GOING FOR BROKE
REIMAGINING THE RETAIL BROKERAGE MODEL IN THE AGE OF DIGITAL DISRUPTION
THE AUTHORS

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The retail stockbroking industry has undergone a marked evolution in recent decades, moving from a human-to-human, relationship-led model, to one that is being increasingly defined by a digitally native, end-to-end trading experience, delivered via a mobile app.

In more recent years, a combination of: (1) greater convenience; (2) lower financial barriers; (3) the Covid-19 pandemic; (4) dovish central banks; and (5) a mindset shift, has driven a growing number of retail investors to throw their hat into the ring. In Asia-Pacific (“APAC”) alone, we forecast 579 million people will have a brokerage account set-up by 2025, growing at a compound annual growth rate (“CAGR”) of 10% between 2021-25.

While this may appear to be welcome news for the wider industry, the rising wave of online retail participation poses an existential threat to retail brokers that service customers via more traditional relationship manager (“RM”) channels, many of whom are currently ill-equipped to capture a burgeoning online trading revenue pool, which we forecast to grow at a CAGR of 9.4% to USD 5.8 billion in APAC by 2025 (and to USD 10.6 billion globally).

In response to such developments, a growing number of traditional brokers are attempting to shield themselves from the onslaught of digital disruptors by offering extensive fee reductions and/or lowering their minimum investment requirements. Some firms are also shifting towards a more institutional broking proposition, while others are seeking to capture economies of scale via mergers and acquisitions (“M&A”).

We see these efforts as little more than short-term patchwork that fails to address a more fundamental shift in customer preferences in today’s digital age. While some traditional brokers have indeed opted to digitally transform themselves in response to these headwinds, many are struggling to keep pace with their technologically savvy rivals.

To remain viable in the years ahead, we believe traditional brokers need to digitally reinvent their business model across the entire customer value chain. To succeed, these changes need to be supported by various operational enablers, the most important of which include: (1) talent management; (2) technological capability; (3) risk management; (4) regulatory compliance; and (5) data management.

With an estimated two-thirds of traditional brokers anticipated to close shop or embark on their own digital transformation journeys – to varying levels of success – over the next six years, we believe it is time for traditional brokers to consider Going For Broke.
THE EVOLUTION OF BROKING

Recent years have seen the retail trading market evolve by leaps and bounds, being marked today by digital confetti for celebrating achievements, social media discussions powering stocks to new highs, “finfluencers” disseminating financial words of wisdom to millions of online followers, and an overall sense of dopamine-fuelled thrill.

In sharp contrast to today’s “game-like” environment, retail investing activity has historically centred around physical interactions between brokers and investors, with time and distance posing key challenges. The advent of telephones made the stock market more accessible to retail investors, eliminating distance as an obstacle and reducing time commitments. Interactions between brokers and investors continued to decline with the introduction of facsimile (“fax”) machines and telex, but human intervention continued to be an essential part of the equation up until the end of the 20th century.

The arrival of modern day web-based trading platforms allowed users to invest directly in financial markets, without requiring any human assistance. Online trading activity received a further boost with the launch of smartphones that could support mobile trading apps, ushering in a new era of retail participation in financial markets (see Figure 1).

FIGURE 1: EVOLUTION OF RETAIL BROKING

Source: Quinlan & Associates analysis
GROWING RETAIL PARTICIPATION

The growing digitalisation of stockbroking activity has been accompanied by an equally impressive rise in retail participation. This can be attributed to several key factors, including:

1. Greater convenience;
2. Lower financial barriers;
3. The Covid-19 pandemic;
4. Dovish central banks; and
5. A mindset shift (see Figure 2).

FIGURE 2: UNDERLYING TRIGGERS

Source: Quinlan & Associates analysis
1. GREATER CONVENIENCE

Technological innovation has helped make investing more accessible for retail investors, who no longer need to travel or interact with a middleman to place orders. The advent of mobile apps has also made it possible for retail investors to “trade on the go”. As such, brokers are constantly trying to make their digital experience more user friendly by removing points of friction across the value chain, making trading simpler and more convenient for their customers.

2. LOWER FINANCIAL BARRIERS

While stockbroking clients have long been comprised of market speculators, enthusiasts, and wealthy individuals, retail investing has become more “democratised” through the lowering of financial barriers. This includes allowing retail investors to open accounts with no minimum investment requirements, offering zero-commission trading, and providing fractional shares, opening the door to everyday investors to participate.

3. THE COVID-19 PANDEMIC

Global lockdowns and social distancing requirements stemming from Covid-19 have resulted in more people working from home, giving them additional free time – and in some cases, a greater financial urge amidst economic distress – to turn to the stock market to boost their incomes. The global sell-off at the start of the pandemic also drove retail investors to bottom fish for stocks that had become available at a considerable discount to their historical price.

4. DOVISH CENTRAL BANKS

The low interest rate environment, born out of the dovish stance taken by central banks, was further propelled by the Covid-19 pandemic, leading to central banks across the world aggressively slashing interest rates. This has not only impacted returns on bank deposits, but it has also lowered margin lending rates, pushing many into the throes of the stock market in search for greater yields on the back of cheap credit.

5. A MINDSET SHIFT

Recent years have witnessed a notable change in the retail investor’s mindset, shifting from a reliance on expert insights from brokers to a ‘do it yourself (“DIY”)’ mentality. Much of this has also been propelled by the emergence of finfluencers on social media platforms and online forums. The term, “investing,” for instance, has seen a doubling of popularity in terms of searches on Google over the past five years, increasing from a score of 25/100 to 59/100, between December 2016 to December 2021, peaking in January 2021, at 100/100.1

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Owing to these underlying triggers, retail investor participation has swelled across APAC, growing from 255 million investors in 2017 to 395 million investors in 2021. Markets such as Mainland China, Japan, India, Taiwan, Indonesia, Thailand, Malaysia, Vietnam, Hong Kong, Singapore, and the Philippines, have all seen sizeable growth in retail investor participation, with Australia being the only market to witness a contraction, potentially due to already existing stock market exposure via superannuation funds.

We expect retail investor participation to continue its robust growth trajectory in coming years, growing at a CAGR of 10% from 2021-25 to reach 579 million investors. This is presenting brokers in the region with a compelling opportunity to increase their customer count (see Figure 3).

FIGURE 3: RETAIL PARTICIPATION (2017E-2025F, # MILLION)

Source: HKEX, Census and Statistics Department, Business Times, The Strait Times, Finder, SET, SSC, ASX, LiveMint, TWSE, PSE, CSDC, JPX, Quinlan & Associates estimates
The tremendous increase in retail investor participation can primarily be attributed to rapid growth in online stockbroking activity, with digital channels increasingly emerging as the favourite route for retail investors looking to access financial markets.

We estimate that the majority of retail investors in markets including Vietnam, Thailand, India, Hong Kong, the Philippines, Indonesia, Mainland China, and Singapore prefer using digital channels.

Japan, Malaysia, Taiwan, and Australia are also seeing a growing proportion of retail investors turning to digital channels to access financial markets (see Figure 4).

FIGURE 4: PREFERENCE FOR DIGITAL CHANNELS (2018E-2021E, %)

Source: CFA Institute, ICMR, SET, PSE, Dynam Capital, Money101, IFEC, various exchanges, Quinlan & Associates analysis

With younger generations preferring a more digital investment experience, we believe that many offline-oriented brokers now face an existential risk from the impending wealth transfer of their present generation clients to the next – younger and more technologically savvy – generation. In fact, our research suggests that the higher fees being charged by offline brokers are already pushing a growing number of their traditional clients to low-cost online platforms.

This wave of “creative destruction” has driven many brokers out of business. For instance, in Hong Kong, which boasts approximately 600 licensed brokers, the top 14 brokers alone account for 61% of the market in terms of turnover, with the next 51 mid-tier brokers controlling 33% of the market, leaving the remaining ~500 smallest brokers to grapple...
over a mere 6% of the market. Against this backdrop, the disruption being caused by shifting retail preferences in such a fragmented market has seen a growing number of Hong Kong brokers shutter, rising from just three in 2010 to nearly 40 in 2020, signalling an urgent need to “go digital”.

Recognising the rapidly evolving market dynamics, we are witnessing more traditional brokers, whose models are centred around RM-led customer servicing, undergo a digital transformation exercise to bolster the strength of their online services; not only to retain their current customers turning to lower cost alternatives, but to also appeal to a rapidly growing Millennial and Gen Z investor base (see Figure 5).

**FIGURE 5: COMPETITIVE LANDSCAPE**

<table>
<thead>
<tr>
<th>TRADITIONAL BROKERS</th>
<th>FULL-SERVICE ONLINE BROKERS</th>
<th>DISCOUNT ONLINE BROKERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>There are a number of traditional brokers that offer digital platforms but rely primarily on offline channels</td>
<td>Although digitally well-enabled, many full-service brokers charge higher fees and offer a weaker digital experience than their peers</td>
<td>Various discount online brokers have cropped up, offering a robust digital and low-cost user experience</td>
</tr>
</tbody>
</table>

- PhillipCapital
- CGS Cimb
- ICICI Direct
- E*Trade
- TD Ameritrade
- allyInvest
- FirstMetroSec
- tullet prebon
- VNDirect
- CommSec

Largely missing out on the burgeoning number of retail investors flocking to digital channels

Riding the wave of growing online retail investor participation, but high fees have acted as an abatement

Major beneficiaries of burgeoning online retail participation, with their low fees and superior digital experience

Largely missing out on the burgeoning number of retail investors flocking to digital channels

There is a clear shift towards the discount online brokerage segment

**Legend**

- Full-service brokers
- Discount online brokers

**Scope of Services**

- Low
- Full-service
- Discount

**Digital Enablement**

- Low
- High

**Outlook**

- Negative outlook
- Moderate outlook
- Positive outlook

Source: Quinlan & Associates analysis

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2 SCMP, ‘Size does matter: Hong Kong’s smallest brokers are going bust in record numbers as they miss out on IPO bonanza’, September 2020, available at: https://www.scmp.com/business/banking-finance/article/3101924/size-does-matter-hong-kongs-smallest-brokers-are

WALLET OPPORTUNITY

Although commission incomes have fallen significantly with the onset of zero-commission trading, rapidly rising retail investor participation is offsetting this headwind through sheer base-effect. In the longer-run, this bodes well for brokers that are able to come out of this period with a sizeable captive user base that can subsequently be monetised.

We believe that traditional brokers who can successfully chart a course from offline to online will open themselves up to a vast global wallet opportunity, which we forecast to reach USD 10.6 billion by 2025 (see Figure 6).

FIGURE 6: GLOBAL ONLINE TRADING MARKET SIZE (2020-2025F, USD BILLION)

Source: Fortune Business Insights, GlobeNewswire, Statista, Quinlan & Associates analysis

We expect APAC, in particular, to grow at a rapid CAGR of 9.4%, reaching a market size of USD 5.8 billion by 2025. And with numerous regional brokers, such as Webull, making a big splash on the global stage by expanding everywhere (from Hong Kong to the United States ("US")), with notable success, we see considerable scope – and a broader need – for a digital-centric model to be considered.
RESPONSE FROM INCUMBENTS

In response to the rapid growth of online trading activity, traditional brokers, particularly those with little to no digital presence, have been forced to undertake various measures to maintain their client base, including:

1. Fee reductions;
2. Lower investment requirements;
3. Shift towards institutional broking; and
4. Industry consolidation (see Figure 7).

FIGURE 7: RESPONSE FROM INCUMBENTS

1. FEE REDUCTIONS

Several incumbents have reduced commission rates and other charges, with many even introducing zero-commission trading.

2. LOWER INVESTMENT REQUIREMENTS

Brokers have lowered their minimum investment requirements to capture more of the long-tail customer segment.

3. SHIFT TOWARDS INSTITUTIONAL BROKING

Several brokers have shifted the goalpost altogether, by de-emphasising the retail segment, in favour of institutional broking.

4. INDUSTRY CONSOLIDATION

With the market undergoing a phase of ‘creative destruction’, there has been a concurrent wave of industry consolidation.

Source: Quinlan & Associates analysis
1. FEE REDUCTIONS

The advent of low-to-zero-commission trading has sparked a global price war, including in APAC, with the rise of digitally native, low commission start-ups like 8 Securities in Hong Kong (acquired by SoFi in 2020), Zerodha in India, Rakuten Trade in Malaysia, Line Securities in Japan, and Stake in Australia, prompting widespread fee reductions by incumbents (see Figure 8).

FIGURE 8: FEE REDUCTIONS

<table>
<thead>
<tr>
<th>DIGITAL DISRUPTION</th>
<th>ENSUING PRICE WAR</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Hong Kong</strong></td>
<td></td>
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<tr>
<td>8 Securities (acquired by SoFi)</td>
<td>Huatai International</td>
</tr>
<tr>
<td>Hong Kong-based FinTech start-up, 8 Securities, became Hong Kong’s first zero-commission trading platform in 2016, going on to be acquired SoFi in 2020</td>
<td>Post the acquisition of 8 Securities by SoFi, Huatai International became the first to respond by launching a zero brokerage fee plan for HKD 8 per month</td>
</tr>
<tr>
<td><strong>India</strong></td>
<td></td>
</tr>
<tr>
<td>Zerodha</td>
<td>ICICI Securities and Kotak Securities</td>
</tr>
<tr>
<td>In India, a start-up called Zerodha pioneered low cost trading, with no charge for buying stocks held for over a day and INR 25 for intraday equity trading</td>
<td>With Zerodha becoming the market leader in India, usurped market leaders like ICICI Securities and Kotak Securities responded by launching zero brokerage plans</td>
</tr>
<tr>
<td><strong>Malaysia</strong></td>
<td></td>
</tr>
<tr>
<td>Rakuten Trade</td>
<td>Affin Hwang and JF Apex</td>
</tr>
<tr>
<td>Launched as a joint venture between Malaysia’s Kenanga Investment Bank Bhd and Japan’s Rakuten Securities Inc., Rakuten Trade offers as low as RM 7 in fees per trade</td>
<td>In response to Rakuten Trade’s low fee offering, Affin Hwang and JF Apex dropped their fees to a minimum of RM 5 and 12, respectively</td>
</tr>
<tr>
<td><strong>Japan</strong></td>
<td></td>
</tr>
<tr>
<td>Line Securities</td>
<td>SBI Securities and Rakuten Securities</td>
</tr>
<tr>
<td>Line Corp. and Nomura Holdings Inc. banded together to launch an online brokerage, called Line Securities, offering zero-commission trading in Japanese equities</td>
<td>Two of Japan’s three largest brokerages launched zero transaction fee plans for customers aged up to 25, in a bid to target the youth</td>
</tr>
<tr>
<td><strong>Australia</strong></td>
<td></td>
</tr>
<tr>
<td>Stake</td>
<td>eToro and IG Markets</td>
</tr>
<tr>
<td>In Australia, Stake pioneered zero-commission share trading from 2017 onwards, ushering in a new era of downward fee pressure in the Australian market</td>
<td>IG Markets and eToro, originating from United Kingdom and Israel respectively, responded by also cutting their fees to zero</td>
</tr>
</tbody>
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Offering lower fees can prove to be an immensely effective technique to attract retail investors. Take the example of India, where an investment of INR 500,000 may result in a 6x differential in trading fees paid to a full-service, agent-led broker vs. a discount online broker (see Figure 9).

**FIGURE 9: ILLUSTRATIVE FEE ANALYSIS FOR INR 500,000 INVESTMENT IN INDIA (INR)**

This pricing differential showcases why traditional brokers’ ability to monetise their existing customer base is under major threat from this price war, with revenues set to fall multi-fold if they were to match the prices on offer from their newly minted online peers.
In fact, broker commission rates are already under immense pressure. For instance, in Mainland China, average brokerage commission rates per 10,000 trades have nosedived by nearly 80%, from 12.6% in 2008 to a paltry 2.6% in 2020 (see Figure 10). However, Mainland China is not alone in this regard, with brokers across the globe slashing their commissions to narrow their pricing gap vis-à-vis up-and-coming digital disruptors.

**FIGURE 10: AVERAGE COMMISSION RATES IN MAINLAND CHINA (2008-20, % PER 10,000)**

![Bar chart showing average commission rates in Mainland China from 2008 to 2020](chart.png)

Source: Statista, KPMG, Quinlan & Associates analysis
As a result of ongoing margin compression, broker commission incomes have plunged. In Hong Kong, for example, brokerage commissions have almost halved from HKD 55.6 billion in 2007 to HKD 28.4 billion in 2020, despite annual trading volumes rising by nearly 50% over the same period (see Figure 11).

**FIGURE 11: COMMISSION REVENUES IN HONG KONG (2007-20, HKD BILLION)**

This represents a significant blow to traditional brokers’ ability to sustain their business model, as online brokers have delivered a potentially fatal one-two punch – namely, wrestling away a significant share of their user base on the one hand and forcing them to charge less to their remaining user base on the other.
2. LOWER INVESTMENT REQUIREMENTS

With many digital-first brokers lowering their investment thresholds via offering lower minimum investment amounts, fractional shares, and zero-commission trading, traditional brokers have responded by reducing their minimum initial investment amounts to compete over the long-tail customer segment more effectively. For example, Wells Fargo slashed the investment account minimum of its Intuitive Investment Platform in April 2020 by 50%, from USD 10,000 to USD 5,000.

3. SHIFT TOWARDS INSTITUTIONAL BROKING

As an alternative to ramping up their retail trading offering, several traditional brokers have opted to shift their focus towards more of an institutional broking proposition in a bid to seek refuge from the intense competition in the retail market. For example, in 2020, IG group kickstarted IG prime, with the aim of targeting the prime brokerage market. The following year, Daiwa Securities launched its institutional brokerage in Mainland China.

4. INDUSTRY CONSOLIDATION

Recent years have seen the brokerage industry enter a period of widespread consolidation across APAC (and globally) in the form of:

1. Closures;
2. Acquisitions; and
3. Mergers / Joint Ventures (“JVs”) (see Figure 12).

**FIGURE 12: INDUSTRY CONSOLIDATION**

<table>
<thead>
<tr>
<th>1</th>
<th>CLOSURES</th>
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<tbody>
<tr>
<td>RHB</td>
<td>citibank</td>
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| From Charles Schwab in Singapore and RHB Bank in Hong Kong, to Citibank and Standard Chartered Bank in India, a growing number of brokerages have exited the market |

<table>
<thead>
<tr>
<th>2</th>
<th>ACQUISITIONS</th>
</tr>
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<tbody>
<tr>
<td>CIIIC</td>
<td>ANZ</td>
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</table>

| Industry woes have created acquisition targets, including ANZ’s share trading platform (Australia), Moneylicious (India), and Morgan Stanley Gateway Securities (Vietnam) |

<table>
<thead>
<tr>
<th>3</th>
<th>MERGERS / JOIN VENTURES</th>
</tr>
</thead>
<tbody>
<tr>
<td>CIMB GROUP</td>
<td></td>
</tr>
</tbody>
</table>

| Several mergers / joint ventures have occurred in recent years, such as between CIMB Group Holdings Bhd and China Galaxy International Financial Holdings in Malaysia |


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CLOSURES

American brokerage giant, Charles Schwab, which opened its first office in Singapore in November 2017, closed operations just two years later. In neighbouring Hong Kong, Malaysian bank Rashid Hussein Bank (“RHB”) Bhd exited the brokerage market in December 2019, citing an increasingly challenging environment, with nearly 40 more brokers exiting Hong Kong in 2020. Elsewhere, in India, Citibank, Standard Chartered Bank, and India Nivesh Shares and Securities (“INSSPL”) too, have shuttered their retail brokerage businesses.

ACQUISITIONS

The retail brokerage industry has witnessed several acquisitions in recent times, including Alliance Bank Malaysia Bhd tabling a proposal to sell its stockbroking unit to Phillip Futures Sdn Bhd in Malaysia, Raise Financial purchasing Moneylicious in India, CMC Markets buying Australia and New Zealand Banking Group Limited’s (“ANZ’s”) share trading platform, Jeonbuk Bank (“JB”) Financial Group acquiring Morgan Stanley Gateway Securities in Vietnam, and Skyway being bought out by China Minsheng Banking Corp and China Huarong Asset Management in Hong Kong.

MERGERS / JVs

2019 saw US brokerage heavyweights TD Ameritrade and Charles Schwab merge in a USD 26 billion deal. More recently, in Asia, we have witnessed a slew of JV activity in Malaysia, including CIMB Group Holdings Bhd and China Galaxy International Financial Holdings Ltd, Kenanga Investment Bank Bhd and Rakuten Securities Inc, while a proposed JV between JF Apex Securities Bhd and Mercury Securities Sdn Bhd has fallen through.

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A RACE TO THE BOTTOM

Despite the various initiatives that traditional brokers have employed to address a raft of industry headwinds, ongoing margin compression and the continued shift by retail investors to low-cost, digital brokers, cannot be ignored.

Although incumbents are consolidating in an effort to capture economies of scale and remain relevant, we see this as a race to the bottom and prolonging of the inevitable: the ultimate decline of the RM-led retail brokerage model.

Faced with such challenges, we believe that a different approach by retail brokers is needed; one that is fundamentally digital-first and embraces the wave of creative destruction that the brokerage industry is currently facing.

DIGITALISATION CHALLENGES

Given that the measures taken up by traditional brokers are failing to halt their slide towards economic irrelevance, it is clear that digital transformation remains the need of the hour. However, many incumbents face three overarching barriers in digitally transforming their businesses, namely:

1. Budget constraints;
2. Legacy systems; and
3. Cultural barriers (see Figure 13).

FIGURE 13: KEY CHALLENGES

<table>
<thead>
<tr>
<th>BUDGET CONSTRAINTS</th>
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<tr>
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<tr>
<td>BUDGET CONSTRAINTS</td>
</tr>
<tr>
<td>Digital transformation can prove to be very costly, acting as a key barrier in case of budget constraints</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>LEGACY SYSTEMS</th>
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<tr>
<td>2</td>
</tr>
<tr>
<td>LEGACY SYSTEMS</td>
</tr>
<tr>
<td>Outdated systems result in slower pace of innovation and make firmwide technological integration more difficult</td>
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<table>
<thead>
<tr>
<th>CULTURAL BARRIERS</th>
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<td>3</td>
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<tr>
<td>CULTURAL BARRIERS</td>
</tr>
<tr>
<td>An over-reliance on a few large legacy clients has resulted in a resistance to change due to complacency</td>
</tr>
</tbody>
</table>

Source: Quinlan & Associates analysis
1. BUDGET CONSTRAINTS

Undergoing digital transformation and investing in research and development ("R&D") to carve out new innovations can be an extremely costly endeavour. For instance, discount online broker, Futu, allocated 45% of its total operating expenditures towards R&D in 2020.\textsuperscript{15}

With online brokers like Futu not only ahead of the game already, but also investing heavily to continue to stay ahead of the curve, traditional offline brokers need considerable financial firepower to match the deep pockets of new age FinTech start-up backers. As a consequence, budget constraints can often hold brokers back from meaningful – but much needed – change.

2. LEGACY SYSTEMS

While their start-up counterparts have been built from the ground-up with a digital-first mindset, traditional incumbents are plagued by outdated systems that are highly inefficient in today’s modern day competitive landscape. In Hong Kong, for instance, brokers see legacy technology systems as their biggest impediment from growing faster, with 57% believing that their current technology platforms aren’t scalable enough to support their growth ambitions.\textsuperscript{16}

The fact is, many incumbent brokers are heavily reliant upon updates from third-party vendors, which are not only rolled out “en masse” (and hence lack personalisation), but also greatly slow incumbents down, especially relative to disruptive online brokers who boast their own tech stack, making them much nimble in contrast.

3. CULTURAL BARRIERS

As discussed in our previous report, Beyond the Buzz,\textsuperscript{17} legacy financial institutions face significant cultural barriers to change, reflecting poor innovation processes. Brokers are no exception, with a weak innovation culture and inflexible mindsets being the tallest barriers to change.

This rings especially true in the case of large firms with bloated bureaucratic structures that experience a stifling of innovation due to red tape and a lack of firmwide consensus. Without a digital-first mindset in place and buy-in at the top of the house, any attempt to drive meaningful change will simply end up as money down the drain.

**TIME RUNNING OUT**

We believe that time is fast running out for traditional brokers to reinvent their business models.

While some brokers have no doubt succeeded at transforming themselves into online brokers, as we will highlight in Section 5 of this report, we estimate that 68% of traditional brokers are either going to be wiped out or forced to become pure-play digital brokers over the next 6 years (see Figure 14).

**FIGURE 14: ESTIMATED DECLINE IN TRADITIONAL BROKERS (%)**

<table>
<thead>
<tr>
<th>Year</th>
<th>0%</th>
<th>-10%</th>
<th>-20%</th>
<th>-30%</th>
<th>-40%</th>
<th>-50%</th>
<th>-60%</th>
<th>-70%</th>
<th>-80%</th>
<th>-90%</th>
<th>-100%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 0</td>
<td>-8%</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Year 1</td>
<td>-16%</td>
<td></td>
<td></td>
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<td></td>
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<td></td>
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<tr>
<td>Year 2</td>
<td>-29%</td>
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<tr>
<td>Year 3</td>
<td>-41%</td>
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<tr>
<td>Year 4</td>
<td>-57%</td>
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<tr>
<td>Year 5</td>
<td>-68%</td>
<td></td>
<td></td>
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<td>Year 6</td>
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</tbody>
</table>

Source: Quinlan & Associates estimates
OVERVIEW

In order to adapt to the new, digital-first reality of the industry, we believe that brokers need to fundamentally rethink their digital value proposition across the entire customer journey (see Figure 15).

FIGURE 15: THE WAY FORWARD
As a first step, brokers need to narrow down their targeting efforts by identifying customer segments that are both lucrative as well as feasible to cater to. To this end, they need to: (1) profile; (2) interact with; and (3) evaluate their prospective, current, and former customer base (see Figure 16).

**FIGURE 16: IDENTIFYING TARGET CUSTOMERS**

1. **PROFILE**
   - Create preliminary profiles of target customers, based on their characteristics, such as age, income level, etc.

2. **INTERACT**
   - Interact with prospective, current, and former customers, by conducting surveys and online questionnaires

3. **EVALUATE**
   - Gain additional insights by tracking and monitoring customers' activities, including in- and off-app usage

*Source: Quinlan & Associates analysis*
1.1 PROFILE

Brokers should look to formulate profiles of their target customers based on a range of factors, such as psychographics, demographics, etc., to better understand what their needs, likes, and pain points are. This will not only allow them to improve their customer acquisition efforts, but ultimately help tailor their product offerings to better satisfy individual customers' needs.

For instance, in the case of a mobile app-based broker, instead of advertising to high-net-worth individuals ("HNWIs") who typically manage their wealth via a private bank, it may be more sensible to target tech-savvy youngsters who have recently entered the workforce and are looking to invest their salary.

1.2 INTERACT

After creating a comprehensive customer profile, it becomes imperative to interact with prospective, current, and former customers. In its simplest form, this can be done via surveys and online questionnaires, enabling stockbrokers to amass a treasure trove of data around customers' preferences and decision-making factors. Recognising these decision drivers can help gain an in-depth understanding of what makes customers “tick.”

1.3 EVALUATE

In addition to evaluating prospective customers, monitoring the usage of existing customers can shed valuable light on demand dynamics by pointing out features, offerings, and use cases that are experiencing greater adoption, as well as customer pain points that are being left unresolved.

For example, if a broker is experiencing higher growth in trading volumes of cryptocurrencies when compared to traditional financial instruments, it can look to recalibrate its target customer profile to capture more digital asset enthusiasts.

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WE ESTIMATE THAT 68% OF TRADITIONAL BROKERS ARE EITHER GOING TO BE WIPED OUT OR FORCED TO BECOME PURE-PLAY DIGITAL BROKERS OVER THE NEXT 6 YEARS
2. ACQUIRE

Once a target pool of customers has been identified, brokers need to build a sizeable customer base through a mix of: (1) educating uninformed customers about investing in markets and (2) attracting customers through various measures (see Figure 17).

**FIGURE 17: BUILDING A CAPTIVE USER BASE**

<table>
<thead>
<tr>
<th>1</th>
<th>PUSH</th>
<th>Educate uninformed customers about the market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Educational Material</td>
<td>Build a hub of financial education resources to impart knowledge to potential customers interested in learning about investing</td>
<td></td>
</tr>
<tr>
<td>Trading Simulator</td>
<td>Allow potential customers to experiment with markets, investment strategies, and other mechanisms, without the risk of losing money</td>
<td></td>
</tr>
<tr>
<td>Finfluencer Marketing</td>
<td>Leverage influencers to spur discussions around personal finance and the role played by investing</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2</th>
<th>PULL</th>
<th>Attract customers onto your platform</th>
</tr>
</thead>
<tbody>
<tr>
<td>Digital Advertising</td>
<td>Utilise digital channels to advertise in a more targeted and cost-efficient manner</td>
<td></td>
</tr>
<tr>
<td>Rewards</td>
<td>Offer joining rewards to attract customers and referral rewards to take advantage of network effects</td>
<td></td>
</tr>
<tr>
<td>Finfluencer Marketing</td>
<td>Leverage influencers who discuss monetary subjects to spread word about your offering</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>3</th>
<th>ONBOARD</th>
<th>Digitally onboard customers in a swift and easy manner</th>
</tr>
</thead>
</table>

Source: Quinlan & Associates analysis

2.1 EDUCATIONAL MATERIAL

Without properly educating the masses about the intricacies of investing, the practice is unlikely to witness mainstream adoption. However, by spreading knowledge of digestible concepts such as “personal finance”, brokers can greatly expand their addressable market size. The development of relevant, easy-to-understand, and engaging educational resources is important in allowing brokers to widen their appeal to a broader customer base.

2.2 TRADING SIMULATOR

While educational material can offer theoretical exposure to customers, it is critical to balance this knowledge of fundamental concepts with practical exposure in the form of “know-how.” Providing potential customers with realistic exposure to financial markets can help brokers develop a robust pipeline for the future. This holds especially true with respect to pre-adulthood individuals, as well as university students who are about to enter the workforce and embark on their personal finance journey.

To achieve this, brokers can offer a “paper trading account” on a trading simulator, allowing potential customers to try their hand at investing in financial markets without the fear of losing real money. These paper trading account users can later be up-sold by the broker to a trading account with real money.

One way to build such a pipeline of future users is by organising competitions amongst university students, inviting them to try their hand at a trading simulator in exchange for prizes being handed out to the top performers.
2.3 FINFLUENCER MARKETING

The rise of social media platforms like YouTube, Instagram, and Facebook, etc., has been coupled with the rise of “influencers” (i.e. people who have considerable influence over the decision-making of others on social media). ‘Finfluencers (“financial influencers”)’ have recently emerged as a specific subset of this group.

Collaborating with finfluencers, with transparent disclosures in place, can help serve as a modern-day outlet for both educating and attracting potential customers. Depending on the type of customer profile they are looking to target, brokers can shortlist finfluencers with a following that closely matches what they are looking for (e.g. viewership count, language, geography, etc.). Adding budgetary considerations to the mix as well, brokers can choose whether to spread their cash across several smaller influencers, such as nano influencers that command a following of up to 10,000, or pursue a mega influencer that boasts more than a million followers.

2.4 DIGITAL ADVERTISING

Instead of opting for a 360-degree advertising campaign, brokers can leverage digital advertising as a more efficient means of targeting specific customer segments. This holds especially true for millennials and Gen Zs, who are extremely active on social media. Targeted advertisements on relevant platforms can potentially provide brokers with a bigger bang for buck, relative to more traditional advertising channels that are far less targeted (e.g. TV, billboards).

Robinhood, for instance, prior to the GameStop debacle, had built a robust community on Reddit that viewed its offering of zero-commission trading as the answer to legacy players on Wall Street, creating vast network effects. Emulating the same concept in the East, Ajaib, an Indonesian unicorn in the app-based investment space, has taken to Instagram Live as a means of advertising themselves. Noticing that Indonesian youngsters were flocking to Instagram, Ajaib began disseminating content on the app, with users able to share their posts and form discussion groups.

2.5 REWARDS

Coupling joining rewards with referral rewards can help brokers leverage network effects by harnessing the power of word-of-mouth. These rewards can be in the form of cash and/or free stocks of well-known consumer facing brand names, which are rewarded upon a new user signing up or successfully getting another person to sign-up.

2.6 DIGITAL ONBOARDING

Once customers are primed for acquisition, brokers need to ensure a quick and hassle-free onboarding process. Rather than paper-based filling of forms and submission of documentation, an end-to-end digital onboarding process that can be completed in a matter of minutes is required.

To this end, brokers will need to invest in technologies such as optical character recognition (“OCR”) for scanning of identity cards, biometric facial recognition for authenticating the prospect’s genuineness, real-time cross-checking against various databases for identifying politically exposed persons (“PEPs”), sanctioned individuals, etc., among other forms of innovation. These technologies can be developed in-house or can be deployed by engaging third-party solution providers.
3. ENGAGE

Amassing a sizeable customer base on paper is not the be all and end all, as these customers need to be further converted into active users to be truly valuable.

To keep dormancy rates in check, customers need to be delivered an enriching experience from the get-go. We see four key mechanisms brokers can employ to supercharge user engagement levels:

1. **Gamification**: delivering a sense of comfort – and engagement – to customers as they dip their toes into the financial market for the very first time;

2. **Zero-commission trading**: encouraging users to make more trades at no added cost;

3. **Volume-based rebates**: building up user familiarity and confidence to trade larger amounts via appropriate financial incentives; and

4. **Social trading**: actively engaging users through social trading endeavours that foster a sense of community (see Figure 18).

**FIGURE 18: DRIVING HIGH ENGAGEMENT RATES**

| 1 | FIRST TRADE | GAMIFICATION | Incorporating game-like features can help instil a sense of comfort in users, as they gear up to make their first trade |
| 2 | HIGHER FREQUENCY | ZERO-COMMISSION TRADING | Eliminating trading fees can encourage customers to trade more frequently, as it carries no additional transaction cost |
| 3 | LARGER AMOUNTS | VOLUME-BASED REBATES | Once customers are comfortable with trading, they can be incentivised to trade larger amounts through rebates |
| 4 | STICKINESS | SOCIAL TRADING | Introducing social trading measures, such as copy trading, can help keep customers highly engaged |

Source: Quinlan & Associates analysis
3.1 GAMIFICATION

With many first-time investors taking the plunge into financial markets, leveraging gamification can help provide them with a sense of comfort, as they take strides towards making their first trade.

The need for gamification is further emphasised by the inflow of younger users (i.e. millennials and Gen Zs) into the retail trading landscape, given a gamified user experience can help keep such users engaged. Moreover, when a user completes an action, providing positive reinforcement in a gamified manner can help nudge them in the right direction.

However, it is important to note that gamification is coming under increasing scrutiny from regulators, given its undertones of gambling, making it important to clearly differentiate between trivialising investing and making it more engaging.

3.2 ZERO-COMMISSION TRADING

As discussed earlier, zero-commission trading has been a key contributing factor to the lowering of financial barriers and influx of retail participants in financial markets. While it has functioned as a marketing tool during its early days, with multiple players in various markets now offering zero-commission trading, it may now be viewed as more of a means of keeping customers engaged.

Since customers can trade with no added costs, zero-commission trading allows them to be more active in financial markets, trading more frequently. While this raises the question of how brokers can generate revenue without charging commissions, especially given that payment for order flow is barred in several markets, the report delves into innovative ways of monetising brokers’ customer base later in this section.

3.3 VOLUME-BASED REBATES

Once brokers have turned a large portion of their newly acquired user base into active users that are trading frequently, offering volume-based rebates can help incentivise users to trade larger amounts. For individuals using multiple trading platforms, this would encourage more flow to be directed towards the platform(s) that offers the most attractive volume-based rebate.

3.4 SOCIAL TRADING

With customers trading frequently and placing bigger bets, holding onto their attention becomes the next major focus for brokers on their digital journey. To this end, fostering a sense of community can help create a stickier customer base.

Instead of imbibing advice from highbrow investment experts, there is a burgeoning trend in favour of social trading, where like-minded investors can congregate to share their investments strategies and tips with each other, combining the best of both social media and investing.

Copy trading is one such social trading phenomenon that allows even those customers who may not have the acumen or time available to make sophisticated trades to mirror the strategies being utilised by their high performing peers.
4. SERVICE

Accomplishing an elevated level of user engagement needs to be backed-up by suitably fulfilling user needs.

While broking services may appear commoditised, with little-to-no-difference in trading financial instruments across platforms, there are a number of asset- and advisory-based differentiators that can be adopted by brokers looking to enhance their product and/or service proposition, including:

1. Digital assets;
2. IPO allocation;
3. Fractional shares;
4. Private markets access;
5. Model portfolios;
6. Robo advisory; and
7. Trading tools (see Figure 19).

**FIGURE 19: SERVING A CAPTIVE USER BASE**

**DIGITAL ASSETS**
Expand product offerings to capture booming investor demand for digital assets like cryptocurrencies

**IPO ALLOCATION**
Enable IPO investing to help customers seize the latest investment opportunities

**FRACTIONAL SHARES**
Allow investors to own a smaller proportion of shares, lowering minimum investment requirements

**PRIVATE MARKETS ACCESS**
Provide access to private market investments that are typically restricted to only institutional investors

**MODEL PORTFOLIOS**
Develop diversified model portfolios based on different themes, ideas, and investment strategies

**ROBO ADVISORY**
Offer automated, scalable, and yet personalised wealth management solutions to investors

**TRADING TOOLS**
Offer various online trading tools to help investors make informed and sound investment decisions

Source: Quinlan & Associates analysis
4.1 DIGITAL ASSETS

Recent years have witnessed a burgeoning interest in digital assets, with the number of blockchain wallet users skyrocketing from 12 million in February 2017 to 81 million in February 2022. As discussed in our previous report, *Cracking The Code*, we also foresee a tremendous shift in the market, from traditional to digital assets.

However, the vast majority of brokers are, at present, not offering digital assets, leaving them open to potential disruption. For example, in India, cryptocurrency exchanges such as Coinswitch Kuber and WazirX have amassed a bigger user base than the country’s leading broker, Zerodha.

4.2 IPO ALLOCATION

Despite robust growth in the global IPO market, retail access remains somewhat limited. With burgeoning retail investor interest in new listings, brokers can look to fill the void by partnering with investment banks as selling group members, offering to help distribute shares of the IPO to the public.

4.3 FRACTIONAL SHARES

The lowering of financial barriers has been a key contributor to increased retail participation in financial markets, with fractional shares allowing investors with less capital to also participate (and hence allowing brokers to target longer-tail customers). In addition, fractional shares can also lower the minimum investment requirement for robo advisory and model portfolio offerings. Moreover, if the broker also caters to corporates by managing their stock plan administration, then this functionality could allow employees of its clients to sell fractions of their vested stocks, giving them greater flexibility.

4.4 PRIVATE MARKET ACCESS

Private market instruments have typically been accessible primarily to institutional investors. Brokers can look to democratise access to such opportunities as private equity (“PE”) and venture capital (“VC”) investment funds and angel investing, with low minimum investment requirements, to provide a more differentiated investment proposition to retail investors.

Alternatively, brokers could also leverage such an offering to attract a wealthier set of customers that is seeking more complex avenues which can potentially offer a higher return on investment.

4.5 MODEL PORTFOLIOS

Model portfolios are a pre-defined group of assets that are blended into a single portfolio. These can be based on an array of different strategies and/or themes, such as Environmental, Social, and Governance (“ESG”) aspects, low volatility stock picks, etc.

A distinct advantage of offering model portfolios is that it enables a broker to truly capture the imagination of investors through pre-defined baskets of investments, depending on their varied interests. There can be "something for everyone" in a selection of diverse model portfolios. Such offerings also make for more easily packaged and marketed products.

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4.6 ROBO ADVISORY

Going beyond simply acting as a facilitator between investors and financial markets, brokers can expand into the wealth management space by offering robo advisory solutions. This allows them to command a larger wallet share of investors, given their ability to provide more holistic investment services, while also generating additional, recurring fees tied to a customers’ AUM.

A robo advisor can also be offered in association with model portfolios, by prompting investors to highlight themes or investment philosophies that they hold an interest in. Furthermore, by dovetailing robo advisory with their brokerage offering, brokers can also capture a better mix of active and passive investors.

4.7 TRADING TOOLS

Satisfying a more sophisticated customer base may require the provision of advanced tools, such as customisable watchlists, analysis indicators, price-line chart comparisons, financial data calendars, top advancers and decliners lists, etc. These tools can also be leveraged to support user engagement levels.
5. MONETISATION

With a sizeable, engaged, and fulfilled customer base ripe for monetisation, there are five key revenue streams that brokers can consider:

1. Subscription plans;
2. Margin lending;
3. Markup fees;
4. Pay only if you win; and
5. Ancillary fees (see Figure 20).

FIGURE 20: MONETISING A CAPTIVE USER BASE

<table>
<thead>
<tr>
<th>USER REGISTRATION</th>
<th>CAPITAL BORROWING</th>
<th>SECURITIES PURCHASE</th>
<th>SECURITIES SALE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subscription Plans</td>
<td>Margin Lending</td>
<td>Markup Fees</td>
<td>Pay Only If You Win</td>
</tr>
<tr>
<td>Generate sticky, recurring revenue through tiered subscription plans</td>
<td>Offer extra margin by leveraging securities as collateral</td>
<td>Levy markup fees on select securities / asset classes that are more sophisticated</td>
<td>Charge a brokerage fee from investors, but only when they profit from a trade</td>
</tr>
</tbody>
</table>

Ancillary Fees

From inactivity fees to currency conversion charges, there are a whole host of ancillary fees that can be levied to supplement revenue generation by brokerages, helping unlock the maximum possible monetary potential out of their captive customer base

Source: Quinlan & Associates analysis

5.1 SUBSCRIPTION PLANS

Brokers may provide subscription plans, with the lowest tier potentially being freemium.

Investors can subsequently be up-sold to higher tiers through clever segmentation of offerings and/or features, such as access to research reports, margin loans at lower rates of interest, advanced trading tools, etc., across the various tiers. This would allow brokers to rake in a recurring revenue stream that is both sticky as well as predictable.

5.2 MARGIN LENDING

While margin lending is already a key source of revenue for many brokers, there is presently a lack of differentiation, beyond the interest rates being charged.

One potential differentiator that brokers can leverage is securities-backed lending (i.e. allowing investors to pledge their current securities holdings in exchange for an increased margin facility to invest in further securities).

5.3 MARKUP FEES

As covered earlier in the report, brokers can provide zero-commission trading with a view to boost user engagement levels, especially in terms of their frequency of trading.

However, while markup fees may be kept at zero in the case of equities, which can act as crowd pullers, brokers can look to charge a markup for other, more complex securities / financial instruments, such as foreign exchange (“FX”), Contract for Difference (“CFD”), and bonds, etc.
5.4 PAY ONLY IF YOU WIN

Brokers may also adopt a “pay only if you win” model, charging investors a fee on their capital gains if they sell their position for a profit. This would provide the added benefit of signalling to investors that the broker not only has their best interests at heart, but also has real “skin in the game”.

5.5 ANCILLARY FEES

In addition to the revenue streams outlined above, there are several other ancillary fees that brokers may look to levy, such as charging users for converting currencies, overnight funding, and inactivity, etc.

AMASSING A SIZEABLE CUSTOMER BASE ON PAPER IS NOT THE BE ALL AND END ALL, AS THESE CUSTOMERS NEED TO BE FURTHER CONVERTED INTO ACTIVE USERS TO BE TRULY VALUABLE
6. **MAINTAIN**

With a well-monetised customer base established, brokers need to hold the fort down, maintaining the relationship that they have formed with their customers. There are three key measures that a broker may pursue in a bid to improve customer loyalty and stickiness, namely:

1. Loyalty programmes;
2. Content provision; and
3. Help centre (see Figure 21).

**FIGURE 21: MAINTAINING CUSTOMER LOYALTY**

- **Loyalty Programmes**
  Showcase appreciation to – and incentivise desirable behaviour of – the captive customer base

- **Content Provision**
  Deliver the latest, relevant financial information through channels such as newsletters, podcasts, etc.

- **Help Centre**
  Provide prompt and tailored customer support to deal with potential queries and difficulties being faced by them

Source: Quinlan & Associates analysis
6.1 LOYALTY PROGRAMMES

While brokers may frequently announce incentives for prospective customers to join, it is important to also display an appreciation for existing customers that have stuck by the broker. A loyalty programme can not only help accomplish this, but also incentivise desirable behaviour from customers by rewarding them for certain milestones, such as making a given number of trades or transacting a particular volume through the broker.

6.2 CONTENT PROVISION

Brokers should look to provide their customers with relevant doses of digestible, value-adding content, such as expert interviews, tips / guidelines, webinars, etc., through channels such as blogs, articles, and videos, etc.

6.3 HELP CENTRE

Forming a help centre that can assist customers who may be facing difficulties and guide them regarding the various functionalities / features of the stockbroking platform is essential to providing a holistic customer experience. Besides human agents, other options brokers can draw upon include chatbots or a frequently asked questions (“FAQs”) section.

7. ENVELOP

Once a robust business with a formidable foundation has been established, brokers may look to expand their range of offerings outside of investments and into the broader financial services sphere, allowing them to morph into a financial super app.

7.1 SUPER APP

By catering to all of customers’ financial services needs beyond just investments, ranging from payments to insurance, brokers can create a closed ecosystem. This would also allow brokers to create an extensive database of the personal finance needs of their customers, empowering them to target and fulfil customers’ diverse monetary needs more precisely.

As a result, brokers will be able to expand across the personal finance journey of their customers both vertically and horizontally, opening themselves up to a bigger wallet opportunity.
REAL-WORLD EXAMPLES

From 5paisa in India to Robinhood in the US, it is evident that a growing number of online brokers have put these steps to good use, bolstering their digital offering to attract new retail investors to their platform while also prying away old ones from their traditional peers (see Figure 22).

FIGURE 22: SELECT EXAMPLES

Source: company disclosures, Quinlan & Associates analysis

STEP 1: IDENTIFY

Hong Kong-based Futu collects a broad array of customer data, including financial and non-financial information. This includes assimilating data from customers’ devices, which can be analysed to provide insights to fine-tune promotional campaigns, product/service offerings, and content delivery.

STEP 2: ACQUIRE

US-based SoFi, which acquired Hong Kong-based 8 Securities on 21 April 2020,\(^2\) offers a cash reward of up to USD 1,000 for new account openers. The company also offers free stocks of popular companies as a joining reward, operating a points-based system that allows users to redeem their accumulated points for actions like referrals (in exchange for more free stocks).

STEP 3: ENGAGE

From a user engagement perspective, fellow American broker, Robinhood, which has come under intense scrutiny in the past for its gamified user experience, has deployed a number of game-like features, such as a scratch card for revealing free stocks, notifications with emojis, and a congratulatory screen of confetti, among other gamified imagery.

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STEP 4: SERVICE

On the customer servicing front, by leveraging its suite of more than 40 different trading tools, Interactive Brokers is well-regarded for equipping more active / sophisticated / professional traders with the cutting-edge tools they need to succeed.

STEP 5: MONETISE

With respect to monetising customers, 5paisa, an Indian online broker, owned by a traditional broker called IIFL Holdings Ltd., offers three tiers of subscriptions plans to its users: (1) Standard Investor Pack; (2) Power Investor Pack; and (3) Ultra Trader Pack, with the bottom tier being a freemium version and higher tiers offering additional features.

STEP 6: MAINTAIN

To keep hold of its customers, HotForex, a broker specialising in FX and commodities trading, operates a loyalty programme consisting of four tiers, allowing investors to gain ‘bars’ that can be redeemed for a wide array of cash and in-kind benefits. This helps keep investors hooked onto its platform, directing as much of their flows as possible towards HotForex in order to progress to higher tiers.

STEP 7: ENVELOP

Last but not least, M1 Finance serves as an example of a broker that brands itself as a financial super app, catering to not just investment needs of its customers with zero-commission trading, but also providing them with checking accounts for parking their capital, lines of credit collateralised against their investment portfolio, and credit cards for facilitating transactions.

FROM 5PAISA IN INDIA TO ROBINHOOD IN THE US, IT IS EVIDENT THAT A GROWING NUMBER OF ONLINE BROKERS HAVE PUT THESE STEPS TO GOOD USE, BOLSTERING THEIR DIGITAL OFFERING TO ATTRACT NEW RETAIL INVESTORS TO THEIR PLATFORM WHILE PRYING AWAY OLD ONES FROM THEIR TRADITIONAL PEERS
PERFORMANCE SNAPSHOT

Through delivering a seamless digital customer proposition, leading digital-centric brokers have defied an onslaught of industry headwinds in recent years, seeing their revenues skyrocket by double- and triple-digit CAGRs from 2019-21, with a number of firms delivering healthy profit margins (see Figure 23).

FIGURE 23: REVENUE (2019-21, USD MILLION)

The vast swaths of customers that many low-cost online brokers have amassed in only a few years, numbering in the single and double-digit millions, further corroborates the success of their innovative efforts and the fundamental threat that they pose to traditional brokerage models.

Note: HotForex and M1 Finance have been excluded as they are not publicly listed and therefore do not circulate their financials.
Source: company disclosures, macrotrends, Moneycontrol, Quinlan & Associates analysis
OVERVIEW

While embracing the steps outlined above may greatly help a fading traditional broker convert into a modern-day online disruptor, there remains stiff industry competition over customer heart-share and mind-share. Consequently, the depth and quality of on-ground execution becomes a key factor in play.

As traditional brokers look to chart the digital transformation journey, there are five key operational enablers that will play an essential role in their quest to remain relevant in today’s digital era, namely:

1. Talent management;
2. Technological capability;
3. Risk management;
4. Regulatory compliance; and
5. Data management (see Figure 24).

FIGURE 24: KEY OPERATIONAL ENABLERS

<table>
<thead>
<tr>
<th>OPERATIONAL ENABLER</th>
<th>UNDERLYING THEMES</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Talent Management</td>
<td>• Innovation-driven culture</td>
<td>Acquire and retain digitally-adept talent in order to build a digital-first environment that embraces innovation</td>
</tr>
<tr>
<td></td>
<td>• Digital-first mindset</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Talent management</td>
<td></td>
</tr>
<tr>
<td>Technological Capability</td>
<td>• Blank slate tech stack</td>
<td>Build a renewed IT infrastructure to replace legacy systems, with continued investments into R&amp;D and forging technological partnerships</td>
</tr>
<tr>
<td></td>
<td>• R&amp;D investments</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Open API infrastructure</td>
<td></td>
</tr>
<tr>
<td>Risk Management</td>
<td>• Digital customer onboarding</td>
<td>Ensure holistic risk management across the customer journey, including customer onboarding and ongoing monitoring</td>
</tr>
<tr>
<td></td>
<td>• Ongoing monitoring</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Incident response</td>
<td></td>
</tr>
<tr>
<td>Regulatory Compliance</td>
<td>• Customer-facing</td>
<td>From marketing via permissible channels with proper disclosures to complying with anti-trust regulations when creating a financial super app</td>
</tr>
<tr>
<td></td>
<td>• Non-customer-facing</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Jurisdiction-based</td>
<td></td>
</tr>
<tr>
<td>Data Management</td>
<td>• Connectivity</td>
<td>Develop a single connectivity platform, utilise cloud data storage, leverage data analytics tools, and adopt cybersecurity measures</td>
</tr>
<tr>
<td></td>
<td>• Cloud</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Data analytics and cybersecurity</td>
<td></td>
</tr>
</tbody>
</table>

Source: Quinlan & Associates analysis
1. TALENT MANAGEMENT

As outlined earlier in this report, traditional brokers need to overcome existing cultural barriers – namely, resistance to change – to enshrine an innovation-driven culture. The fact is, adopting a digital-first mindset is a critical foundation to any company looking to successfully implement large-scale digital transformation efforts.

To that end, the present workforce at traditional brokers may not be well-equipped and / or adequately trained in technology to lead digital transformation efforts. This not only requires building a robust pipeline of new technological talent, but it also entails a fundamental re-skilling of existing employees.

Carving out of an effective talent strategy, which encompasses a wide variety of factors, ranging from human resources (“HR”) operating model set-up to workforce planning, as discussed in our report, *The Human Factor*,22 is an essential ingredient in the successful delivery of not only the target end state business model, but the change management required to get there.

2. TECHNOLOGICAL CAPABILITY

Most traditional brokers are laggards when it comes to technological innovation, relying heavily upon external vendors to supply their technological needs rather than investing into their own internal R&D efforts.

While sourcing technology from a vendor may provide short-term benefits, including cost-effectiveness and a faster time-to-market, the lack of bespoke technological development and huge waiting periods for the rollout of the latest technology can end up being more costly in the long-run. This has left many brokers saddled with legacy systems, as opposed to today’s new digitally native online brokers who are deploying cutting-edge technologies on their platforms.

Any meaningful digital transformation will have to be borne out of robust technological capabilities. Consequently, traditional brokers may evaluate whether to organically build their tech stack from the ground up, acquire an online broker with readymade digital capabilities, or opt for the partnership route, where they can look to leverage open application programming interface (“API”) infrastructure.

3. RISK MANAGEMENT

As traditional brokers make the switch from offline to online, prevailing risk management dynamics change as well, in terms of both customer onboarding as well as ongoing monitoring.

Whereas traditional brokers rely on paper-based forms and hardcopy submission of various customer documents, with the end-to-onboarding process taking days (if not weeks) to complete, online brokers are able to onboard customers in a matter of minutes, leveraging eKYC technology such as facial recognition and OCR for validation of customer identity and documentation, and cross-checking against databases to confirm whether a customer is on a sanctions list, among other forms of technology.

Post-onboarding, traditional brokers will require advanced surveillance technology to monitor their digital platforms in a bid to safeguard against market abuse. All-in-all, we believe traditional brokers need to digitally automate the majority of their offline and manual risk management processes, allowing for process streamlining while reducing the risk of manual errors.

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4. REGULATORY COMPLIANCE

From a regulatory perspective, as brokers take the digital route, there are a number of regulatory compliance considerations, both customer- and non-customer facing, that they need to be cognisant of:

1. Marketing restrictions;
2. Marketing disclosures;
3. Gamification guardrails;
4. Data privacy safeguards;
5. Appropriate licensing; and
6. Anti-trust regulations (see Figure 25).

FIGURE 25: REGULATORY CONSIDERATIONS

Marketing Restrictions
Review of constraints on marketing, such as prohibition of advertising digital assets to retail investors

Marketing Disclosures
Use of proper disclosures across permissible channels, such as finfluencer marketing

Gamification Guardrails
Brokers should be mindful of drawing similarities to gambling when incorporating game-like features

Data Privacy Safeguards
As more and more customer data is collected digitally, proper safeguards need to be in place

Appropriate Licensing
If venturing into a new arena like robo advisory, brokers will need to secure additional licenses

Anti-trust Regulations Approval
In the event of an inorganic acquisition, such as to build a financial super app, anti-trust laws should be kept in mind

Customer-Facing Non-Customer-Facing

Source: Quinlan & Associates analysis
MARKETING RESTRICTIONS

Moving along the customer journey, brokers should first and foremost note any constraints around the marketing of their services, particularly with respect to their choice of advertising channels. For instance, in Singapore, brokers have been barred by the Monetary Authority of Singapore (“MAS”) from marketing cryptocurrencies to the general public via public transport, public transport venues, public websites, social media platforms, broadcast and print media, or on physical auto teller machines (“ATMs”).

Marketing disclosures

Even for compliant channels, proper disclosures need to be made. For example, when employing influencers, brokers should ensure that the influencer makes appropriate disclosures, as 14% of influencer content lacks use of adequate disclosures and 52% of influencers are found to publish at least one misleading video. The Australian Securities and Investments Commission (“ASIC”) reported that 33% of 18-21-year-olds follow financial influencers and 64% of Australian youngsters’ financial behaviour has been influenced by influencers. Consequently, in a recent information sheet, ASIC outlined that influencers that mislead or deceive their audience may incur heavy fines and face up to five years’ imprisonment.

Brokers also need to be aware of mandatory disclosures that are required to existing customers. For instance, United Kingdom (“U.K.”)-based Trading 212 is required by law to notify prospective CFD investors about the proportion of their retail customers who have lost money trading CFDs with them over the prior 12 months.

GAMIFICATION GUARDRAILS

When looking to drive higher engagement rates, brokers should remain wary of a regulatory clampdown on aspects such as gamification, as noticed in the case of Robinhood, which took down its digital confetti animation for celebrating trades after facing intense scrutiny and allegations of investing becoming more like gambling.

APPROPRIATE LICENSING

As brokers broaden their suite of product / service offerings, they need to ensure that relevant licensing approvals are in place. Digital assets are one such area where regulations are still in flux, requiring caution from brokers planning to dip their toes into the cryptocurrency arena. Likewise, if a broker is aiming to expand towards robo advisory, a review of relevant licensing requirements should be conducted. In the case of fractional shares too, given that the liquidity of such investments is not guaranteed (and many brokers do not allow transfer of fractional shares to another broker), regulatory requirements must also be carefully considered.

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DATA PRIVACY SAFEGUARDS

Brokers must also be cognisant of how they collect and use their customer data, depending on the jurisdiction(s) in which they operate. One of the most prominent data regulations is the European Union’s (“EU’s”) General Data Protection Regulations (“GDPR”), outlined in our previous report, *The Real Lingua Franca (Part 1/2)*. In addition to providing data management guidelines across the value chain, from collection to disposal, the GDPR framework also establishes a standard for data protection and a long list of compliance requirements.

ANTI-TRUST REGULATIONS APPROVAL

For brokers attempting to transform their online platform into a financial super app to cater to a broader variety of customers’ financial needs, anti-trust regulations need to be kept in mind for brokers opting for an inorganic route via M&A activity.

5. DATA MANAGEMENT

One of the most important components of digital transformation is data. In order to enhance data management across the entire data value chain, brokers should develop: (1) a single connectivity platform; (2) cloud storage capabilities; (3) data analytics tools; and (4) cybersecurity capabilities.

In terms of data connectivity, brokers should build a solid foundation of data cataloguing, with their systems connected under the umbrella of a single platform.

In addition, they should develop cloud storage capabilities by partnering with third-party providers, such as Amazon Web Services (“AWS”) and Microsoft Azure. Instead of creating brick-and-mortar data infrastructure that requires physical space and operational resources, companies can migrate their data lakes and data warehouses to the cloud. This ensures that data can be stored in a cost-effective manner, improving elasticity and scalability, bypassing the need to purchase physical infrastructure.

The use of an API interface can help connect various IT systems, allowing data analytics to be carried out in a centralised – and thereby efficient – manner. Moreover, various data analytics tools should be leveraged to enhance product development and customer experience. For example, by analysing the points of friction across the UX, amongst the various features available on the online platform, brokers can identify and improve upon areas suffering from significant friction to create a smoother user experience.

Finally, given the increasing threat of data leakages or cyberattacks, brokers should implement comprehensive cybersecurity measures. To counter the occurrence of such events, brokers should set up a 24/7 monitoring centre, with black and white hat teams responsible for carrying out security testing (i.e. black hat teams would assume the role of a hacker in a bid to discover any potential vulnerabilities, while white hat teams would act as defenders who help fix vulnerabilities and guard against cyberattack.)
SECTION 5
CASE STUDY – ANGEL ONE

OVERVIEW

Founded by Dinesh Thakkar in 1987, Angel One, then known as Angel Broking, was set-up as a full-service traditional broker in India. Headquartered in Mumbai, it provided retail and corporate brokerage services as well as wealth management solutions.

By 2013, Angel One amassed more than 100,000 active customers, emerging as one of the top 10 brokers in India, raking in sizeable revenues and profits. However, the disruptive entry of online brokers served as a rude awakening for the business, with customer growth stagnating and profits contracting. These challenges prompted Angel Broking to undergo a period of digital transformation, shifting its core focus from physical to hybrid, and eventually digital. This transition has helped Angel Broking recapture its previous growth trajectory and set itself up for the digital age. Rebranding as Angel One, the once traditional broker has reinvented itself into a nimble and digital-centric FinTech that has emerged as the third largest broker in India, with almost eight million customers, of which over three million are active customers (see Figure 26).

These challenges prompted Angel Broking to undergo a period of digital transformation, shifting its core focus from physical to hybrid, and eventually digital. This transition has helped Angel Broking recapture its previous growth trajectory and set itself up for the digital age. Rebranding as Angel One, the once traditional broker has reinvented itself into a nimble and digital-centric FinTech that has emerged as the third largest broker in India, with almost eight million customers, of which over three million are active customers (see Figure 26).

FIGURE 26: FROM ANGEL BROKING TO ANGEL ONE

Source: Angel One, Quinlan & Associates analysis
RISE TO PROMINENCE

Since its founding in 1987, Angel Broking positioned itself as a traditional broker. With a primary focus on tier-1 cities like Delhi, Mumbai, and Bangalore, Angel Broking targeted middle-aged middle and upper-middle class males, with a full-service proposition. Charging a percentage-based fee on each trade, Angel Broking leveraged a sizeable workforce of relationship managers to service customers via in-person meetings and over-the-phone conversations (see Figure 27).

FIGURE 27: ANGEL ONE’S RISE TO PROMINENCE (2013)

Although this traditional stockbroking model saw Angel Broking emerge as one of the top 10 brokers in India by 2013, servicing 140,174 customers, generating INR 3.0 billion in revenues, and raking in INR 91.6 million in profits, it left the company ripe for disruption with the arrival of online brokers.30

SHARP DOWNFALL

Angel Broking’s ill-preparedness for the digital age began to reflect in its performance, with customer growth slowing down to just north of 3% between 2013-15 and profits shrinking by 30% to INR 64.2 million in 2014. The chief causes behind this pullback was the arrival of online brokers in the market, coupled with Angel Broking’s lack of technological prowess (see Figure 28).

FIGURE 28: ANGEL ONE’S DOWNFALL (2013-15)

<table>
<thead>
<tr>
<th>Stagnant Customer Growth</th>
<th>Declining Revenue</th>
<th>Shrinking Profitability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer growth remained stagnant, with customer market share plateauing at ~3.2 - 3.3% between FY 13 and FY 15</td>
<td>As such, Angel Broking saw a significant decline in revenue, falling from INR 3.0 billion in FY 13 to INR 2.1 billion in FY 14</td>
<td>The firm also experienced shrinking profitability, which plummeted from INR 91.6 million to merely INR 64.2 million</td>
</tr>
</tbody>
</table>

Source: Angel One, TopShareBrokers, Moneycontrol, Quinlan & Associates analysis

1. DISRUPTIVE COMPETITION

While the leading brokers in India back in 2013 were all traditional brokers, online brokers like Zerodha had begun to make their presence felt. This marked a significant shift in customer behaviour, from offline to online channels, as mobile-based transaction turnover on the National Stock Exchange (“NSE”) more than doubled from INR 508 billion to INR 1.2 trillion between August 2014-15.33

A number of online brokers started entering the fray, noticing a window of opportunity to disrupt their traditional counterparts, leading to intensifying competition that threatened to gobble up traditional brokers that were unable to adapt quickly enough.

2. LACK OF DIGITAL READINESS

Against this backdrop of creative destruction in the industry, Angel Broking was particularly vulnerable. It not only lacked the deep pockets of other top-notch traditional brokers to be able to weather out the storm, such as HDFC Securities and Kotak Securities, which were backed by banks, but also paled in comparison to the up-and-coming online brokers in terms of technological prowess.

For instance, Angel Broking had established a network of 180 branches across India, relying primarily upon its workforce of relationship managers to acquire customers and onboard them. Rife with inefficiencies due to manual workflows, activities such as customer onboarding proved not only time consuming but also costly. Over time, its vast network of physical branches, which acted as the backbone of its expansion, began to turn into a liability.

REBRANDING AS ANGEL ONE, THE ONCE TRADITIONAL BROKER HAS REINVENTED ITSELF INTO A NIMBLE AND DIGITAL-CENTRIC FINTECH THAT HAS EMERGED AS THE THIRD LARGEST BROKER IN INDIA, WITH ALMOST EIGHT MILLION CUSTOMERS

DIGITAL TRANSFORMATION

Recognising the dire need for change, Angel Broking decided to pursue a comprehensive digital transformation journey, aimed at future-proofing its outdated business model. As part of this revamp, it ushered in wholesale changes across the customer value chain (see Figure 29).


<table>
<thead>
<tr>
<th>BEFORE</th>
<th>AFTER</th>
</tr>
</thead>
<tbody>
<tr>
<td>IDENTIFY</td>
<td>• Targeted middle-aged customers belonging to the middle</td>
</tr>
<tr>
<td></td>
<td>and upper-middle class from tier-1 cities like Delhi,</td>
</tr>
<tr>
<td></td>
<td>Mumbai, and Bangalore</td>
</tr>
<tr>
<td>ACQUIRE</td>
<td>• Concentrated advertising efforts towards traditional</td>
</tr>
<tr>
<td></td>
<td>channels such as television (TV) and out-of-home (OOH)</td>
</tr>
<tr>
<td></td>
<td>advertising</td>
</tr>
<tr>
<td>ENGAGE</td>
<td>• Primarily relied on relationship managers (RMs) to drive</td>
</tr>
<tr>
<td></td>
<td>conversations over the phone or during in-person meetings</td>
</tr>
<tr>
<td>SERVICE</td>
<td>• Customers leaned towards RMs from a network of 180</td>
</tr>
<tr>
<td></td>
<td>branches to receive personalised financial advice on how</td>
</tr>
<tr>
<td></td>
<td>to manage their wealth</td>
</tr>
<tr>
<td>MONETISE</td>
<td>• Leved percentage-based commissions as a proportion of the</td>
</tr>
<tr>
<td></td>
<td>total trading volume to monetise customers / generate</td>
</tr>
<tr>
<td></td>
<td>revenues</td>
</tr>
<tr>
<td>MAINTAIN</td>
<td>• RM-based handholding of customers on a regular basis,</td>
</tr>
<tr>
<td></td>
<td>primarily through phone calls and physical / in-person</td>
</tr>
<tr>
<td></td>
<td>meetings</td>
</tr>
<tr>
<td>ENVELOP</td>
<td>• Levied percentage-based commissions as a proportion of the</td>
</tr>
<tr>
<td></td>
<td>total trading volume to monetise customers / generate</td>
</tr>
<tr>
<td></td>
<td>revenues</td>
</tr>
<tr>
<td></td>
<td>• RM-based handholding of customers on a regular basis,</td>
</tr>
<tr>
<td></td>
<td>primarily through phone calls and physical / in-person</td>
</tr>
<tr>
<td></td>
<td>meetings</td>
</tr>
<tr>
<td></td>
<td>• Built ARQ Prime, a machine learning engine to provide</td>
</tr>
<tr>
<td></td>
<td>real-time, tailor-made recommendations to its customers</td>
</tr>
<tr>
<td></td>
<td>• Charges flat commission for equity (intraday only),</td>
</tr>
<tr>
<td></td>
<td>futures, and options trades, along with various ancillary</td>
</tr>
<tr>
<td></td>
<td>charges</td>
</tr>
<tr>
<td></td>
<td>• Offers Smart Buzz, a business news app with custom</td>
</tr>
<tr>
<td></td>
<td>watchlists, along with various other forms of content</td>
</tr>
<tr>
<td></td>
<td>provision</td>
</tr>
</tbody>
</table>

NEXT STEP

Source: Angel One, Quinlan & Associates analysis
1. IDENTIFY

Angel Broking used to target middle-aged customers in the middle and upper-middle class strata, primarily residing in tier-1 cities such as Delhi, Mumbai, and Bangalore. This target demographic has morphed completely, as Angel One today sources more than half of its customer base from tier-3 cities, who are also younger at around 30 years of age, on average.  

2. ACQUIRE

While Angel Broking previously leveraged television (“TV”) commercials and out-of-home (“OOH”) advertising, Angel One now focuses primarily on digital marketing. It has also launched ‘Smart Money’ (an educational platform for maturing prospective customers), ‘Amplifiers’ (a finfluencer platform), and offered joining rewards in the form of discount vouchers for third-party offerings. As a result of its digital marketing efforts, Angel One garnered 398 million digital impressions in the month of June 2020 alone.

3. ENGAGE

With a network of 180 branches spread across India, Angel Broking would leverage its physical presence to engage with customers via RMs. However, following its digital transformation to Angel One, it rapidly wound down its physical branches in favour of mobile app-based customer engagement and introduced zero-commission trading. As a result, more than 75% of customer orders are now being placed via its mobile app.

4. SERVICE

While Angel Broking’s customers would lean on its army of RMs for personalised financial advisory on where to invest, the rebranded Angel One has built ‘ARQ Prime’, a machine learning engine that can provide customers with automated personalised financial advice. It has also partnered with smallcase to offer model portfolios to its customers.

5. MONETISE

In its early years, Angel Broking leveraged a traditional, percentage-based commission model, where it levied a proportional charge based on the customer’s trading volume. Now, having embraced zero-commission trading for equities, it charges a flat fee for F&O and intraday equity trades, in addition to a host of ancillary fees.

6. MAINTAIN

Unlike before, when it was reliant upon RMs for handholding of customers, today Angel One leverages a suite of digital products. As part of its portfolio of mobile apps, it offers Smart Buzz, which helps investors track market news from all top financial publications within a single streamlined feed. Customers can also create a custom watchlist, where they can add stocks, businesses, and sectors that they wish to track. In addition, it also launched ‘BEEChat’, an artificial intelligence (“A.I.”)-based chatbot that harnesses the power of data analytics.

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REVIVAL OF FORTUNES

Propelled by its successful digital transformation, newly christened Angel One has zoomed to 7.78 million customers as of 2021, a stellar multi-fold increase from its pre-transformation customer base. Moreover, a significant proportion of these customers are actively engaged, increasing by 7.8x from 0.4 million in Q1 FY20 to 3.1 million in Q3 FY22 (see Figure 30).

FIGURE 30: ANGEL ONE ACTIVE CUSTOMERS (Q1 2020 - Q3 2022, # MILLION)

Note: each year refers to Angel One’s Fiscal Year (“FY”), ranging from April of the preceding year to March of the current year
Source: Angel One, Quinlan & Associates analysis
The rapid increase in customer count has also translated into robust growth in market share, with Angel One catapulting from sixth place in Q3 FY20 with 4.9% market share of active customers trading on the NSE to third place in Q3 FY22, almost doubling its market share to 9.7% (see Figure 31).

**FIGURE 31: ACTIVE CUSTOMERS MARKET SHARE (Q1 2020 - Q3 2022, %)**

Note: each year refers to Angel One’s Fiscal Year (“FY”), ranging from April of the preceding year to March of the current year

Source: Angel One, Quinlan & Associates analysis
The resulting gains in customer market share have driven a multi-fold increase in turnover across the spectrum of securities serviced by Angel One in under three years, with market share in equity trading growing by 3.5x, futures & options (“F&O”) trading growing by 3.7x, commodities trading growing by 1.9x, and doubling in the cash market segment (see Figure 32).

**FIGURE 32: RETAIL AVERAGE DAILY TURNOVER MARKET SHARE (Q1 2020 - Q3 2022, %)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Overall</th>
<th>Futures &amp; Options</th>
<th>Cash Market</th>
<th>Commodities</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>Q1 3.7%</td>
<td>3.4%</td>
<td>12.7%</td>
<td>12.4%</td>
</tr>
<tr>
<td></td>
<td>Q2 4.7%</td>
<td>4.4%</td>
<td>13.8%</td>
<td>14.5%</td>
</tr>
<tr>
<td></td>
<td>Q3 5.9%</td>
<td>5.6%</td>
<td>14.3%</td>
<td>19.1%</td>
</tr>
<tr>
<td></td>
<td>Q4 6.9%</td>
<td>6.7%</td>
<td>14.0%</td>
<td>20.9%</td>
</tr>
<tr>
<td>2021</td>
<td>Q1 8.2%</td>
<td>7.8%</td>
<td>17.3%</td>
<td>24.6%</td>
</tr>
<tr>
<td></td>
<td>Q2 12.3%</td>
<td>12.1%</td>
<td>18.3%</td>
<td>28.4%</td>
</tr>
<tr>
<td></td>
<td>Q3 16.1%</td>
<td>16.1%</td>
<td>17.6%</td>
<td>26.8%</td>
</tr>
<tr>
<td></td>
<td>Q4 20.8%</td>
<td>20.9%</td>
<td>16.3%</td>
<td>25.5%</td>
</tr>
<tr>
<td>2022</td>
<td>Q1 22.7%</td>
<td>22.9%</td>
<td>13.8%</td>
<td>25.8%</td>
</tr>
<tr>
<td></td>
<td>Q2 21.2%</td>
<td>21.3%</td>
<td>14.0%</td>
<td>27.7%</td>
</tr>
<tr>
<td></td>
<td>Q3 20.9%</td>
<td>20.9%</td>
<td>14.2%</td>
<td>36.4%</td>
</tr>
</tbody>
</table>

Note: each year refers to Angel One’s Fiscal Year (“FY”), ranging from April of the preceding year to March of the current year. Source: Angel One, Quinlan & Associates analysis.
Consequently, quarterly gross revenues have surged to INR 6.1 billion (~USD 81 million) and profits after tax (“PAT”) have surpassed INR 1.6 billion (~USD 21 million), up by 3.3x and 5.9x from two years earlier, respectively, with robust double digit quarterly growth (see Figure 33).

**FIGURE 33: GROWTH IN REVENUE & PROFIT (Q1 2020 - Q3 2022)**

Note: each year refers to Angel One’s Fiscal Year (“FY”), ranging from April of the preceding year to March of the current year
Source: Angel One, Quinlan & Associates analysis
FUTURE AMBITIONS

Having completed a roaring comeback, Angel One is now looking to pursue the next step of the value chain (i.e. envelop). In order to create a one-stop solution servicing various financing needs, it is building a holistic proposition that incorporates investment offerings along with other financial services (see Figure 34).

FIGURE 34: FUTURE AMBITIONS

While Angel One already offers a host of financial services, these are quite fragmented across different platforms. Hence, the broker is looking to bring them together in a single platform that can satisfy the various financial needs of its customers.

To that end, besides offering equity trading, Angel One is also looking to incorporate mutual fund investments, to take advantage of the booming investor interest in Systematic Investment Plans ("SIPs") in India. Going beyond investment offerings, Angel One has also been touted to offer lending products and insurance schemes on the same platform as well. All-in-all, Angel One may be looking to form a closed ecosystem that will allow it to plug any points of revenue leakage across its customers’ personal finance journeys.
SECTION 6
CONCLUSION

It is becoming increasingly clear that time is fast running out for traditional brokers to adapt to the new digital reality that customers are increasingly expecting of them.

While the brokerage industry has shifted from physical interactions between RMs and customers being the norm to mobile-based investment platforms for self-servicing and automated personalised advisory being the new norm, many players have missed the train. While there are numerous reasons behind their complacency towards digitally transforming, ranging from monetary to cultural barriers, alternative measures to defend against the wave of digital disruption are nothing more than a race to the bottom.

To make matters worse, traditional brokers are also missing out on a vast wave of new retail investors joining financial markets. A shift to digital channels would have allowed them to not only capture these new customers in their present geographic market, but also expand further into new regions without having to incur the scalability barriers posed by a physical branch / RM-centric model.

As a result, traditional brokerage models are now finding themselves in the crosshairs of online disruptors, which are well-positioned to prize away their legacy customers with low-cost pricing models and a seamless digital user experience. This disruption is likely to become even more pronounced when a generational wealth transfer occurs, leading to sizeable customer churn.

We believe over two-thirds of traditional retail brokers are expected to close shop or be forced to undertake a major digital revamp within the next six years. For those embarking on the digital transformation route, quality of execution (and hence outcomes) are likely to vary significantly, which will likely push even more brokers out of business down the line.

With bleak prospects ahead of them, traditional retail brokers must fundamentally reinvent their business models with a digital-first approach, necessitating wholesale changes across the entire customer value chain. Among other things, this would include a shift towards targeting the youth, moving away from physical branches for customer acquisition and servicing, driving customer engagement through delivering a high-quality digital user experience, carving out of a differentiated product / service proposition, monetising customers through non-traditional pricing models, regular maintenance via digital channels and, for some, the creation of a super app.

This endeavour is, of course, easier said than done, requiring not only a sound and differentiated strategy, but robust execution capabilities for successful implementation.

However, with their entire business model at stake, we believe now is the time for traditional retail brokers to consider Going For Broke.
Quinlan & Associates (“Q&A”) has extensive experience working with leading global financial institutions and FinTechs on end-to-end corporate strategy development, operating model design, and implementation planning, with a focus on digital transformation. In the retail brokerage space, our project work involves supporting our clients across the entire strategy spectrum:

1. **STRATEGY DEVELOPMENT**

Support brokers in the development of their end-to-end growth strategies:

- Review industry, market, and regulatory developments to identify key opportunities across the value chain, including market sizing of specific revenue opportunities
- Conduct detailed industry analysis (e.g. market sizing) and competitive benchmarking to identify capability gaps (e.g. geographies, industries, products, internal processes, etc.) against relevant peers and industry best practices
- Develop suitable marketing (e.g. promotion tactics, incentivisation schemes, etc.) and channel distribution strategies, including direct and indirect distribution
- Craft robust and competitively differentiated customer segmentation, acquisition, experience, and relationship management strategies
- Support the design and development of new product / service offerings
- Develop suitable pricing strategies, including both pricing models (e.g. subscription, one-off, etc.) and pricing levels (i.e. specific charges / pricing schedules)
- Formulate an end-to-end data strategy across the full data lifecycle to improve marketing campaigns, cross-selling, product development, and data protection, etc.
- Develop a comprehensive business case, outlining fully loaded costs and revenues based on anticipated demand levels, pricing, and resource requirements
- Explore inorganic growth opportunities, identifying relevant industry entry options and/or potential M&A targets / acquirers
- New market entry analysis across the full spectrum of strategic and operational considerations

2. **OPERATING MODEL DEVELOPMENT**

Develop or review the operating model in detail to identify potential adaptations that may be required for existing policies, processes, and systems:

- Develop an end-to-end target operating model (“TOM”)
- Create an overall implementation plan, including supporting budgets
- Provide ongoing implementation support
- Develop a talent strategy (e.g. talent pipeline, compensation, L&D frameworks, etc.)
- Forecast front-to-back headcount needs based on corporate growth strategy
- Establish key functional requirements, responsibilities, organisational structure, and required budgets
- Review data governance protocols regarding access and usage of customer data
- Analyse need for potential upgrades to cybersecurity capabilities
- Review relevant risk management process, including management information systems, periodic assessments for risk monitoring and reporting, etc.
3. CORPORATE TRAINING

Conduct in-person corporate training and coaching programmes to equip clients’ employees with the necessary knowledge and capabilities to support cultural and mindset changes:

- Provide world-class employee training workshops (on areas including specific compliance topics and broader cultural change programmes), focusing on turning concepts into actions, and committing actions to practice
- Engage team managers in dedicated coaching programmes, creating actionable plans for them to inspire and champion for good business conduct within their teams and divisions
- Assess business performance improvements attributable to mindset and behaviour changes from training and coaching efforts, and further fine-tune the programme
ABOUT US

Quinlan & Associates is a leading independent strategy consulting firm specialising in the financial services industry.

We are the first firm to offer end-to-end strategy consulting services. From strategy formulation to execution, to ongoing reporting, communications, and employee training, we translate cutting-edge advice into commercially executable solutions.

With our team of top-tier financial services and strategy consulting professionals and our global network of alliance partners, we give you the most up-to-date industry insights from around the world, putting you an essential step ahead of your competitors.