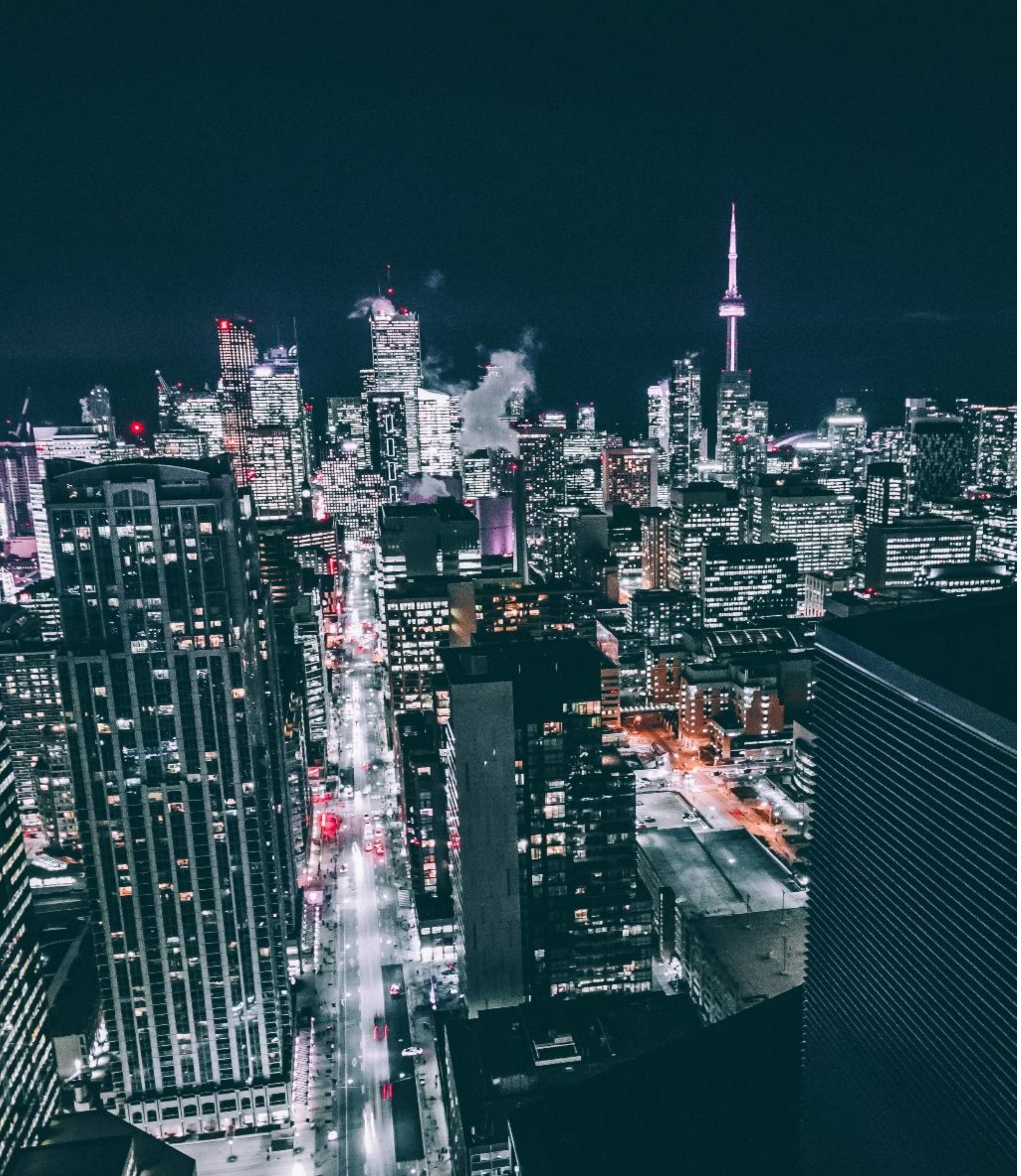
Financial Services Briefing: January 2021

This monthly report rounds up key developments from across the global financial services industry, with expert insight provided by our team of analysts.

February 2, 2021



Contents

Cards and Payments

GlobalData.

Cards and Payments Contents

Access to cash is becoming a more acute issue in the UK

The COVID-19 pandemic has had a major impact on the use of cash worldwide. In the UK specifically, cash withdrawals are declining even more rapidly than before, with consumers increasingly opting for contactless cards or mobile payments at the point of sale. Given this trend, it is unsurprising that ATM networks are quickly closing. Link estimates that unless action is taken, the size of the network will halve in the next two years (meaning there will be just over 400 ATMs per 1 million people in the UK). Groups such as Which? are lobbying for the government to work to preserve access to cash.

Analyst view: As much as the UK has moved towards electronic payments, cash remains an important part of everyday life for a minority of consumers – the very young, the very old, the dispossessed, and the vulnerable. The breakneck pace at which COVID-19 has accelerated transactions on a global level towards "cashlessness" has led to an overall shift in consumer behavior. But while the average consumer in the UK may have no use for ATMs, instead conducting all their transactions using contactless cards, this is not true of everyone in the UK.

A cashless society needs to approach the issue of financial inclusion in a very different way to one where physical notes and coins exist as a potential safety net for those without access to cards or bank accounts – or when these card-based systems fail. As infrequently as failures might be, in January 2021 shoppers in the UK were unable to pay (or were charged twice) when using payment cards at supermarket chains Morrisons and the Co-Op.

The UK still has yet to put forth legislation to protect access to cash. Market forces already in operation will seriously threaten access to cash in the meantime.

BNPL continues its strong growth trajectory with major IPOs expected in 2021

Affirm has reportedly set its sights on a $9bn valuation in its upcoming IPO, making it the second of the big buy now pay later (BNPL) fintechs to list on the stock exchange following Australian BNPL firm Afterpay (with Klarna still expected to launch an IPO in 2021). Additionally, three BNPL-focused startups have received significant funding – European firm Scalapay raised $48m in seed funding in January, while Czech firm Twisto raised $19m and French firm Alma raised $59m.

Analyst view: The BNPL sector is currently a major focus of investment and growth. The success of Klarna, Afterpay, Affirm, PayPal, and their competitors in the last few years has shown that there is a real consumer appetite for deferred payment services. These services also offer attractive deals compared to credit cards in terms of the cost of taking out loans. Whereas BNPL companies only charge late fees (instead making their money from the merchant by taking on credit risks), credit cards' cumulative interest makes them the costlier option for repaying purchase amounts over time.

However, BNPL services have become a cause for concern among regulators, since they are not subject to the same rules as credit card issuers and are beginning to attract significant numbers of consumers – some of whom are falling into difficulty after missing scheduled repayments. Over the Christmas period, research by Credit Karma indicated that a quarter of UK consumers used BNPL services for an estimated total borrowing of £2.3bn (£3.1bn). At these levels of usage, it is only a matter of time before regulators intervene – we are already beginning to see increased levels of reporting on consumer non-payment of BNPL loans and the financial issues this causes. The more stories like this that emerge, the more regulators will be compelled to act. It is likely that ultimately BNPL firms will be obliged to prominently advertise the possibility of debt collection agencies being involved in cases of non-payment, which may dampen consumer enthusiasm.

TrueLayer's PayDirect aims to take on the card-based value chain

Open banking API provider TrueLayer has announced the launch of a payments-as-as-service platform, PayDirect. This service uses open banking regulations to allow real-time payments to be used in place of card-based payment infrastructure for accepting electronic payments. PayDirect is positioned as a white-label payment service for banks, fintechs, and merchants (mostly in the e-commerce space), and offers customer onboarding and KYC as well as payment acceptance functions.

Analyst view: PayDirect cuts to the heart of open banking's disruptive potential. By decoupling payments from cards and shifting to real-time payment infrastructure, slow settlements, chargebacks, and transaction fees are all cut out of the value chain. This is a great result for merchants in particular, who are seeing more and more of their revenue become subject to card fees as consumers move away from cash. It's not ideal for the existing card value chain – especially card issuers, who rely on interchange as a major source of revenue for otherwise low-profit retail accounts. However, the main barrier to its adoption is consumers, who see none of these value chain issues in their day-to-day spending.

Open banking legislation has so far had a sharply limited impact. While banks across the UK and Europe are obliged to open their systems to third parties, little has changed for the payments market. Consumers still make heavy use of cards, use banks' financial services products, and generally conduct their day-to-day activities as they did before the advent of these regulations. The issue has always been how to get consumers on board with open banking-based products, because it is ultimately their assent that is needed for any such product to get off the ground. PayDirect will need a strong consumer incentive to realize its disruptive potential.

Mastercard hikes interchange fees post-Brexit for cross-border payments

Mastercard has announced that interchange fees will increase by 400% for online purchases made in the UK to EU merchants, following the UK's exit from the EU. At 1.5% for credit cards and 1.15% for debit cards, this move puts Mastercard's interchange fees at the cap for non-European Economic Area (EEA)-issued cards being used within the region. Visa has not increased its own interchange fees, stating it will only do so if it feels an increase would be "appropriate" and with six months of advance notice.

Analyst view: This move comes as an unsurprising consequence of the UK's departure from the EU – it is only to be expected that interchange fees would rise to the level of the inter-regional cap in order for banks to increase their revenue. It should be noted that Mastercard is not a direct beneficiary of the rate hike; instead, banks that issue Mastercard cards in the UK will benefit here, albeit only for cross-border transactions.

Interestingly, Visa has not followed suit. This creates a dynamic where merchants will want to incentivize the use of Visa cards specifically for transactions made from the UK to the EU in order to avoid these fees.

Cross-border payments between the UK and the EU are already struggling. Post-Brexit, the rules for international customs and payment settlement have greatly changed. Consumers in the UK buying from the EU have experienced delays and additional expenses that disincentivize purchasing from the EU. This change by Mastercard will likely result in EU merchants raising prices or levying surcharges on card transactions from UK consumers (which are not legal in transactions between parties in the EEA, but are not prohibited for transactions originating from outside the EEA). Overall, this move will lead to a chilling effect on cross-border payments and greater pressure from fintechs looking to disrupt the card-based value chain.

Vietnamese mobile wallet secures series D funding and aims to be a super-app

One of the most popular mobile wallets with over 10 million users in Vietnam, Momo has secured a round of series D funding. The exact figures have not been disclosed, but industry observers are estimating the value to be over $100m. Momo hopes to use its funding to transform itself into a super-app in the vein of WeChat or Alipay. Aside from its mobile payment capabilities, Momo can currently also be used for cash transfers, mobile phone recharges, personal loans, and other online payment and gaming services.

Analyst view: The term "super-app" was coined to describe the Chinese giants Alipay and WeChat Pay, which beyond the simple fact of their success in the Chinese market also boast a much wider range of functions than otherwise comparable payment apps. This success has obviously given many providers – especially those in Asia – the idea of emulating their model.

Momo is looking to expand its wide range of payment functionalities to something more akin to the synergy WeChat and Alipay enjoy – where payment functionality is integrated into an app that can also find local businesses and book services, as well as communicate with peers. Should it be able to realize these potential benefits, Momo could gain significant market share in Vietnam. The model is proven, but it remains to be seen whether the company can realize its enormous potential.

OCC plays with fire by opening up US banking system to cryptocurrencies

In the US, the Office of the Comptroller of the Currency (OCC) has approved the use of stablecoins (cryptocurrencies pegged to a global fiat currency or commodity such as gold) for the settlement of financial transactions between banks. The OCC's official statement on the matter clarifies that banks are permitted to connect to blockchains in specific, prescribed ways and transact in stablecoins on behalf of their customers.

Analyst view: Opinion is divided in response to this move. The crypto industry has naturally hailed it as a huge victory for the legitimacy of cryptocurrencies, though other commenters are more concerned about what it means for the financial system to fully embrace cryptocurrencies. The OCC has permitted banks to treat public blockchains in the same way as they do established payment infrastructure such as ACH and SWIFT – and stablecoins themselves as stores of value equivalent to fiat currencies (in a complete reverse from the US's previous position that cryptocurrencies were commodities, not currencies).

It remains to be seen how much trading banks will actually do in these currencies – while there is certainly some demand for them among consumers, use of (or even understanding of) cryptocurrencies is very low in the wider context of the US as a whole. However, this move does expose the banking system fully to the uncertainties of monetary systems that are either backed by companies only or fully decentralized (thus, not controllable by governments) – and cryptocurrencies are notoriously volatile.

This is a potentially dangerous experiment the OCC is embarking on, and not in controlled conditions. The prevailing wisdom in all other markets is that cryptocurrency is to be kept at arm's length, and if embraced to be brought fully under the control of the national banking system – such as in China and other markets exploring a central bank digital currency.

Japan Post Bank suspends Mijica digital wallet service due to user fraud

Over 200 consumers had money taken out from Japan Post's Mijica digital wallet fraudulently, with a total of JPY52.8m (approximately $500,000) compensated to affected consumers. The bank's president and several other top-level executives have announced they will voluntarily give up 10% of their monthly pay over three months as a show of responsibility for these losses. Mijica will be suspended until a new version of the digital wallet can be launched, which is currently estimated for the second quarter of 2022.

Analyst view: Fraud is one of the biggest barrier to Japan becoming a more cashless society. Other incidents of this type have delayed the adoption and rollout of mobile wallets and the progression of cashless payments in the Japanese market as a whole, as local consumers are very much averse to risks. Any issue like this – even though only around 230 consumers were affected – can sway the market to be skeptical of the security of digital payments in general.

This is also why the president of the bank had to appear in public to announce how the bank will address the issue, including taking a pay cut. Despite these measures, we will see a further slowdown in the adoption of alternative payment methods in Japan. Even as cash usage declines in the market, consumers will opt for tools such as cards, which are known and understood to be "safe" thanks to their long-term usage by consumers.

UnionPay launches virtual card in Vietnam

In 2020 around 3 million UnionPay virtual cards were issued in Southeast Asia. The cards have now been launched in all ASEAN member countries and work with 18 different QR code-based mobile wallets across the region. Vietnam is the latest market the card has been issued in, following a partnership with Vietnam's Military Commercial Joint Stock Bank and Sacombank. In Vietnam, UnionPay's virtual card works with two of the market's major mobile wallets and will be accepted by over 40,000 merchants.

Analyst view: As the Chinese market saturates, UnionPay has to find other markets to expand its business, and has been investing heavily in neighboring markets in order to achieve growth. Besides being close to China by proximity, the digital payment environment in the ASEAN region is at a developmental stage and has a lot of room for growth in general; most economies in the region are still cash-based. Consumers are quickly adopting electronic payment tools including payment cards and (increasingly) mobile wallets. In contrast, the Western market is mature and saturated, meaning it is very difficult to penetrate and compete with the main established competitors.

Given the regional economic trade pact signed in November 2020, it is obvious that eventually payment networks and providers will link up across these markets. These moves by UnionPay put it in a strong position to reap the benefits of regional growth as well as to shape the future of payments interoperability in the region.

Mobile payments trialed on Taiwan’s public transport network

Public bus riders in Taiwan can now use their mobile wallet to pay for bus fares, as part of a trial initiated by the island’s transportation department. During the trial stage, five different bus operators will accept QR codes from three Taiwanese mobile wallets as payment. Bus fare terminals have been retrofitted with a QR code scanner; to pay for bus fares, riders will have to present a QR code to the scanner. Full rollout of the system is expected within the next two years.

Analyst view: Adoption and acceptance of mobile wallets in Taiwan is on the slower side compared to most other markets in the Asia Pacific region. Expanding acceptance of mobile wallets to public transport is a good step in pushing for wider adoption of mobile wallets and to help in the progression towards a cashless payment environment in Taiwan.

There are numerous examples of public transport acceptance galvanizing the uptake of new payment methods, such as the rollout of contactless payment card acceptance on the London public transport network. As mobile wallet acceptance points become more widespread, especially for services that are in everyday use, it will create more opportunities for consumers to use their mobile wallet while encouraging non-users to make the switch as they see their peers using these systems.

Insurance

GlobalData.

Insurance Contents

Lack of insurance leaves renters vulnerable to unexpected costs

The English private rented sector has doubled in size since the early 2000s as per the English Housing Survey, accounting for 19% of households in 2019–20. But renters are much less likely to purchase home insurance than homeowners, leaving them exposed to accidents in the home. 45.2% of private renters held a home insurance policy in 2020, as per our 2020 UK Insurance Consumer Survey. Among homeowners (those who own their home outright or are buying it on a mortgage) this proportion increases to 91.2%.

Analyst view: While landlords are responsible for the costs associated with the building and built-in fixtures, their insurance policies will generally not cover renters' possessions. Renters may also be liable for damage to the landlord's property outside of the usual wear and tear. Policies that offer tenants' liability cover will provide cover for these situations so that renters' deposits remain untouched. But renters can find themselves footing a large bill in the event of theft or an accident in the property without any insurance cover.

31.4% of renters did not take out home insurance because they believe their landlord has insurance cover for their tenants. A further 21.0% do not think they need insurance cover, and 14.1% are not sure how long they will be staying in their current location.

Tenants' contents insurance providers should highlight that landlord insurance generally does not cover tenants' possessions and that individuals usually underestimate the value of their contents. Allowing policyholders to easily change their rented address will also make tenants' insurance more attractive to them. Doing so will improve insurance uptake for this growing demographic and reduce the number of households that could be out of pocket if the worst should happen.

UK insurtechs need to build awareness of their products among consumers

Only 27.8% of UK consumers had heard about one or more of the 11 insurtechs included in GlobalData's 2020 UK Insurance Consumer Survey. However, this proportion is much higher for younger consumers. 50.6% of Generation Z (aged 18–23) had heard about at least one insurtech, compared to 38.2% of millennials (aged 24–39), 26.0% of Generation X (aged 40–55), 14.8% of baby boomers (aged 56–74), and 11.5%% of those aged 75 and over. Insurtechs therefore have a much stronger footprint with younger consumers, who are generally more aware of new technologies and product offerings.

Analyst view: Generation Z is less likely to buy insurance products compared to their older counterparts for a number of reasons. They are less likely to have dependents, limiting the attractiveness of protection products. They will also have lower incomes on average, limiting the penetration of non-compulsory insurance products. Due to their lower income and lack of savings, they are also more likely to be renters, making them less likely to hold home insurance compared to homeowners. Therefore, insurtechs will have to wait some time before their products are relevant to this group.

To capture market share now, insurtechs will need to target older demographics too. This is exactly what life insurance insurtech DeadHappy is set to do. Only 9.3% of UK consumers have heard about DeadHappy, but the insurtech will use a £2m funding deal with Channel 4 Ventures to increase spend (and thereby reach) on its TV campaigns. Advertising in mainstream media will help the provider market its products across a larger audience, helping it build awareness among all demographics – including older adults.

Reputation of insurers to take a hit as no cover provided for damage to perishable goods at the UK/EU border

Since the UK voted to leave the EU in 2016 there has been public recognition that border delays and implications related to border controls would be inevitable once Brexit was formally completed. However, insurers have not adapted insurance products enough to mitigate the possible risks associated with an independent Britain.

Analyst view: The Brexit transition period ended on December 31, 2020. Since then, trade into and out of the UK has been held up by border delays, especially in France and the Netherlands. As a result, long waiting times at the UK border have resulted in increased damage of goods in transit related to stock deterioration.

The impact of Brexit has raised questions as to whether cover for goods in transit will apply to perishable items affected by the delays. Such cover is currently only related to vehicle accidents and covers the breakdown of refrigeration equipment. Most policies will not cover general loss, damage, or expenses caused by delays.

However, insurers' reputations could suffer as claims related to damaged goods from border delays are rejected, leaving clients unhappy. In light of the current economic struggles due to the pandemic, insurers should utilize this opportunity to build trust in the industry. Creating products that deliver a level of risk mitigation for the ongoing border delays and any resulting financial losses could help insurers attract and retain customers in the longer term. This is especially true given that consumers are increasingly influenced by a company's brand image rather than targeted advertisements.

Thailand will start charging foreigners a $10 fee for insurance coverage

In Thailand, the National Tourism Policy Committee has passed a law that will collect a THB300 ($10) tourism fee for each international visitor per visit. The money will be used to provide insurance benefits in cases where international tourists get sick or are injured when visiting the country. The law is expected to come into effect in H2 2021.

Analyst view: Thailand is not the only country that has sought to guarantee safe holidays to visitors, but it is one of few that will actually charge foreign visitors a direct fee for coming into the country in exchange for insurance coverage.

According to Thailand's National Tourism Policy Committee, the fee was set to come into effect in 2020 but was put on hold due to the outbreak of COVID-19. However, the fee is now due to be introduced in the second half of 2021.

With air traffic severely decreasing in 2020 due to the pandemic, a number of countries have taken the opposite approach to Thailand's strategy – offering free travel insurance covering medical, quarantine, and repatriation costs. The likes of Portugal and the Canary Islands have followed this second approach.

With COVID-19 expected to remain an ongoing issue during 2021, more countries may implement one of these strategies, focusing either on driving tourist footfall or mitigating risk.

Another difficult year ahead for the UK's travel insurance industry

The travel industry has been one of the worst hit by the outbreak of the COVID-19 virus, driving travel insurance policies down. The outlook for 2021 looks grim so far as travel restrictions remain in place.

Analyst view: Foreign travel restrictions have been in place since the start of the pandemic, compromising sales of travel policies. A year on after the virus was first discovered in Wuhan, the UK has now temporarily suspended all travel corridors. Anyone arriving into the UK is required to have proof of a negative COVID-19 test and must self-isolate upon their arrival for up to 10 days. Meanwhile, travelers from 30 "high-risk" countries such as Portugal, Brazil, and South Africa will have to quarantine in state-provided hotels for 10 days at their own expense. And for the first time since the start of the pandemic, UK travelers going abroad will have to prove that their reason for travel is essential.

With no signs that the spread of COVID-19 is slowing down and new variants emerging in several countries (including the UK) that threaten to be more transmissible, travel restrictions – albeit with some easing – will likely be in place for a while. Many British holidaymakers who had planned to catch the winter sun away or go on a city break early this year will be forced to postpone or cancel their plans.

Coronavirus is set to continue disrupting international movements and eroding people's appetite for travel due to fear of catching the virus or mere reluctance to face travel uncertainty. Sales of travel insurance policies will remain slim for the foreseeable future as airline passenger traffic remains low. As such, travel insurers are unlikely to rebound from the crisis any time soon.

India's e-wallet platform PhonePe launches term life insurance plans

India's domestic e-wallet platform and online payment company PhonePe has started selling term life insurance plans on its platform, thanks to a partnership with insurer Prudential. The move follows PhonePe's success in 2020, when it launched motor and bike insurance. Since then around 30 insurers have signed up to sell these products through PhonePe.

Analyst view: Consumers increasingly want to purchase insurance directly, and more online sales are being completed using smartphones. Although uptake of life insurance products in India is high the country's population is vast, and therefore there is considerable potential for further growth. In addition, smartphone ownership in India is almost ubiquitous. Many customers will prefer to take out new policies through their smart device. And digital payment platforms offer the opportunity to reach out to a larger customer base effortlessly.

This distribution model is already widespread in China, where Alipay has sold insurance products for several years now. The country's largest insurance providers, including companies such as Ping An Insurance and Taikang Insurance, typically use this channel as another way of distributing products.

As digitization continues to shape customers' attitudes and purchasing behaviors, insurers will be forced to rethink how to optimize their distribution strategy. Offering insurance products through a broad range of channels will be necessary so that customers can purchase policies via their preferred route – which is often the one that is perceived as most convenient.

Income protection looks set for a positive year as COVID-19 sparks interest

The COVID-19 pandemic has led many consumers to reassess their financial situation. In some cases, vulnerabilities have been spotted, causing them to seek out the relevant protection insurance, with income protection one of the most sought after options.

Analyst view: Our 2020 UK Insurance Consumer Survey indicated that one in 10 consumers' top financial concern was being able to pay their mortgage or rent. With mortgage and rental payments the biggest expenditure in many households, it is understandable that so many see this as their biggest financial concern.

However, this does create an opportunity for the insurance market to increase the uptake of protection products, in particular income protection policies, as these can be tailored to provide cover for unemployment, accident and sickness, or both. Our findings indicate that there was a shift towards broader protection with comprehensive cover (unemployment and sickness or accident protection) in 2020, with 47% of policies purchased being of this type (an increase of 5 percentage points compared to 2019). Protection against unemployment also increased in popularity in 2020, accounting for 17% of policies compared to 14% in 2019. These increases are even more significant given that some providers paused the sale of these types of policies.

2021 looks set to be positive for the income protection market, as combined with growing interest in and demand for more comprehensive products directly linked to the pandemic, there is also delayed interest from those taking advantage of the stamp duty holiday. These individuals are expected to engage with the protection market once their transactions have been completed.

Motor startup looks to disrupt market by targeting expensive young driver policies

Motor insurance insurtech Rooster is looking at new ways to target the younger generation of drivers, and GlobalData survey data suggests this is a large enough market to make innovative policies worthwhile.

Our 2020 UK Insurance Consumer Survey shows that drivers between the ages of 18 and 30 with active motor insurance policies make up almost 22% of the market. Broken down, 5.9% of the market are aged 18–21, 9.1% are 22–25, and 6.8% are 26–30 – and all three of these groups will be key targets for Rooster. Our data also shows that 40.2% of 18–30 year olds bought motor insurance policies via a price comparison site in 2020, compared to 28.8% of respondents over 30. This highlights the emphasis younger drivers place on value in motor insurance policies, as that is the key selling point of comparison sites.

Analyst view: Rooster is looking to target drivers in their 20s by offering a three-week trial period before they sign up for policies. The trial period is aimed at identifying good drivers and consequently offering cheaper premiums, despite them being young and inexperienced drivers. Those who do not pass their trial period are not offered policies.

Clearly Rooster is a very small player within the market at present, and one that is looking to challenge the existing leaders. Specifically targeting consumers in their 20s, who make up such a large proportion of this huge industry, appears to be a good strategy. Furthermore, the likely recession that will follow the COVID-19 pandemic in the UK will reduce the disposable incomes of people across the country. The combination of a large market ripe for disruption and squeezed personal budgets makes this a worthwhile attempt to establish itself in the UK motor insurance market.

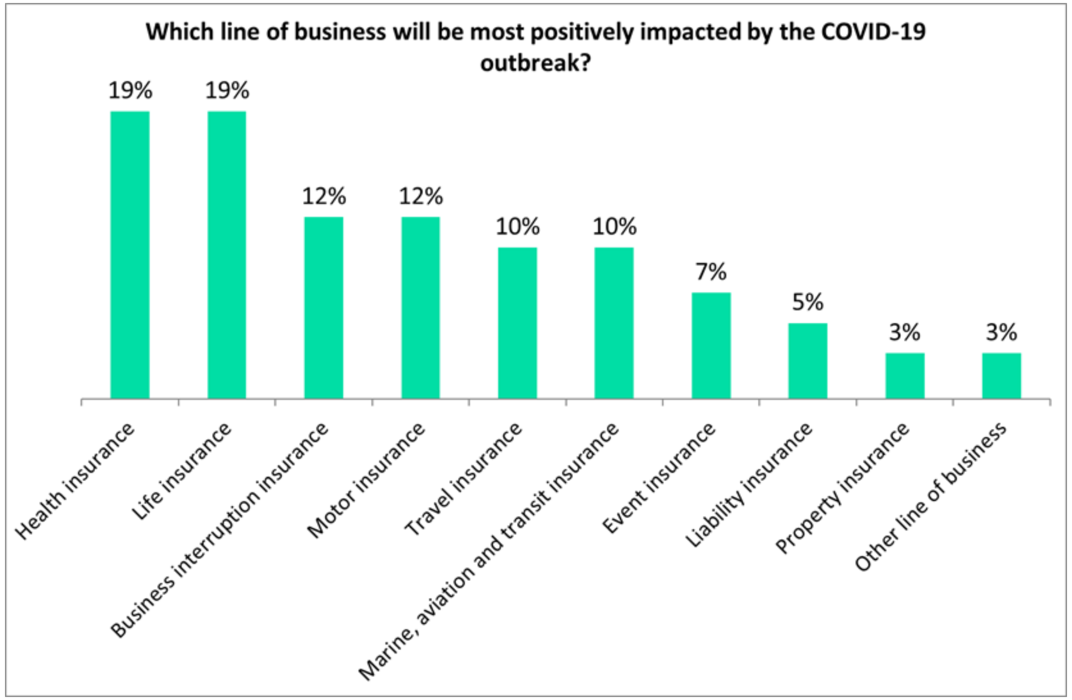
Life and health products are set to benefit most from COVID-19

The life and health insurance markets will see the most positive impact from the COVID-19 pandemic according to a GlobalData poll. The pandemic has caused major disruption to a myriad of businesses, resulting in some insurance lines seeing huge declines in business, but some products may also benefit in the longer term.

Analyst view: Respondents to our poll in industry magazine Life Insurance International were clear that life and health products would see the most positive impact. Consumers and businesses are likely to feel more vulnerable to viruses and want more protection in the form of such policies.

Perhaps the most surprising result of this poll is travel insurance coming in fifth, with 10% of respondents thinking it will be most positively impacted. This seems to be long-term thinking, as clearly it suffered greatly in 2020 and almost certainly will do so in 2021 as well given the continuation of travel restrictions. However, much like with business interruption insurance, consumers may be more inclined to take out comprehensive travel insurance policies when they eventually can travel abroad again. This would mean the line will see a strong recovery once the pandemic is over.

Respondents were relatively split, with no product receiving over 19% of the vote. This speaks to the uncertainty in the industry at present. But it also shows that several leading products could see long-term benefits despite the disruption within them now.



Note: Poll closed in December 2020.
Source: Life insurance International, GlobalData

Retail Banking

Retail Banking Contents

Retail Banking Contents

N26 secures Brazilian banking license to challenge Nubank on its home turf

Germany-based digital bank N26 received a Sociedade de Crédito Direto license from the Brazilian central bank, allowing it to offer credit products in the region and issue electronic currency.

Analyst view: N26 has followed through on plans set in 2019 to enter the Brazilian market. As part of expanding into the most valuable market in Latin America, N26 will find itself going up against the largest and arguably most successful digital bank in the world, Nubank, which has amassed over 25 million users in Brazil and Mexico. Despite this dominant position, N26 believes there are still untapped customers in the market it can serve. It also believes it can outperform Nubank, given a significant amount of the latter's success can be attributed to the failure of incumbents in the region. Nubank's proposition currently includes fees, including domestic and international withdrawal fees as well as ATM fees. Consequently, there is space for a more digitally advanced, no-fee bank to undercut Nubank, attracting a range of its existing customers as well as more affluent customers.

While this may be promising for N26, it will still be fighting against the tide from day one. It will also have to spend significantly more than Nubank did on marketing to make up for its lack of brand presence in the region. However, N26's ability to expand outside of Germany and develop core markets across Europe suggests N26 knows how to penetrate a foreign market. In the US this included employing aggressive marketing tactics such as brand partnerships and ad campaigns in high footfall public areas, which resulted in N26 attracting over 500,000 customers within one year of launch. Following a similar approach may be sufficient to make a splash in the Brazilian market, which could serve as a foothold for future expansion across Latin America.

UK banks launch wave of new green banking products

Having failed to impress advocacy groups concerned about global warming, British banks have announced the launch of a range of green products and have tightened lending standards for non-green investments.

Analyst view: Previously the likes of HSBC, Barclays, Lloyds, and NatWest have made commitments to reduce their carbon emissions but all have fallen short of the targets set. Critics have specifically focused their attention on HSBC and Barclays due to their continued investment in fossil fuels, while other criticisms have surrounded the carbon footprint from mortgage lending for the purchase of energy-inefficient properties. While this may seem negligible compared to the effects of drilling for oil or mining, Dutch bank ABN Amro revealed its mortgage book contributes more to CO2 emissions than its lending to fossil fuel companies. With this in mind, Lloyds and NatWest have pledged to halve their emissions from mortgages – although details of how they will do so have not been disclosed.

In 2020 NatWest made combating climate change a key part of its strategy and launched its first green mortgage, offering lower interest rates to borrowers purchasing energy-efficient homes. In 2021, NatWest aims to offer products that will fund green home improvements at low rates via existing mortgages. Lloyds – the UK's largest mortgage lender – is also exploring this territory but may have an opportunity to launch a wider variety of products due to also being one of the largest providers of auto loans, meaning it could play a role in accelerating the rate of electric vehicle adoption.

Digital-only and neobanks have also attempted to get in on the action. Oxbury Bank announced the launch of the first carbon offset savings account, which will use the returns savers would normally earn from interest to fund tree-planting projects around the world.

Danish banks announce 20-year 0% mortgages

While Japan may be the best-known economy for negative interest rates, Denmark has the longest history of negative rates. Banks in the country are now offering customers 20-year mortgages at a fixed interest rate of 0%.

Analyst view: Nordea Bank, Totalkredit, and Jyske Bank have all announced the launch of mortgages that will carry a lower coupon rate than 10-year US Treasury bonds for the first time ever. Denmark's largest bank, Danske Bank, has signaled it may follow suit. While major economies have begun flirting with the notion of negative interest rates due to the impact of COVID-19 on their economies and the need to stimulate the economy without resorting to deficit-incurring fiscal policy, Denmark first introduced negative rates back in 2012 to keep the krone pegged to the euro following actions by the European Central Bank to stabilize monetary policy across the eurozone.

Since then, Danish homeowners have enjoyed continuous reductions in the cost of borrowing. As a result, many individuals have switched high-cost urban areas such as London for Denmark according to international property platform Rightmove. While negative rates confuse and seem unfathomable to many, the precarious position of the global economy amid COVID-19 strongly suggests that ultra-low if not negative rates are only likely to become more common as central banks unanimously shy away from increasing rates.

Denmark has been able to introduce such novel mortgages due to the pass-through system it has in place, whereby mortgages are directly tied to the covered bonds used to fund the loans. In this system banks and lenders act as brokers between borrowers and investors, generating income from fees as opposed to interest rates. The announcement saw significant demand for the bonds, suggesting the market wants this product. However, it also suggests that future inflation and growth will be close to zero, as returns would turn negative otherwise.

UK fintech Tide to launch in India

Tide has announced its intention to move into the Indian market as part of its global expansion plans. The fintech platform – which offers business banking to SMEs, sole traders, freelancers, and limited companies – is expected to launch Tide India in spring 2021 in technology center Hyderabad. Tide already has operations in the city, making the decision to launch in India a straightforward one.

Analyst view: Despite its position as one of the world's fastest-growing economies, many Indian SMEs remain underserved by incumbent banks. Tide's foray into unchartered territory makes sense given the gap in the market that exists, as well as India boasting seven times as many SMEs as the UK.

While other digital banks and fintech platforms have general aims in terms of capturing market share, Tide has been more specific: its long-term strategy is to capture 25% of the world's SMEs as customers. Framed in this context India as a destination makes sense, as it accounts for 10% of the world's SMEs with an estimated 63 million micro enterprises, 300,000 small businesses, and 5,000 medium-sized companies. India also has one of the highest fintech adoption rates in the world, on par with China and only just trailing the likes of Singapore.

Senior management at Tide have confirmed that Europe will continue to dominate Tide's growth strategy, and that the move to India is building on the established position it has developed in the UK. Despite the impact of COVID-19, like many digital-only banks and fintech platforms Tide has skillfully adapted to the changing landscape and continues to experience a strong upward growth trajectory.

Tide recently announced it has secured over 5% of the UK business banking market – success it attributes to its flexible and agile business model allowing it to remain open for business throughout the pandemic.

HSBC threatens to close customer accounts if masks are not worn

HSBC has announced plans to close the bank accounts of customers who do not comply with COVID-19 safety measures such as wearing a face mask in its UK branches. The decision comes following the government's latest lockdown measures in response to a new strain of COVID-19 first identified in the UK.

Analyst view: While HSBC's remarks surrounding closing customer accounts for non-adherence to mask wearing seem strict, the increasingly deadly and transmittable nature of the new strains of coronavirus seem to warrant such drastic action. If left unchecked this poses a direct threat to the lives and health of HSBC staff and other customers. Framed in the context of other forms of abuse in the workplace, HSBC's decision seems fair given the same type of sanctions would apply for other forms of negligence and abuse of staff or customers.

While the decision sent shockwaves across social and mainstream media, banks such as TSB, Santander, and Lloyds echoed similar sentiments around the need for mask wearing and social distancing in branches. However, they steered clear of announcing account closures as a penalty.

As health experts around the world beat the drum for more stringent measures to be put in place to reduce the transmission of COVID-19, many sympathize with HSBC's position. Others have attacked the authoritarian tone HSBC seems to be taking. And indeed, this may have been a factor in HSBC losing 20,861 current account customers in January 2021, making it the month's worst performer as per the latest UK switching data. While the logic underpinning HSBC's decision is undeniable, the backlash suggests a more conciliatory approach was needed.

Personality-powered finance app Quirk secures £300,000 in funding ahead of launch

Quirk – a newly founded fintech that uses customer personality types to deliver tailor-made financial advice – has successfully raised £300,000 in pre-seed funding ahead of its full launch in March 2021. The app plans to leverage customers' individuality and uniqueness to deliver deeper insights into their financial behavior that can translate into actionable steps to meet different goals.

Analyst view: Since its initial launch in April 2020 more than 10,000 customers have taken Quirk's personality tests that can be used to deliver bespoke financial advice. The process involves a 25 question test on the Quirk platform that takes approximately three minutes to complete, with users ranking how well a statement describes them on a scale of 1 to 5.

Quirk has divided customer personality types into five unique categories that enable it to offer advice that is relevant to the finances and lifestyle of the customer. So far the app has identified significant patterns of behavior, such as customers who score highly in emotional categories tend to make more money but save less.

The rationale behind the offering is that there is a gap in the market for a product that offers young people specific actionable advice. While plenty of information and budgeting apps are available for customers looking to make shrewd financial decisions, the problem has become just that – there is too much information available. Conflicting advice leaves many unsure how to proceed given the unique nature of their circumstances.

In comparison to personal financial management (PFM) apps and budgeting apps such as Yolt, Quirk is considerably more interesting given how it is being tailored to wider behavioral and psychological profiles. And given that new research suggests budgeting and PFM apps are actually having the reverse effect on customers – causing them to overspend rather than save – Quirk may have developed the approach to PFM for the future.

Monzo needs to focus on the essentials to avoid the same fate as Xinja

Monzo could be the first UK challenger bank to face the same fate as Xinja – the Australia-based digital bank recently forced out of the banking space – unless it changes its approach towards a more sustainable future.

Analyst view: In hindsight it is easy to see why Xinja failed. Any bank offering above-market rates while not being able to deploy them back as loans is inevitably going to have problems. Xinja simply did not spend enough time prioritizing the need to create a sustainable business model with revenue-generating products.

Monzo finds itself in a similar position. By offering a current account that generates practically no revenue, its business has become increasingly expensive. Moreover, while it has raised $717m to help fund new products and cover the costs of US expansion, the result has been annual losses of around £100m ($131m) that need addressing.

Monzo's response has been to monetize a range of premium accounts, combined with new restrictions on its standard offering. But with little appetite from UK consumers to pay for banking – and with Monzo not legally able to charge for accounts in the US – this direction seems fruitless. While Monzo has done well to attract and engage its customers, it threatens to throw that away by not concentrating on the essentials. Instead of trying to sell what was once free, Monzo should focus on unit economics, bringing out and making the most of revenue-generating products such as loans and wealth services. The bank should also take lessons from the likes of Chime in the US, a company that has given low-income customers the tools to help them manage their money so long as they use their Chime cards and accounts as their primary banking service. Failure to learn from these examples will condemn Monzo to the same fate as Xinja.

Biden plans federally-backed credit bureau to close the US racial wealth gap

A taskforce appointed by President Joe Biden presented a 110-page document of wide-ranging policy recommendations. This included specific measures to address the racial wealth gap, including a dedicated credit reporting agency housed within the Consumer Financial Protection Bureau. The federally-backed credit bureau would be mandated to ensure credit scoring was not discriminatory and that algorithms used for credit scoring include alternative data sources such as rental history and utility bills. Once established, all federal lenders would be required to incorporate the federal credit agency's scoring, including for programs such as federal home lending, PLUS loans, and other loans guaranteed by the government.

Analyst view: This is an unprecedented move by an incoming US president to address root causes of racial inequality. It is well known that crisis exacerbates disparity: the last downturn saw black families experience a 44.3% decline in median net worth, almost double that of white households. It is also clear that COVID-19 has further undermined orthodox risk modeling, so there is appetite for change.

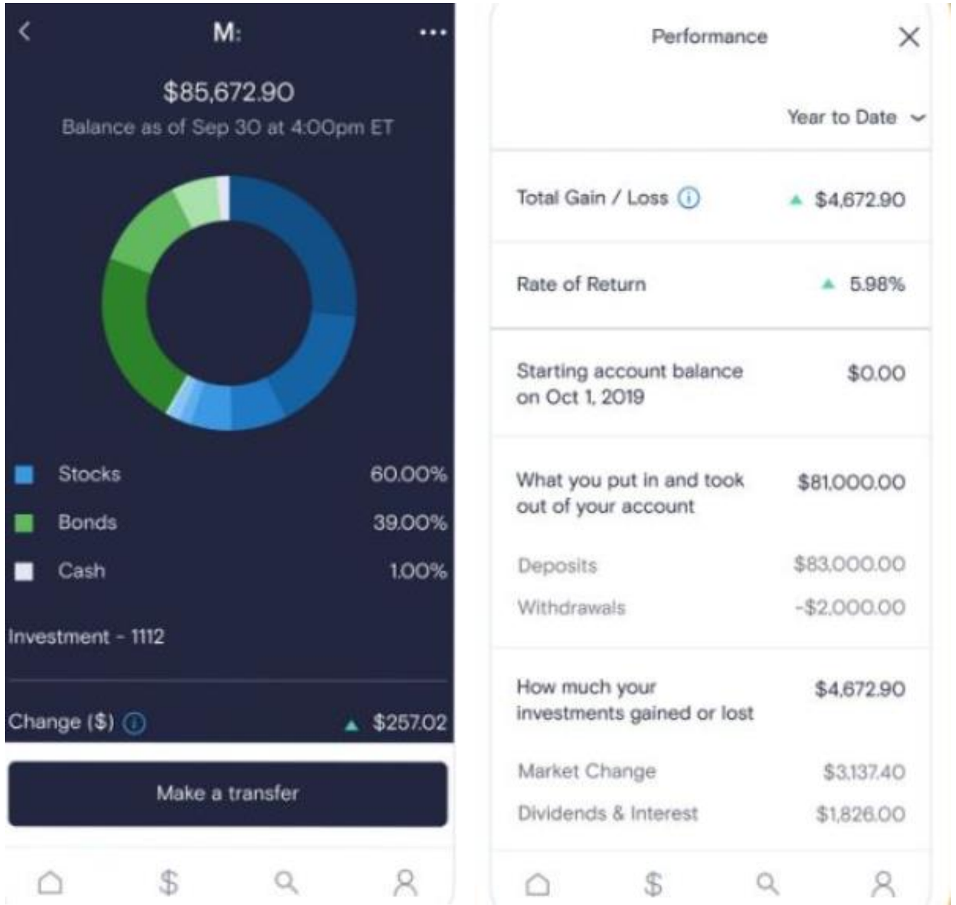
However, new data introduces new risks. It is unclear what the predictive power of new algorithms would be under new market conditions, and how liability for non-performing loans would be assigned if the federally backed bureau's scores resulted in higher probability of default. And when banks try new credit models, regulators typically insist on disproportionate amounts of equity capital in reserve, so would there be any exemptions or inducements here? In addition, alternative data can be highly distributed and unstructured, and many incumbent banks cannot easily ingest that data for analytics purposes – even from their own systems. This may open the door for more data management as a service partnerships and/or enlarge the perceived market opportunity for alternative lenders.

Marcus to launch checking accounts and investment management robo-advisor in 2021

Goldman Sachs will move closer to making Marcus a truly futuristic digital bank with the launch of checking accounts. Already Marcus offers PFM tools under Marcus Insights, which gives customers a top-down view of all their financial accounts. In launching checking accounts Marcus will be partnering with Marqeta, which has primarily built its business handling payment processing and settlement for companies such as Uber, JPMorgan, and Klarna. For Marcus the partnership is likely to be hugely beneficial given that it will be able to take advantage of Marqeta's open APIs and webhooks, as well as its in-depth experience building sophisticated banking experiences.

Analyst view: Marcus took the retail market by storm in 2020 when it launched its savings account with a market-leading interest rate. This enabled it to secure over $26bn in deposits and register over 500,000 accounts. However, to stay within growth rate regulations Marcus stopped accepting new applications and decreased its rates to 0.5%. It will be interesting to see how Marcus markets its new checking accounts given no incentives have been announced for switching, while it was the incentives associated with its savings accounts that made them so successful. Given Marcus is attempting to target the emerging affluent it is likely it will use products such as investment management tools to incentivize switching, given Goldman Sachs' expertise in this area. Consequently, Marcus has also announced the rollout of automated investment management services for Q1 2021, meaning this year it will offer a comprehensive suite of banking products: savings accounts, checking accounts, PFM tools, and investment management services.

Marcus will emulate other digital and fintech platforms that have developed automated investment products for retail customers. It will offer customers basic tools while generating a stream of revenue for the platform. Customers who choose to use Marcus Invest will be able to start with as little as $1,000 and can expect an annual advisory fee of 0.15% - considerably lower than many competitors (although the fee may be subject to change). Due to the automated nature of the platform the services being offered will be limited to a range of specific portfolio strategies and options. Overall, Marcus is heading in the right direction in a crowded field of digital banks, where similar offerings launched by large incumbents have failed. JPMorgan's Finn and NatWest's Bo have been left by the wayside, highlighting the competitive nature of the market. With a full suite of products developed with cutting-edge technology, Marcus is poised to grow substantially as interest in digital providers increases.



Expect a much less conducive environment for fintech in China

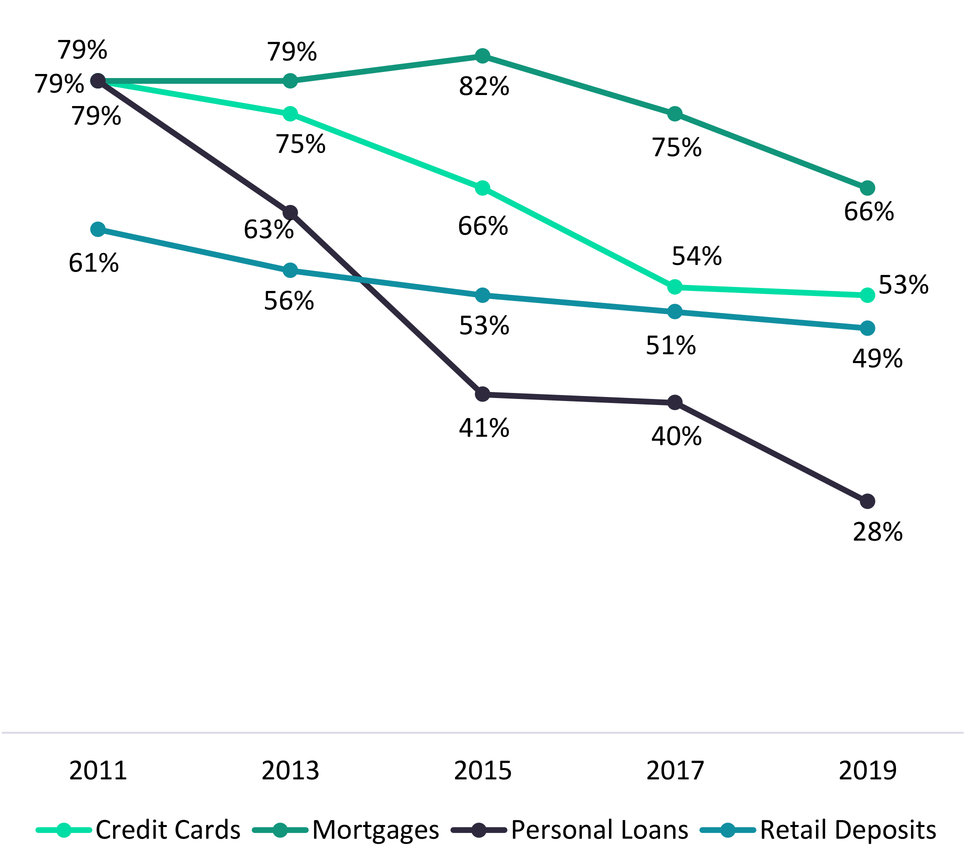
In an effort to regain full control of China's financial services sector, the Chinese Communist Party (CCP) is likely to tear up the country's previously laissez-faire attitude to fintech, choking off long-term innovation in the sector. While the last 40 years has seen the Chinese economy experience considerable success in terms of liberalization and growth, recent years in China have seen major change. Premier Xi Jinping has sought to increase his control within the country, removing the two-term limit and reanimating a sense of nationalism designed to shore up support for both the CCP and himself. Now, Jinping has his eye on China's burgeoning fintech sector – not as the promising success it is but rather due to its perceived threat to national stability by making the state banking system increasingly redundant.

Analyst view: Our *Global Retail Banking Analytics* database shows that the market share of Chinese state-owned banks has fallen considerably over the past 10 years. However, conventional private sector banks have not been responsible for this change, especially regarding personal loans. Instead, market share has shifted to a wide range of newer players, such as the country's large P2P lending sector. This includes loans made by the likes of WeBank and Alipay.

The first shot was fired when Alibaba cofounder Jack Ma's criticisms of the Chinese regulatory environment caused the government and regulators to consider the potential breakup of Ant Financial into its respective banking, payments, and insurance businesses. Far from being an isolated case, this is likely part of a much bigger plan to reassert China's state-owned banks as the country's main route into financial services. Additionally, the fact that regulators were prepared to stop the Ant Financial initial public offering at a moment's notice and decide it was time to start changing its regulatory regime shows that no one is safe from interference.

The culmination of these developments is unlikely to be felt immediately. China is still a large, prosperous, and growing market. With unilateral (albeit limited) liberalization of rules for foreign investors, fintech in China is unlikely to go the way of its predecessor banks in the 1950s with a total shutdown. Instead, these rules will lead to less innovation, less desire to argue with regulators, and much less incentive to become a big or successful fintech player in mainland China. The CCP is likely to continue tightening its grip on the country's financial system and appears prepared to sacrifice its innovative fintech space to do so. But while the pace of innovation is likely to diminish in China, neighbors such as Singapore, Japan, South Korea, and Australia stand to benefit.

Chinese state-owned banks' market share



Digital bank exclusively for healthcare professionals to launch in the US

KeyBank has announced plans to open a digital bank aimed at healthcare professionals in early 2021. The new platform will be launched via the digital student loan refinancing platform Laurel Road, which was acquired by KeyBank in 2019. The new offering will specifically serve individuals working in the healthcare sector and will help expand KeyBank's brand nationally.

Analyst view: The new digital bank will be an expansion of the Laurel Road refinancing platform, which specifically serves medical and dental students seeking funding for tuition. In the UK similar approaches have been taken, with providers offering preferential rates and services to professionals deemed low risk who are expected to be valuable clients in the future. Healthcare workers in the US fit this demographic due to the private healthcare system, which puts average salaries for doctors and dentists at approximately $200,000 a year

The concept of profession-based lending is essentially lending to a cohort that is seen as secure and stable in the longer term, with a lower likelihood of default. Although the concept may seem biased against other stable professions, launching profession-based lending to key workers such as healthcare professionals is one way providers can give back to those most involved in saving lives during the COVID-19 pandemic.

Overall, the launch of profession-based platforms is a win-win: it serves to reward those who have sacrificed so much while providing banks with less risky customers. Going forward, it will be interesting to see how successful such a novel offering can be and whether other lenders follow in KeyBank's footsteps with similar targeted offerings.

Growth in personal finance videos on TikTok presents opportunity for banks

Videos relating to personal finance on social media platform TikTok have become one of the most popular parts of the app. With 41% of TikTok users aged between 16 and 24, opportunities exists for traditional banks to establish their credentials with a younger audience who are eager to engage with financial services.

Analyst view: On TikTok, the topic of personal finance has recorded over 3.3 billion unique hits. Many influencers in this segment have introduced themselves as current or former financial services advisors and some have even indicated they are offering advice based on their personal experiences. Two of the most popular hashtags searched on TikTok are #FinTok and #StockTok, consisting of influencers offering insights on how to reduce credit card debt as well as discussing investment tips and encouraging young people to start planning for retirement. In comparison, finance advice from incumbent banks couldn't be more outdated.

However, there has been criticism that the quality of financial advice given on the platform is often likely to be misunderstood or misleading. Any individual is able to open an account and give "advice" – prompting concerns from watchdogs and regulators.

Yet this development suggests room exists for banks to reach out to the younger generation in similar ways, with the advantage of being able to provide legitimate, regulated, and trusted advice. Historically, traditional banks have had difficulty acquiring younger customers because the demographic has so many platforms competing for their attention and business. Recently, neobank Step successfully partnered with TikTok influencers to promote its platform and financial literacy. If banks work directly with influencers on social media to help educate young people, the advice given will likely be more assured and less questionable.

Zopa launches in-app energy switching and price comparison service

UK-based digital bank Zopa has launched an energy switching and comparison service on its mobile app. The digital bank partnered with Decision Tech (part of the MoneySuperMarket Group) to show customers the different energy suppliers they have access to based on their postcode and how much money they could save by switching. According to MoneySuperMarket data, switching to a different provider could help people save £286 annually on their energy bills.

Analyst view: Unusually, Zopa has opted to make its energy switching and price comparison services available to any users of its app, regardless of who they bank with. The launch of such services will increase engagement with the Zopa platform and offer Zopa the attention of customers it can subtly cross-sell its range of products to. The inclusion of these features will help Zopa's overall offering stand out from the crowded field of digital banks, especially as the new energy comparison and price comparison tools will sit alongside other useful tools such as free credit scoring and loan decisioning.

When customers decide to switch provider on the comparison tool on Zopa they can complete the process in as little as three minutes, making the process much less time-consuming and difficult than alternate providers. Not only is the process simple but it can also save customers significant amounts of money. This is incredibly useful given how much household finances have been disrupted by the COVID-19 pandemic. If customers are unable to find a deal that entices them to switch provider, they are able to set up alerts on Zopa so that future deals that suit their needs can be shared as they become available.

Budgeting apps can encourage users to overspend rather than save

Research conducted by the Think Forward Initiative and the University of Arizona found that budgeting apps actually make consumers save less. The study confirms research conducted two years ago by the George Washington School of Business, which was the first to assert that people who use PFM tools on their mobile phones are more likely to incur significant debt and make suboptimal financial decisions.

Analyst view: The report published by the University of Arizona and the Think Forward Initiative shows that the design of the average budgeting app – which shows customers how much they can spend in a month – can act as a nudge to cause increased spending. This phenomenon is most likely to occur at the end of a budgeting period, where instead of saving excess funds customers spend whatever they have left within their discretionary budget.

The problem is the certainty budgeting apps give consumers. In presenting leftover funds as money left to spend the apps are essentially framing the budget as a spending goal. To make PFM tools and budgeting apps more effective, researchers have suggested providing less precise budget information, such as a range of performance indicators instead of specific amounts as well as alerts to roll over money left in the budget to the next month. Budgeting apps could also consider a type of zero-based budgeting tool that does not use previous data as a standard for the current month, instead budgeting upwards from zero.

In light of this research, banks and budgeting app developers ought to tailor their offerings or risk falling under the same scrutiny and criticism social media apps have faced for using data analytics and interface design to influence human behavior in unfavorable ways.

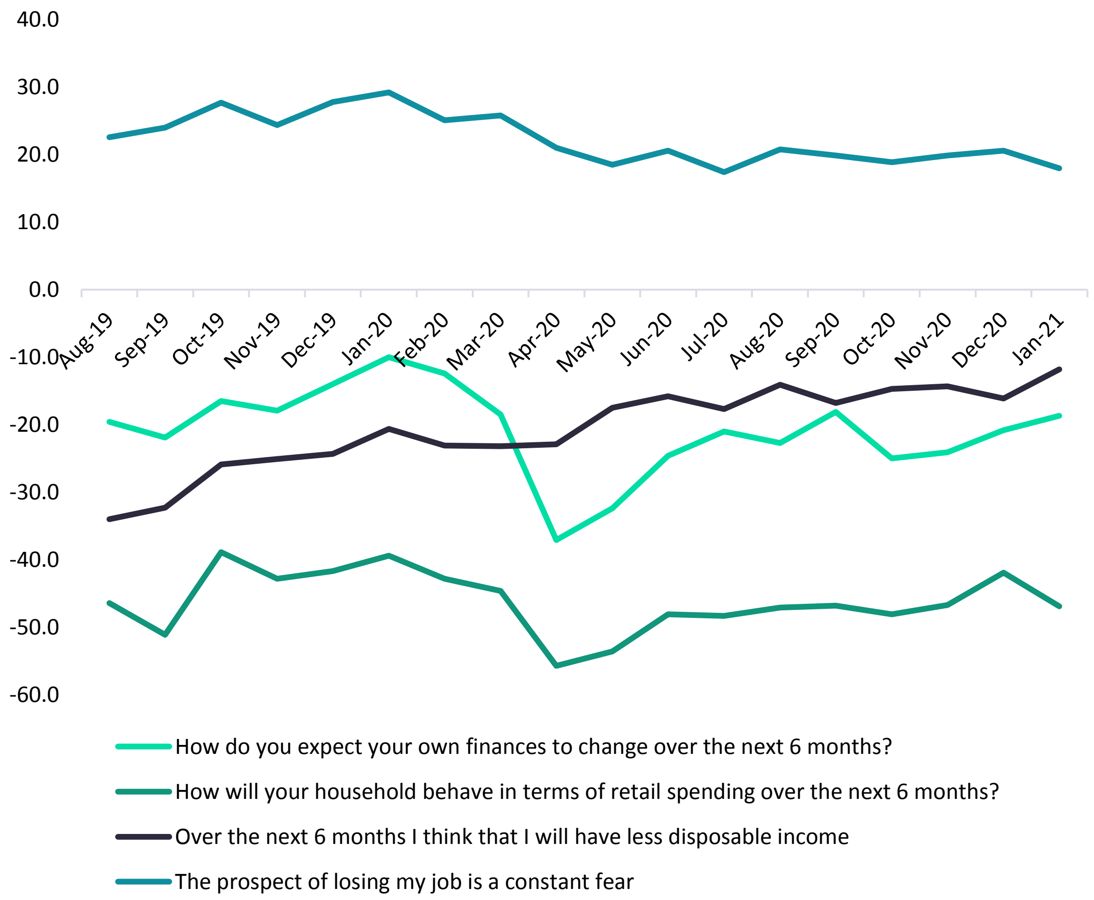
Most individuals who took a COVID-19 payment holiday are back to paying in full

At the beginning of the COVID-19 pandemic governments around the world announced generous stimulus packages to keep their economies afloat. Included in these were mortgage deferrals and a freeze on evictions to protect households during lockdown periods. Such relief was extended in many countries as the effects of the pandemic continued. However, in the UK eight out of 10 borrowers who took a mortgage payment holiday are now back to making full payments again, suggesting that despite lockdown measures employers have adapted workplaces so that many individuals can continue to work.

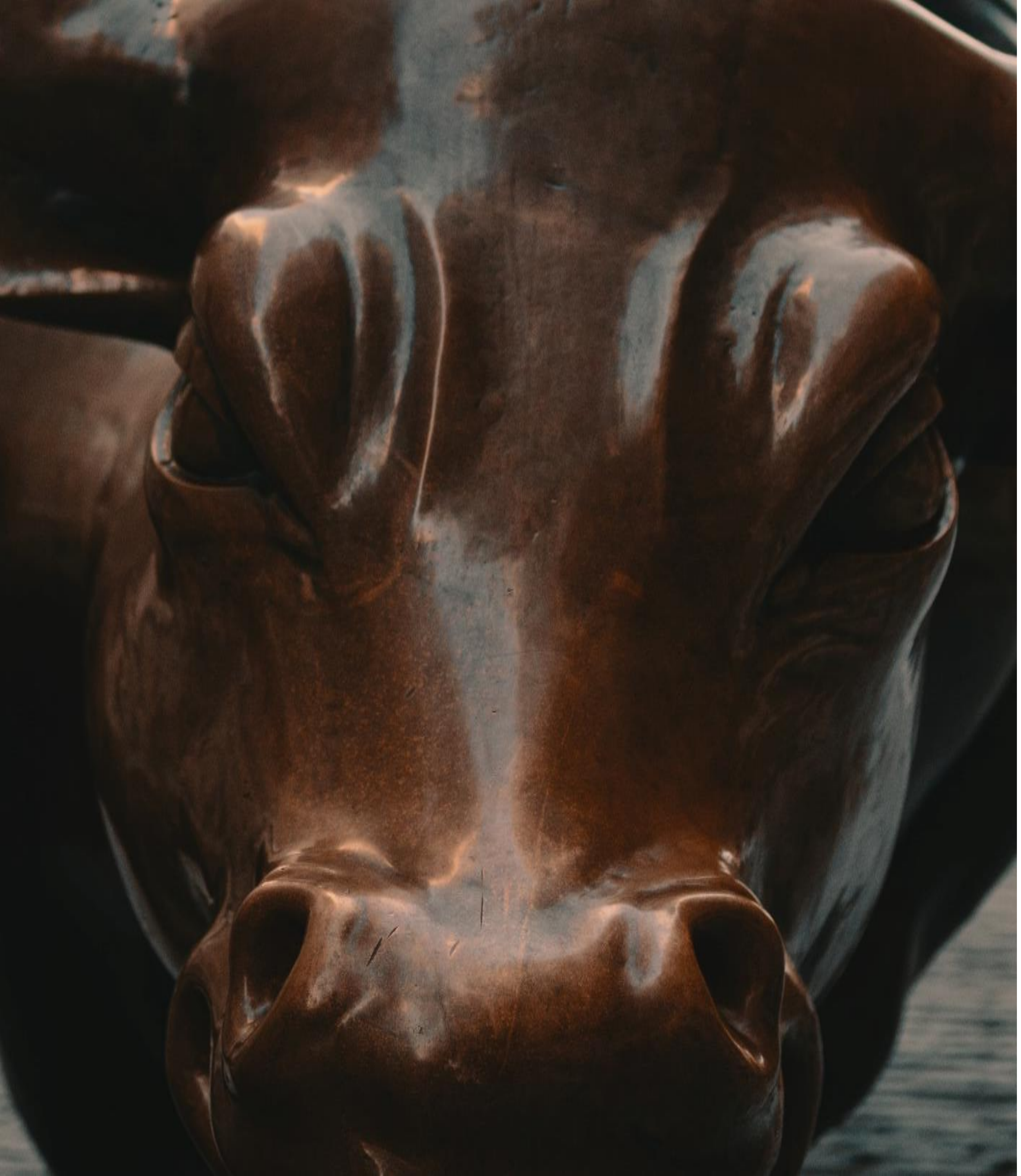
Analyst view: During the peak of the lockdown restrictions in 2020, approximately 1.8 million UK borrowers opted to defer payments and requested a mortgage holiday from their bank. Figures for the end of 2020 showed that this had shrunk to around 130,000 and had been at that level since October. Overall, this suggests the UK economy has adapted to lockdown measures and more and more workers are able to work remotely or return to work in a safe environment and thus resume payments on their mortgages. While the UK economy remains in a precarious position, support continues to be available to borrowers if they wish to defer payments. In all likelihood this support will be extended due to the ongoing lockdown measures. The decision for many to continue paying their mortgage despite the pandemic and the disruption their household finances have faced is likely due to the extended duration or increased monthly payments that can be applied to mortgages post-deferment.

Indexed data from our *UK Sentiment Tracker* shows that despite lockdown measures, customers in the UK are beginning to feel more optimistic about the trajectory of their disposable income and finances over the next six months – a pattern that has been consistent since November 2020. But consumers are feeling more concerned about losing their job and less enthusiastic about their retail spending over the next six months – both of which increased from October to December 2020. Overall, this suggests that uncertainty and a reluctance to spend may be taking hold in the UK. We may find that consumers become more risk-averse and begin paying down debt and savings at greater rates post-lockdown, similar to East Asian economies.

GlobalData's *UK Sentiment Tracker*



Wealth Management



Wealth Management Contents

UOB robo-advisor extends reach with Singtel deal

United Overseas Bank (UOB) has announced a robo-advice collaboration with telecommunications company Singtel. This deal will see UOB's robo-advisor offered through Singtel's mobile wallet, Dash.

Analyst view: The alliance is a win for both parties. UOB launched the UOB Invest robo-advisor in 2020. The service was made available to the over 5 million customers UOB boasts in Singapore and elsewhere in the region. The collaboration with Singtel will build on UOB Invest, extending its reach across Southeast Asia to Dash's 1 million users. For Dash, this ticks off another financial service product to be offered on the platform as it aims to become a one-stop shop in consumer finance. This is a clever move considering holistic financial management is yearned for by consumers and has been the goal of many successful large robo-advisors in the US.

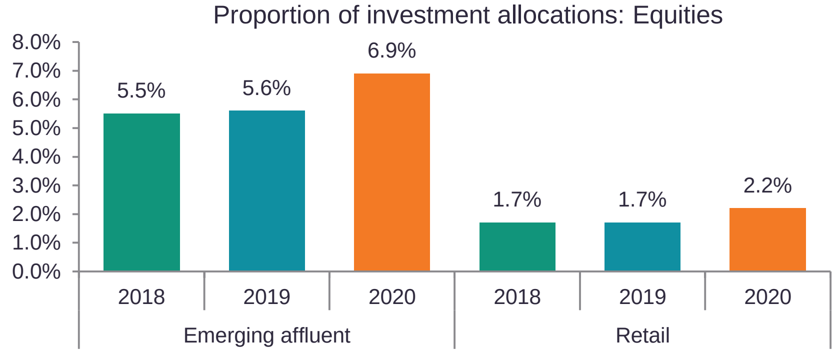
This service is well placed to succeed, but there are no guarantees in the robo-advice world. For longevity the product must cater to the needs of customers demanding an automated investment service. Robo-advisors exiting the industry – whether old guard or new entrants – is not uncommon, and many current players are finding the robo-advice model unprofitable. From a competitor perspective, OCBC and DBS will also be keen to expand their product reach. So it is key that this new product meets consumer needs for sustainability, as well as being offered to a wide customer base in order to generate the necessary economies of scale.

Fintech births influential retail investor behavior – GameStop's short squeeze

An organized movement of Reddit users made struggling video game retailer GameStop one of the most traded equities globally in January 2021. Many retail investors bought shares to reap gains and impose losses on hedge funds that were shorting the stock. Shares went from $20 earlier in 2021 to $350 by January 27, costing hedge fund managers billions.

Analyst view: Although this movement was both to make profit and to make a wider point against Wall Street elites, it has proved that the influence of retail investors cannot be ignored. The digital revolution is to thank for this situation, as digital trading apps provide an avenue for the masses to grow their wealth through investing.

According to our Banking and Payments Surveys, the proportion of retail and emerging affluent investors allocating their wealth to equities has grown notably in recent years. Less affluent investors are evidently becoming less risk-averse and more keen to take a punt. The COVID-19 pandemic has also played a part, as it has kept many indoors with time on their hands to explore investing. A less affluent, occasionally less returns-focused investor has emerged, and professional wealth managers need to adapt.



Source: GlobalData's 2018–20 Banking and Payments Surveys

Scalable Capital closes B2C UK platform

German digital wealth manager Scalable Capital has decided to close its UK B2C operation. The robo-advisor will continue its operations in Germany and Austria, but following internal analysis the platform will expand into other international countries and close UK accounts in 2021.

Analyst view: In 2020, Barclays collaborated with Scalable Capital on a robo-advisor dubbed Barclays Plan & Invest. As a result, the news of Scalable Capital closing its own-brand robo-advisor in the UK is not a surprise. This is part of a strategic move to reach more clients through Barclays' strong brand as opposed to on its own merits. With competition in the UK robo-advice industry already fierce, it makes sense to explore other international markets that are less competitive.

Scalable Capital's B2C platform in the UK required a minimum investment of £10,000, which is especially steep given that many players have minimum investment thresholds of less than £100 and some have none whatsoever. And with fees reaching 1% the offering was not cheap from a fee perspective either. According to our 2020 Banking and Payments Survey, one of the leading reasons less affluent investors opt for a robo-advisor is how cost effective it is compared to other options.

From a HNW perspective, over a quarter of wealth managers in the UK believe the lead reason HNW clients are attracted to robo-advice is lower costs as per our data. So Scalable Capital's own-brand robo would've alienated a large share of robo-advice enthusiasts in the UK. All the more reason why the collaboration with Barclays, with its large retail banking client base, is the option worth focusing on.

Schroders partners with Citi to launch discretionary fund management service

Global investment firm Schroders and banking giant Citi signed a strategic partnership to launch a discretionary fund management service for Citigold. Citigold caters to Citibank's mass affluent clients; the new partnership will be available for Citigold customers across the UK and select international markets. This service will be delivered through Cazenove Capital, Schroders' UK wealth subsidiary. Citi's relationship managers will assess individual client risk profiles and financial goals and Cazenove Capital will be responsible for setting an appropriate asset allocation strategy to create portfolios that match their individual needs.

Analyst view: Schroders brings its expertise in asset allocation and Citi brings its compelling client experience along with its established client base to the table. With competition rife in the wealth space, it is unsurprising that Schroders is now chasing the lucrative mass affluent market as this demographic grows its wealth rapidly. Cazenove Capital's wealth management service has a minimum threshold of £1m, so this is a significant move to open up its pool of customers and not only cater to elite investors.

For Schroders, this is one of several partnerships it has agreed in recent years. In 2019 Schroders launched a joint venture with Lloyds Banking Group – a financial planning service targeted towards the affluent population. In the same year, it partnered with a Chinese bank and bought Singaporean asset manager Thirdrock. And in 2020, Schroders bought UK family office Sandaire. The firm is evidently adopting the strategy of partnering with or acquiring players to grow revenue and market share. These are worthwhile moves to spread its footprint at pace and gain access to other players' customers. It will also add a significant degree of competition to the mass affluent investment market, which is the target audience of the Citigold program.

Sources: GlobalData's 2020 Banking and Payments Survey and 2020 Global Wealth Managers Survey

DBS aims to triple family office AUM by 2025

DBS's family office unit aims to achieve annual growth of 20% over the coming three to five years to triple its family office assets under management (AUM) to $10bn by 2025

Analyst view: The goal is undoubtedly ambitious. However, aided by strong wealth growth in the UHNW segment, the provider's strong foothold in the Asia Pacific region, and a rapidly growing offshore market, it is certainly achievable. Since the unit was set up in 2019 it has registered 40% growth. Now the challenge will be to keep the momentum going, but its strong positioning in the wealth space – both in Asia Pacific and globally – will help. DBS now features in the top 25 in terms of private wealth AUM in our *Wealth Management Competitor Analytics*, having overtaken J. Safra Sarasin, CIC, EFG International, and Societe Generale over the past three years.

Furthermore, DBS is not only competing successfully with global players on its home turf but is set to benefit from inflows from abroad. Our surveying shows that 60.3% of wealth managers expect HNW demand for offshore investments to increase over the next year, as investors are looking to further diversify their holdings amid heightened economic uncertainty (just 9.6% expect a decrease). This combined with DBS's solid brand image and the rising importance of Singapore as a booking center thanks to its reputation as a safe haven in times of uncertainty is further aiding AUM growth.

DBS will need these strengths. The UHNW and family office segments are hotly contested by the largest private wealth managers in the market. UBS, Credit Suisse, and Julius Baer all have large well-developed offerings in this area, and many more of the majors are prioritizing growth in the family office space as well.

Goldman Sachs set to launch robo-advisor for US mass affluent individuals in 2021

Goldman Sachs has started testing a new robo-advisor, dubbed Marcus Invest, which will launch in Q1 2021 in the US. Although few specifics have been shared about the product, Goldman Sachs has said that the minimum investment will be $1,000 and clients will be able to choose from multiple portfolios, similar to other robo offerings.

Analyst view: This is Goldman Sachs' latest example of catering to the masses, which started with the 2016 launch of the Marcus brand and its savings accounts and personal loans. According to our 2020 Banking and Payments Survey, the mass affluent in the US increased their usage of robo-advice platforms compared to 2019, so there is definitely a market for this product.

With Goldman Sachs always known for targeting the elite, it will have its work cut out attracting less sophisticated investors. Our data shows that competition is heating up in this space, as 70% of US wealth managers agree there is an opportunity among the mass affluent. And success is not a given for the old guard. Lessons should be taken from UBS's first move into robo-advice with SmartWealth, a digital platform that ended up being scrapped a few years later due to pricing issues and a lack of brand resonation with the new demographic it was chasing.

But the bottom line remains that if the product ticks off the needs of the mass affluent – such as low fees and a good user experience – then Goldman Sachs should be well positioned to excel in this space, upholding its stellar reputation in managing wealth for the wealthy. Things look promising already, as it has confirmed environmental, social, and governance (ESG)-focused investments will be available, which are experiencing increasing demand among the Marcus Invest target audience.

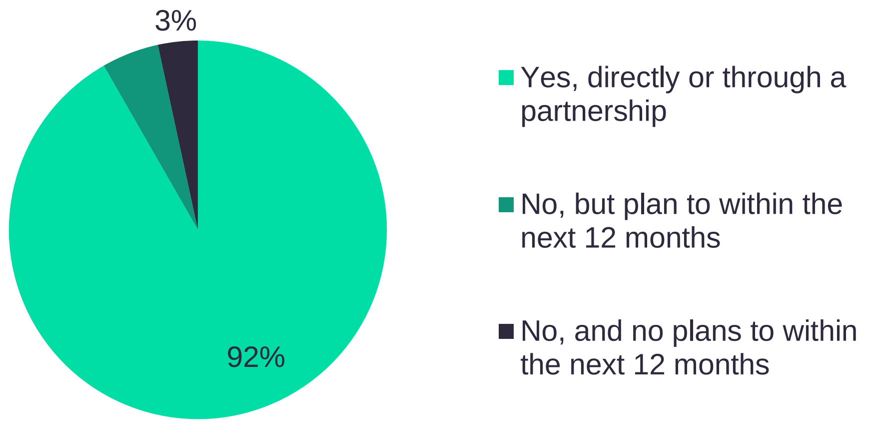
Source: GlobalData's 2020 Global Wealth Managers Survey and 2020 Banking and Payments Survey

Fidelity Investments launches ESG tool for advisors

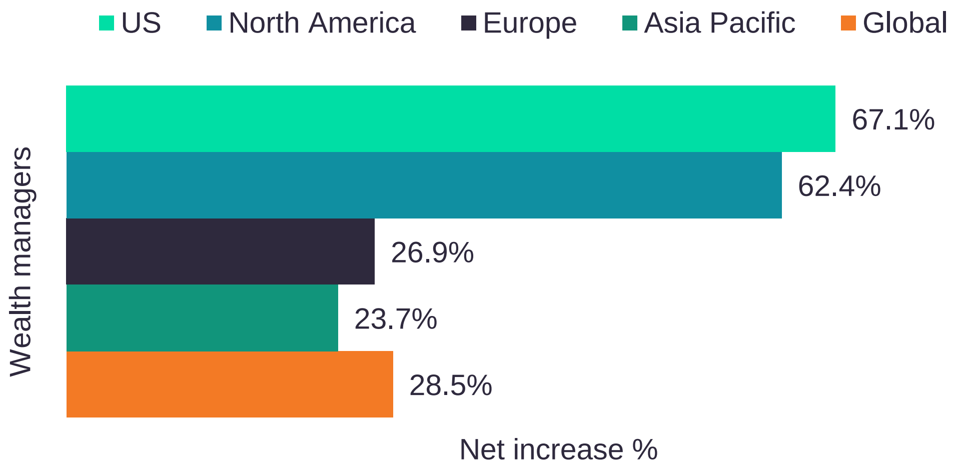
Fidelity Investments has launched an ESG investing tool. The Fidelity ESG Pro solution enables advisors to create and customize ESG models using thousands of curated mutual funds and ETFs from Fidelity and other leading asset managers. Fidelity ESG Pro also includes engagement tools designed to encourage and facilitate client conversations, including the Values Discovery Quiz questionnaire that helps advisors get a better understanding of how clients think about ESG factors and what is important to them. Customized ESG reports that illustrate how ESG portfolios perform on up to 24 ESG characteristics are also offered.

Analyst view: Although ESG investments were a growing trend in the wealth industry prior to the COVID-19 pandemic, this crisis has only increased demand for ESG investments globally. As a result, Fidelity is well placed to succeed with its new solution – especially in the US. As many players in the industry are introducing their own ESG portfolios or placing greater focus on the topic, providers will need to differentiate themselves. Fidelity's ESG Pro allows comparisons of up to four models at once, and the research that assists advisors with ESG mutual funds and ETF due diligence covers over 100 ESG strategies. In addition, the Values Discovery Quiz is open to users' children and other family members in order to get multi-generational conversations started around ESG-related focus areas. With customized ESG reports on up to 24 ESG characteristics also included the product is suitably comprehensive, covering various ESG themes and innovative ways to encourage meaningful client conversations. This will aid in separating its product from competitors who provide a relatively standard service in order to have some presence in this on-trend space. This will only help advisors in the long term, as the next generation lead from the front regarding ESG investing. A well-diversified ESG offering will be part of their vetting process in terms of who they choose to manage their wealth with.

Proportion of wealth managers offering socially responsible investments: US



Forecast demand for socially responsible investments



Source: GlobalData's *2020 Global Wealth Managers Survey*

Appendix

Secondary sources

Cards and Payments

- AltFi (2021) *TrueLayer takes on card payments, launches own open-banking powered payment method* [accessed January 2021]
- Bloomberg (2020) *IPO Bonanza Seen Next Year in Europe With Rush in Tech Firms* [accessed January 2021]
- Financial Review (2021) *Why the latest Afterpay surge is making the market think twice* [accessed January 2021]
- Finextra (2021) *Affirm aims for $9 billion valuation on IPO* [accessed January 2021]
- Finextra (2021) *Australia's Zip invests in Czech BNPL player Twisto* [accessed January 2021]
- Finextra (2021) *Banks push for UK to increase contactless limit to £100* [accessed January 2021]
- Finextra (2021) *BNPL player Scalapay raises $48m* [accessed January 2021]
- Finextra (2021) *Buy now, regret later? Brits face £2.3bn bill for Christmas shopping* [accessed January 2021]
- Finextra (2021) *French BNPL player Alma raises EUR49m* [accessed January 2021]
- Finextra (2021) *Mastercard hikes interchange fees for UK online purchases from the EU* [accessed January 2021]
- Finextra (2021) *Nine-in-ten of all UK in-store card payments made with contactless* [accessed January 2021]
- Finextra (2021) *OCC approves the use of stablecoins for banking transactions* [accessed January 2021]
- Finextra (2021) *TrueLayer launches payments-as-a-service product* [accessed January 2021]
- Finextra (2021) *UK cash machine withdrawals drop by over a third in 2020* [accessed January 2021]
- Finextra (2021) *UK Government votes down bill to regulate BNPL firms* [accessed January 2021]
- Finextra (2021) *UK retailers turning away shoppers who want pay with cash* [accessed January 2021]
- Finextra (2021) *Which? ramps up campaign to protect cash network* [accessed January 2021]
- Finextra (2021) *Why cash matters: UK supermarket shoppers face payment card woes* [accessed January 2021]
- Focus Taiwan (2021) *Taiwan launches pilot program for mobile payment on buses* [accessed January 2021]
- The Guardian (2021) *Mastercard to raise fees by at least 400% for EU firms selling to UK customers* [accessed January 2021]
- The Japan Times (2021) *Japan Post Bank to scrap its cashless payment service over security flaws* [accessed January 2021]
- KrASIA (2021) *Vietnamese e-wallet Momo pushes super app plans with USD 100 million funding round* [accessed January 2021]
- Reuters (2021) *Vietnam mobile wallet MoMo raises about $100 million, aims for IPO* [accessed January 2021]
- UnionPay International (2021) *UnionPay Rolls out Virtual Cards in Vietnam for the First Time Over 3.5 Million Already Issued in Southeast Asia Last Year* [accessed January 2021]

Secondary sources

Insurance

- BBC News (2021) *Would-be travellers must prove journey us essential* [accessed January 2021]
- Fintech Singapore (2021) *PhonePe ties up with ICICI Prudential Life Insurance* [accessed January 2021]
- GOV.UK (2021) *Travel advice: coronavirus (COVID-19)* [accessed January 2021]
- Travel and Tour World (2021) *Thailand to collect tourism fee for insurance coverage of foreigners* [accessed January 2021]

Retail Banking

- AltFi (2021) *Monzo is "struggling" to avoid the same fate as Xinja* [accessed January 2021]
- AltFi (2021) *N26 scoops Brazilian banking licence to take on Nubank* [accessed January 2021]
- Bloomberg (2021) *Danes Get 20-Year 0% Mortgages* [accessed January 2021]
- CNBC (2021) *Joe Biden's policy roadmap aims to create a new, federally-backed credit bureau to close the racial wealth gap* [accessed January 2021]
- Crowdfunding Insider (2021) *KeyBank aims to launch digital bank for doctors in March* [accessed January 2021]
- Financial News (2021) *HSBC threatens to close accounts for people who refuse to wear masks in branches* [accessed January 2021]
- The Financial Times (2021) *UK banks to launch wave of green products* [accessed January 2021]
- Finextra (2021) *Budgeting apps can encourage users to overspend rather than save* [accessed January 2021]
- Finextra (2021) *Quirk raises £300k for personality-based money management app* [accessed January 2021]
- FinTech Magazine (2021) *UK fintech Tide to launch in India* [accessed January 2021]
- Fortune (2021) *Goldman reveals first look at new Marcus Invest platform* [accessed January 2021]
- Mortgage Strategy (2021) *Most payment holiday takers now back to paying in full* [accessed January 2021]
- Peer-to-Peer Finance News (2021) *Zopa launches energy switching and comparison service* [accessed January 2021]
- Retail Banker International (2021) *Expect a much less conducive future fintech environment in China* [accessed January 2021]
- Vox (2021) *Terrible financial advice is going viral on TikTok* [accessed January 2021]

Secondary sources

Wealth Management

- AltFi (2021) *Scalable Capital shutters UK wealth business* [accessed January 2021]
- BBC (2021) *GameStop: What is it and why is it trending?* [accessed January 2021]
- Bloomberg (2020) *DBS aims to triple family office wealth by 2025* [accessed January 2021]
- Business Wire (2021) *Fidelity Investments Introduces Technology Solution to Help Advisors Grow Their ESG Investing Practices* [accessed January 2021]
- CNBC (2020) *Goldman Sachs, once reserved for the rich, is close to offering wealth management for the masses* [accessed January 2021]
- International Finance (2020) *UOB and Singtel announce robo-advisory service* [accessed January 2021]
- Schroders (2021) *Schroders partners with Citi* [accessed January 2021]

About GlobalData

GlobalData is a leading provider of data, analytics, and insights on the world's largest industries.

In an increasingly fast-moving, complex, and uncertain world, it has never been harder for organizations and decision makers to predict and navigate the future. This is why GlobalData's mission is to help our clients to decode the future and profit from faster, more informed decisions. As a leading information services company, thousands of clients rely on GlobalData for trusted, timely, and actionable intelligence. Our solutions are designed to provide a daily edge to professionals within corporations, financial institutions, professional services, and government agencies.

Unique Data
We continuously update and enrich 50+ terabytes of unique data to provide an unbiased, authoritative view of the sectors, markets, and companies offering growth opportunities across the world's largest industries.

Expert Analysis
We leverage the collective expertise of over 2,000 in-house industry analysts, data scientists, and journalists, as well as a global community of industry professionals, to provide decision-makers with timely, actionable insight.

Innovative Solutions
We help you work smarter and faster by giving you access to powerful analytics and customizable workflow tools tailored to your role, alongside direct access to our expert community of analysts.

One Platform
We have a single taxonomy across all of our data assets and integrate our capabilities into a single platform – giving you easy access to a complete, dynamic, and comparable view of the world's largest industries.

GlobalData.

For any questions or further enquiries please contact us at:

customersuccess.fs@globaldata.com

customersuccess.insurance@globaldata.com