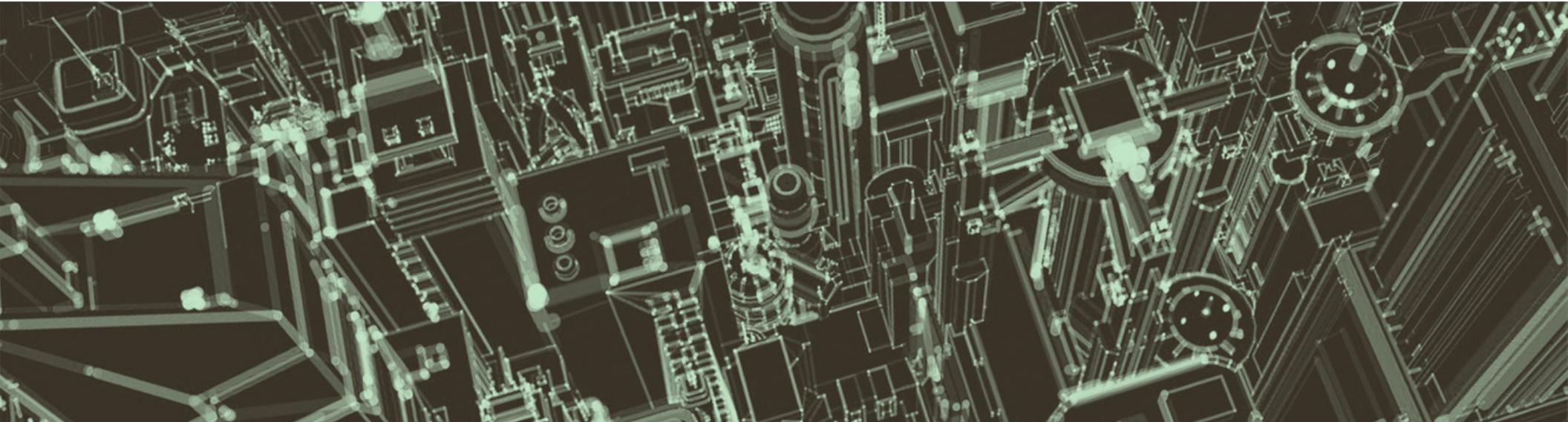


WEALTH MANAGEMENT / INSURANCE

FINTECH 520 | November 22, 2022



Wealth Management

“The best way to measure your investing success is not by whether you’re beating the market, but by whether you’ve put in place a financial plan and a behavioral discipline that are likely to get you where you want to go.”

~ Benjamin Graham

Wealth Management Defined

\ customizable and ~~involves~~ taxes

Wealth Management is a field centered on investment management but considers the client's complete financial picture in a well-integrated fashion that incorporates the dynamic nature of the client's explicit and implied assets and liabilities, the complexity of his or her tax profile, and the nuances of behavioral biases

- An investment management specialization focused on high-net-worth individuals and families
- Encompasses both taxable investment management and complex personal financial planning concerns
- Distinct from institutional money management, wealth management requires comprehensive and customized solutions to a client's complex investment goals
- Asset management, by contrast, typically involves a focused investment mandate that is standardized across investors, as in the case of mutual funds

/ specific

MACRO TRENDS DRIVING CHANGE

Increased regulation and reliance on technology

- Pricing pressures have increased due to ever-increasing regulatory requirements and firms are using technology to offset those pressures

Technology/digital

- Focus on the digital experience
- Demand for increased simplicity, transparency and convenience
- Simplified and customized reporting
- Increased use of models and financial planning tools (i.e., mass customization)

MACRO TRENDS DRIVING CHANGE

Sophisticated clients

- Clients have become more discerning and place more value on the levels of service they receive, including alternative investment approaches
- Clients are demanding greater transparency in the individual components of cost and value

Marketing to different generations

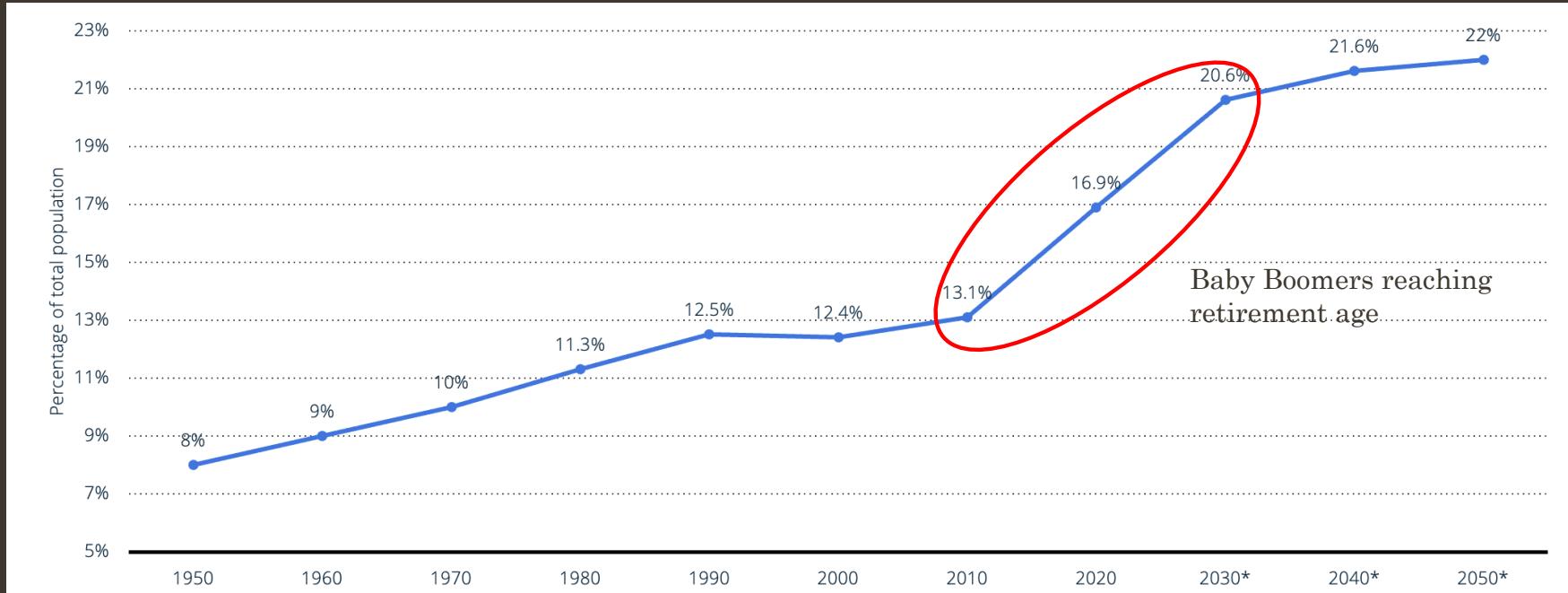
- Baby Boomers – Continuing to offer products and meeting the demands for the growing retirement assets in the global market
- Gen X & Millennials – Emphasis on an entirely digital experience

MACRO TRENDS DRIVING CHANGE

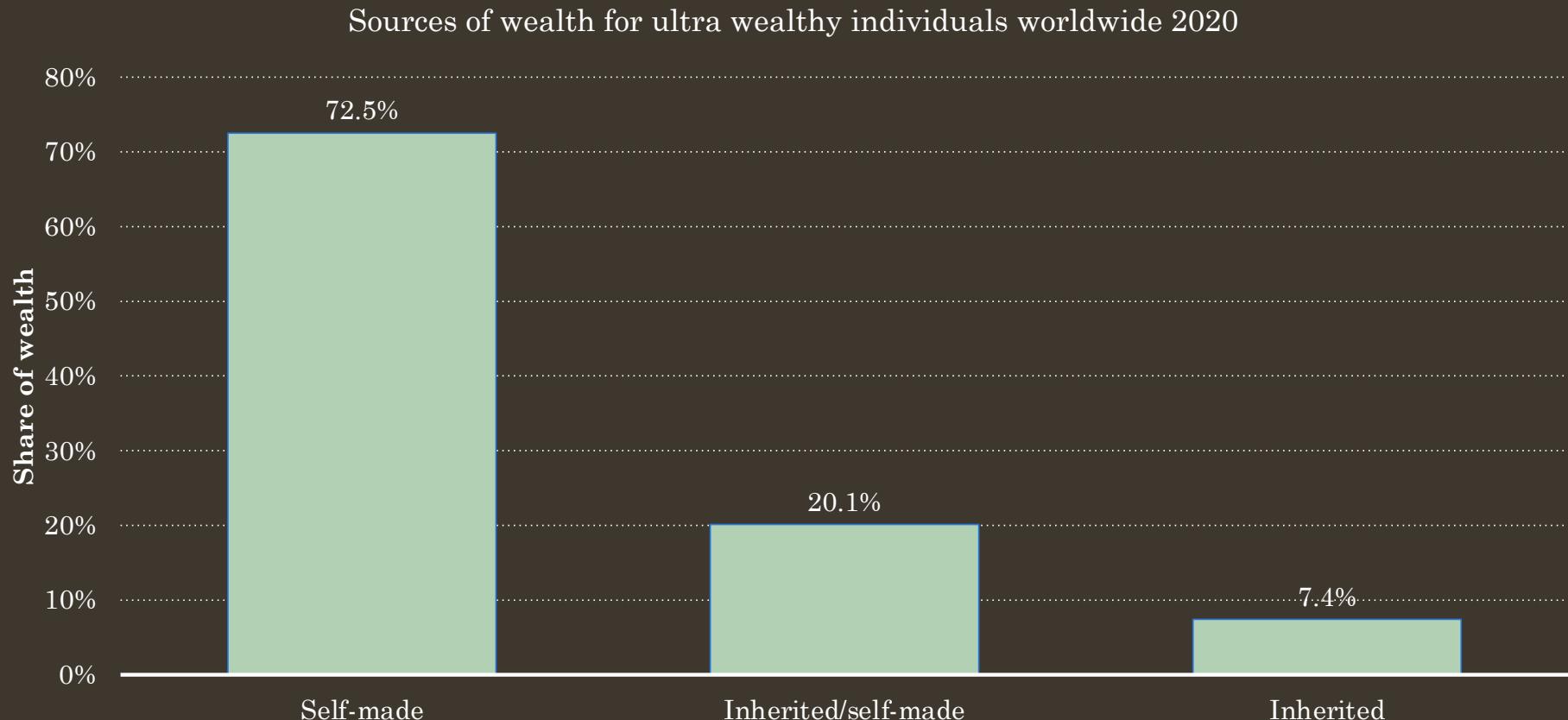
- The PitchBook article cited as a macro trend an increase in investment advisors and assets under management (AUM) and used a graph depicting the growth of both
- The real trend is a migration of advisors from the large broker/dealers to independent status
- The upside of working for a big firm is it takes care of details like office space and technology
- Newly independent advisors are reliant on sourcing new technology and are gravitating toward cutting-edge Fintech solutions

MACRO TRENDS DRIVING CHANGE

Share of US population age 65 years and older from 1950 to 2050

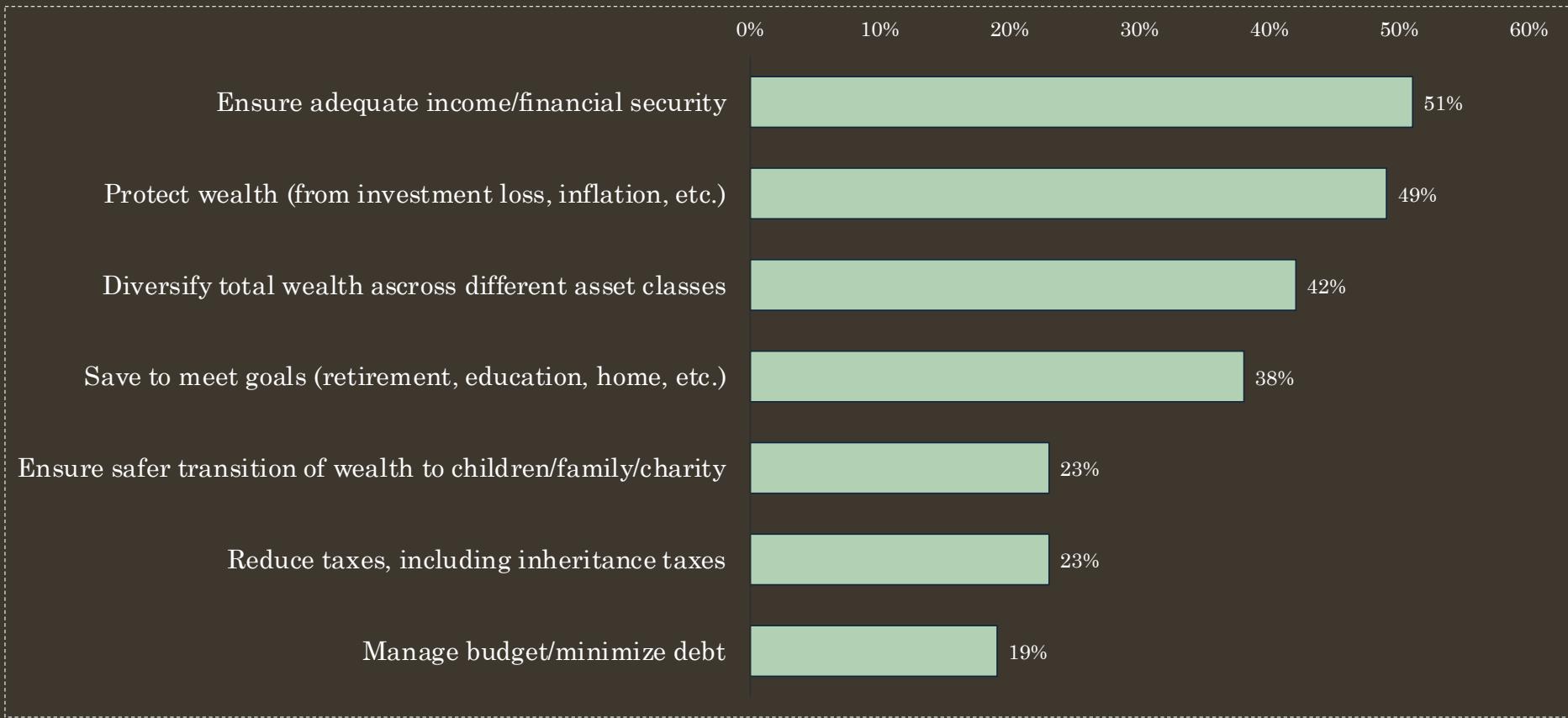


How the Ultra-wealthy Generate their Wealth

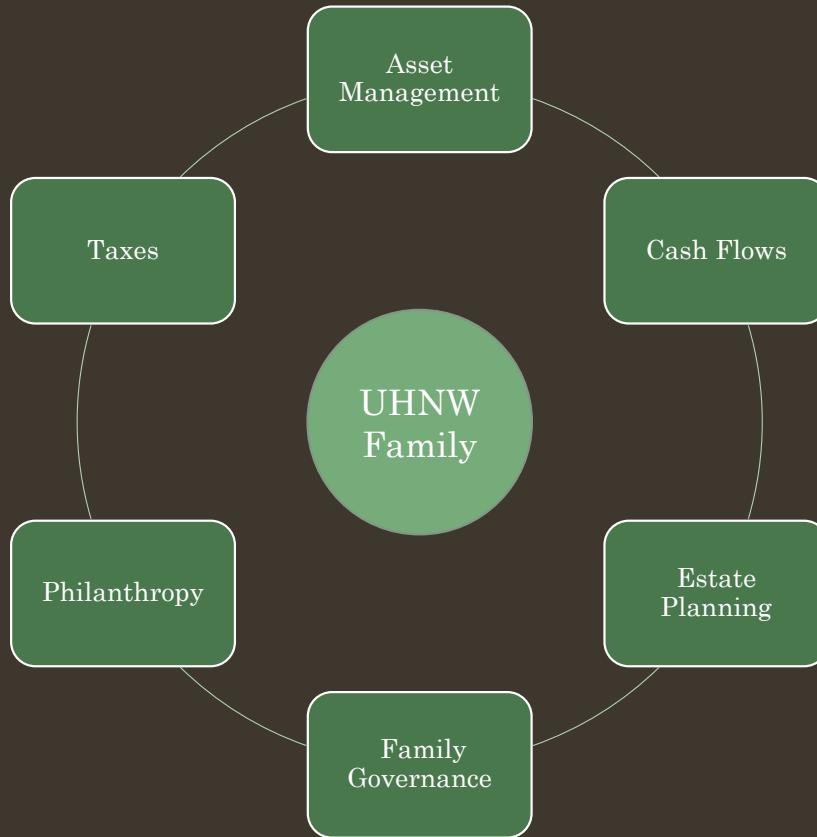


Financial Goals

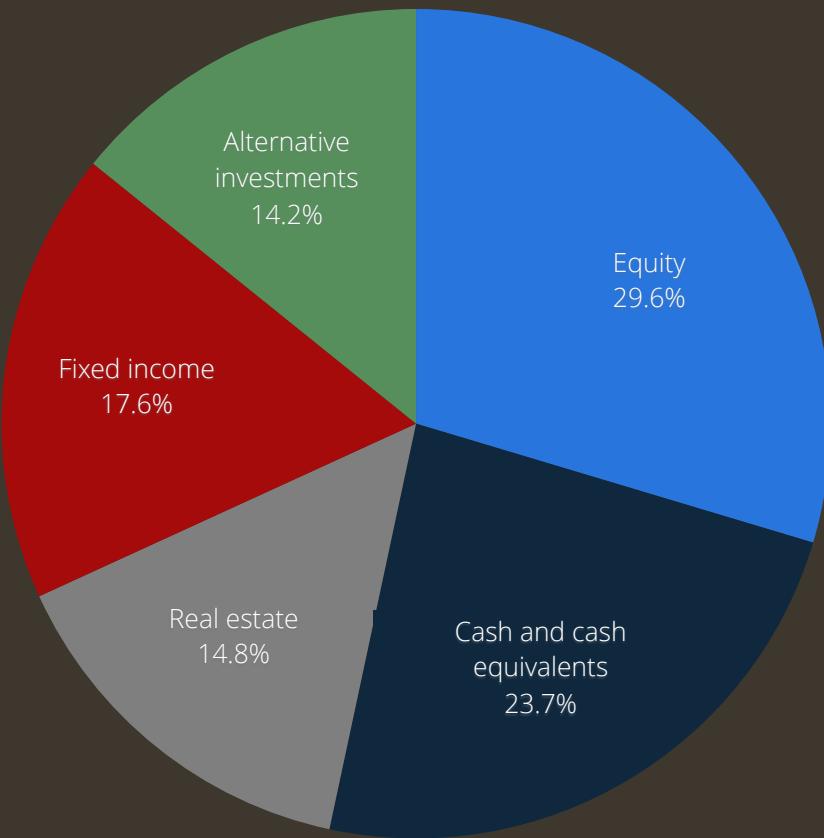
Most common goals managed by Wealth Managers



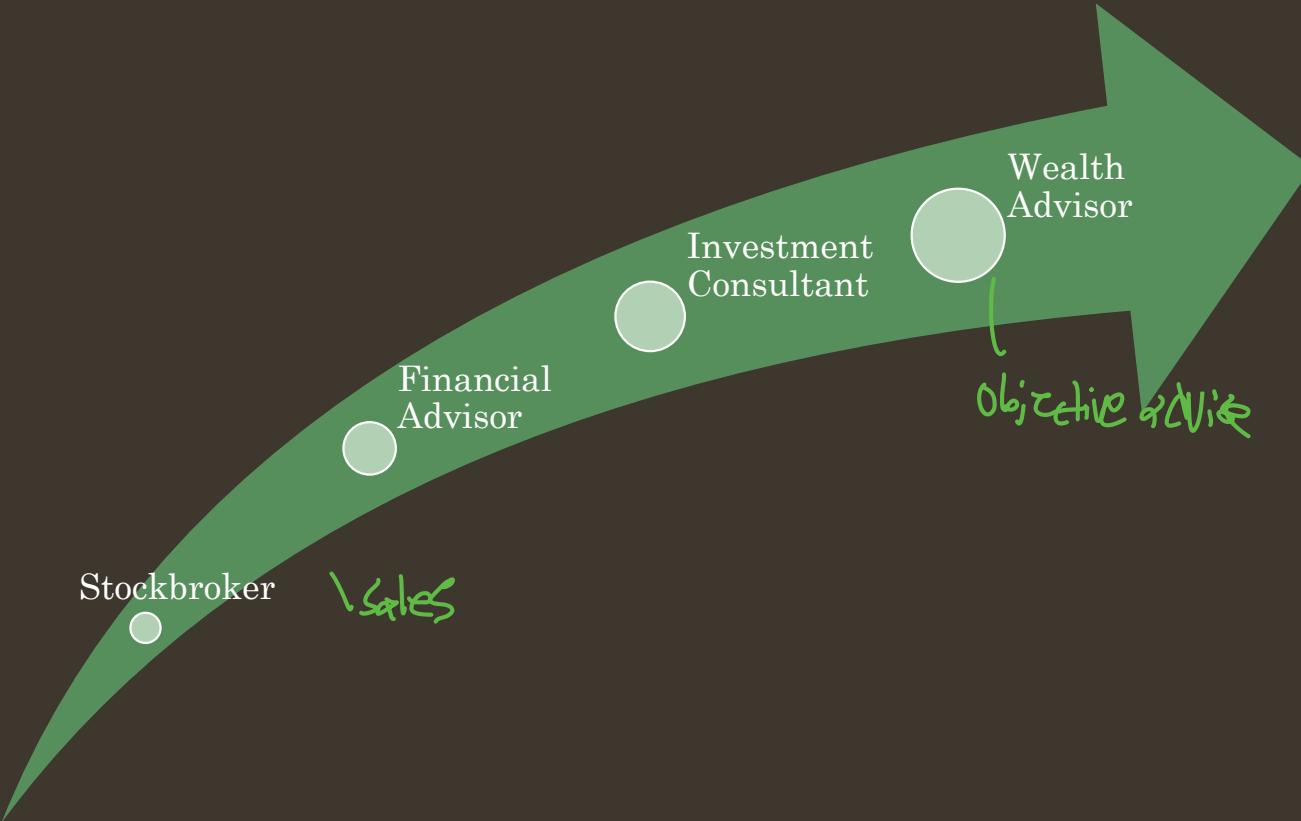
The Dimensions of Family Wealth Management



Asset Allocation of Wealthy Investors



The Evolution of the Wealth Advisor



Customer Segmentation

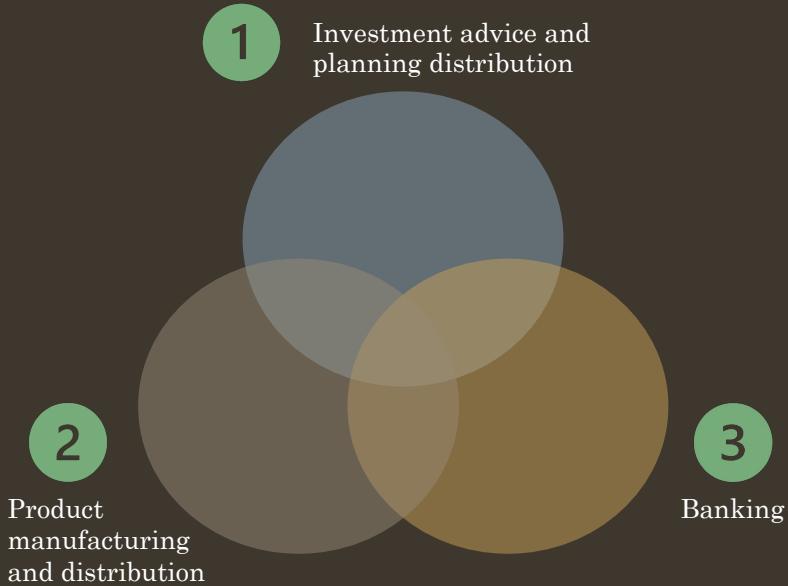
Segment	Households	Investable Assets	Growth	Observations	Objectives
Ultra High Net Worth (UHNW)	11,000	\$3.9 trillion	Moderate	Interested in long-term investment and private placements of securities	<ul style="list-style-type: none"> • Wealth preservation • Simple tools and supportive services • Private services • Philanthropy
High Net Worth (HNW)	10 million	\$5.3 trillion	Strong	Seeks services from firms providing full services	<ul style="list-style-type: none"> • Accumulation • Simple tools and supportive services • College & Health funding • Interactive relationship
Affluent	37 million	\$11.6 trillion	Very Strong	Likely to have full-service or discount brokerage accounts	<ul style="list-style-type: none"> • Accumulation • Simple tools (digital services) • Product expansion • College & Health funding
Mass Affluent	147 million	\$1.8 trillion	Stable	Mostly interested in short-term goals/profits	<ul style="list-style-type: none"> • Accumulation • Product Expansion • Targeted goals

Product Complexity and Customization

Product Complexity and Customization

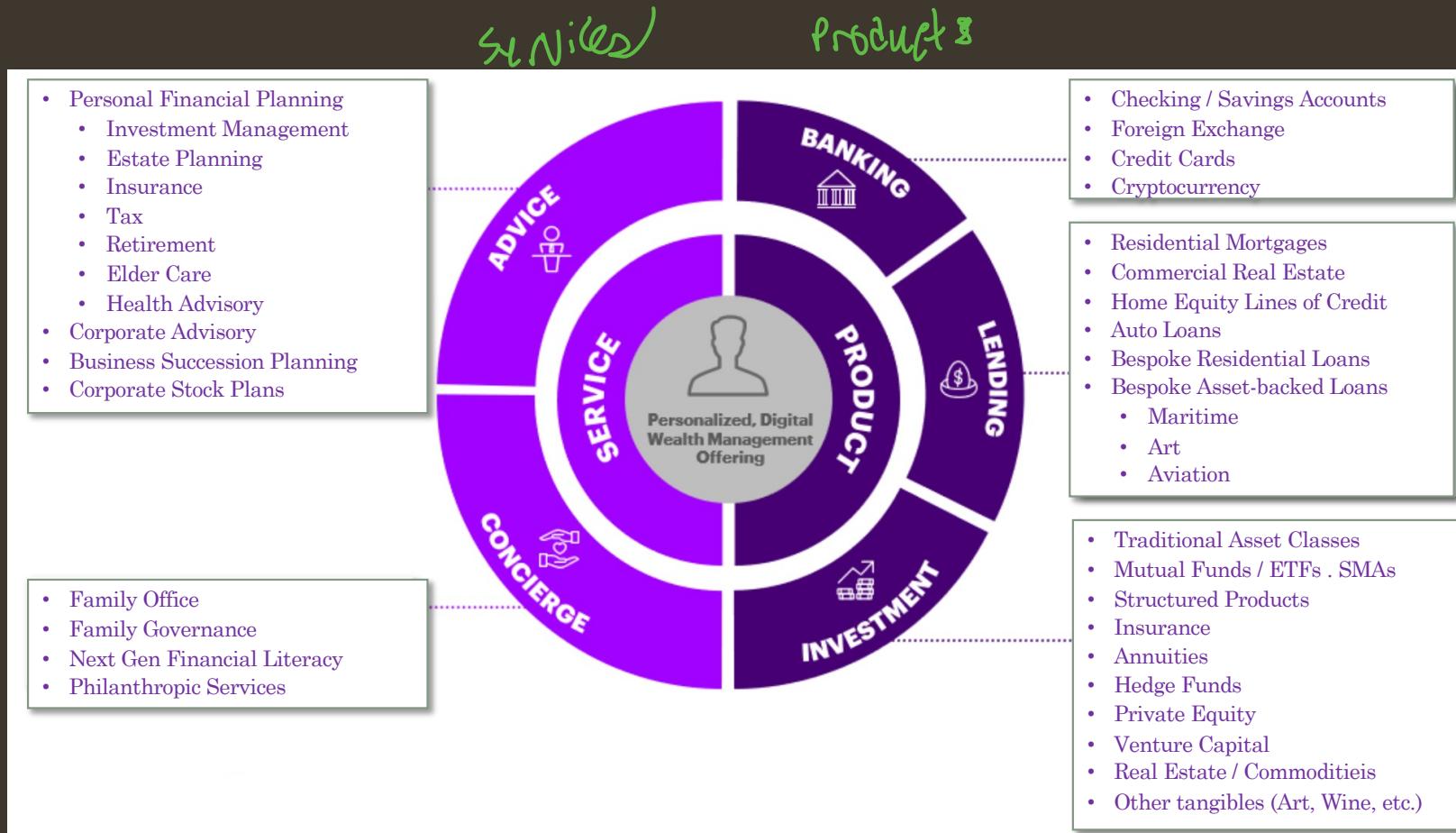
Products and Services

Wealth Management Revenue Streams



- 1. *Investment advice and planning distribution:*** Revenue generated by providing products and services through careful planning and due diligence
- 2. *Product manufacturing & distribution:*** Revenue from the generation and sale of proprietary products
- 3. *Banking:*** Revenue generated from tying core capabilities with credit and traditional banking products

Products and Services



Largest Wealth Managers Worldwide



Wealth Distribution Channels

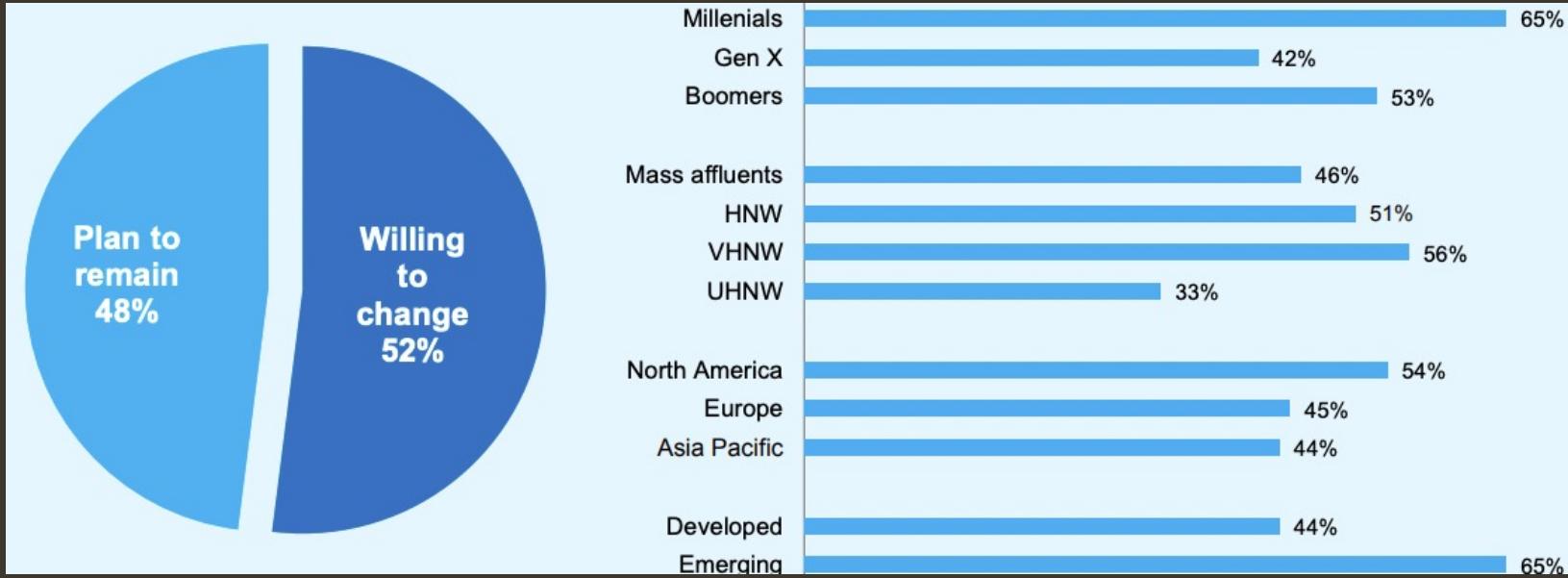
Broker/Dealers	<ul style="list-style-type: none">• Wirehouses• Discount Brokers• Online Trading Platforms• Independent BDs• Insurance Companies• Regional / Boutique BDs• Mutual Fund Companies	<ul style="list-style-type: none">• Morgan Stanley• Charles Schwab• Robinhood• LPL <i>— Contacts w/ independent advisors</i>• Prudential• Edward Jones• Fidelity
Registered Investment Advisors (RIAs)	<ul style="list-style-type: none">• Independent• Alternative Investments• Multi-Family Offices	<ul style="list-style-type: none">• Mariner Wealth Advisors• Bridgewater Associates• Rockefeller Capital Management
Banks	<ul style="list-style-type: none">• Global Private Banks• Retail Banks• Trust Banks	<ul style="list-style-type: none">• JP Morgan• US Bank• Bessemer Trust

Dont want
big disparity

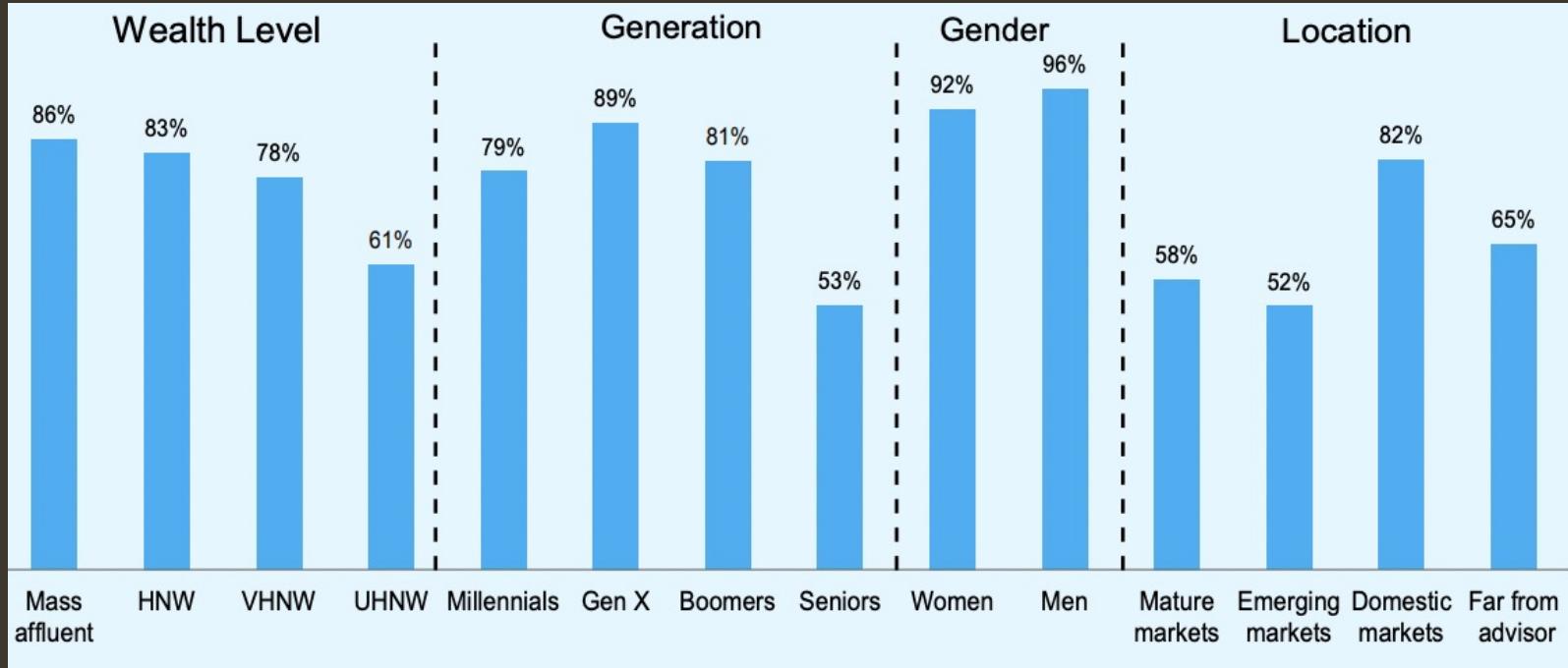
Client Expectations vs Firm Preparedness



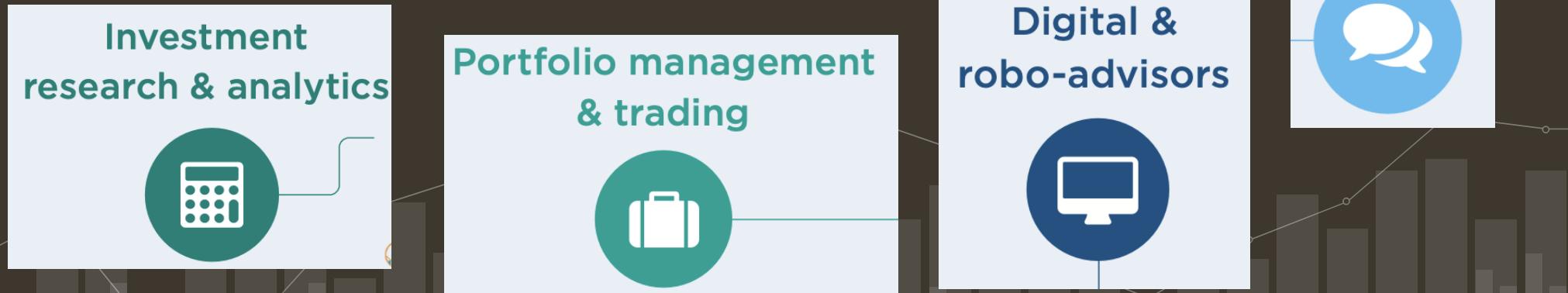
Willingness to Change Providers



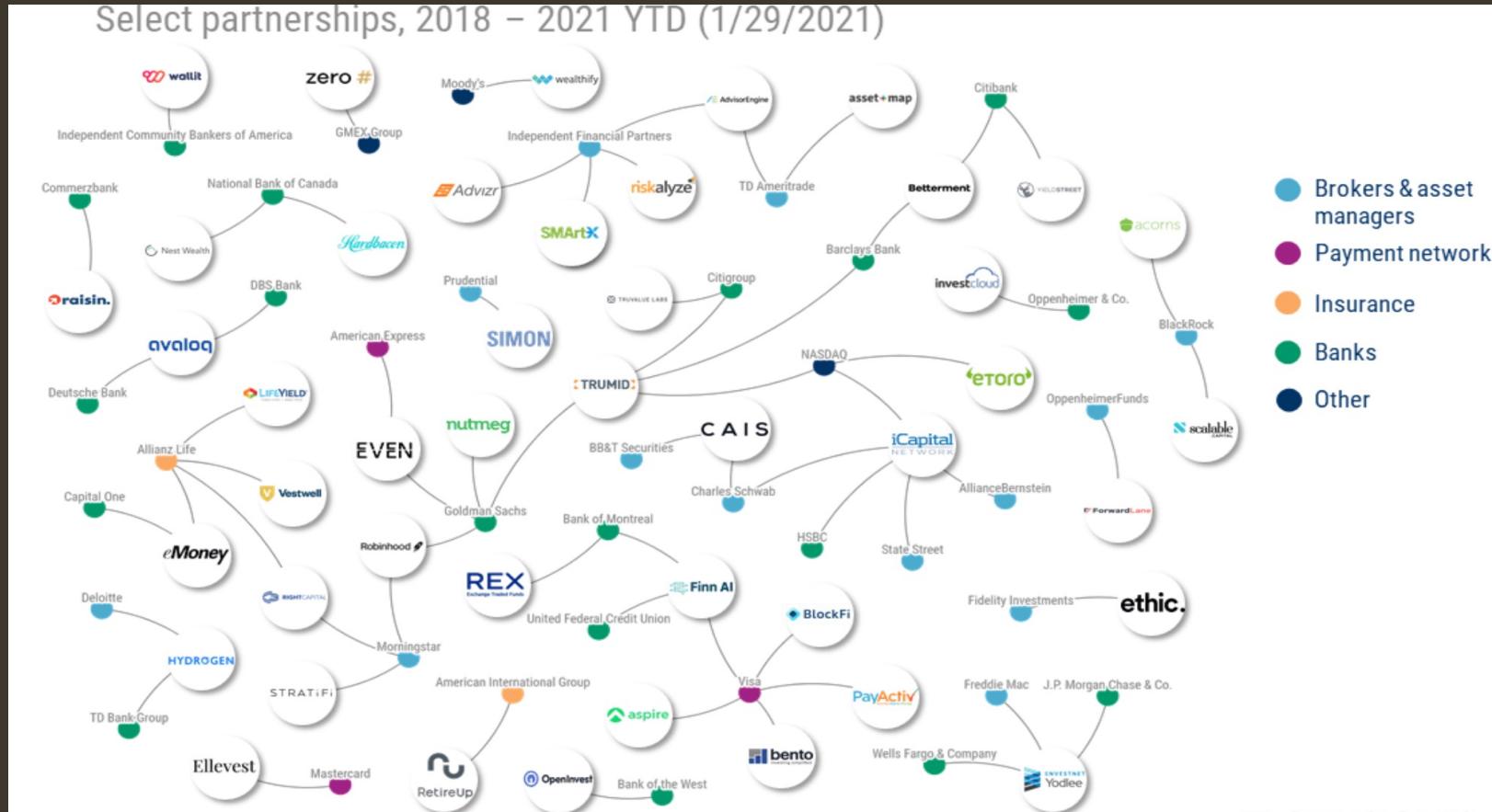
Segments that Providers are Targeting



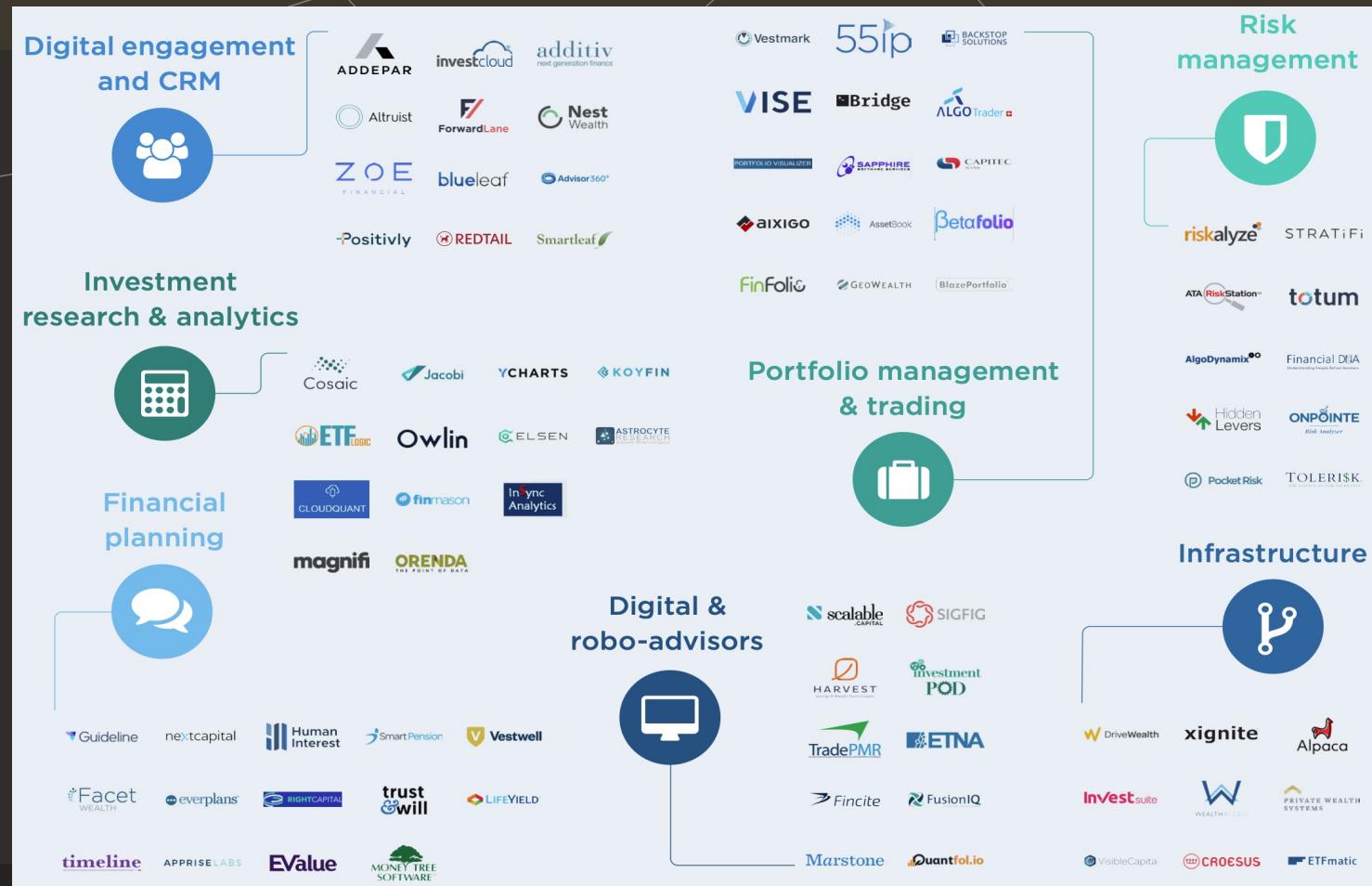
WHAT IS WEALTHTECH?

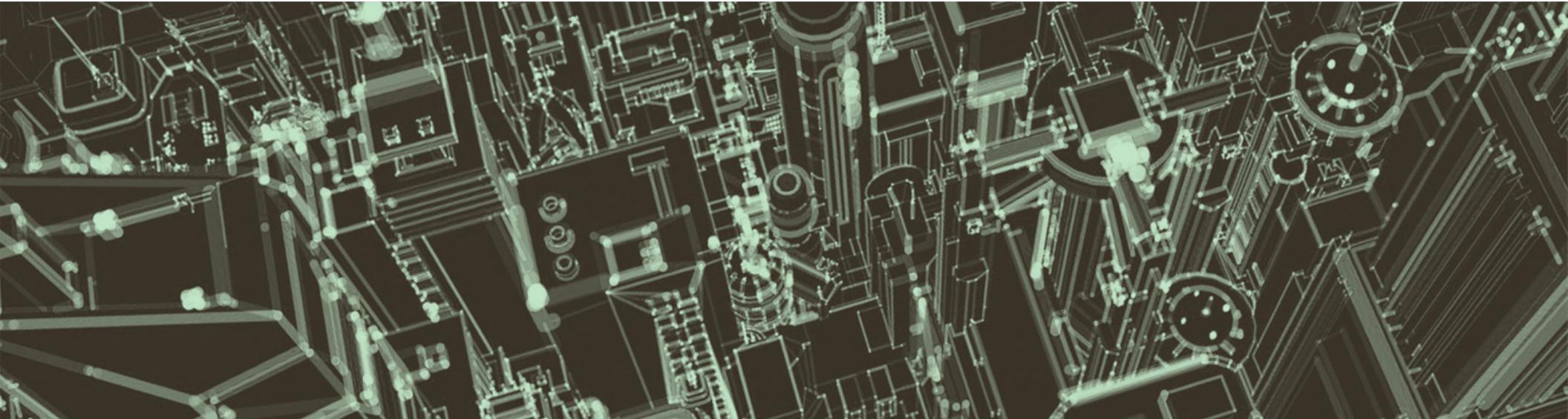


PARTNERSHIPS WITH INCUMBENTS



WEALTHTECH MARKET MAP





Insurance

extremely conservative

Defined

The insurance industry safeguards the assets of its policyholders by transferring risk from an individual or business to an insurance company

- There are three primary insurance sectors:
 1. Property/casualty (P/C) consists mainly of auto, home and commercial insurance
 2. Life/health (L/H) consists mainly of life insurance and annuity products
 3. Health insurance is offered by private health insurance companies and some L/H and P/C insurers, as well as by government programs such as Medicare

Regulation

- All types of insurance are regulated by the states, with each state having its own set of statutes and rules
- State insurance departments oversee insurer solvency, market conduct, and review and rule on requests for rate increases
- The McCarran-Ferguson Act of 1945 refers to state regulation of the insurance industry as being in the public interest
- The 1999 Gramm-Leach-Bliley Financial Services Modernization Act reinforced that insurance activities are regulated by the states
- Challenges to state regulation of the insurance industry happen regularly

*removed barriers
between bank
and investment bank*

Distribution

- Property/casualty and life insurance policies are typically sold by agents, though insurers selling directly to consumers is becoming more common
- Today, insurers are using multiple channels to reach potential customers
- In the 1980s banks began to sell insurance through independent agents, usually buying agencies for that purpose
- Other distribution channels include sales through professional organizations and through workplaces

Insurance Types and Coverages

Auto Insurance

- All states have laws that set the minimum amounts of coverage to pay for damage if an accident occurs
- Most auto policies are for six months to a year
- A basic auto insurance policy is comprised of six different kinds of coverage, each of which is priced separately:

-
1. Bodily Injury Liability
 2. Medical Payments or Personal Injury Protection (PIP)
 3. Property Damage Liability
 4. Collision
 5. Comprehensive
 6. Uninsured and Underinsured Motorist Coverage
-

Insurance Types and Coverages

Homeowners Insurance

- Homeowners insurance provides financial protection against disasters
- It covers damage to property and liability for injuries policyholders cause to other people
- Standard homeowner's policies do not cover flooding, earthquakes or poor maintenance
- A standard homeowners insurance policy includes four essential types of coverage, including:

1. Coverage for the Structure of the Home

2. Coverage for Personal Belongings

3. Liability Protection

4. Additional Living Expenses

Insurance Types and Coverages

Business Insurance

- Most businesses purchase the following 4 types of insurance:

1. Property Insurance
2. Liability Insurance
3. Commercial Vehicle Insurance
4. Workers Compensation Insurance

- Other common forms of business coverage:

1. Errors and Omissions Insurance/Professional Liability
2. Employment Practices Liability Insurance
3. Directors and Officers Liability Insurance
4. Umbrella or Excess Policies
5. Key Person Life Insurance

Insurance Types and Coverages

Life Insurance

W^health management

estate

- Life insurance is a key step in the financial planning process and can be used for the following situations:

- | | |
|------------------------------------|--|
| 1. Replace Income for Dependents | 4. Pay Federal “and State “Death” Taxes |
| 2. Pay Final Expenses | 5. Make Significant Charitable Contributions |
| 3. Create an Inheritance for Heirs | 6. Create a Source of Savings |

- There are 2 major types of life insurance:

1. Term Life – pays only if death occurs during the term of the policy, which is usually from one to 30 years
2. Whole Life / Permanent Life – pays a death benefit whenever the policy- holder dies

Insurance Types and Coverages

Annuities

- An annuity is an agreement for one person or organization to pay another a series of payments
- There are 2 types of annuities:
 1. *Fixed*
 2. *Variable*
- Annuities typically have the following features:
 1. Tax deferral on investment earnings
 2. Protection from creditors
 3. Tax-free options among other investment options
 4. Lifetime income
 6. Benefits to heirs

Insurance Types and Coverages

Long-term Care Insurance

- Long-term care insurance pays for services to help individuals who are unable to perform certain activities of daily living without assistance
- The following are criteria for beginning of payments:

1. The inability to perform 2 or 3 specific “activities of daily living” without help

2. Cognitive impairment

3. Medical necessity or certification by a doctor that long-term care is necessary

Insurance Types and Coverages

Disability Insurance

- Disability insurance helps replace lost income if an individual is unable to work due to a disability
- The following are 3 basic ways to replace income:

-
1. Employer-paid disability insurance
 2. Social Security disability benefits
 3. Individual disability income insurance policies
-

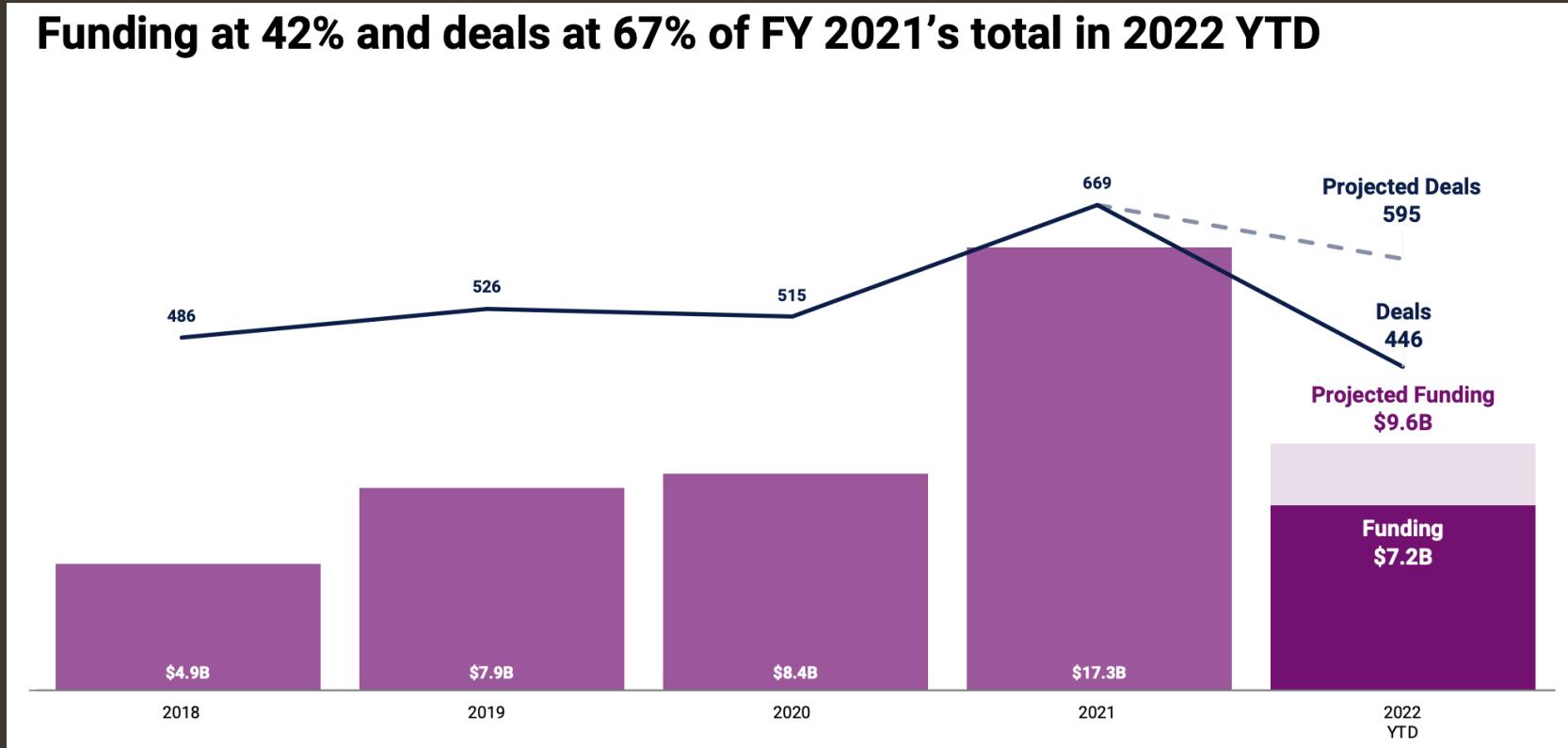
- Factors affecting the choice of a disability policy:

not tested

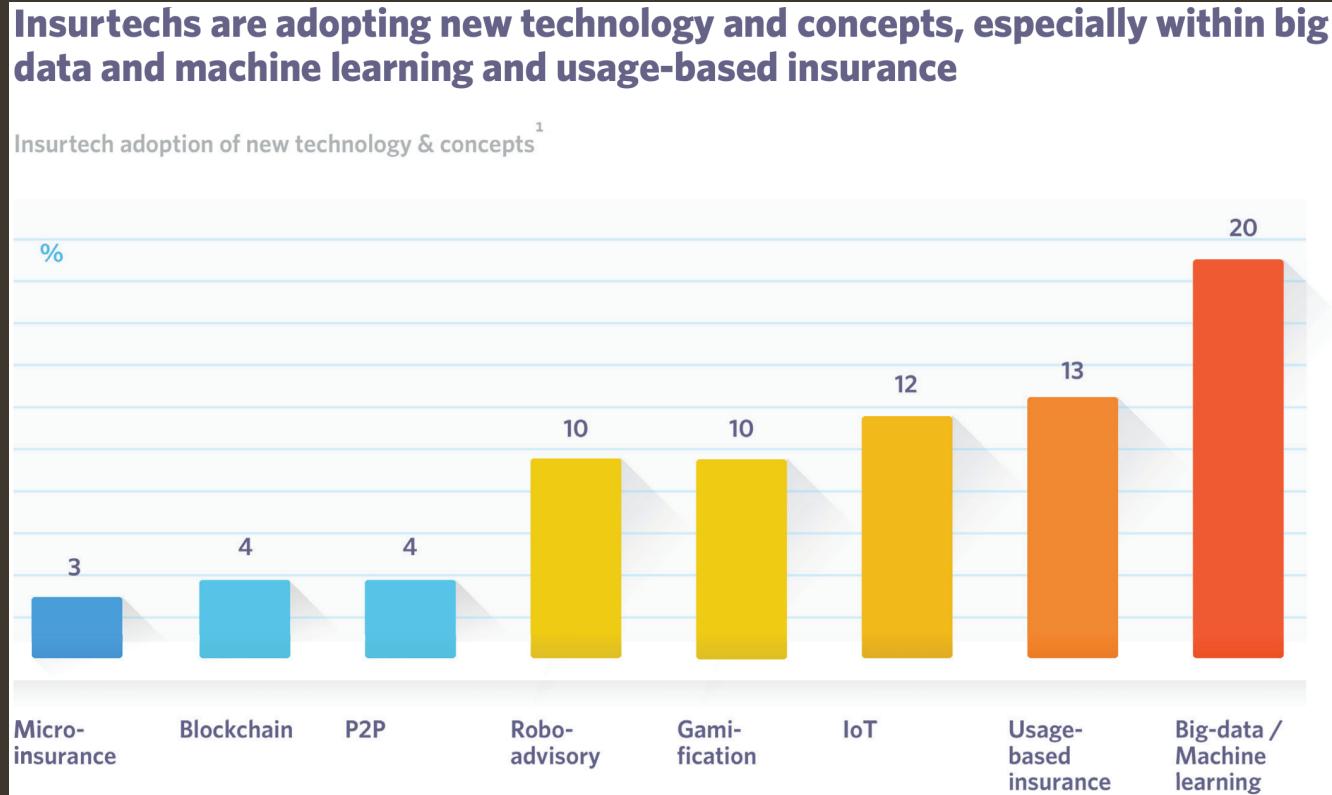
-
- | | |
|---|--|
| 1. Definition of disability | 5. Cost-of-living increases in benefits |
| 2. Benefit period | 6. Policy allows beneficiary to work part time |
| 3. Replacement percentage | 7. Transition benefits |
| 4. Coverage for either accidental injury or illness | 8. A non-cancelable policy |
-

Insurtech Funding Trends

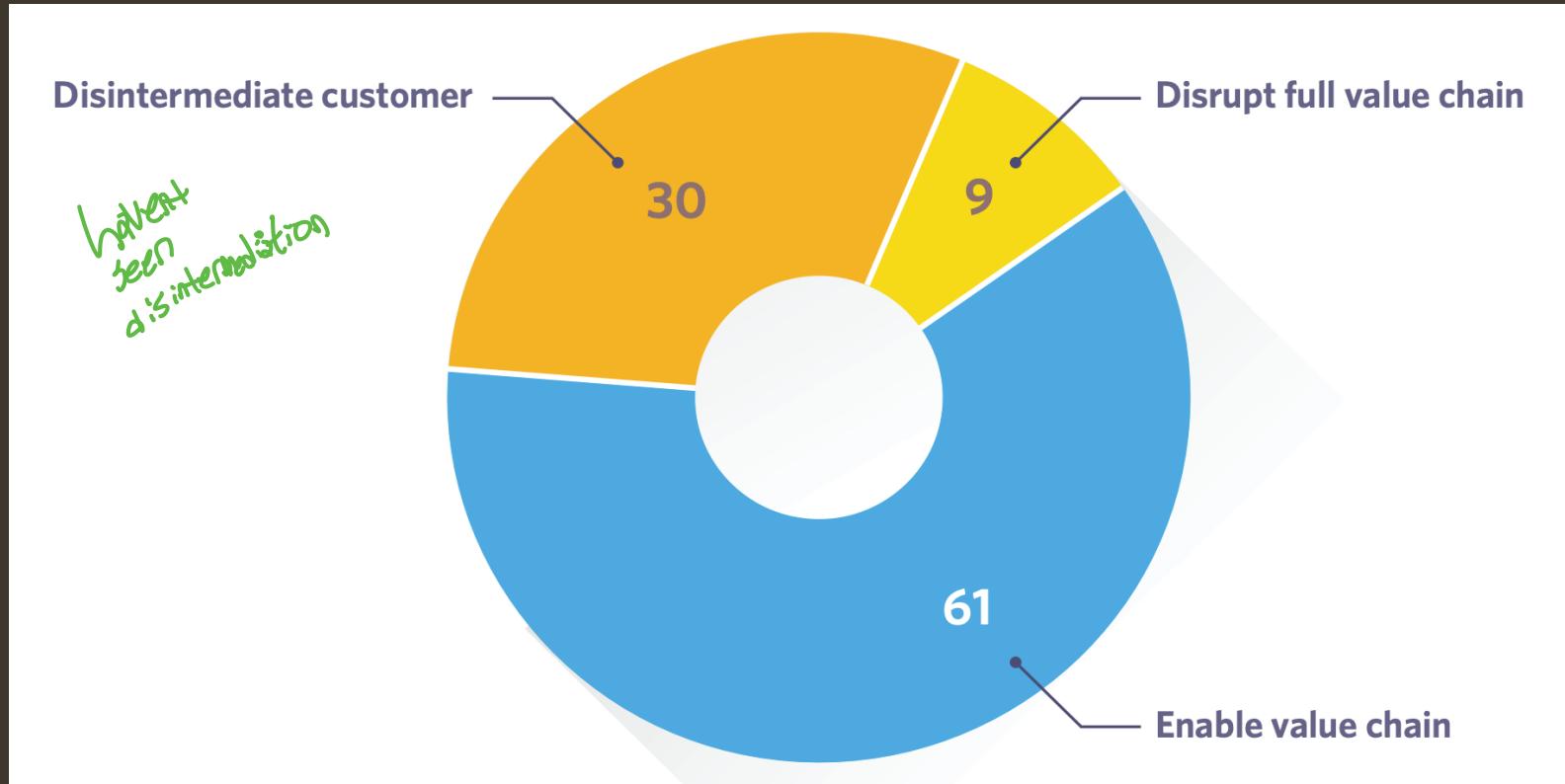
Funding at 42% and deals at 67% of FY 2021's total in 2022 YTD



How Technology is Used in Insurtech



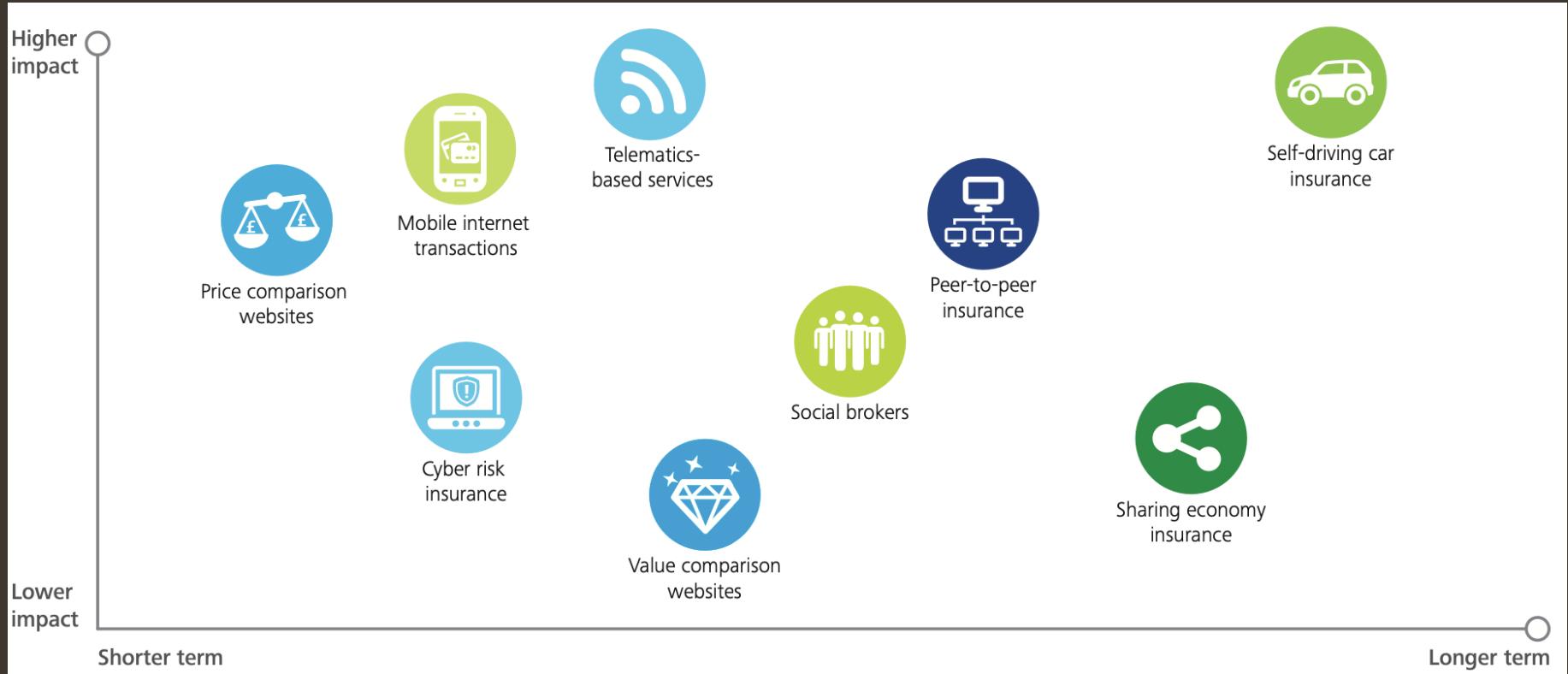
Where Insurtechs are Focused



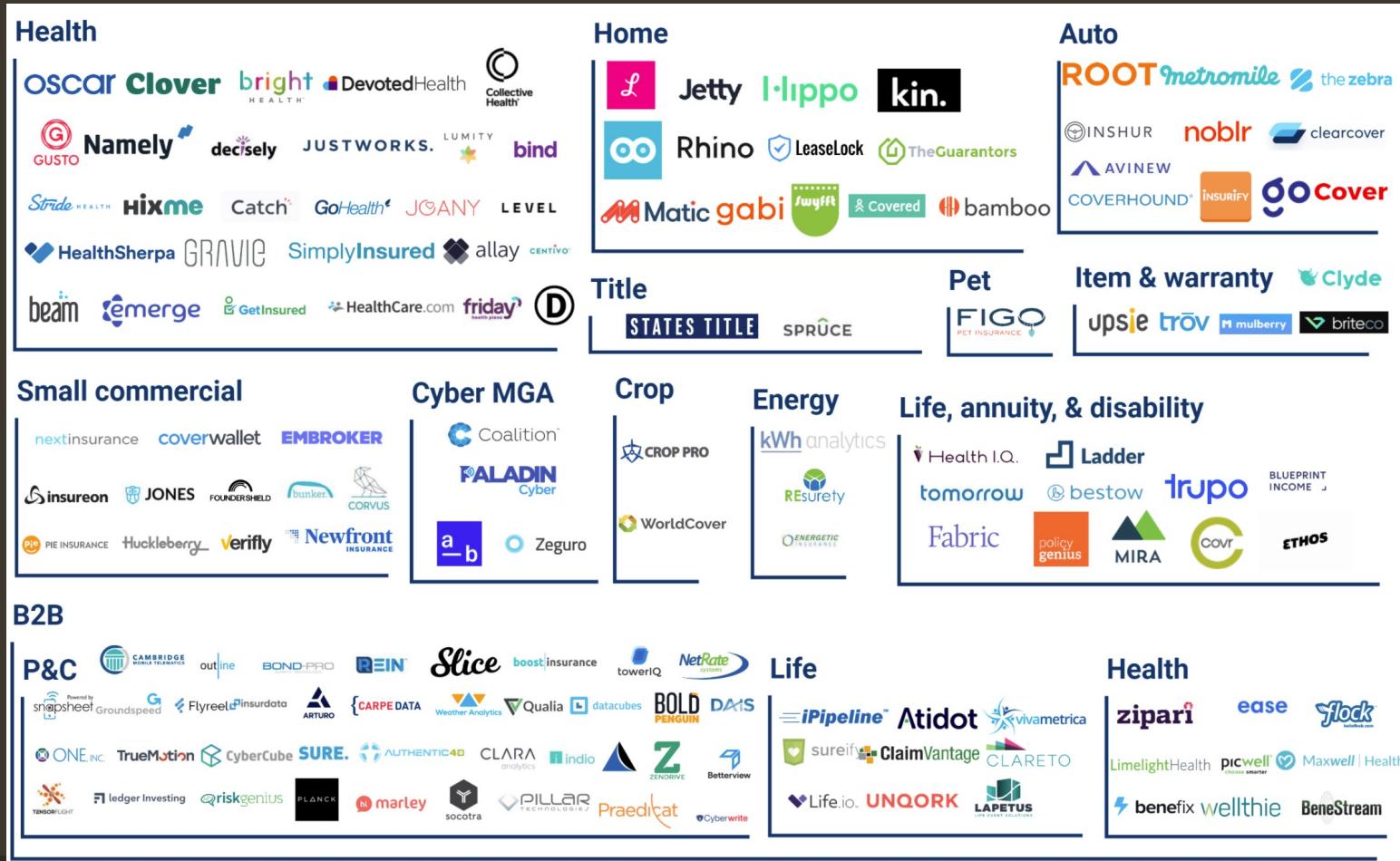
Insurtech Killer Apps

Do experience W
Pricing these ↓

- 1 High potential demand among customers
- 2 Lack of Regulatory Barriers
- 3 High potential impact on the bottom line
- 4 Technology exists today



Insurtech Market Map



MACRO Trends

Products

- Insurance industry revenue is flat for the past 10 years, implying great opportunity
- InsurTech is increasingly allowing *customized, underwritten insurance* in heretofore untapped markets such as cyber and flood insurance

all money is going to agents

Distribution

- Insurance agents (of which there are over 800,000 in the US) capture twice the profit of carriers, according to McKinsey
- Fintech products and tools are spurring a shift toward the following:
 - Tech-enabled agents
 - Digital distribution of simpler products
 - Embedded insurance *BaaS*
 - Straight-through processing of tasks formerly handled by agents such as underwriting and claims

No cost reductions

Operations

- Despite having the data and tools to create efficiencies and lower administrative and operating costs, *the insurance industry hasn't made significant cost reductions over the past 15 years*, according to a McKinsey

