutions to serve clients effectively. The growing requirements to report on the sustainability of investments make this a must. At Clarity AI, we see a future in which any type of investment decision incorporates sustainability criteria, through data that is reliable, methodologies that are transparent and easy to understand, and in which all individuals and organizations have access to the tools and technology required to do so.

Daniel Gonzalez

Head of Distribution Platforms at Clarity AI

Looking ahead

The world of fintech is evolving. Up until now, we have seen companies employing digital technologies to make finance more convenient and smarter. But the next wave is more exciting in that it embraces business model change which promises much better customer outcomes.

Embedded finance is at the crest of the next wave. Embedded finance – made possible and now made urgent by changing customer behavior, regulation, competition and technology – refers to the trend of putting financial services into channels and user journeys that have a higher engagement.

A $100 billion opportunity that's there for the taking.

Embedded finance, by making financial services available seamlessly at the time of need, will grow the overall market for finance. Just when it comes to wealth management, it's a $100 billion revenue opportunity over time that's here for the taking.

For consumers, it will make financial services more convenient, more relevant, and easier to discover.

For financial services firms, it will grow their addressable market while lowering customer acquisition costs, thus boosting profits.

And for companies and brands looking to embed financial products into their existing services, it will increase customer value-add and lifetime value, while lowering churn.
In wealth management, we see the most promising immediate use cases for retail and challenger banks, for employee financial well-being platforms, health insurance provider, life insurers and pension providers, asset managers and IFAs, and for super apps and consumer platforms.

As with any market shift, the opportunity will be greatest for those who seize it first.

If you want to get ahead of the rest, talk to us today about how we can help you capitalize on this significant opportunity.

Thought Leadership.

additiv

Established in 1998, additiv partners with leading companies across the world to help them capitalize on the possibilities of digital wealth and investment management.

additiv's DFS® omnichannel orchestration platform is a system of intelligence for wealth management. It supports wealth managers looking for best-in-class Software-as-a-Service (SaaS) to deliver better engagement at greater scale. It enables financial institutions to access new distribution channels through a Banking-as-a-Service (BaaS) model. And it allows banking and non-banking providers to embed wealth services into their proposition.

Headquartered in Switzerland, with regional offices in Singapore, UAE, Germany and Kenya, additiv is supported by a global ecosystem of partners.

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