

The arrival of fintechs

Evidence is mounting that the pace of development of the fintech industry in France is speeding up. **Adrien Paredes-Vanheule** reports

Recent research led by consulting firm Ernst & Young (EY) reported that fintechs (financial technology firms) attracted the fifth highest level of venture capital investments by sector during the first half of 2015 in France.

Total investments hit €56m through some 10 sector-related transactions, attracting interest from incubators such as New Alpha Asset Management, part of La Française.

The emerging manager seeder launched its first venture capital fund dedicated to fintechs in late November 2015 with the support of Crédit Mutuel Nord Europe. The fund, which is targeting €60m of assets, aims to attract institutional investors and will primarily invest in French unlisted fintechs.

"France has a significant intellectual and technological capital but lacks 'early stage' financing solutions suited to fintechs' entrepreneurial and promising projects," New Alpha stated.

Another incubator closely monitoring fintechs is the French fund industry seeder Emergence, advised by New Alpha AM. It too is considering investment opportunities.

RISK PROFILE

In recent years, a number of fintechs have entered the asset management sector such as Advize, Yomoni, Marie Quantier, The Assets, Kantox and Francescpi.com.

Advize, established in 2012 as the first French robo-adviser, announced further developments in January this year. Its offering has been extended to securities accounts, equity savings plans, collective pension savings plans, and new investments such as ETFs.

Business-to-business solutions that target stakeholders looking to enhance their business-to-consumer bases are also to be implemented.

"Advize wealth management solutions will be rolled out across Europe," the firm said.

Advize analyses individuals' risk profiles through a proprietary technology and allocates savings investments according to the risk profile matches defined by its tool.

The fund selection is operated by Morningstar's analysis. Advize's team monitors portfolios and proposes adjustments to their clients.

Assets are invested through an

online multi-investment life insurance contract backed by Generali.

The Advize group, which is managed by Olivier Gentier and founder Nicolas Marchandise, tallies 3,000 users, but they expect to soon welcome new financial investors through a "significant funding operation".

Yomoni, co-founded at the end of 2014 by Mourtaza Asad-Syed and Laurent Girard, has been seeded by Crédit Mutuel Arkea and Iena Venture.

"The gist of Yomoni is to democratise the way assets of high net worth individuals are being managed. We believe issues for investors are the same independent of the amount of assets. Everyone can diversify their assets," says Yomoni CEO Mourtaza Asad-Syed citing the model of US robo-adviser Wealthfront, which includes the use of unit-linked life insurance contracts.

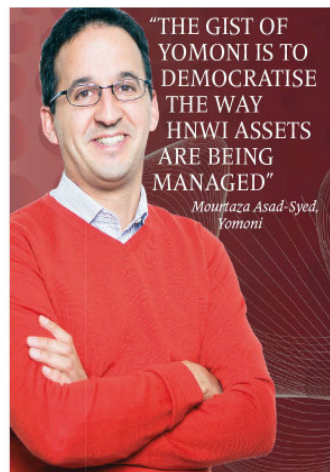
Risk profiling is key to Yomoni, which picks the most suitable strategies within a regularly reviewed buy list of 90 ETFs and index funds. For ETFs, Yomoni looks at factors including tracking error, replication quality and daily liquidity.

Fees do not exceed 0.30% in the underlying funds.

"Our primary goal seeks to fit the needs of the French mass market. Two major differences in comparison with the US retail segment must be there underlined.

"First, the fiscal treatment of financial investments is different as they are often locked into life insurance products or savings plans.

"Secondly, the distribution of investment solutions through banks' networks remains predominant in France," Asad-Syed explains.



Yomoni's CEO says French retail investors are more guided than their US peers. He says the fintech objective is to make them more autonomous.

FEES

Francescpi.com, launched in April 2015, has bet on the appetite of individuals for the real estate market.

Its platform proposes almost all France-domiciled collective housing investment strategies, SCPI, available to French retail investors.

Co-founders Paul Bourdois and Olivier Ame formerly worked in the private management area but were unhappy with not really knowing the exact content of the funds they were selling to clients.

"We have chosen to provide SCPIs on our platform because we know what we buy and those funds are not correlated to traditional markets. In addition, SCPIs have returned yields of 4% to 8% yield over the past 30 years, a performance that easily draws investors in a low rate environment," Bourdois explains.

A few strategies are not provided on the platform "because the companies running them favour their own distribution network."

Fees are not lowered. Bourdois said the website serves as an "intermediary help".

"Online players, whatever their business is, tend to reduce massively fees in order to be disruptive on their markets. We have not followed this trend since we assess that all parties to transactions being made on our platform must be paid.

"We play the role of intermediary, but we do not add an extra layer of fees to those already existing. Moreover, dropping prices does not ensure quality of a business model," he argues.

MILLENNIALS

With these fintechs, the client approach is more direct and less formal than classic advisers.

Both Asad-Syed and Bourdois

admit millennials form their core target. But if Yomoni's average client is currently 35 years old, its CEO notices some elderly people have been the most supportive.

For Alfredo Piacentini, partner and general manager of Decalia AM, which has launched a strategy focusing on millennials' consumer trends, online advisers can only reach the retail mass market.

"However, margins are very thin in that specific area and the added value brought by management often reduced to a minimum. We do not believe wealth management can be 'uberised'."

"Variables are so infinite in asset management that we see a clear limit to integrating robotics in the management of high net worth individuals' assets," he observes.

LIVRETA

In a country where the most popular investment product remains the public savings accounts Livret A, fintechs can make their mark.

Livret A currently stands at an historic low rate of 0.75% and has faced massive outflows in the two last years.

Yomoni's CEO sees there an opportunity to convert individuals to asset management.

"We believe a migration of clients, perhaps intergenerational, may

happen. It remains hard to commit people to action.

"This is not much an issue of educating people to financial stuff, but rather of individuals having lost interest in it because banks have been doing all they can to make their clients ignore financial stuff," he says.

"Banks mostly propose life insurance contracts and other solutions after their clients have been drawn in by a credit mortgage for their house or car.

"Moreover, the French system tends to favour fiscal advantages on a short term period at the expense of long term advantages. That mindset has amplified French bad habits in terms of financial investments," Asad-Syed adds.

For Bourdois, there are two reasons that push individuals to put assets in a Livret A.

"Investors want cash to be available anytime in order to cover some vital needs or to purchase something that costs a lot. They put their assets in these products because they do not have time to spend managing them. We believe this second reason is to disappear as individuals want their money to grow and they want to know clearly in what their assets will be invested," he says.

OBJECTIVES

What is the future for fintechs? Asad-Syed replies they will evolve in a context of all-or-nothing.

"We observe a rupture between clients and bank agencies having been the historic model. If fintechs achieve enough financial services online, like loans or the setting up of a bank account, French individuals will not go to their local bank agencies anymore. Then the game will become more open and fintechs could draw more inflows," he says.

As for its own objectives, Yomoni is targeting €1bn of assets by 2020. Equity savings plans will be proposed by the end of the first quarter of 2016.

For Francescpi.com, Bourdois says: "It remains hard to define the long term objectives of an online business as you cannot see further than a two or three-month period." ■