



# Financial Technology

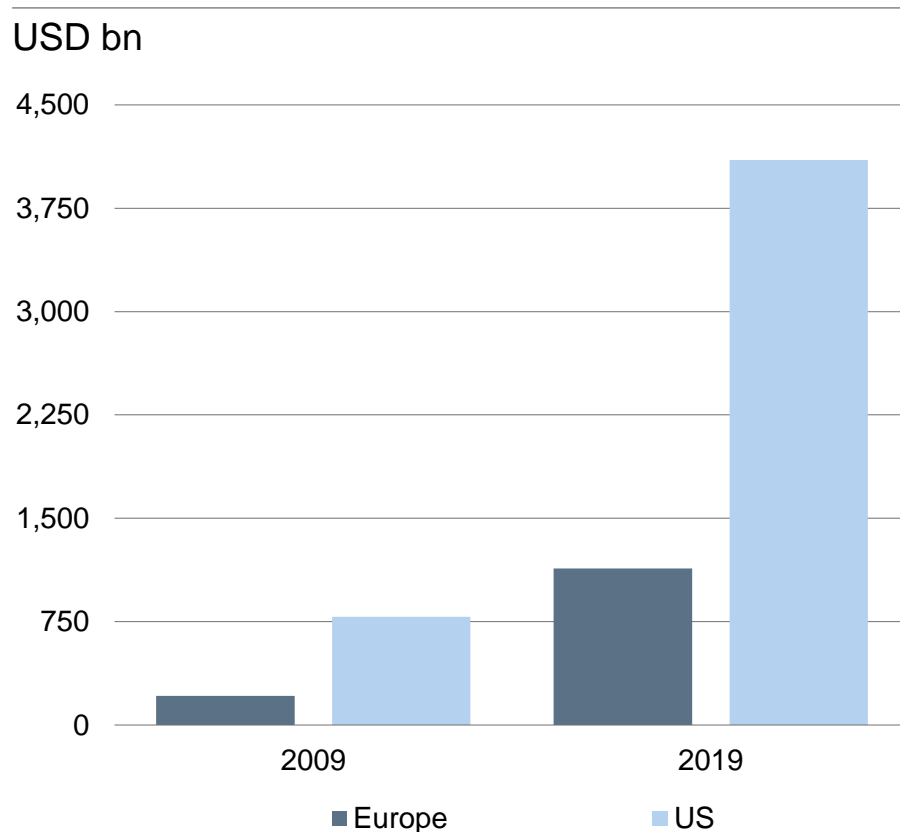
## A push for passive investments?

19 February 2020

# Passive investments surge on both sides of the Atlantic



## Huge ETF AuM in the US



Sources: Morningstar, Deutsche Bank Research

### — ETFs AuM:

- In the US: USD 4,000 bn in 2019, up from USD 785 bn in 2009
- In Europe: USD 1,150 bn, up from USD 200 bn
- In DE: USD 160 bn, up from USD 60 bn

### — Small absolute size of the ETF market in Europe

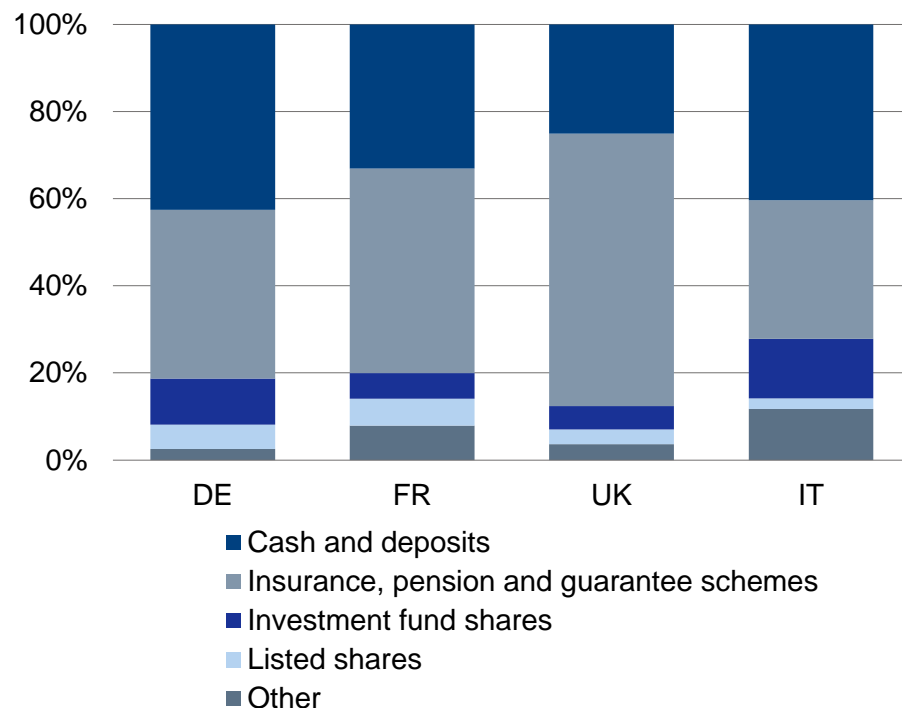
- ETF arrived in Europe later than in the US
- **Limited participation of retail investors. Retail clients hold**
  - 45% of ETFs in US
  - 15% of ETFs in Europe

# Broader picture: Household wealth in Europe



## Composition of households' financial assets

% of total in Q3 2019



Excludes the category "unlisted shares and other equity" due to significant cross-country differences in measurement and valuation.

Sources: ECB, Deutsche Bank Research

— Saving money is near and dear to Germans. Household saving rate

- DE: 11%
- Euro area average: 5%

— Cash and deposits in % of households' financial assets in Q3 2019

- DE: 42%, a more or less stable figure since 2008
- IT: 40%, FR: 33%, UK: 26%

— Mutual fund shares in % of households' financial assets

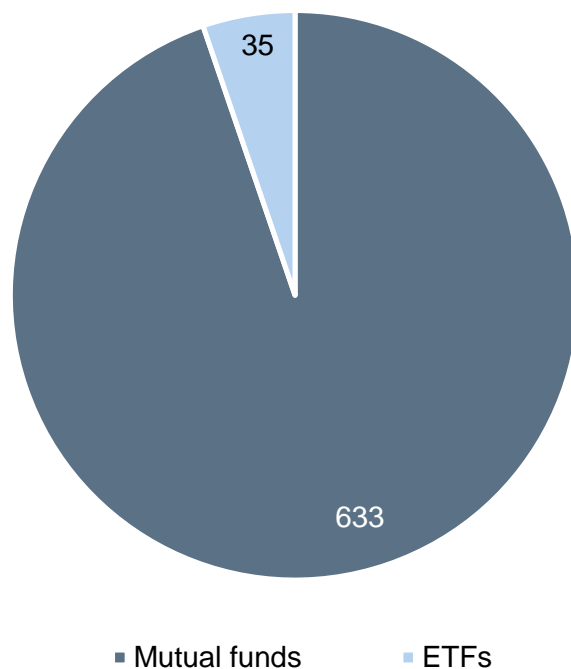
- DE: 11%
- IT: 14%, FR: 6%, UK: 5%

# ETFs were not able to replace mutual funds to date in Germany



## ETF investments of Germans: Only a fraction of mutual funds

EUR bn, Q3 2019



- In Q3-2019, retail clients held
  - EUR 633 bn in mutual funds
  - EUR 35 bn in ETFs



why were ETFs not able to replace costlier and less liquid open-ended funds to date?

Sources: BVI, Deutsche Bank Research

# Pay-as-you-go pensions and financial advisory services



## — Pay-as-you-go pension plans

- guarantee certain benefits in retirement and cause low capital accumulation for retirement
- German retail investors not familiar with newer financial products
  - tend to invest in more traditional alternatives: individual stocks or open-ended retail funds
- US retail investors more accustomed to managing their retirement funds themselves, thanks to defined contribution retirement plans

## — Financial advisory services

- dominance of the universal banking model
  - banks usually have their own asset management divisions
  - or cooperate closely with external asset management firms
- favour retail funds of their financial firms or of their partners

# Advancements in FinTech may make a difference in ETF investments



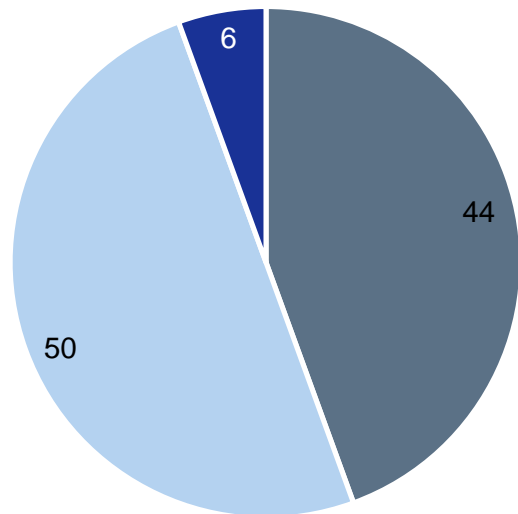
- Robo-advisors: digital platforms that offer online advisory services
  - scalable, digital business models
  - cheaper and more efficient compared with traditional financial advisors
  - continuously monitor client portfolios and rebalance
  - limited offer spectrum and investment strategies
  
- Robo-advisors invest mainly in ETFs, thanks to ETFs' low cost, transparency and liquidity features
  
- Most of the early robo-advisors in Germany were FinTech start-ups
  - an increasing number of traditional financial institutions with their own offers
  - after consolidation and takeovers, some 25 robo-advisors in 2019
  - AuM at around EUR 4 bn in 2019, up from EUR 0.3 bn in 2016

# Robo-advisors invest mainly in ETFs



## ETFs: Robo-advisors' key investment instruments

%

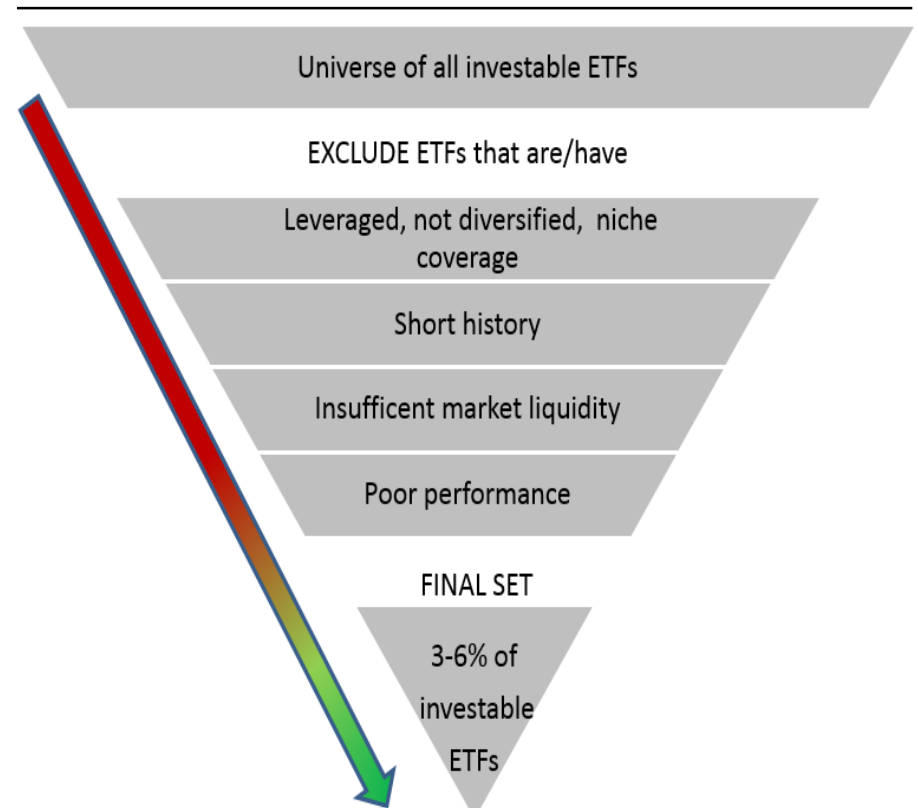


- ETFs only\*
- ETFs and other index funds\*\*
- Other instruments

\*include both ETFs and ETC, \*\*include both active and passive funds

Source: Deutsche Bank Research

## Top-down approach to ETF selection



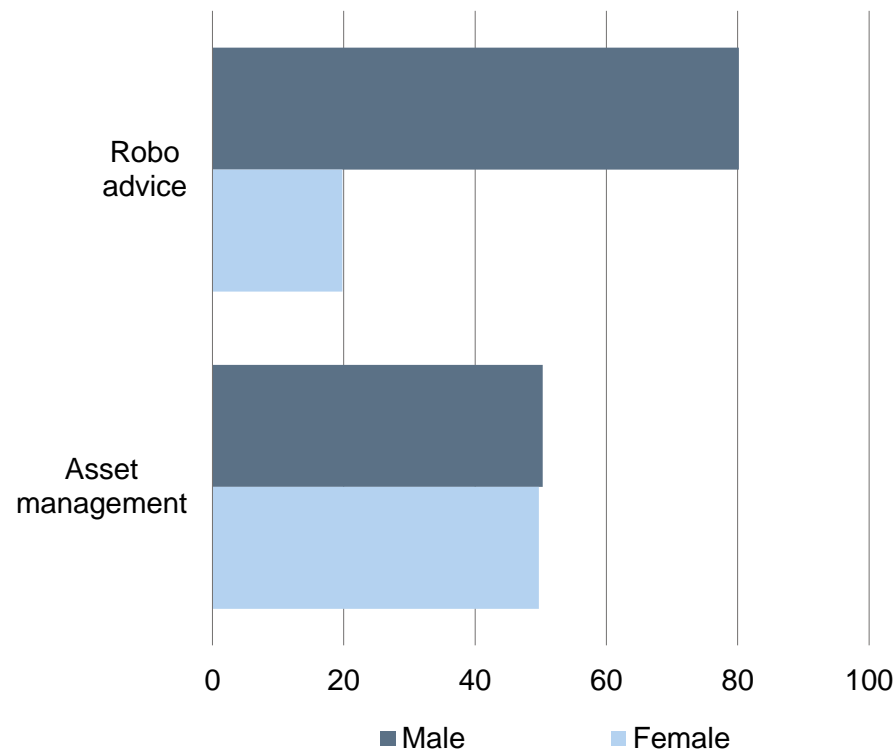
Sources: Company reports, Deutsche Bank Research

# Who are robo-advisors' clients? Mainly male and middle-aged ...



## Robo-users: Mainly male

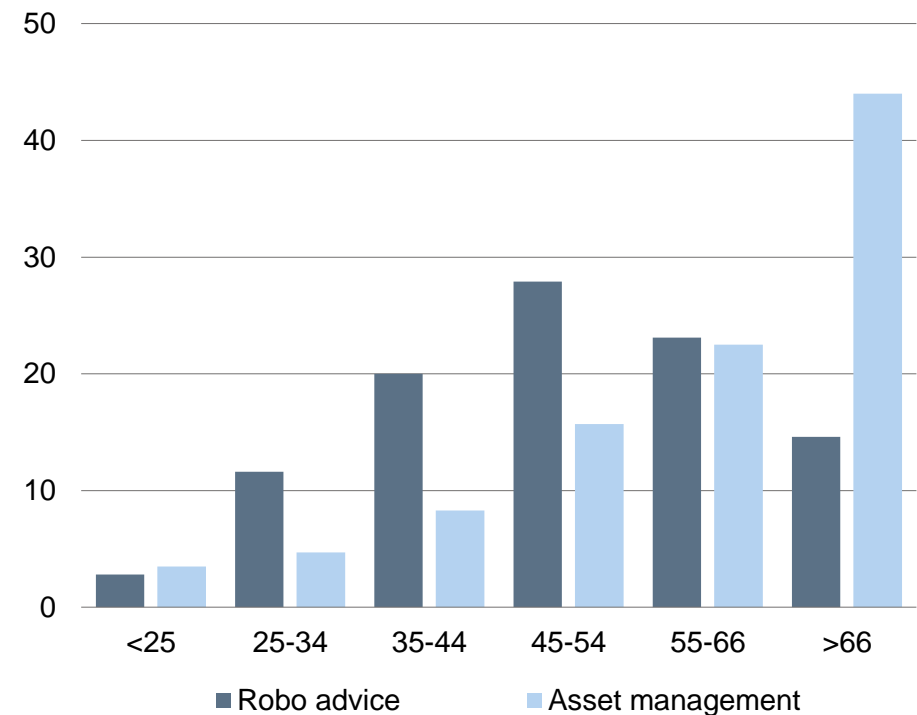
% of clients



Source: Deutsche Bank Research

## Robo-advisor clients: Mostly middle-aged

% of clients, age in years



Source: Deutsche Bank Research



## ... high-income and digital



— Median robo-client income is 3x that of a typical bank client

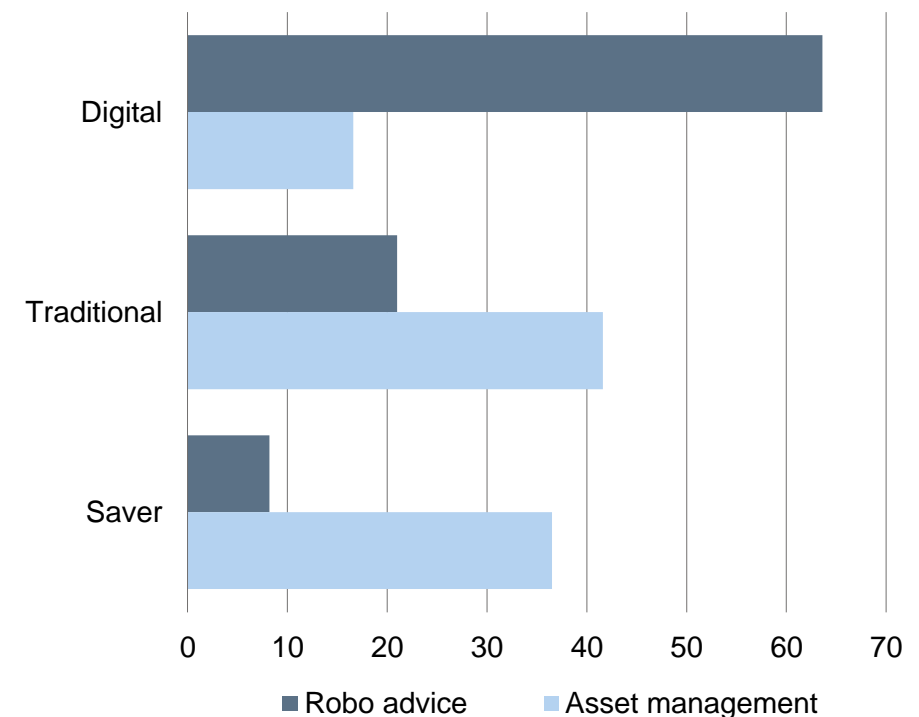
- Low-income individuals
  - have limited access to financial services
  - might save on search costs via tapping robo-advice services

— Robo-advisor clients are primarily digital investors

- eliminate the middle man in the investment process
- value the autonomy and full control in investment decisions

### Robo-clients are primarily "digital investors", unsurprisingly

% of clients



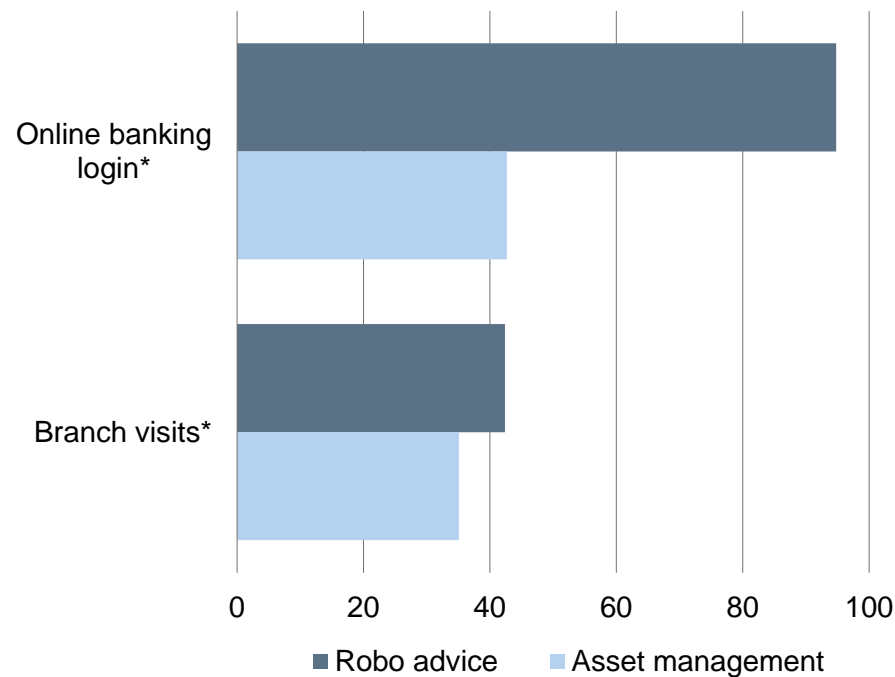
Source: Deutsche Bank Research

# Robo-clients: Approximation of how future generations will deal with financial matters and interact with banks



## Robo-clients contact their bank not only online

% of clients

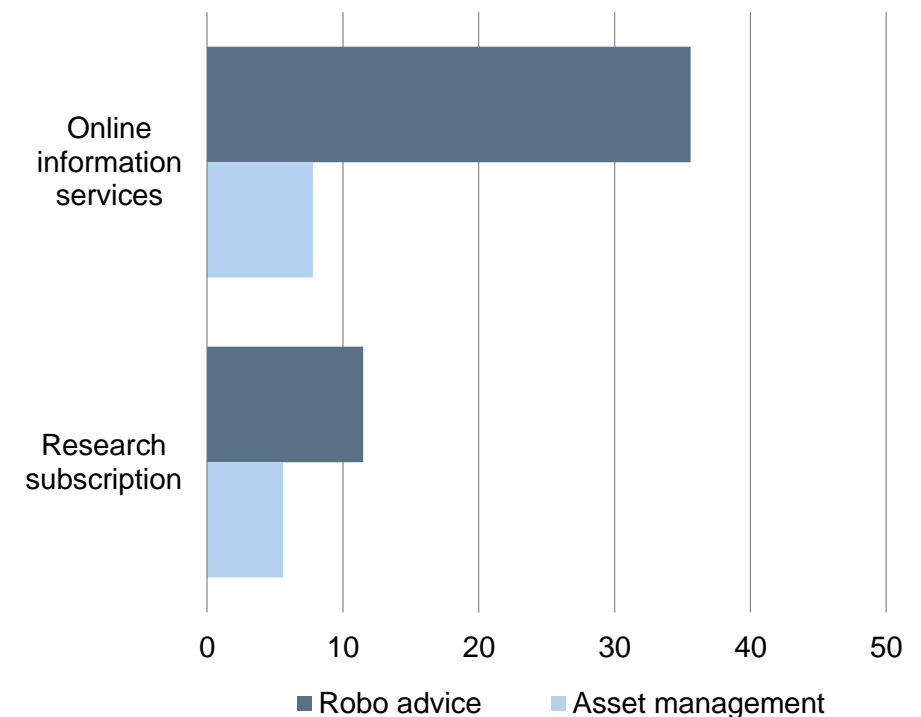


\*at least once during last 6 months.

Source: Deutsche Bank Research

## How do robo-clients receive and process information?

% of clients



Source: Deutsche Bank Research

# Summary



- Robo-advisors make inroads in Germany
  - Retail investors might partially shift investments from actively managed funds to ETFs
- Current robo-clients are a rather small subset of the potential clients
  - client base will be enlarged by a larger participation of
    - female or low-income clients
    - intergenerational wealth transfers such as inheritance and gifts etc.
  - Robo-advisor might fill the financial advice gap for those who
    - invest smaller sums in financial markets
    - have limited financial market knowledge
- Preferences of current robo-advisory clients a good approximation for future bank clients. Banks should
  - increase their digital offerings
  - invest more in speed in their services
  - keep their traditional access points

Thank you



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