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Betterment takes over Wealthsimple's US client book amid market saturation

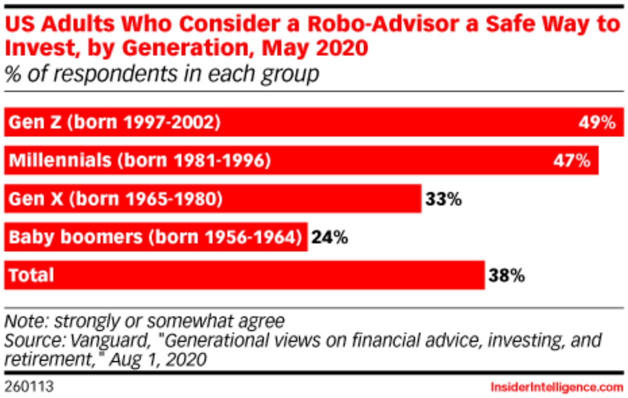
Article

The rival digital wealth manager won a bidding process to absorb Canada-based Wealthsimple's US clients, at an undisclosed fee, per Insider. Wealthsimple sought a buyer that could offer its US clients a similar digital wealth management value proposition, as it prepares to hand them over by June 2021.

Here's what the deal means for the two digital wealth managers' businesses:

- **Betterment will immediately grow its market share, which places it in a strong position for a public listing.** While the $190 million in assets under management (AUM) that Betterment will absorb with the deal is small relative to its current $28 billion AUM, it still represents valuable market share growth in an increasingly competitive space. Ahead of a widely anticipated IPO, this market share growth—alongside other expansion initiatives to grow its customer base, such as partnering with people operations startup Zenefits—should endear it to investors.
- **Wealthsimple is pivoting away from its US-led growth strategy and reprioritizing its domestic Canadian market.** Wealthsimple struggled to gain a foothold in the US digital wealth management market since its 2017 launch, and its AUM was dwarfed by players such as Betterment and Wealthfront. This sluggish US growth was starkly contrasted by continued strong Canadian growth: Wealthsimple Trade, its free online trading platform, clocked record user growth in January and February of this year, and 18% of all new brokerage accounts in Canada opened in H1 2020 were with Wealthsimple. Thus, the digital wealth manager likely felt that it would make more efficient use of recent financing to further expand its array of financial services on offer in Canada.

While the deal adds new AUM for Betterment, the US digital wealth management space is becoming increasingly saturated, and players need to differentiate on value-add features to stand out. There are now several large players in the US market, which might inhibit the growth trajectories of fintechs like Betterment. And incumbents like Goldman Sachs and JPMorgan are further crowding the space. Thus, digital wealth managers must focus on adding value to their offering beyond savings and personal finance management tools to differentiate their services. For example, digital wealth managers could add an insurance marketplace to their apps—where users can compare and access different insurance products—to become more of a one-stop shop for financial services. For example, Betterment already has a cell phone insurance offering and could expand this further with a marketplace to make its insurance offering more well rounded.


US Adults Who Consider a Robo-Advisor a Safe Way to Invest, by Generation, May 2020
% of respondents in each group
Gen Z (born 1997-2002) 49%
Millennials (born 1981-1996) 47%
Gen X (born 1965-1980) 33%
Baby boomers (born 1956-1964) 24%
Total 38%
Note: strongly or somewhat agree
Source: Vanguard, "Generational views on financial advice, investing, and retirement," Aug 1, 2020
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