

MarketLine Case Study

Fidelity Wealth

Targeting digitally-savvy mass affluent investors

Reference Code: ML00019-054

Publication Date: November 2015

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OVERVIEW

Catalyst

According to Verdict Financial's 2013–14 Financial Services Consumer Insight (FSCI) Survey, one fifth of global mass affluent investors are self-directed, meaning they do not seek professional advice on their investments. Fidelity targets this market with its Wealth Service proposition, aimed at those with more than £100,000 to invest. This case study examines the features of Fidelity's Wealth Service offering in the UK and its relevance to the mass affluent market.

Summary

- The threshold for Fidelity's Wealth Service can be met by pooling together different types of assets such as pensions, ISAs, and shares. However, as Verdict Financial's 2013–14 FSCI Survey illustrates, a large share of mass affluent wealth is already liquid.
- The mass affluent are a great source of new clients as 60% of them are still adding to their portfolios. Targeting them at this early stage allows providers to develop a relationship with prospective clients before they enter the competitive private banking market.
- The mass affluent are comfortable with digital channels, especially for tasks such as monitoring portfolios. However, many typically start their financial relationships with providers in branches. Fidelity focuses on those self-directed investors looking to conduct most of their investment activities online.
- The mass affluent monitor their investments more regularly than other retail investment classes, and value up-to-date insights that can aid them in their investment choices.
- While content on the general Fidelity site works well, updates on the Fidelity Wealth site fall short on insight and timeliness.
- Fidelity has chosen to offer information and guidance on investments, as opposed to investment advice. This demonstrates the intention to provide unregulated investment information rather than personalized and regulated investment recommendations, as defined by the Financial Conduct Authority (FCA).

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FIDELITY TARGETS THE HIGH-END MASS AFFLUENT

Recognizing that the mass affluent provide great potential as a result of their liquid wealth, Fidelity has chosen to pursue a strategy of pursuing this demographic, many of whom continue to add to their portfolios. More specifically, Fidelity targets self-directed investors with assets exceeding £100,000 (approximately \$165,000) as it believes this is where the greatest opportunity lies to provide guidance rather than advice, thus keeping it in the unregulated sphere.

The mass affluent offer significant potential for wealth managers

The mass affluent are a great source of new clients, with almost 60% still adding to their portfolios according to Verdict Financial's 2013–14 FSCI Survey. Wealth managers should create a mass affluent program that develops a relationship with prospective clients before they enter the competitive private banking market. Building the customer relationship up from the transaction-based retail sphere can be tricky, as providing wealth management services too early can appear pushy while addressing the accumulated savings too late risks competitors stealing the relationship.

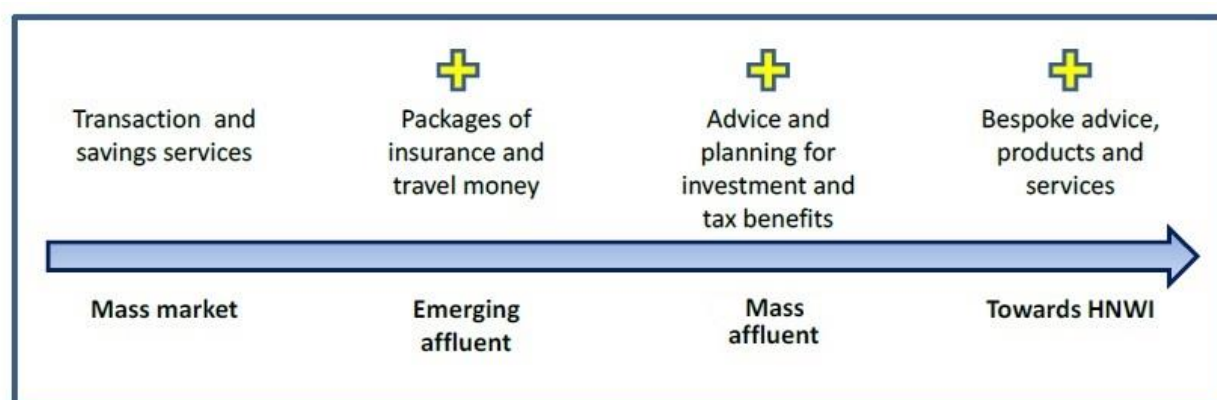
Being able to identify those customers who might gain enough assets to eventually reach the private banking threshold before they are poached by other competitors is critical to building the relationship and retaining their business. The mass affluent are typically very financially engaged and like to spend more time on such activities such as monitoring their investments than other retail investors.

Mass affluent customers offer an evenly distributed earnings opportunity

Unlike high net worth (HNW) individuals, who mainly require financial services partners that provide asset management and investment advice, smaller-scale investors, the mass-affluent, the emerging affluent, and retail investors have a more evenly distributed earning opportunity, spread across a combination of deposits, credit products, insurance, and investments. Many mass affluent investors (even if they do have the necessary liquid funds) are generally not comfortable with holding their wealth in riskier categories such as equities and mutual funds that correlate strongly with market fluctuations.

Each wealth segment has a different set of expectations and needs when it comes to their everyday banking and investments. Many wealth managers see the first three groups (ranging from mass market to affluent) as a single entity and set a threshold beyond this for a HNW proposition. There are, however, opportunities in breaking that large group into smaller subsets and offering a slightly more tailored offering to each segment.

Figure 1: Wealth segments have different banking and investment needs



SOURCE: Verdict Financial

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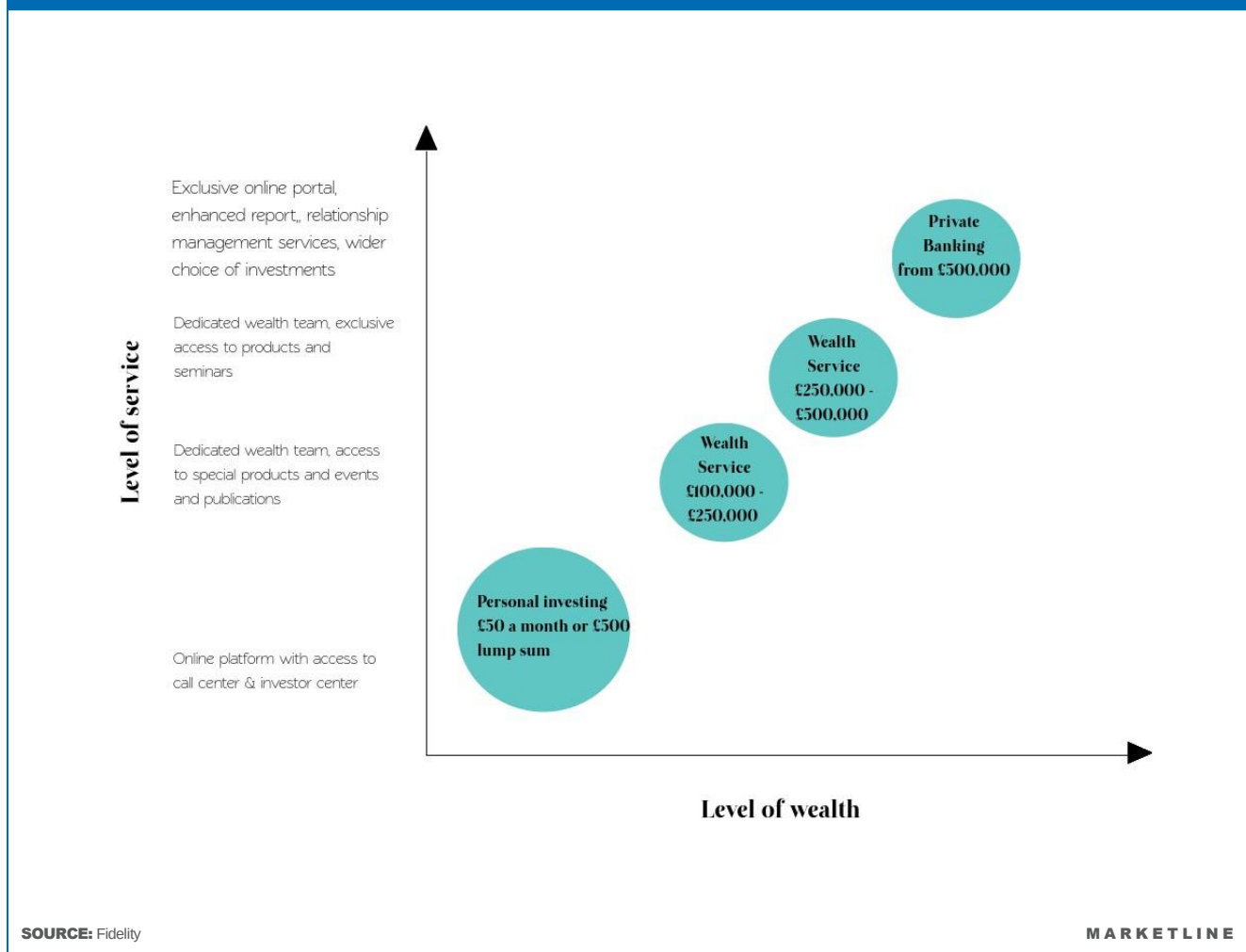
Fidelity Wealth targets the higher end of the mass affluent segment

Fidelity Worldwide Investments targets self-directed investors in the UK, starting from retail market customers to private banking clients. Fidelity offers a similar service in the US but the details between them differ, for example in regards to the structure of the guidance service and the types of investment products offered. This report focuses on Fidelity's mass affluent service proposition in the UK.

Fidelity caters for mass affluent clients via its Wealth Service proposition. The Wealth Service is divided into two levels: investors with assets of £100,000–250,000 and investors with assets of £250,000–500,000. Clients with assets above those limits qualify for Fidelity's Private Banking service.

In comparison to other competitors, Fidelity's Wealth Service threshold is in fact rather high. For example Merrill Edge, Bank of America's mass affluent division, covers US clients with between £41,000 (\$50,000) and £205,000 (\$250,000) in investable assets. Indeed Verdict Financial defines the mass affluent as those with between \$50,000 and \$1m in onshore liquid assets.

Figure 2: Fidelity has a graduated proposition



Fidelity has been innovative with its asset thresholds

Fidelity's Wealth Service proposition is available to those clients with more than £100,000 (approximately \$165,000) in assets. These assets do not need to be liquid, however, with Fidelity allowing this minimum value to be reached through a combination of funds, ISAs, and personal pension plans, making the threshold more easily achieved.

Much mass affluent wealth is held in deposits

When looking at the global average for the typical mass affluent investor, deposits represent the largest share of their liquid assets compared to what is typical among HNW portfolios. In verdict Financial's 2013–14 FSCI Survey deposits accounted for 32% of mass affluent assets compared to roughly 19% in HNW portfolios, with some countries (particularly the more developed markets) seeing even more pronounced skews.

Many affluent individuals have accumulated their assets over many years and often through plain deposit products. While they are more open to risk than the mass market, they are also less familiar with investment products than HNW clients.

Fidelity Wealth targets the self-directed mass-affluent investor

According to our most recent FSCI Survey, the key element of a targeted mass affluent proposition should include the ability to advise on clients' investments and long-term financial goals, while offering self-directed options to the 20% of mass affluent individuals who self-direct their investments. According to our 2013 Global Wealth Managers Survey, this figure is similar to the proportion of HNW individuals who self-direct (19.3%).

Fidelity's guidance rather than advice approach keeps it in the unregulated generic advice sphere

The FCA's FG15/1Retail Investment Advice report, published in January 2015, clarifies the distinction between informing client decisions without crossing the boundary into offering personal recommendations. The FCA found that firms are clear about the requirements for full-advice and execution-only services, but that there was more confusion with regards to the in-between options such as simplified advice or limited advice services, and sales that do not include personal recommendations but do involve guiding the customer in some way.

The distinction between generic unregulated advice and regulated advice is not always clear, and the FCA has highlighted that in some situations advice that purports to be generic may in fact be regulated. For example offering information about the performance of investments, the terms and conditions of investment contracts, or the price of investments does not constitute regulated advice if the investor is left to decide for themselves on the best course of the action. However, the context of the information also matters; if information is offered on a selected rather than a balanced basis so that it influences the client's decisions, this would constitute regulated advice.

Fidelity Wealth offers "guidance" rather than "advice"

Fidelity does not want to position itself as a wealth manager and hence highlights that the Wealth Service offers "information and guidance," while simultaneously noting that "The only thing we won't do is give you advice. We believe it's our role to help you make your own decisions – not to tell you where to place your money." This emphasizes that the service is mainly a self-directed offering rather than an investment advice service.

According to Money Marketing, the focus on guidance rather than advice is understandable as Fidelity wants to avoid stepping into the remit of regulated advice, and hence is keen to emphasize the difference between its guidance and regulated advice. With the publication of the FCA's guidance on simplified advice, consultation on non-advised sales, and the boundaries of retail investment advice, Fidelity can be more confident in steering clear of regulated advice.

Wealth Service clients get access to a range of services for a flat fee

Fidelity advertises that a flat service fee of 0.35% on assets between £100,000 and £250,000 and 0.20% on assets over £250,000 grants clients access to a variety of services. Fidelity highlights that "We want you to be free to do business with us in the ways you choose, without being penalized for how you prefer to invest. For example, we know some investors prefer to receive paper statements, so we don't charge for sending them out. Others prefer to call us, so we won't charge you to deal with us on the telephone."

Figure 3: Fidelity Wealth Service offers differentiated pricing for the two tiers

Benefits of the Wealth service:

£100,000 to £250,000

Fidelity Wealth rewards those customers with between £100,000 and £250,000 of assets with the following benefits:

- 0.35% service fee up to £250,000
- Dedicated wealth team
- Quarterly portfolio report
- Access to exclusive events
- Investment publications - The Bulletin, Investment Outlook and Investment Ideas

£250,000 to £500,000

Fidelity Wealth rewards those customers with between £250,000 and £500,000 of assets with the following **additional** benefits:

- Service fee of 0.20%
- Portfolio reviews
- Priority access to exclusive events

SOURCE: Fidelity

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FIDELITY WEALTH COVERS A RANGE OF PRODUCTS AND SERVICES

Fidelity aims to attract high net worth individuals and the mass affluent by offering a range of products and solutions. Its investment guidance service, which revolves around a four speed proposition, bridges the gap between advisory and execution-only and existing ISAs and SIPPs may be brought over from elsewhere. The company also offers offshore investments from investment capital of just £1000 (approximately \$1,650).

The investment guidance service bridges the gap between advisory and execution-only

Fidelity Wealth Service clients have access to the support of the Wealth team, which offers information and answers to questions regarding clients' investments. Clients receive regular publications and quarterly portfolio reports, with the clients in the higher wealth class also receiving portfolio reviews. All Wealth Service clients are invited to exclusive events, with the clients in the higher tier offered priority access.

The event types offered include investment conferences, held twice a year, and smaller events such as round-table events where clients can speak to fund managers about their market views and ask questions about potential investment approaches.

Fidelity's investment guidance service is centered around a four-speed proposition

Wealth Service clients have access to the same investment guidance service as other Fidelity clients. At the beginning of 2013, Fidelity launched its four-speed investment guidance service catering for a range of clients from "beginner" to "very knowledgeable" investors.

The Pathfinder range is targeted at those investors looking for a pre-curated list of funds to select from. The range contains diversified funds with a range of asset classes (bonds, cash, commodities, shares, and property) with different levels of risk. Through the Pathfinder clients are given the opportunity to select the funds that are appropriate for their investment needs, according to their risk level. The service allows clients to identify which of the actively managed products (mostly investing in a range of funds) is best suited to their risk and reward preferences. The funds invest through a range of underlying funds that have been selected by managers and analysts at Fidelity.

Investors with more experience can choose from HeadStart investment portfolios, which can be selected either based on an investor's risk preference or a theme such as income or emerging markets. Once the portfolio has been chosen, it is up to the investor to manage the composition of the portfolio themselves. Investors looking to self-direct but who are interested in reading up on Fidelity's picks can view the Select List, which offers additional information and recommendations about a selected group of funds from Fidelity and other providers. Those confident investors who are looking to self-direct entirely can go directly to Fidelity's "Fund Supermarket" and choose from the thousands of available funds.

Figure 4: Fidelity's four-speed investment service

more guidance

Pathfinder

- The Pathfinder multi-asset range is actively managed by Fidelity's investment experts.
- The fund mainly invests in a range of funds.
- After selecting a risk preference, client is shown three PathFinder Funds matching the chosen level of risk.
- Client can then select a fund to invest in



HeadStart Portfolios

- HeadStart Portfolios aim to provide a foundation to start a portfolio that a client can then manage in the future
- Portfolios are selected by Fidelity's in-house investment experts, Fidelity Solutions, using funds from The Select List
- Funds on The Select List might change, which will affect what funds are available in the HeadStart Portfolios.
- However, once the client has invested in the portfolio it will not be updated to reflect changes to The Select List.



Select List

- The Select List is a curated list containing funds Fidelity believes stand out from their peers
- The same investment criteria has been applied to both Fidelity and third party funds for balanced selection
- Funds are grouped into sectors



Fund Supermarket

- Fund Supermarket allows clients to sort, filter and compare a wide range of funds
- Fund Supermarket includes funds from Fidelity and other providers

more experienced investor

SOURCE: Fidelity

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Clients can bring their ISAs and SIPPs to Fidelity

Fidelity offers a range of products for the mass affluent segment, from ISAs to funds. The ISA options available include stocks and shares ISAs, the Fidelity Junior ISA, and the Share Dealing ISA. According to our Mass Affluent Investors: Investment Trends report, because mass affluent investors are typically older than the rest of the retail investor market, the issue of retirement and pensions will be more important to them. Wealth managers must ensure that they are able to service this financial need, while at the same time benefitting from an additional pool of money that can be managed. Fidelity Wealth Service addresses this need by offering two types of self-invested pension products (SIPPs): the Fidelity SIPP that is focused on fund investing, and the EBS SIPP for those investors looking to include other investments within their SIPP such as commercial property or individual shares. Given that much of affluent investor wealth is held in cash, this is an easy way to move money from elsewhere to Fidelity.

A range of offshore funds are available with a minimum investment of £1,000

Wealth Service clients can also access offshore investment options with a minimum investment of £1,000 (approximately \$1,650) for each fund, facilitating portfolio diversification. Investors can buy and manage offshore funds from a range focusing on single countries, currencies, sectors, or managed portfolios. The offshore funds offer tax benefits to those clients who are UK residents with non-domiciled status.

Clients can trade stocks through the ShareNetwork platform

Fidelity offers online portfolio management through its Account Management service, which is available via the website. Wealth Service customers can, like other retail customers, trade through the ShareNetwork (provided by Charles Stanley & Co). Investments made through the ShareNetwork count towards the overall portfolio valuation.

Figure 5: Clients can trade on Fidelity's ShareNetwork platform

Share dealing Share dealing account

ShareNetwork account

Open an account >

ShareNetwork account Charges and fees How trading works Opening this account

The ShareNetwork account gives you a low-cost way to build a portfolio of UK-listed shares.

Open an account >

Want shares in an ISA? >

SOURCE: Fidelity

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MASS AFFLUENT ARE ENGAGED, TECH-SAVVY INVESTORS

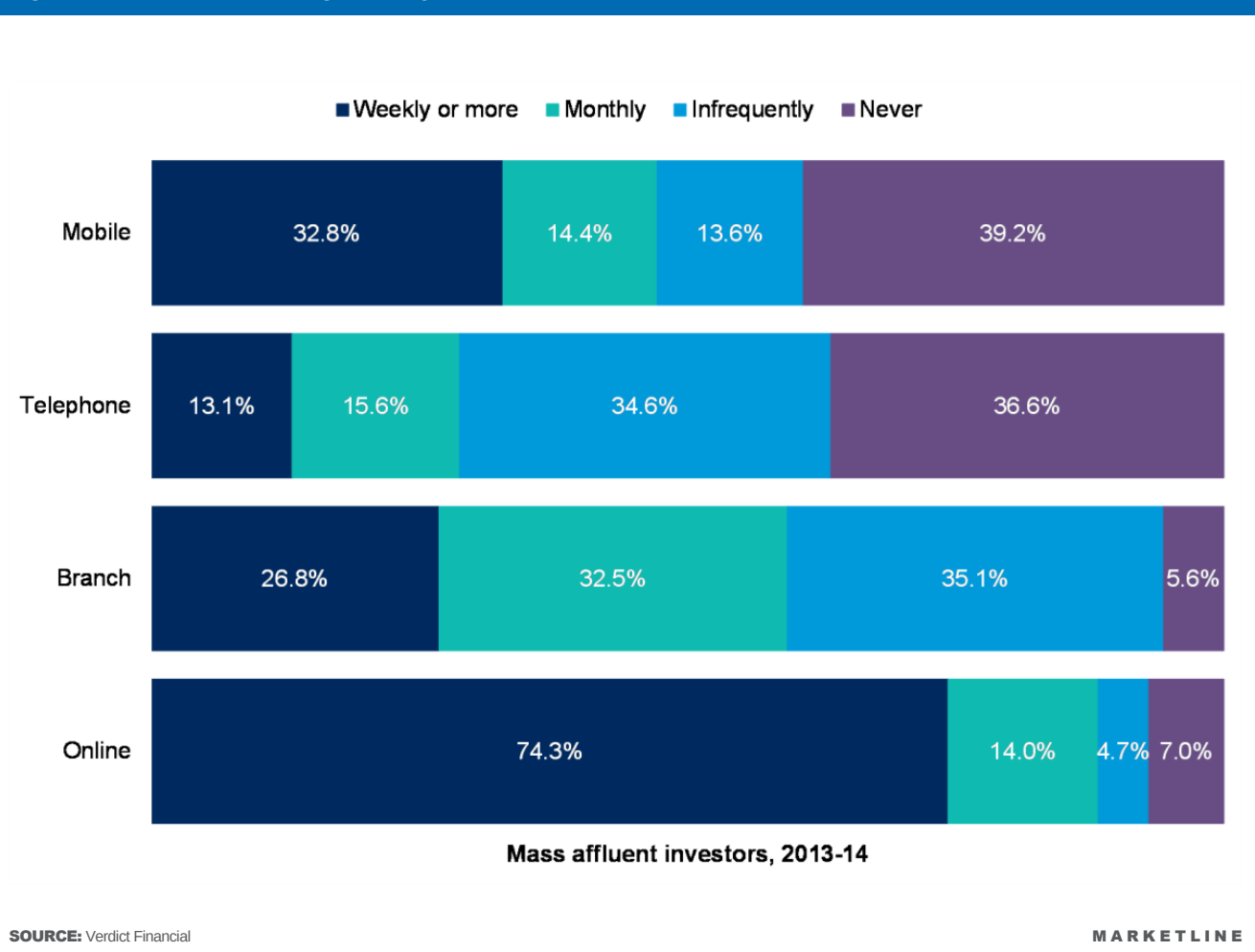
Evidence suggests that the mass affluent are tech-savvy investors who like to use digital platforms to actively track the performance of their investments. In response to this, Fidelity has developed a number of channels. However, Fidelity Wealth does not offer content as dynamic and insightful as the general Fidelity website and this is an area the company can look to improve.

Mass affluent investors are comfortable with digital channels

According to Verdict Financial's Mass Affluent Investors: Customer Targeting report, mass affluent investors are comfortable with digital channels, especially for tasks such as monitoring portfolios. While the affluent typically prefer not to start their financial services relationship through a digital channel (preferring to do so in-branch), they do rely on the online channel as a means of conducting their banking. According to Verdict's research, online followed by mobile are the most frequently used channels for banking activities among the mass affluent, meaning that a successful service proposition must offer those facilities.

Given these preferences, Fidelity's online-focused offering is well suited to the everyday investing needs of the mass affluent. However, Fidelity must be aware that many mass affluent clients will prefer to begin their relationship with a provider in-branch. While it doesn't have a branch network, a single Investor Centre is located in London. The scarcity of branches means that the mass affluent customers that Fidelity targets will have to be open to starting their investment relationship from a distance.

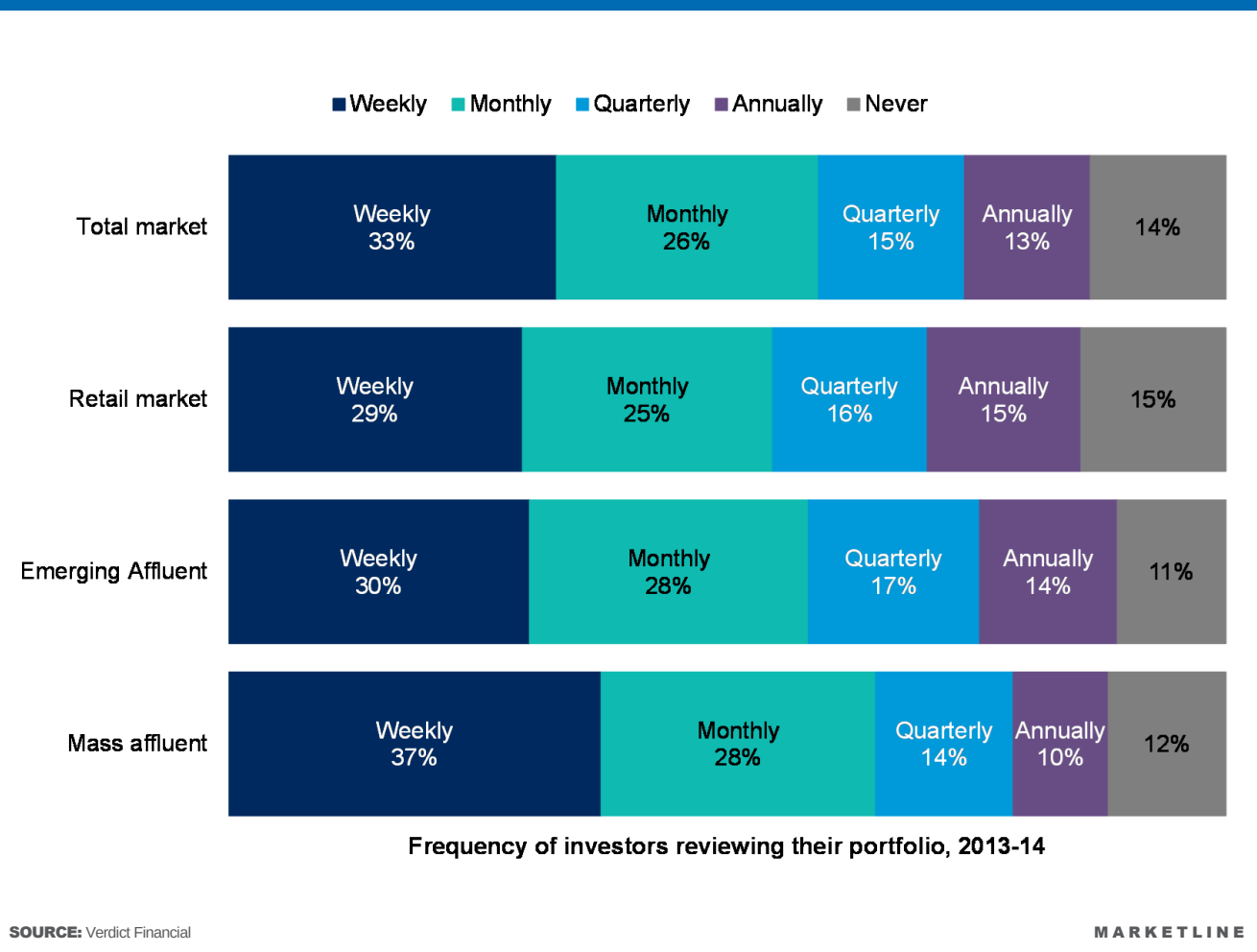
Figure 6: Mass affluent banking habits by channel



Mass affluent investors monitor their investments more actively than other retail investors

According to Verdict's 2013–14 FSCI Survey, the mass affluent spend more time monitoring their investments regularly compared to the mass market. 37% of mass affluent investors review their portfolio weekly versus 30% of emerging affluent and 29% of retail market investors. Hence mass affluent individuals will value frequently updated content and insights that can aid them in their investment choices.

Figure 7: Frequency of investors reviewing their portfolios



Fidelity Wealth does not offer content as dynamic and insightful as the general Fidelity website

One of the optimal ways to engage users is to offer a continuous stream of regularly updated information, to provide clients with the knowledge and confidence to make investment decisions. However, compared to the frequently updated content on Fidelity UK's general site, the offering on the Fidelity Wealth Service is quite scarce and does not support the notion that the Wealth section offers exclusive or premium content.

For example, in the "Benefits of Wealth" section, visitors are invited to read the latest edition of the "The Bulletin," Fidelity's Wealth Service publication. After filling out the personal details section, a link to a bulletin is given. However the bulletin available is dated 2013, contradicting the idea of up-to-date market commentary. It might be that more recent versions are available for clients only, but in such a case, it would probably make sense to remove the older link altogether.

CONCLUSIONS

Fidelity's strategy of targeting the mass affluent is shrewd and bearing fruit, but work is needed on delivery platforms

Recognizing that the mass affluent provide great potential as a result of their liquid wealth, Fidelity has chosen to pursue a strategy of pursuing this demographic, many of whom continue to add to their portfolios. More specifically, Fidelity targets self-directed investors with assets exceeding £100,000 (approximately \$165,000) as it believes this is where the greatest opportunity lies to provide guidance rather than advice, thus keeping it in the unregulated sphere.

In a bid to do this, it offers a range of products and solutions. Its investment guidance service, which revolves around a four speed proposition, bridges the gap between advisory and execution-only and existing ISAs and SIPPs may be brought over from elsewhere. The company also offers offshore investments from investment capital of just £1000 (approximately \$1,650), allowing it to try to gain at least some foothold at the lower end of the mass affluent market. The company has invested in online digital platforms to attract its target clientele, which is typically tech savvy, but more can be done to further its success.

In order for this sort of proposition to be successful in serving the mass affluent, a few key features are needed:

- Identifying mass affluent consumers early on – This will enable relationships to be built as the need for investment guidance and advice grows. This can be through traditional liquid asset levels or more innovative ways to qualify for the service (as Fidelity has done by accepting a combination of assets from different sources).
- Offer an effective online proposition – Although a physical presence is important to start the investment relationship, the service must be fully available online in order to engage the mass affluent.
- Offer up-to-date guidance – Access to timely and relevant information and guidance online is important to mass affluent consumers. Any service aiming to serve their needs must pay close attention to ensuring this aspect is not ignored.

If Fidelity can build on its success so far to tick these boxes, it could become a go-to provider of investment guidance for the mass affluent looking to maximize returns in a low interest rate environment.

APPENDIX

Definitions

Affluent: In this report, the term "affluent" is used to refer to all individuals in the mass affluent and HNW markets, so it includes all those with onshore liquid assets (excluding pensions and directly held property) in excess of \$50,000 or local currency equivalent.

HNW: There is not a standard industry definition of HNW. For the purposes of this report, it is defined as an individual with more than \$1m in onshore liquid assets.

Liquid assets: Liquid assets (also called liquid wealth) are defined as cash/deposits, ordinary stocks and shares, government and other bonds, and mutual funds and other collective investment schemes (as defined by the regulator in the country under study; for more details please contact the regulator).

Mass affluent: Mass affluent individuals in this report are those with between \$50,000 and \$1m in onshore liquid assets.

Mutual funds: This includes mutual funds and other collective investment schemes, including money market funds, equity funds, bond funds, and other types of funds (funds of funds, property funds, balanced funds, and so on). However, it excludes exchange-traded funds.

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Further Reading

Fidelity Investments, Inc.: MarketLine Company Profile

Retail Savings & Investments in the United Kingdom: MarketLine Industry Profile

Retail Savings & Investments in the United States: MarketLine Industry Profile

Ask the analyst

We hope that the data and analysis in this brief will help you make informed and imaginative business decisions. If you have any questions or further requirements, MarketLine's research team may be able to help you. The MarketLine Research team can be contacted at ReachUs@MarketLine.com.

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In today's information-rich world, sifting fact from fiction to pick out what's relevant and what's up to date has become the new 'holy grail' in business information provision.

Our 170 dedicated research professionals aggregate, analyze, and cross-check facts in line with our strict research methodology, ensuring a constant stream of new and accurate information is added to MarketLine every day..

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