



Vanguard Innovation Studio & Mack Institute for Innovation Management

2019 Innovation Challenge

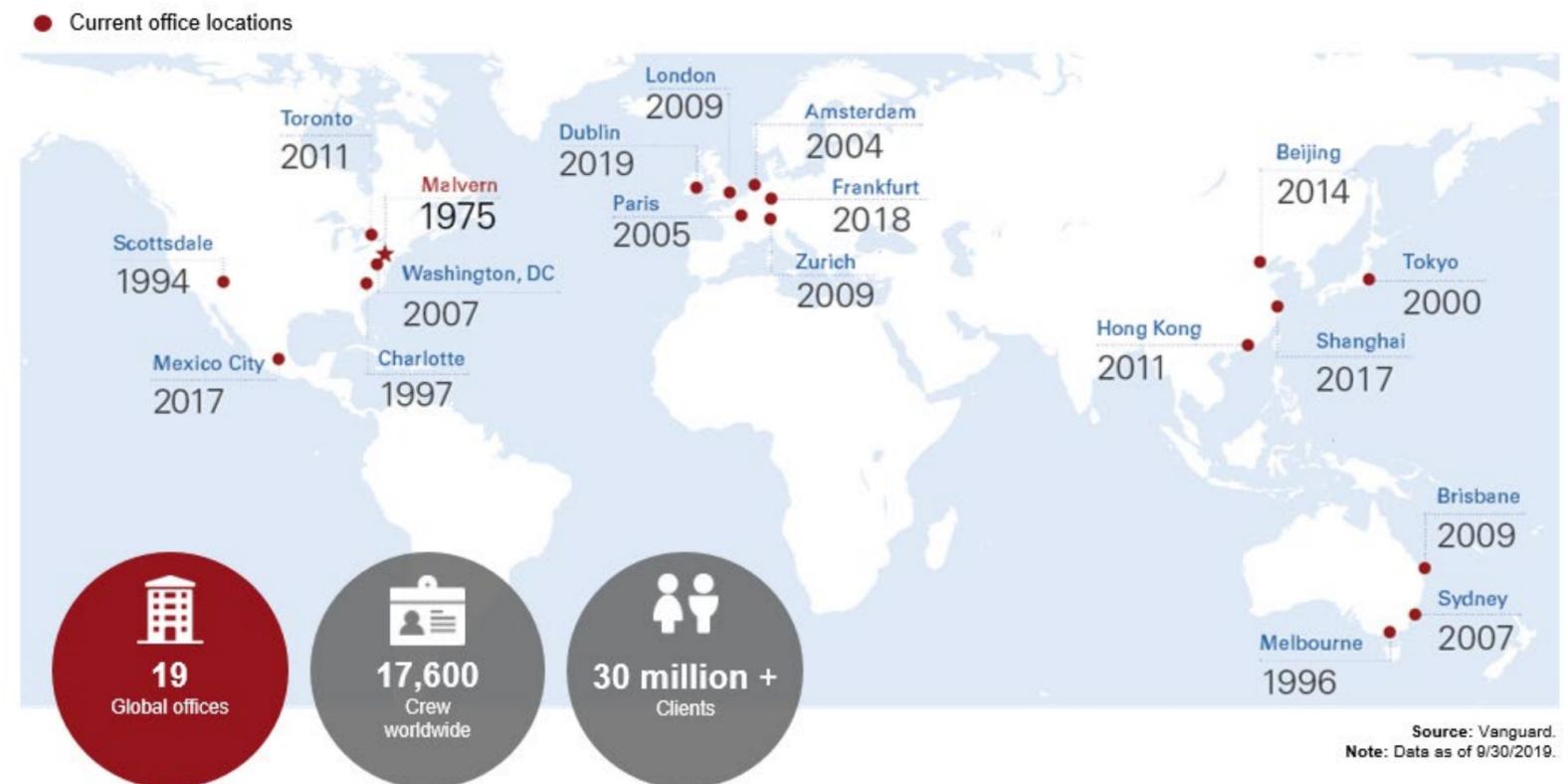
November 2019

Vanguard®
innovation
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Vanguard Background

In 1975, Vanguard was founded on the idea that an investment company should be managed in the sole interest of its shareholders.

Since then, Vanguard has grown globally and amassed \$5.7T in assets under management.





Mission & Organizational Structure

“To take a stand for all investors, to treat them fairly, and to give them the best chance for investment success.”

Vanguard has four business units:

Retail Investor Group

Serves Vanguard's retail clients—including high net worth clients—by providing advice, brokerage, and annuity products

Institutional Investor Group

Serves institutional clients and financial advisors, as well as plan sponsors and participants; provides expertise on participant behavior and legal, compliance, and fiduciary issues for retirement plans

Financial Advisor Services

Provides services and investment products to Vanguard's financial advisor clients, including broker-dealers, asset managers, bank trust departments, registered investment advisers, and insurance companies

International

Partners with teams throughout the company to extend the Vanguard value proposition into global markets; comprised of 4 regions - Asia, Americas (non-U.S.), Europe, and Australia



Challenge Overview

Eligibility & Team Size

Wharton MBA and UPenn Grad students interested in FinTech and the future of financial services are welcome to participate

Teams to be comprised of 3-5 students each

Key Dates

Registration Portal Opens: 11/11

Q&A Session: 11/14

11/14 – 12/8: Submission portal closes at 11:59pm on 12/8

Week of 12/9: Finalist teams selected and present to Vanguard Innovation Studio

Prize Money

First Prize: \$7,500

Second Prize: \$5,000

Third Prize: \$2,500

Questions?

Please contact the Mack Institute:
mackinstitute@wharton.upenn.edu

Deliverables

First-Round Submission: 3-5 slide deck

Finalist Presentation: 15-20 minute presentation using slides from first-round submission

- Vanguard retains exclusive ownership rights over any company intellectual property or proprietary information shared with the teams.

- To the extent that the challenge presentation or other deliverables contain any new intellectual property independently developed by the teams, the teams grant Vanguard a worldwide, perpetual, royalty-free, and unlimited license to use, modify, reproduce, create derivative works from, sublicense, and commercialize the new intellectual property.



Challenge Instructions

On the following pages, we have detailed out 5 “problem spaces” - areas where we have uncovered particularly salient issues that affect investors today. We have also included some of the insights gleaned by our research to provide additional color. You can use these insights, conduct independent research, or do both

Please select one of the 5 and devise a solution that will help solve this problem. It can be a financial technology product, service, and/or new business model. In addition to the details of **what** you propose, we are also interested in **how** you landed on this concept. ***You do not have to actually build the solution you are proposing***

Specifically, we are looking for you to address the below questions in your deliverables:

“What”

- Describe the solution you are proposing. What is the value proposition of this product?
- What is the product roadmap and feature set? Which features resonate the most?
- Who is your design target and who are you solving for? Why and how did you select this design target? What are their needs and pain points?
- How feasible is this solution? What needs to be assessed?
- What is the market size of the opportunity and solution?
- What is the path to monetization?
- How does this solution benefit Vanguard?
- What are the risks to Vanguard if we don't pursue this?

“How”

- Why did you choose this particular prompt?
- Describe your process for solving the problem
- What were the broader set of solutions that were considered?
- What was your selection criteria to pick the solutions you ultimately moved forward with? What was your process to prioritize ideas?



Challenge # 1 - Retirement of the Future

Challenge

How might we serve the retirement and investment needs of non-traditional employees (NTEs)?

Context

NTEs are a diverse group encompassing many life and employment situations (e.g., entrepreneurs, freelancers, contract employees, employees at smaller companies that don't offer retirement plans). They do not receive sponsored benefits from an employer, and the absence of this structure coupled with the uncertainty in earnings they often face may leave them unprepared for retirement and unable to reach their financial goals.

Insights

Our research has unveiled the following insights:

- For NTEs that love what they do, they never see themselves retiring. Work is their identity and retirement signifies giving up their identity and purpose
- Contract employees see every dollar they earn, since there are no pre-tax deductions. The advantages of contributing to an IRA are less obvious when contributions are post-tax and there is no employer match. As such, allocating money to retirement feels like a financial loss rather than an investment in their future
- Several retirement investment options are available (SEP, SIMPLE), but NTEs aren't always aware of them and may struggle to determine which option is best
- NTEs often view their businesses and investments as the likeliest source of retirement income, and prefer these over traditional vehicles. They don't realize this is inherently risky and often assume they will be able to sell or profitably exit their business, which may not be the case



Challenge # 2 - Future of Cash Management

Challenge

How might we help clients find an optimal solution for managing cash?

Context

Investors have a complex relationship with cash - they know they have to keep their cash somewhere but struggle to find the “right” place. Furthermore, they view cash as a security blanket and are not sure what the right amount to have is. This confusion is exacerbated by the fact that increased usage of digital payments and credit cards decrease the need for physical cash.

Insights

Our research has unveiled the following insights:

- People struggle with budgeting - fixed expenses are relatively easy to predict and manage, but less visibility into variable spending often leads to “excess” cash in bank accounts
- People claim that they value having a bank with a physical location nearby and feel that switching costs are high, despite rarely using them and having minimal personal relationships with the bank
- Clients view cash as insurance against catastrophic events rather than means for earning returns. As such, complete and instant access to their funds is more important than returns because it creates a sense of safety
- Certain life milestones force investors to reevaluate their relationship with cash - e.g., having a child can impact banking relationships, paying off a mortgage increases cash flow, and people nearing retirement are uncertain of the best way to draw down



Challenge # 3 - Client Experience of the Future

Challenge

How might we design an experience that encourages investors to make investment decisions more confidently?

Context

The complexity of investing coupled with the fear of making a “mistake” prevent people from investing, despite having unprecedented access to information. Investors get overwhelmed deciding where to focus energy to create the greatest value. Concurrently, a slew of trends are impacting the way people invest, such as personalization, increased self-service, digitalization, and robotics/artificial intelligence.

Insights

Our research has unveiled the following insights:

- People like the clarity and guidelines of basics like an emergency fund or retirement vehicle, but beyond that, they don't know what to do with their money
- People want the control of managing their own investments, but not from scratch. The more choices that are presented, the more we analysis paralysis sets in
- People struggle to articulate their goals, let alone translate them into financial targets
- People understand the opposing ends of the investment horizon, but don't have a clear sense of intermediate term goals and when to save vs. invest
- Investing takes a lot of time and effort - celebrating positive investment choices helps clients enjoy the process and take pride in their accomplishments



Challenge # 4 - Underserved Markets

Challenge

How might we determine which “underserved” market to prioritize, and how can we serve them in a profitable way?

Context

There are areas of opportunity that financial services companies are not focused on. Segmentation techniques are becoming more advanced to keep up with complex customer needs, and being underserved cuts across all demographic groups and behavioral traits. There is a wide range of investor types who consider themselves “underserved”, including women, wealthy individuals, and entrepreneurs.

Barriers to positive financial outcomes go beyond income, service, and cost, and are often mental roadblocks. Over 60% of Americans are financially illiterate and 1 out of every 13 households under-participate in banking and investing due to income volatility and lack of acumen.

Insights

Our research has unveiled the following insights:

- Consumers are often confused by the language of investing, leading them to postpone or avoid action
- Many investors know they should be paying more attention to their finances, but often don't do so until they reach a milestone event that serves as an inflection point to focus on financial well being
- People want the “secret sauce” to be a good investor, but believe their lack of assets or acumen doesn't qualify them as a worthwhile customer for a financial institution
- People turn to friends and family for advice rather than paying for financial advisors. But, as life becomes more complex, they may need a second opinion
- Loss aversion leads investors to dislike losing more than they like winning, and therein prioritize smaller, momentary gains



Challenge # 5 - Family Wealth Dynamics

Challenge

How might we create financial security across multiple generations of a family, while enhancing communication, collaboration, and trust?

Context

The aging population has created a rising need for people to care for their parents. Information sharing across generations about financial considerations typically happens in a crisis, but this information would be better shared earlier, allowing a longer time horizon to process the information and change their investment strategy if needed. Unique family circumstances (sibling dynamics, medical expenses) exacerbate this issue, making it even more uncomfortable to address.

Insights

Our research has unveiled the following insights:

- Parents experience a role reversal due to their need for care and financial support; this shifting dynamic is difficult for them, and often leads to feelings of shame and a loss of dignity
- Often times, information about someone's financial picture must be pieced together by others due to disorganized or outdated information and/or cognitive decline
- Sibling dynamics are extremely nuanced and are often viewed as unequal due to a multitude of factors such as parents providing uneven support to children or children's individual financial circumstances