

Whitepaper

Embedded wealth management

Today's challenges for tomorrow's benefits

aixigo
Driving the New Wealth Experience.

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$7 trillion

predicted market value for embedded finance within 10 years[1]

97%

of senior executives see embedded finance as major opportunity to link their offerings more closely with clients' non-financial desires[2]

35%

of clients' product acquisitions will be made in a non-financial context by 2026 on average[3]

[1] PYMNTS (2021): Embedded Finance Will Reach a $7T Value Globally in the Next 10 Years
[2 and 3] Salesforce: The evolution of embedded finance: towards AI-driven product selection

Executive summary

- Even before the COVID-19 crisis, banking and insurance were two of the worst-performing industries worldwide. According to a report from McKinsey, the economic profit of the world's top banks and insurance companies **declined by 800 billion and 300 billion USD** respectively between 2015 and 2018[4]. The pandemic is currently further accelerating the decline.

- The **economic profit** (profit after cost of capital) is a measure of an organisation's efficiency at resource allocation. In other words, it demonstrates the returns an organisation gets from its solutions. Using this measure, we can clearly see that the industry doesn't deliver the results expected by its stakeholders.

- Numbers don't lie. The financial services industry has not innovated its core business model in centuries, and the urgency to do so is even stronger now than it was before COVID-19.

- The time has arrived to fully invest in creating digital business models. **Embedded finance** certainly offers one of the most exciting new digital growth opportunities to incumbent financial institutions (FI). Embedded finance enables any brand anywhere to quickly integrate new financial services into new propositions and customer experiences.

[4] McKinsey (2020): The great acceleration

Chapter 1 – The success of embedded finance

Most companies, including retailers, telcos, BigTechs, car manufacturers, airline companies and insurance providers, are launching embedded financial services to serve business and consumer segments. Here you will find a few examples:

Apple Card: realises the introduction of the financial tool to Apple's ecosystem enabled by a partnership with Goldman Sachs.

Shopify: enables merchants to accept payments from VISA, MasterCard and others. Where's the trick? The payments are conducted directly through the platform. It avoids third-party payment gateways and their fees. It was the first e-commerce platform to do this.

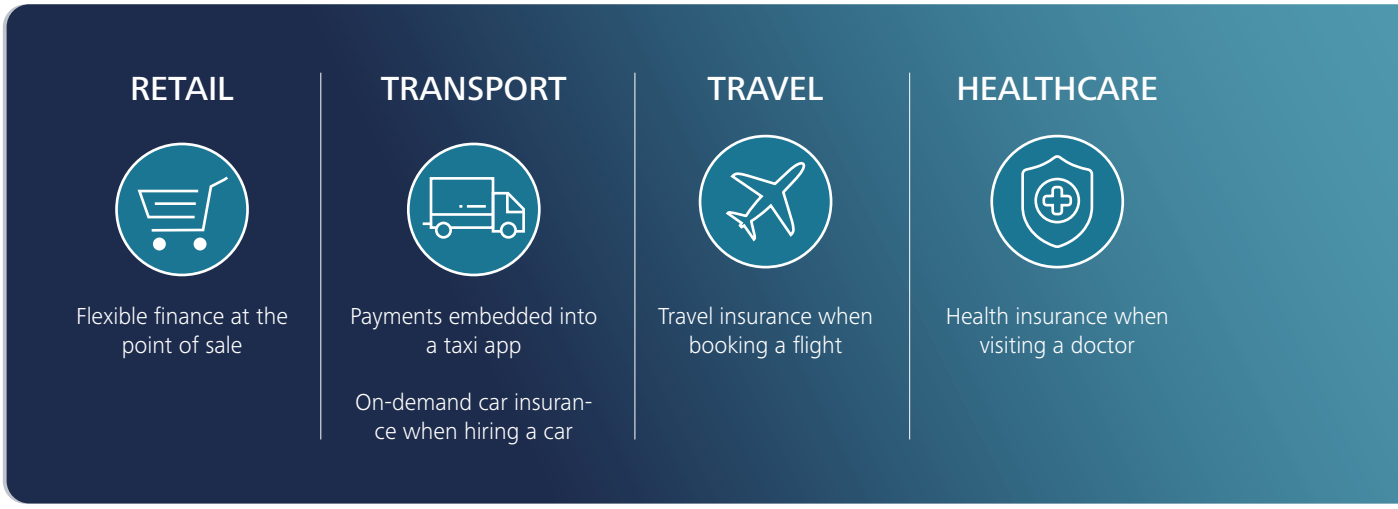
Uber & Bolt & Lyft: offer embedded payment services. This makes the riding experience as smooth and streamlined as possible.

Tesla: offers insurance through its car sales program. Thereby, they can maximise profits from each customer.

Klarna: does not embed financial services, technically. Rather, it is a financial instrument that can be embedded. It is best known for providing merchants with a buy-now-pay-later solution. Embedding on e-commerce pages increases sales and conversions.

Embedded finance is not the next big thing to catch, it is already transforming the financial industry.

The interplay between FinTech, open banking and embedded finance enables more people and companies in the digital economy to take advantage of financial tools and services. This offers opportunities for:



This broad commercialisation of embedded finance will certainly contribute to reduce inequality and create great opportunities for companies that want to grow financial products outside traditional financial services structures.

The market opportunities are undoubtedly huge. Based on various surveys, it has been estimated that the **size of the market** will reach between **3.5** and **7 trillion USD** over the **next ten years**[5].

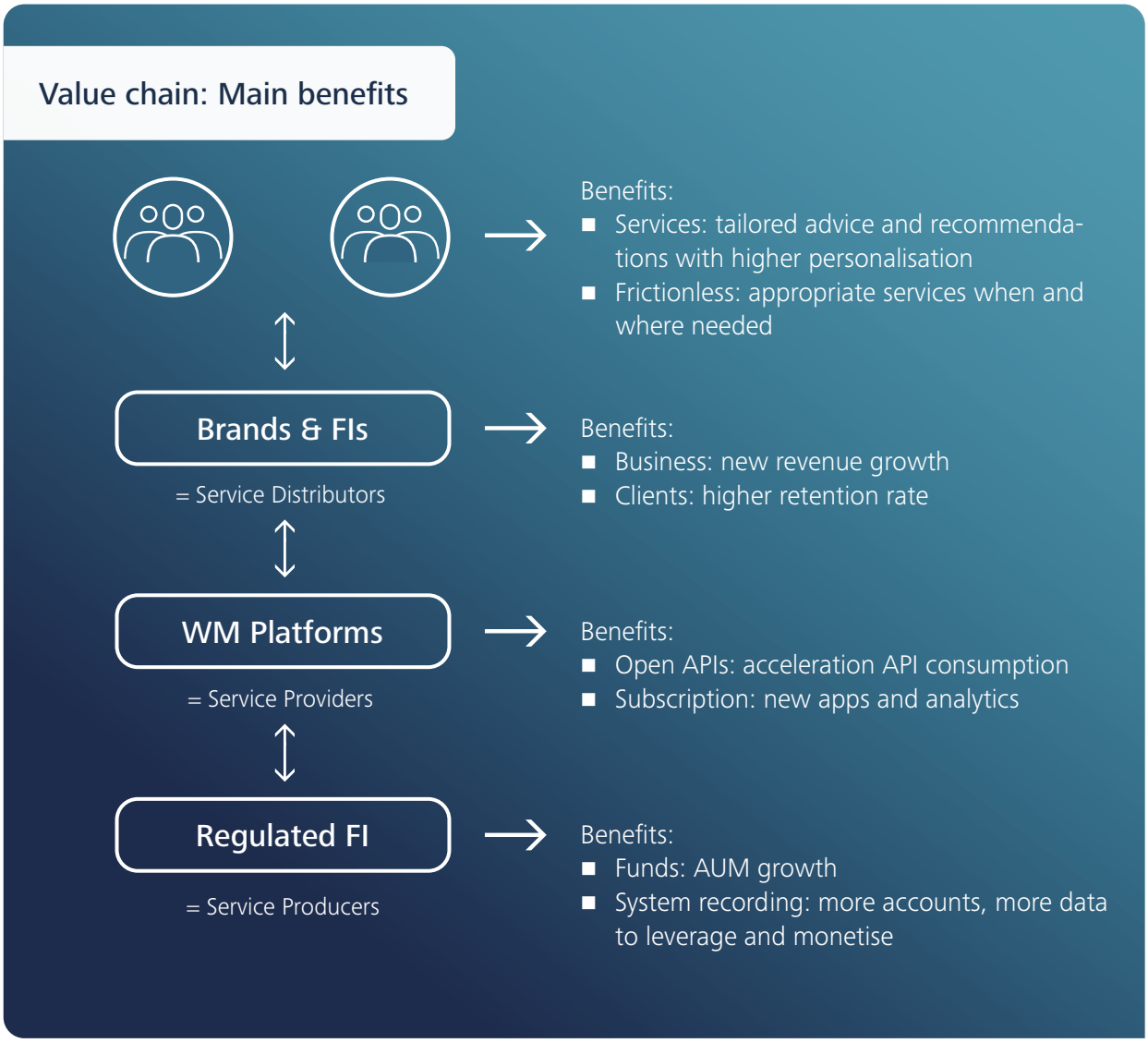
As for any new trend, this **creates opportunities** for those who are visionary and flexible enough to take advantage. On the contrary, it represents a threat to those who prefer to wait and see.

When it comes to embedded finance, we have just scratched the surface of what can be achieved. The next big thing is definitively the acceleration of **embedded wealth management (EWM)**. It is no longer enough for retailers to rely on their long-established customers to save money and use prepaid debit cards for shopping. Nowadays, clients wish to get advice in the management of their **future needs**.

[5] PYMNTS (2021): Embedded Finance Will Reach a $7T Value Globally in the Next 10 Years

Modern wealth managers will need to know their clients almost personally to suggest the right solutions tailored to the client's needs and advise them in their investing. This means, they will need efficient digital tools that allow them to spend less time on administration and more time on finding the most relevant investment opportunities.

Embedded wealth management delivers benefits to the entire value chain, accelerated user retention, revenue growth, data capture and more.



Embedded wealth management is about transforming and expanding the distribution channels. In this whitepaper, we are zooming into embedded wealth management, one of the most untapped use cases of the embedded finance stream.

Chapter 2 – New challenges require innovative solutions

Let's look at the challenges that are pushing organisations to adopt **embedded finance strategy** and the **benefits** it would bring to the full value chain.

Adopting embedded finance/wealth

TODAY'S CHALLENGES

Distributors

- New customer expectations
- New USPs to differentiate
- Not a manufacturer

FinTech

- Usually need new capital (human & funding)
- Absorb new regulations
- New pricing model

Producer

- Competition from FinTech and non-FIs
- Margin and fees compression
- Pressure from digital challengers and neobank

TOMORROW'S BENEFITS

Distributors

- Great understanding of needs
- Large established customer base
- Brand recognition

FinTech

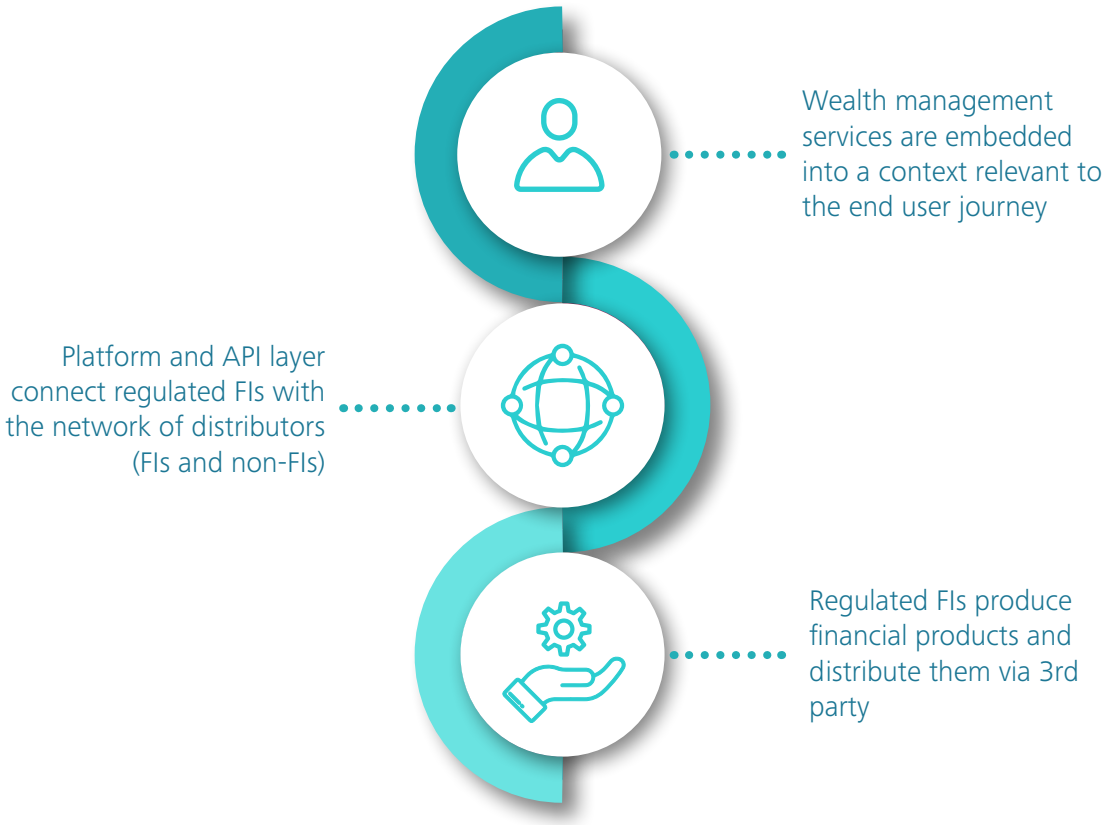
- Big data
- Open API enabled
- Innovative mindset

Producer

- License holder
- Regulatory experience
- Financial product factory

Brands ready to embed wealth management into their existing offering will see a significant **increase in their addressable market** with **much lower customer acquisition costs**, new streams of revenue, higher retention rate, and a significant reduction in the volatility of their clients.

The key benefit of **embedded wealth management (EWM)** is that it introduces more context. It matches financial services to context while simultaneously removing friction for the consumer. Wealth managers are inspired to pay attention to this emerging trend, especially when it applies to investing and financial planning.



We anticipate that banks, challenger banks, more payments firms and retailers will look at entering the embedded wealth arena. It's all about inserting new tailored financial services into the contextual end user journeys, based on where, when and what they need.

They provide consumers with relevant financial services both at the time they need them and through the right channel, as well as tailored to their context.

As previously mentioned, all parties involved can generate great return. Let's take the examples of a retailer, a car manufacturer or an airline company. These large brands usually have millions of touch points with their customers every week. Most of them already have the financial services foundation to go beyond and launch a new wealth management offering, such as credit cards, money transfers and consumer loans. These basic financial services have definitively **increased the loyalty** of customers towards the respective brands, but the margin remains limited.

The invisible and probably important aspect is the **accumulation of vital data about the customers**. Now, it is time to monetise this data by leveraging it and offering more added-value financial services, such as advisory. **We are living in a world of customisation**, where you can stream video content on platforms that know your favourite movies and send you suggestions.

Overall, there are attractive distribution channels, a wealth of data, and millions of customers who are already convinced that financial services don't only belong to banks. You will be able to spend, borrow, save and manage needs on a single platform.

Thus, the future of wealth management lies in **contextual finance**, offering customers services tailored to their particular circumstances and needs. The key is to create products that understand what motivates that person, what their challenges are, and what prevents them from being successful.

Financial coaches, advisers or financial consultants shouldn't be reserved to the highest-earning segment. In the U.S., **millions of Americans don't have access to credit build savings or wealth** and are left to manage their financial lives through complex processes.

Almost **a quarter of U.S. adults are unbanked or underbanked**[6]. Everywhere, consumers aren't connected to the world of financial services.

Wealth management has traditionally been the preserve of the wealthy. But for future growth, financial institutions must target other groups as well. **Digitalisation** is helping to **democratise wealth management** by making it more affordable and easier accessible for a larger proportion of the population.

Meanwhile, financial institutions are able to tap into new markets. This applies particularly to the lucrative Asia-Pacific region, in which there is currently huge potential in the emerging middle class.



[6] CNBC (2019): 25% of US households are either unbanked or underbanked

Chapter 3 – The relevance of FinTech features

Today, getting access to financial products is no longer a big challenge. However, it is vital to construct an **unbiased financial road map** based on individual's needs.

It's important to recognise that the financial goals of each person are different. Therefore, **financial planning should also be individual**.

The efficiency of each investment needs to be evaluated only after arriving at a conclusion of what is suitable for a given person, based on his or her needs. Maybe it could be for future retirement, but possibly also about investing into the next irrigation system to grow better crops.

Having a **holistic approach** is the only chance to achieve such individualised investment planning for each client.

Educating the investor (even digitally) about needs-based financial planning rather than trends-based investments is very important in the process of democratising wealth.

Dealing with mass population requires advisers to educate the future investors to stop looking at the performance benchmark related to their investments and start looking at the performance benchmark related to the successful achievement of their overall planning objectives.

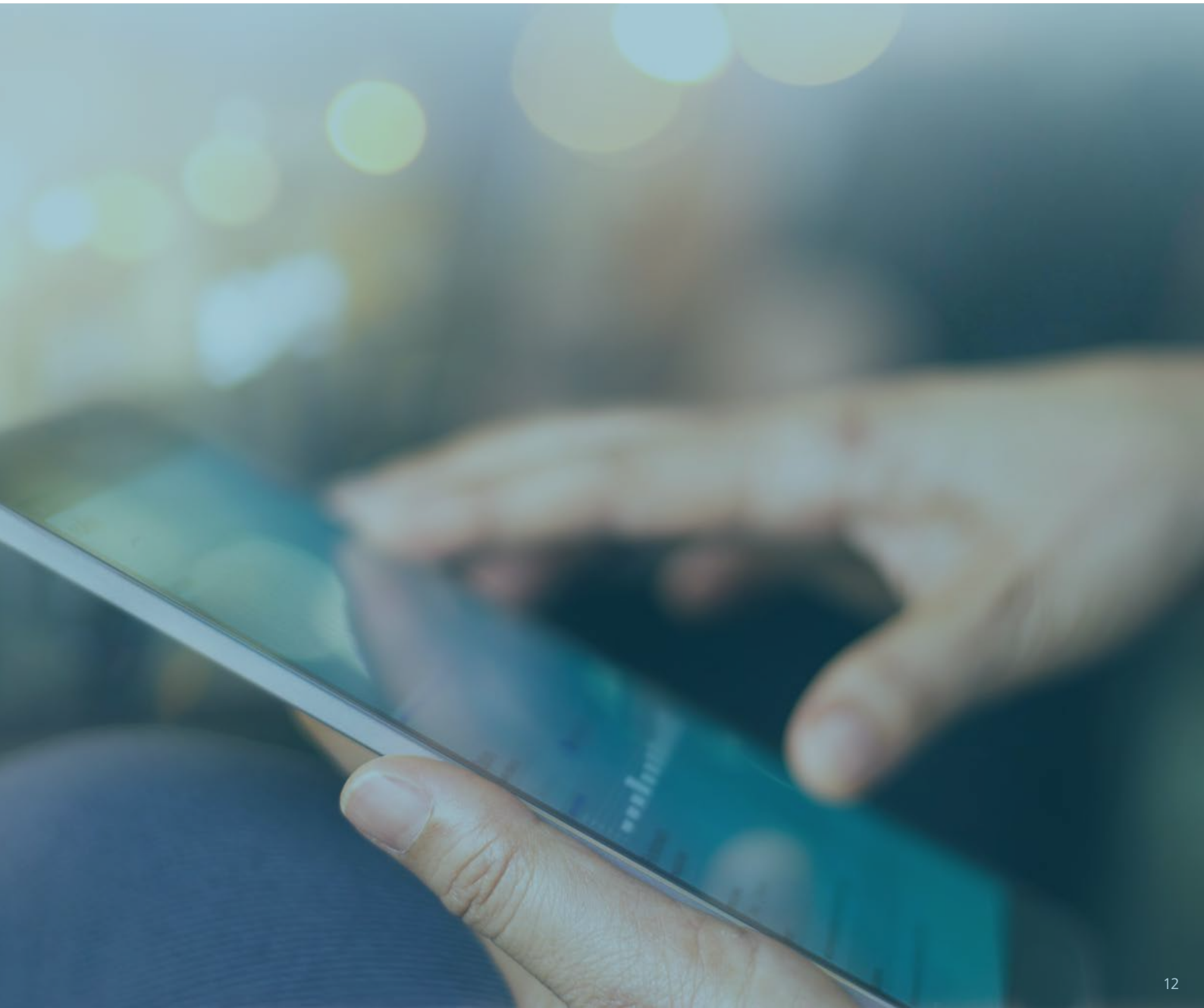
The process of assessing the suitability of an investment for an individual is nothing but **asset allocation based on detailed client profiling**. Finally, as soon as you are dealing with lower income revenue, it is important to understand that wealth management is an **ongoing process** until the investor achieves his or her financial goals. It requires a periodical review of the portfolio of investments and fine-tuning of asset allocation based on the changes in the investor's profile or the overall environment.

As a conclusion, you need to get to know your clients better and get more data, including behavioural and emotional information, to make sure that **advice and education are available for all**, regardless of income.



This is where embedded finance or embedded wealth comes into play on this journey. Since the pursuit of financial goals is an ongoing process, it should act as some kind of invisible wizard that **helps individuals achieve their goals**. This is even more important for less educated people.

The good news is that **times are changing**, and **FinTech** companies are democratising wealth management, making it easier for retail investors to get involved. FinTechs **make the unthinkable possible**, namely having advisory services available anytime and anywhere without necessarily requesting them.

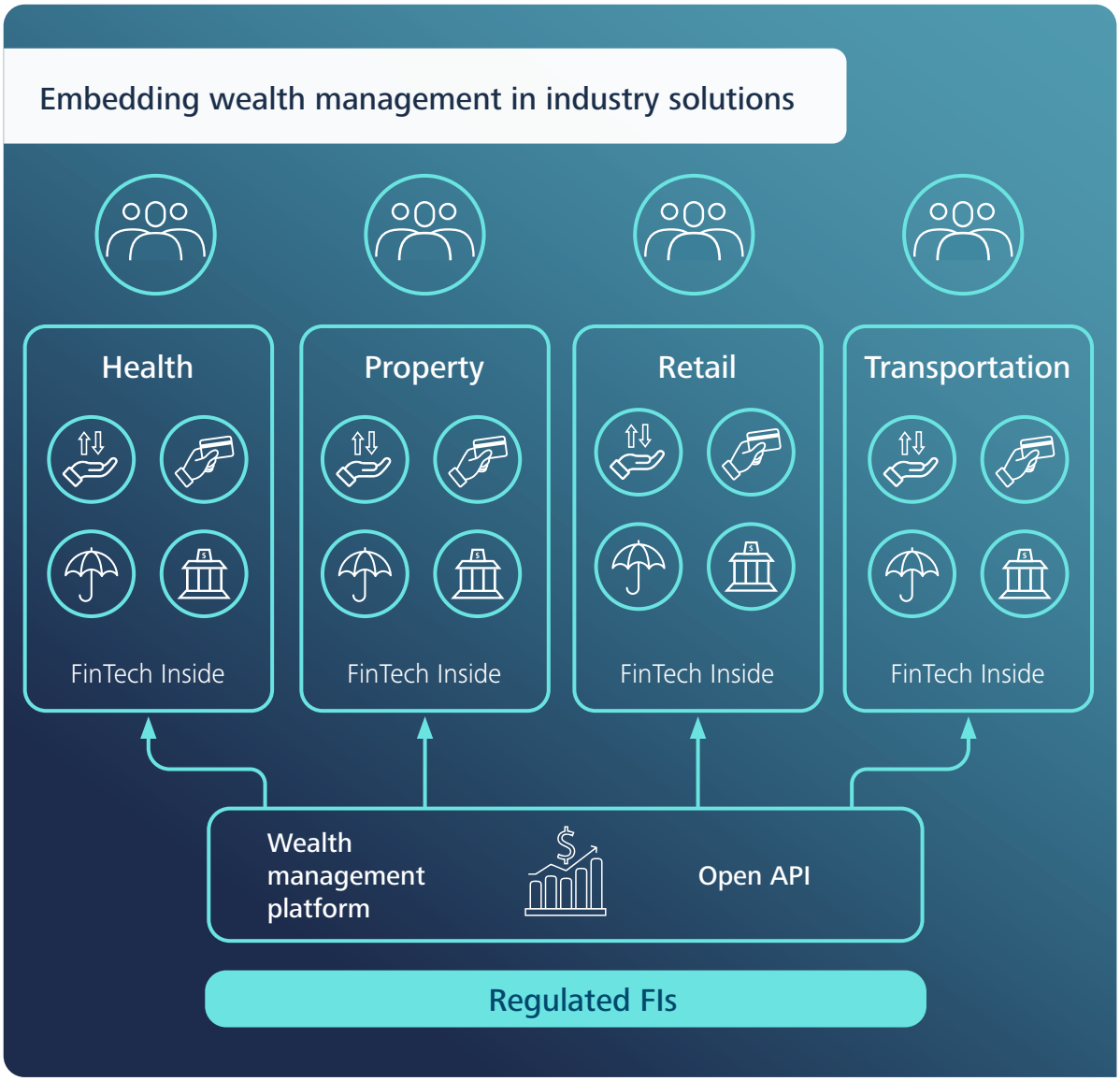


FinTech Inside

Embedded finance or wealth management is the **next evolutionary phase in FinTech**. FinTechs are unlocking innovation and accelerating the distribution of values.

FinTechs are leading the business model changes. Day after day, more FinTechs are founded because they realise the strong development opportunities ahead. By leveraging FinTech features, more revenue streams come from exchanges, loans, etc. **Take advantage of existing close customer relationships, brand strength, and distribution potential to open up new revenue streams for FinTechs.**

The venture capital firm a16z found, that by embedding banking and wealth management into their existing offering, SaaS companies can grow revenue per customer by 5 times compared to a standalone software subscription[7]. Onboarding a FinTech layer will **generate new revenue lines** by leveraging FinTech features as **key monetisation drivers**.



[7] a16z (2020): Fintech Scales Vertical SaaS

Given the advancing capabilities and enormous potential, it's obvious that the definition of embedded finance or wealth management is not new for banks and insurance companies. The forward-thinking strategic recommendations created by the automated, contextual banking systems will not only lessen the tension of traditional banking, but also **open a new financial era**.

The lines are blurring between brands, institutions, and technology providers. FinTechs supported by Venture Capitals (VCs) are currently taking the lead in creating sophisticated embedded finance offerings via banking-as-a-service platforms. The new services are offered as part of existing contextually embedded user journeys.



92%

of senior executives believe embedded finance will be the biggest distribution trend of the next 5 years



75%

of senior executives believe that innovative fintech solutions will reverse the intermediation threat



30-40%

of customers' product acquisitions will be made in a nonfinancial context by 2026

Contextual finance and the future of embedded wealth management

No single party can accomplish the mission in isolation. The notion of **collaborating and working together** is instead crucial here.

VCs as well as **BigTech** and **FinTech entrepreneurs** are excited about this market opportunity and are pouring more money and effort into it, following successes like **Plaid**, a seven-year-old start-up, which was recently set to be sold to Visa for **over 5 billion USD**[8], or the enormous growth of **Square** and **Stripe**[9].

Within the wealth management space, according to a **recent survey by SFDC**, **75%** of respondents believe that innovative FinTech solutions such as **robo-advice and portfolio management** will be able to reverse the intermediation threat[10]. These new opportunities will yield higher margins. Solutions to manage the customers' embedded finance choices will lead to better customer outcomes and build trust.

By 2026, embedded finance is expected to be mainstream. **Between 30%** to **40%** of customers' product acquisitions will be **made in a non-financial context**[11]. However, it's too early to have similar estimates for embedded wealth management offerings.

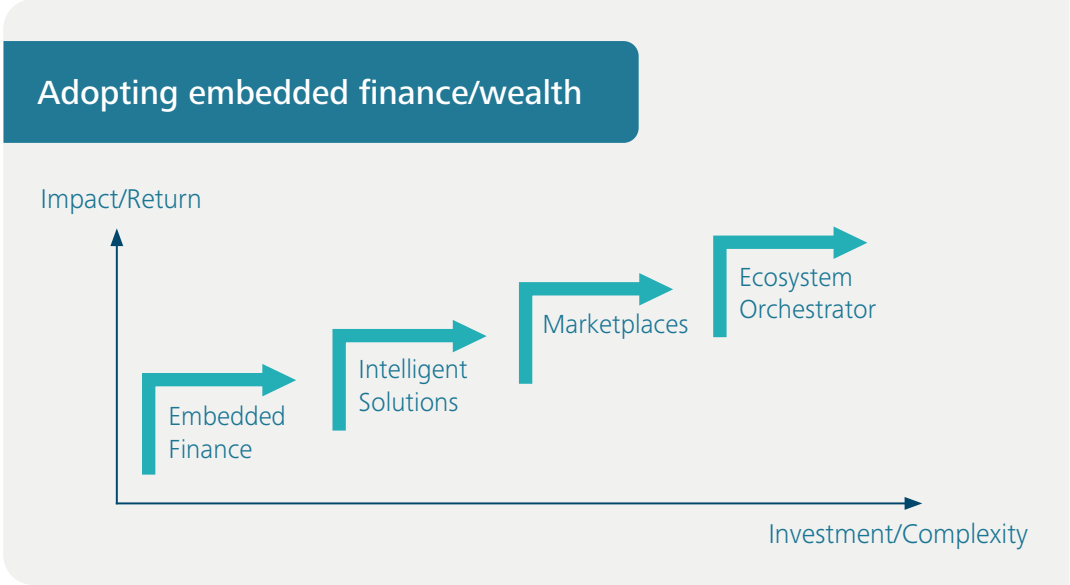
[8] Heise online (2021): Visa: Milliardenschwere Übernahme von Fintech-Start-up Plaid geplatzt
[9] Prove (2022): An Analysis of Payment Gateway Providers by Total Payment Volume
[10 and 11] Salesforce: The evolution of embedded finance: towards AI-driven product selection

Riding the wave of the digital economy: New business models based on platform thinking and platform economics

Platform thinking means leveraging the innovation of third parties to increase the value for the current customers against serving the customers only with your own products.

There are **four possible business models** exploiting platform thinking and **platform economics** to catch the digital economy wave. The main goal is to monetise **intellectual capital** and **relational capital** embedded in the FinTech apps by leveraging the connections between multiple parties. This can be compared with traditional business models investing heavily in human and financial capital.

Platform-based business models dominate in an increasingly hyperconnected digital world due to their underlying powerful economics.



According to analysis by Matt Harris from Bain Capital Ventures, embedded finance could potentially create businesses worth **more than the total pre-COVID value** of America's Top 30 financial institutions[12].

Financial-as-a-service platforms will enable embedded finance, and there is need for action. **Doing nothing is not an option**, otherwise incumbent banks and insurance companies are likely to be marginalised. The transformation should include the following steps:



Step 1: Entrepreneurial tech skills
→ Joint ventures with proven technology

Step 2: API-based platform
→ Culture shift for the leader and allocation of the necessary investments

[12] Simon Torrance (2020): Embedded Finance: a game-changing opportunity for incumbents

Chapter 4 – The smart way to embedded wealth management

Embedded wealth management is the next logical phase of the embedded finance journey. FinTechs such as **Acorns** and **Plum** are some examples for embedded saving and investing, allowing the consumer to round up the cost of a purchase and automatically divert the extra money into savings or investments.

Innovative financial services adaptively meet customer demands through contextual use. **There are many use cases**. At present, examples of embedded wealth management can be found in existing financial services firms, for example **neobanks**, **investment firms**, **insurance** and **pension companies** as well as **super apps** such as WeChat. However, recently, few non-financial firms have included embedded wealth management in their products as well.

There are **key market drivers** that are motivating firms to consider this stream:



The global pension deficit will reach **400 trillion USD** by 2040[13].



In many developed countries, the asset prices and cost of living **went up between 5 to 15 times** in recent years, while salaries have not raised at the same rate.



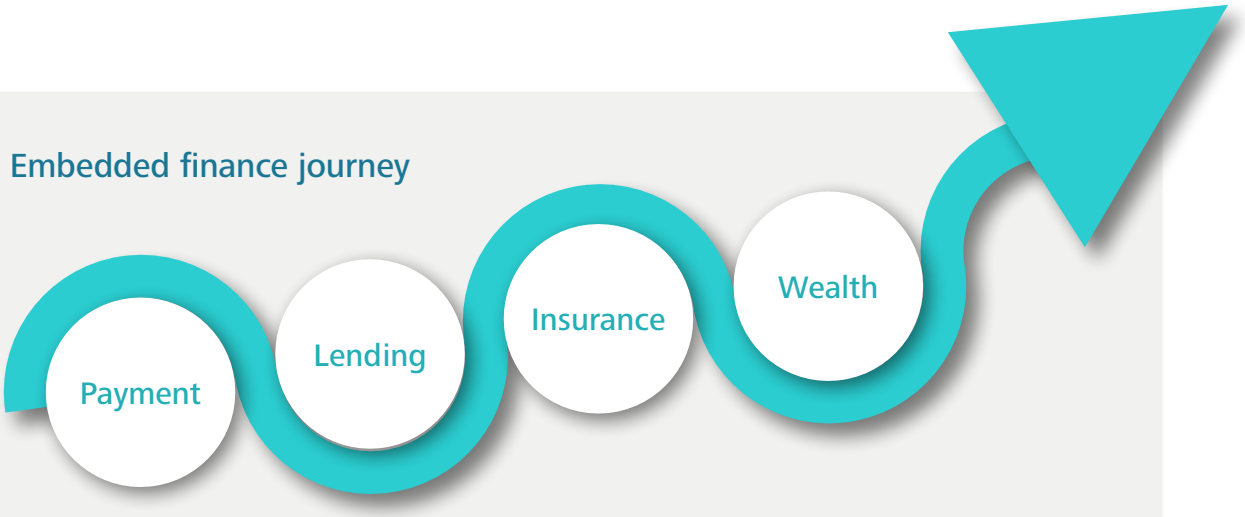
Millennials and Generation Z are spurred by different motives (e.g. travel).



The **growing underserved population** must grow their savings and wealth to satisfy basic family needs.

[13] World Economic Forum (2017): We'll Live to 100 – How Can We Afford It?

Embedded finance journey

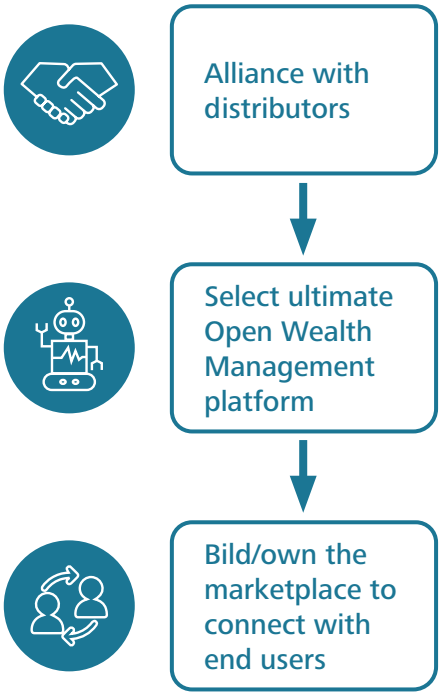


There is an urgent need to advise people on how to grow their wealth, and therefore embed wealth services into new journeys, including non-financial ones.

Tech-savvy generations have already sought out and used wealth apps, but the majority of the population is still off-grid and therefore in need of new access paths. **The market is definitely untapped and holds great opportunities.**

Main steps to successfully launch an embedded wealth management offering

A financial firm seeking to enter a new line of business with an embedded wealth management programme should follow a 3-step approach:



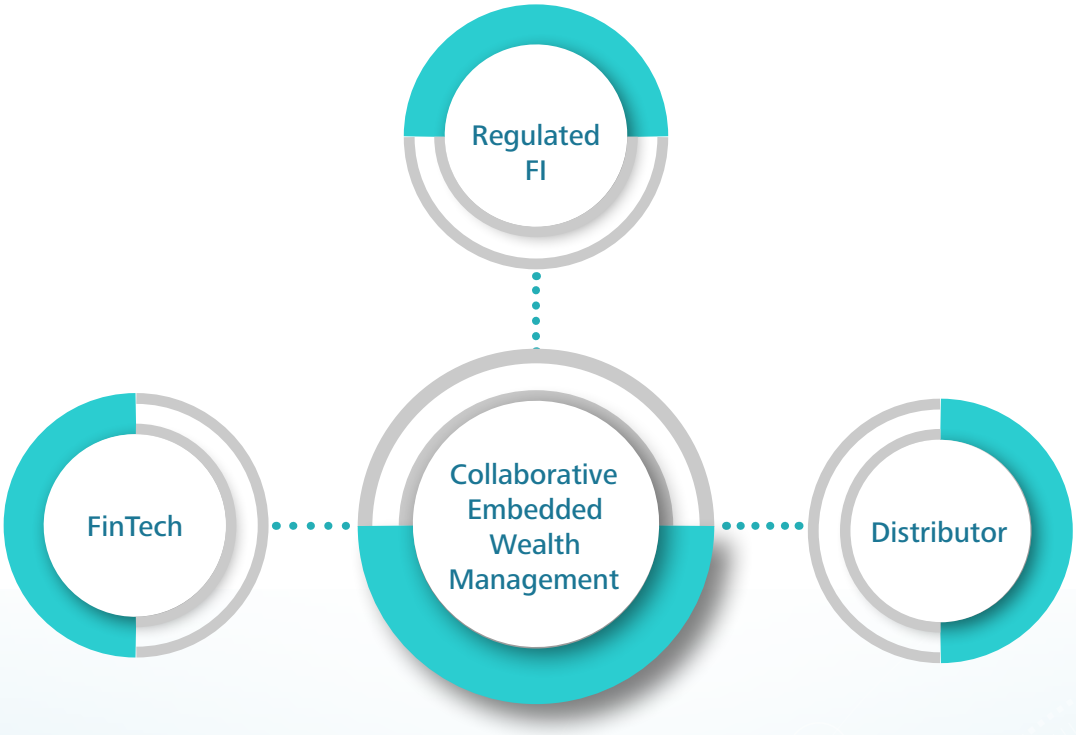
Step 1:
Select distributors (FIs and non-FIs)
→ based on targeted markets,
→ and relevant segments likely to get attracted.

Step 2:
Build a strategic alliance with a WealthTech
→ capable to deliver an open wealth management platform,
→ and that is Open API enabled.

Step 3:
Build a marketplace as vehicle to connect with end users.
→ Establish the marketplace,
→ and embed wealth into a well-defined user context as invisible service.

It's all about working together and redefining the **"co"**; **co**llaborative approach, **co**-investment, **co**-development, **co**…

The new trilogy defining the new normal post-COVID is called **collaborative embedded wealth management**.



Experience has shown that it will take time for a non-financial marketplace to become profitable. Therefore, we recommend to **kick-off with a financial marketplace, and gain experience and proven track record before adding a non-financial vehicle**.

Pivoting to intermediation as an opportunity

Embedded wealth management is the perfect enabler for FIs to **regain a predominant position** without necessarily having a direct connection to the end user. This is a real opportunity to move **from the intermediation threat to an intermediation opportunity**.

The pie is getting so much bigger that even if the pie has to be shared with FinTechs and distributors, the economic outcome is largely positive. Embedded wealth management brings in net new revenue and revolves around the profit sharing model of the NNR (net new revenue).

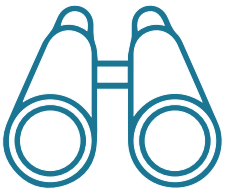
The emergence of embedded finance means financial institutions can look forward to **a long-term and profitable future** at the forefront of the customer relationship.

aixigo's viewpoint

Embedded wealth management definitely reshuffles the cards. It's there and evolving fast, creating a need for action.

The end user is part of the value chain and **benefits from concrete advantages**. As the end user has the choice between several embedded finance products, those providers will succeed to offer solutions that are smart, convenient and hyper-personalised.

The firms that have invested in skills and talents, big data, real-time personalisation capabilities, open platform or open API, start off with a real advantage. But that's not enough. Reaping this opportunity also requires a **well-defined strategy and value proposition associated with a monetisation plan**.



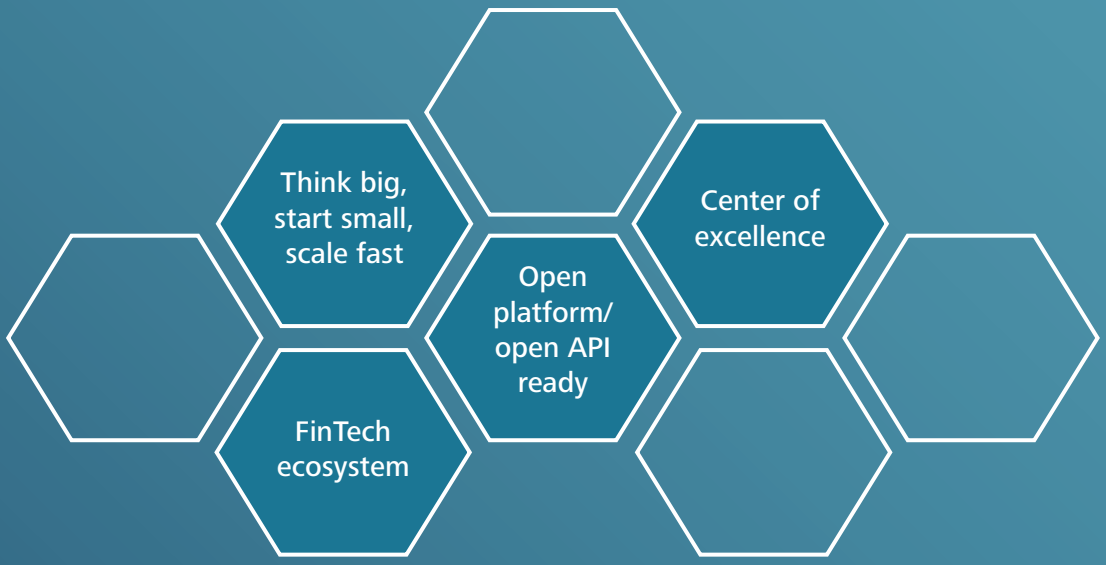
At aixigo, we have identified four building blocks:

1) **Centre of excellence**
   - Build a centre of excellence combining internal and external resources.
   - Build a roadmap of wealth innovation.

2) **FinTech ecosystem**
   - Establish a FinTech ecosystem that brings value at the point of contact.
   - Objective is to leverage innovation and bring value to the market faster.

3) **Think big, start small and scale fast mindset**
   - Be agile with a fail-fast approach.
   - Have an entrepreneurial mindset.

4) **Open platform/open API ready**
   - Extensively leverage open APIs.
   - Become an orchestrator.



Yes, the pie for contextual finance is definitively big, and therefore we shouldn't underestimate the impact of competition and the fierce battle between all actors. For sure, the battleground has **shifted to the point-of-sale** and whoever controls it will have a great advantage as well as the power to influence the process.

When it comes to revenue, **the producer undoubtedly will keep the biggest share of the pie**. The clock is ticking, and the first mover will have the chance to dictate and reshape the wealth market.

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