additiv

Build My Wealth: Capturing the mass affluent market

Helping clients form the **habit of saving** makes them **resilient** and enables their **financial well-being**

THE PANDEMIC HAS HAD UNTHINKABLE SIDE EFFECTS ON THE WORLD, MANY OF WHICH WE ARE STILL PROCESSING AS A GLOBAL SOCIETY.

It has had a deeply clarifying effect across many aspects of our lives.

Our fundamental needs bubbled to the surface with **incredible speed**, changing our habits dramatically.

Case in point, in the US we have seen a historical spike in savings to 33% which plainly shows how powerful our need for safety can be in particular in an overdebted society, especially when triggered suddenly and intensely.

According to an OCBC study, **2 out of 3 working Singaporeans do not have savings** that last them beyond six months – another warning sign.

Things deemed impossible **continue to unfold** beneath our eyes – especially in the financial world and also in our personal microcosms.

When will things get back to "normal"?

How long until we get back to familiar ground?

These questions dominate both public and private conversations but they are misleading. The new, updated definition of "normal" is blurry, it's work in progress. To navigate the coming years, we're better off focusing on **the compound effect of our actions**, no matter if we're individuals, families, or organizations.

So the more useful question to ask would be:

> *What can we do today – and consistently thereafter – to become more resilient to similar shocks?*

The answer is simple and quite unglamorous: be prepared to bridge financially more difficult times. As a company, hold the necessary liquidity or have assured access to credit. As a private person, hold three to six months' worth of your average monthly expenses as cash. The key in either case is to **start saving** and/or to get better at it.

Like many simple things, the road to achieving this can be thorny, depending on the choices we make along the way, both as individuals and as organizations.

The messy middle

Saving is one of those habits whose compound effect can have astonishing results, no matter how small the amount put away.

Examples like Oseola McCarty (1908–1999) have an immediate humbling — but also empowering — effect.

She had begun to save almost as soon as she started working at age eight [1916]. As the money pooled up in her doll buggy, the very young girl took action.

> *I went to the bank and deposited. Didn't know how to do it. Went there myself. Didn't tell mama and them I was goin'.*
>
> *I commenced to save money. I never would take any of it out. I just put it in. It's not the ones that make the big money, but the ones who know how to save who get ahead. You got to leave it alone long enough for it to increase.*

When she retired in 1995, her hands painfully swollen with arthritis, this washerwoman who had been paid in little piles of coins and dollar bills her entire life had $280,000 in the bank.

On a personal level, **savings give your clients options**. Having options makes them resilient. Options give them the ability to absorb a future financial shock.

On a societal level, savings and wealth are a function of economic success. They **ensure the stability of a society** and enable its members to weather profound changes.

Rationally, we know this to be true, but our resolve lessens when it comes to practice.

It's never been easier to save than it is now but it's also never been more difficult. Saving is instant but so is 24/7 spending.

The challenging part is that **saving clashes with our consumption-driven society** where we're overstimulated to spend today rather than postpone our expenses. This plays into our brain's disposition to prioritize instant gratification over long-term goals.

> *Our emotional brain has a hard time imagining the future, even though our logical brain clearly sees the future consequences of our current actions.* ***Our emotional brain*** *wants to max out the credit card, order dessert and smoke a cigarette.* ***Our logical brain*** *knows we should save for retirement, go for a jog and quit smoking.*
>
> *David Laibson*
> *Harvard University*

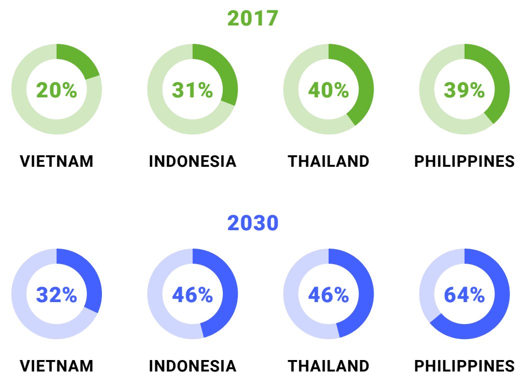
Achieving a balance between these conflicting tendencies is not easy, especially under current conditions.

South-East Asia, Middle East and Africa: a mass affluent explosion

In spite of the current turmoil, economic and wealth-generation **opportunities abound in South-East Asia** (SEA), **Middle East** and **Africa**.

For example, SEA is home to the largest youngest population (median age: 30 years) on the globe and the mass affluent market is exploding. As we discussed in a report from last year, the mass affluent population in South-east Asia is set to rise from 57 million, at late-2018, to 136 million by 2030. This represents **a massive opportunity for financial services companies** in the region, but they will have to find a way to shift from a credit-led society to a more balanced approach including savings, as well as to tap emerging distribution opportunities through superapps.

HOUSEHOLD WEALTH HELD BY THE MASS AFFLUENT



Source: Beyond the "Crazy Rich": The Mass Affluent of Southeast Asia," Boston Consulting Group

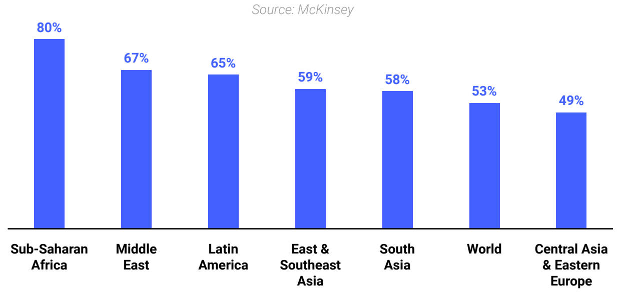
Read our white paper: Winning the Rebundling Race in South-East Asia

In the Middle East, even though there is not the same growth in population as in South East Asia and Africa, many of the fast-growing countries such as UAE also have high social mobility. According to a report from Standard Chartered entitled "Climbing the Prosperity Ladder", UAE has one of the **highest levels of upward social mobility in the world** at 57%, giving rise to a large group of what it calls "emerging affluent".

However, good government policy will also be necessary to turn growing wealth into a broader economic dividend. Strengthening agricultural productivity, sustainable manufacturing, as well as services that require higher skills are all opportunities to create more jobs and improve people's income. **Investing in people** is also a source of long-term financial stability and growth, as it enables them to both get better, higher-paying jobs and the education they need to manage their income and multiply it.

SOUTH-EAST ASIA, MIDDLE EAST AND AFRICA ALL HAVE A LARGE UNBANKED OR UNDERBANKED POPULATION

Source: McKinsey

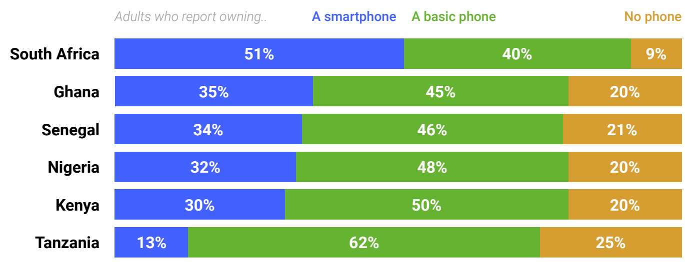


> *More than **7 out of 10 adults in Southeast Asia** are either "underbanked" — they have no access to credit cards or have no long-term savings product, for example — or are "unbanked", without access to a basic bank account.*

Source: Fulfilling Southeast Asia's Digital Financial Services Promise

In Africa, the **rate of bank account penetration was only 16.1%**, according to the European Investment Bank. But what really matters in Africa is the mobile phone and smart phone penetration which is **growing at unseen speed**. Banking services, starting with payment services are moving into savings and investing – all fully mobile and app-based.

MAJORITIES ACROSS SUB-SAHARAN AFRICA OWN A MOBILE PHONE; BASIC PHONES ARE THE MOST COMMON TYPE



Note: percentages based on total sample. Source: Spring 2017 Global Attitudes Survey. Q64 & Q65.

> *Banking in Africa is among the most exciting in the world and a **hotbed of innovation**. New business models emerge and already today some **40% of Africans prefer to use digital channels** for transactions.*

Source: McKinsey

Financial services companies must **take advantage of digitalization** – both in terms of mobile banking as a sustainable services model for underserved markets, but also in terms of falling marginal costs to **reduce the cost of banking services** and to sustain wealth across generations.

Growing wealth coupled with better governance, professional advice and universal access to banking would be a **true economic boom**.

> *As a famous traditional Chinese saying goes, wealth does not last beyond three generations – **fu bu guo san dai**. Thus making money is only half the battle keeping the wealth level up, i.e. wealth preservation is even more difficult and critical.*

For African, Middle Eastern and Asian growth markets the **access** to affordable, professional investment products and at a certain wealth level even with human assisted advice is **crucial to sustain long-term wealth generation**.

The state of European savings driven by looming pension gaps

In the mature and conservative European markets, saving rates have been stable for the past decade:

> *Personal Savings in the European Union averaged* ***11.26 percent*** *from 1999 until 2019, reaching an all time high of* ***13.19 percent*** *in the fourth quarter of 2009 and a record low of 9.21 percent in the second quarter of 2017.*

Source: *Trading Economics*

While Europeans may be more prone to putting money aside, their appetite for wealth management solutions remains low according to the 2019 Asset Management Report:

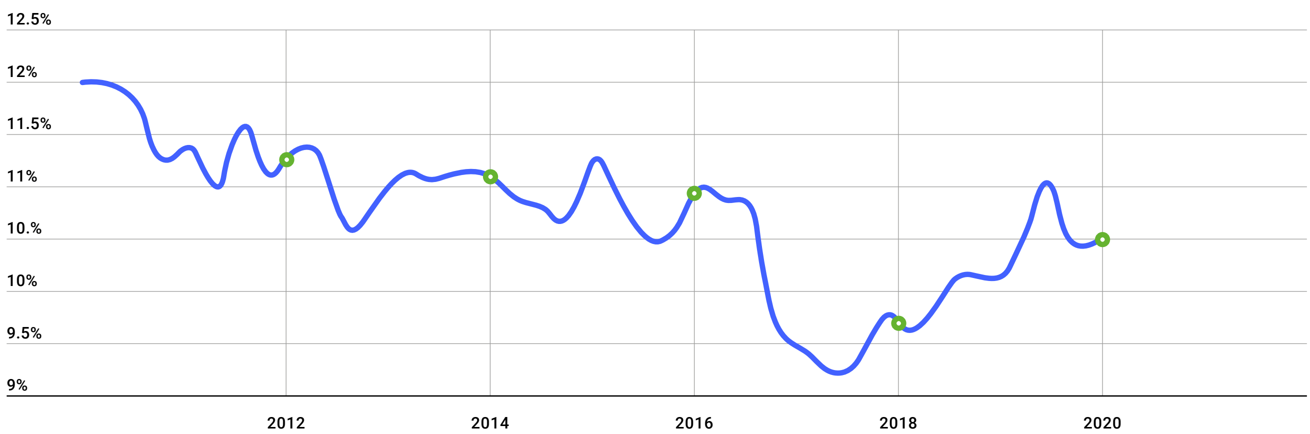
> *[...] the share of retail clients has increased in recent years, most likely because of the* ***ultra-low interest rates*** *offered on bank deposits and the return of investor confidence in capital markets instruments. However, the share of retail investors still remained lower than before the global financial crisis.*

Source: *2019 Asset Management Report*

Europeans' lower tolerance for risk may support their **habit of setting money** aside but it also makes them more reluctant to use those savings to invest and multiply their wealth. With interest rates at zero or even negative combined with rising life expectancy, the affordability of retirement has become one of the main concerns in Europe.

To change perceptions – and habits – a richer offering, stronger financial education, and more support to **adopt wealth management solutions** are all necessary to make significant progress in a way that benefits everyone involved.

EUROPEAN UNION GROSS HOUSEHOLD SAVING RATE



Source: *Trading Economics | Eurostat*

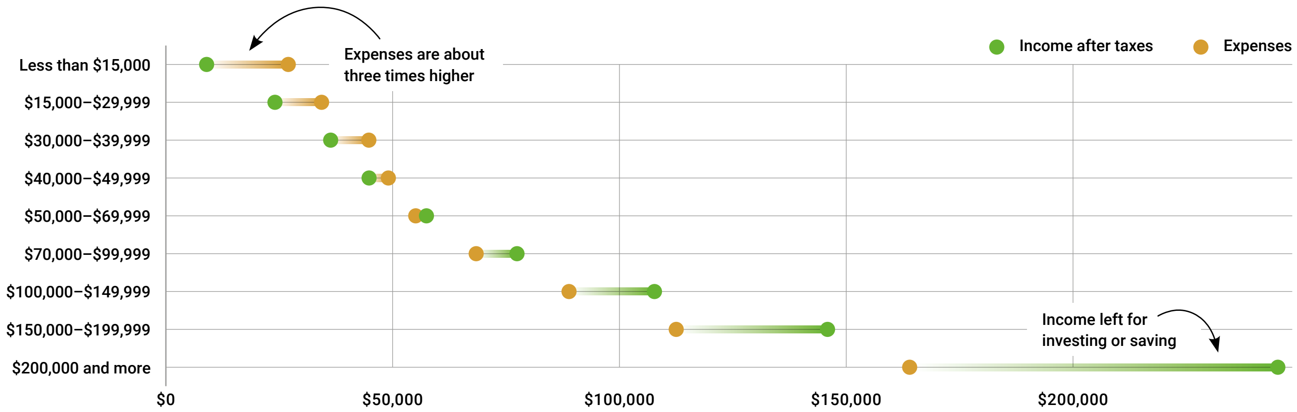
Indebted US with lack of emergency savings

A recent Pew Research Center survey reveals that **53% of surveyed American adults** do not "have emergency or rainy day funds that would cover their expenses for three months in case of sickness, job loss, economic downturn, or other emergencies." With that the situation is even worse compared to Asia.

To **gain momentum in the right direction**, empowering people to understand their options and manage their finances accordingly requires a lot more focused action on everyone's part – consumers, banks, and government institutions.

While the consumer goods industry has become highly efficient in analysing and influencing our consumption behavior, the finance industry is just starting to apply behavioral science driven by big data analytics.

Interventions – nudging – at the time of earning money might be required. We predict an **increasing trend** towards financial services providers teaming up with employers, making **savings solutions and affordable lending** directly linked with HR systems not limited to US, but also in European countries, serving the lower income groups from there.

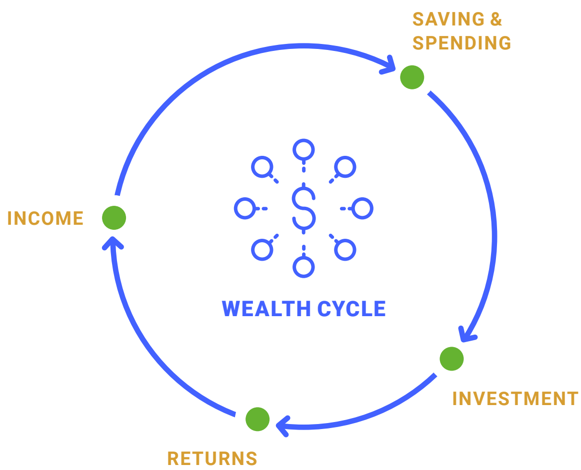


Source: The New York Times – Who Has Enough Cash to Get Through the Coronavirus Crisis?

Different backgrounds, similar challenges

No matter where in the world, **people's saving pattern is mostly reactive**. Putting money aside as long as you can is a hot topic in the post-pandemic world because of the sudden uptick in unemployment and related uncertainties.

While savings are nothing more than future expenses, they also serve a more important purpose: **these nest eggs are the base for investments**.



The wealth cycle that enables financial well-being

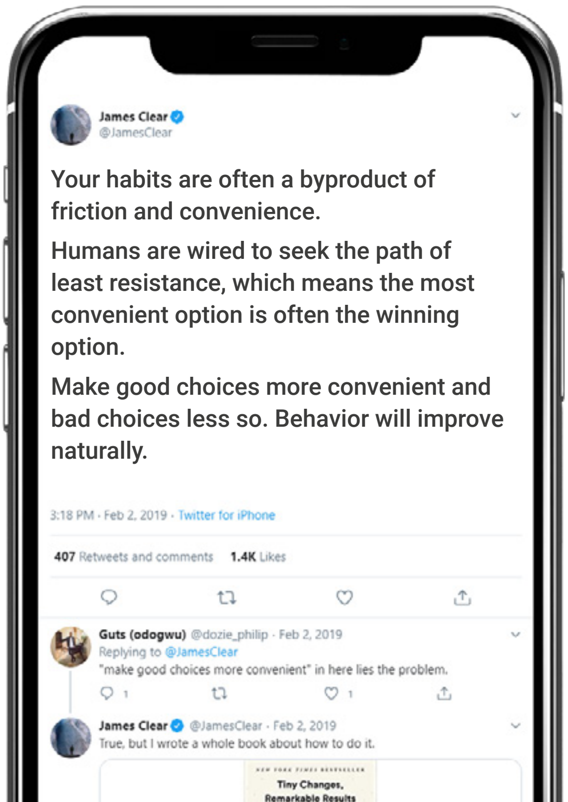
Savings and generated wealth provide safety to bridge difficult economic times. They support the projects and dreams that keep people optimistic, engaged, and motivated so they can continue to generate value and financial resources – both for themselves and for others (family members, employees, NGOs, etc.).

But to engage more people in this virtuous cycle of their own making, we might need a global change of optics.

It starts with **making wealth generation more accessible** so we can break the myth that only the rich can use financial instruments to increase their affluence.

The **time to start saving** and powering the wealth generation flywheel is now. Here's how we, the additiv team, contribute to solving this essential financial problem.

Source: James Clear, habits expert, author of Atomic Habits



We see the increased focus on financial well-being as a reaction to the amount of debt that burdens an increasingly larger part of the population in Asia, Europe or the US. Combined with lack of financial literacy, the current situation amplifies inequality, financial problems, and imperfect decision-making.

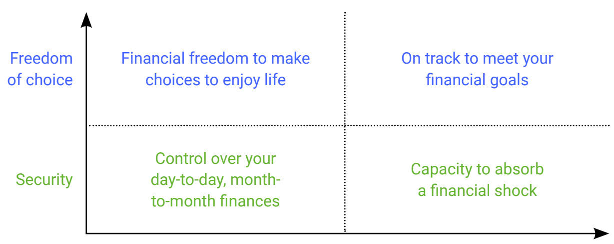
Financial well-being is an indispensable goal for individuals because it provides them with control and security over their daily finances.

On one hand, financial organizations and employers can – and should – engage their customers and employees in **conversations and actions that provide them with financial support** through tools and/or by setting incentives.

Naturally, individuals must also do their part. Because **financial behavior is guided by mindset, knowledge, skills and incentives**, the actions consumers take shape their level of financial well-being. Their personal economic outlook depends on their level of know-how and how they're able to use the options available to them (spend or save).

But, unlike other investments, such as buying a house, saving is more difficult to support in the long run because it's a habit, not a one-time decision. To make saving sustainable, financial institutions and consumers alike should focus on **creating a context that makes it easy to set aside money**.

THE FOUR ELEMENTS OF FINANCIAL WELL-BEING



Source: Financial well-being: What it means and how to help

The common denominator for all aspects of financial well-being is building the wealth to withstand shocks and to give freedom of choice.

Some of the **most common issues that keep people from saving money** include:

- Not tracking spending
- No monthly budget
- Debt
- Lack of clear priorities
- Lifestyle inflation
- Unclear about what saving enables them to do
- No saving goals
- Fear of missing out
- Resisting the perceived limiting effects of saving money
- Failing to plan for emergencies.

Changing public perception around putting money aside is just as important as providing individuals with easy to use, friendly technology that enables them to act on what they learn.

For example, applications can already help consumers track their spending, create a monthly budget, set saving goals, and much more!

Our common goal for educating and empowering individuals should be to teach this essential principle and support them to practice it:

> *Do not save what is left after spending, instead spend what is left after saving.*
>
> *Warren Buffett*

To make good progress in this direction, there are a couple of myths we need to dismantle along the way.

3 limiting beliefs that prevent your clients from building wealth

MYTH 1

It's not worth saving if I can only contribute a small amount.

In reality, the earlier they start and the more regularly they invest, the better. Small amounts add up, just like in Osceola McCarty's life story.

The easiest way to do this is to **enable the round-up option in your online banking app**, if you have it. These micro amounts will accumulate over time, with zero effort.

MYTH 2

The stock market is too risky for my savings goal or retirement money.

Holding on to this belief is a disservice to themselves in the long run. **Their savings account is safe**, but its return is materially inferior to a diversified investment portfolio – and this is historically proven.

Choosing a **well diversified portfolio** is a stronger option, as you'll spread risk.

It's important not to give up if markets are temporarily in a correction stage. Your clients can just work with **asset protection solutions** and align their investments to their risk tolerance and time horizon. They have more options than they may see in the beginning.

The shorter the time horizon, the lower their investment risk should be.

MYTH 3

I still have a lot of time – I can start saving later.

Postponing savings, no matter how small, is one of the most common pitfalls that keep people from realizing their goals.

A long **savings and investing horizon** is key as small amounts have a compound effect.

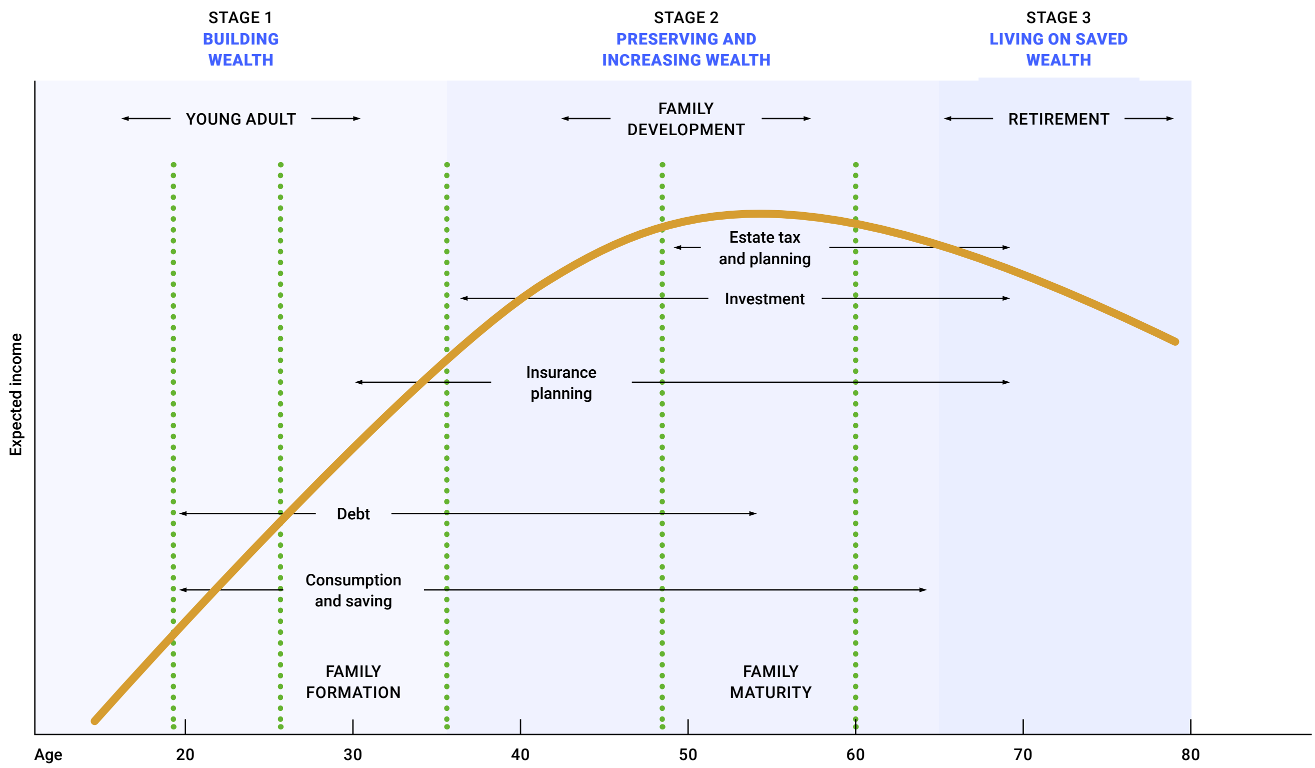
When your clients engage in building their wealth, the interest and dividends they earn from their investments **accumulate over time**. They can also choose to reinvest them.

As a result, their portfolio's value can snowball because it includes more units that can **capitalize on a potential market appreciation**.

What's more, time is the only non-renewable resource we have. They can never make up for lost time.

Use these 4 principles to guide your clients financial choices:

- Save and invest regularly.
- Invest their savings appropriately for their goals and time-frame.
- Stick to their saving habit not just in bad times but also when things are comfortable.
- Set themselves up for success to make it easy to keep saving and investing with the right tools, know-how, and support.



Source: An Introduction to Business - 14.1 Financial Planning

The technology that drives and enables saving as a habit

To balance consumers' need for spending with their challenges in setting money aside, financial organizations need **technology that makes it easy to make the right choice** – or automates it entirely.

We've seen a strong demand from financial actors for applications and systems that provide **easier, faster access to diversified banking and investment products**. This goes beyond saving and investing.

Consumers' needs and their sheer growth, especially in South-East Asia and Africa, clearly show that technology plays an instrumental role in shaping perception and habits, especially where there is no pre-existing banking experience.

How we embed saving and wealth generation into existing banking products

Getting people to save is a matter of ongoing education and support. Empowering them to make **saving a habit can only succeed if consumers can do it on their own terms**, on the channels they prefer. What financial organizations must do to meet their needs is be present when and where their customers want to engage with them.

We provide financial organizations with **two options** designed as digitally-native experiences and validated in various international markets, from European countries to Asian ones.

Self-serve Wealth Accumulator

This app-based saving and wealth management solution caters to people's smartphone usage habit, giving them options to put money aside or invest right at their fingertips.

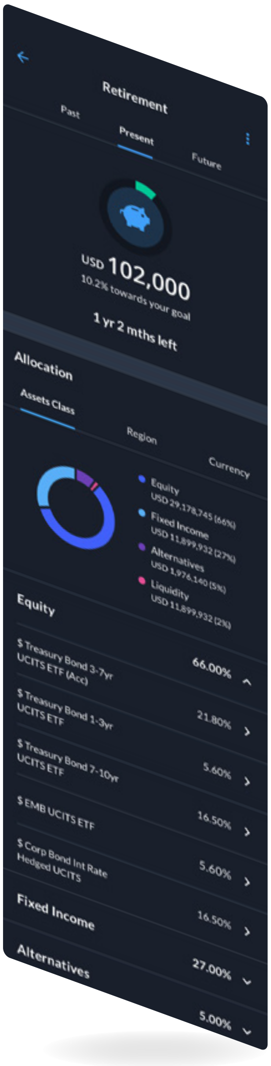
By 2021, half of the world's population (3.8 billion people) will be using smartphones. Only a fraction of them use mobile banking apps, so banks must bridge that gap to make wealth inclusion a reality.

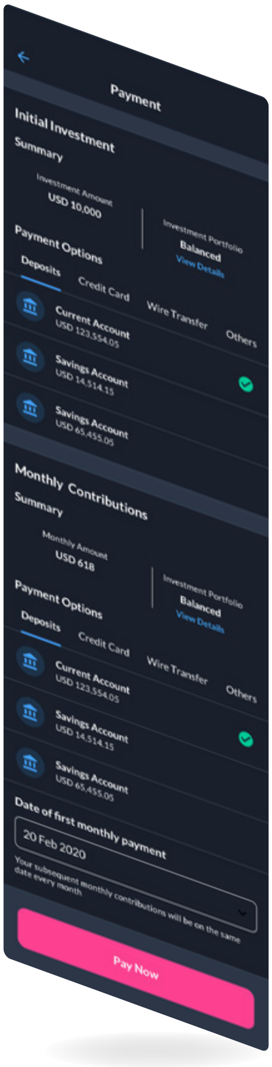
The additiv Robo Advisor contributes to **capturing the mass affluent segment** by enabling consumers to invest smaller amounts but benefit from the same professional solutions as their wealthier counterparts.

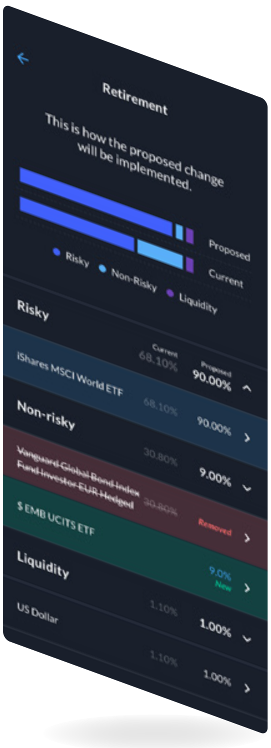
This simple, transparent, and affordable tech solution also educates bank clients and improves their financial literacy through automatically customized advice and resources.

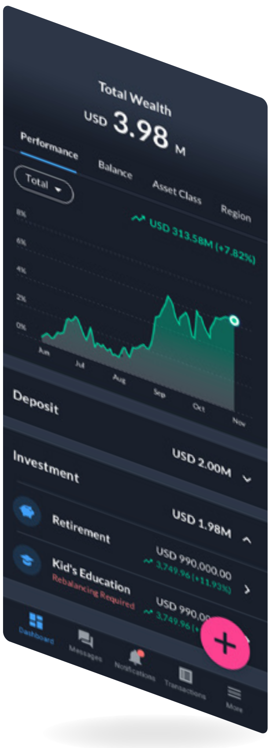
Robo Advisor users can also enjoy **goal-based savings**, assisted and guided by **thoughtful automations**.

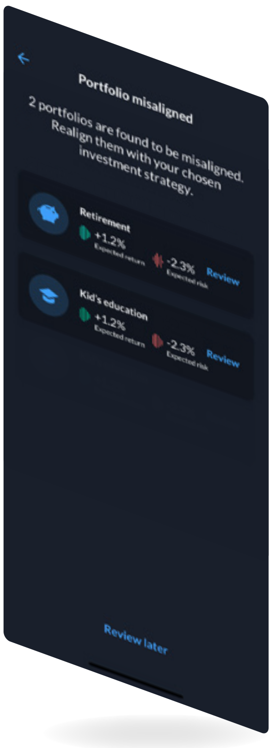
For customers focused on sustainable living, Robo Advisor also provides access to **ESG-based savings** that already integrate environmental, social and, governance factors into the investment process.











Assisted Wealth Accumulator

Another option for additiv customers is to use our Assisted Wealth Accumulation for consumers who prefer a **high-touch experience**.

This suite includes professional **servicing via call center** and guiding clients through the offering using **screen sharing**.

There is also an **instant chat** functionality for those who want to get answers and advice on the spot, as well as a **phone-in option**.

Due to its integrated approach, our Assisted Wealth Accumulation offering provides the possibility to **connect clients to members of the organization's internal or external advisory network** for further guidance and more advanced investment activities.

Both the Self-serve and Assisted Wealth Accumulator are part of the **additiv Build My Wealth** Suite. Available as KickStarter implementations, the solutions can reach consumers fast.

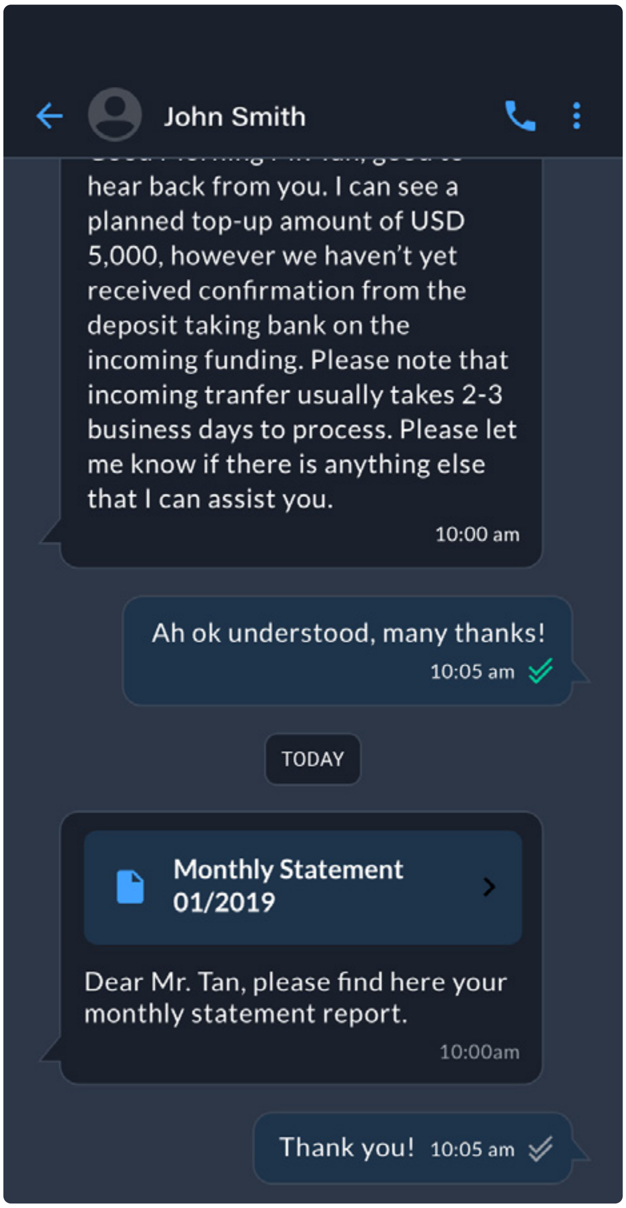
It is also **app-based** and features a user experience designed to integrate elements consumers are already familiar with so they can start using it right away.

The suite offers all-around flexibility meaning consumers have a full set of **diverse investment options available at their fingertips**, 24/7.

Learning **nuggets, alerts, and documents** are built into the app to assist users with improving their financial literacy.

Saving and investing come both as **self-serve or assisted solutions** so consumers can choose what best fits their needs and context.

The constant feedback loop built into **Build My Wealth** (automated alerts and rebalancing proposals) keeps consumers in the know and engaged, empowering them to develop their financial know-how and make increasingly better decisions.



Are you using your bank's intelligence to maximize customer engagement and unleash growth?

GET IN TOUCH

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Established in 1998, additiv partners with the world's leading financial institutions to help them capitalize on digitization. Its market-leading DFS® (Digital Finance Suite) is an orchestration engine that lets financial institutions quickly launch new propositions as well as giving them the intelligence to maximize customer engagement. Headquartered in Zurich, additiv is supported by a broad ecosystem of implementation and solution partners that enable it to deliver unparalleled customer success to wealth managers and credit providers globally.

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