strategy&

2016 wealth management trends

A revolution both loud and quiet

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About the authors

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Introduction

H.L. Mencken wrote, “It is mutual trust, even more than mutual interest, that holds human associations together.” For wealth managers, Mencken’s words have never been more salient — and the challenge implicit in them has never been greater.

Trust has always been an essential aspect of successful relationships with financial advisors. But today the meaning of trust — how it is fostered and earned — is dramatically changing. Technology; access to data; new analytical tools; and younger, increasingly empowered customers are reshaping the wealth management industry. The fundamental shifts faced by wealth managers can be best described as two revolutions, one loud and the other quiet.

The loud revolution includes several headline-grabbing trends: the huge transfer of wealth under way as baby boomers age and pass their money to the next generation, the rise of automated advice in the form of robo- and virtual advisors, online services offering algorithm-based portfolio management recommendations, and heightened regulatory scrutiny designed to ensure that the financial interests of advisors are not at odds with those of their clients.

Even more important is the quiet revolution, occurring behind the scenes but directly affecting the nature and future of advice itself. This is playing out on several fronts, including the simultaneous increase of both standardization and personalization of advice and the growing demand for innovative ideas about how that advice is arrived at and delivered.

Trust — or the lack of it — is at the heart of this second revolution. Technology advances and regulatory changes have brought new transparency to the wealth management process. No longer is it acceptable for financial professionals to hold clients at arm’s length and to build trust solely on the notion that the wealth manager is the expert. Today, clients want more personal, more real-time, more effortless interactions. They are also less tolerant of historic pain points, such as processes they consider complicated, time-consuming, and risky; not getting adequate support; feeling undervalued and exploited; or being left in the dark and not in control of financial decisions. Customers also feel a fundamental disenchantment about the fees they're paying in exchange for the performance they're getting, which has prompted clients to begin questioning whether their advisors' interests are truly aligned with their own.

Given the demographic shift under way, it's vital that wealth managers get this new trust equation right. The inheritors of wealth over the next five to 10 years will not necessarily choose to keep their parents' financial advisors. In fact, a recent PwC survey showed asset attrition rates of more than 50 percent in intergenerational transfers of wealth. This means that companies must design an onboarding strategy for generation X and millennials soon, given that by 2020 they will control more than half of all investable assets, or about US$30 trillion.

In building trust and navigating the new normal, wealth managers should focus on the following critical areas:

- **Standardization and personalization of advice.** In the past, the same client might have been given dissimilar advice by two financial advisors at the same firm. Moreover, the advice the client received might have differed from recommendations offered to similar clients in comparable circumstances. Consistency was at a premium. But with today's technology and access to data, wealth managers can create a "segment of one" and use more precise models to produce computer-driven analyses that serve people more reliably while maintaining sufficient granularity to satisfy a client's particular level of risk tolerance, risk appetite, and risk capacity. Wealth managers can even slice individual financial health and aspirations categories into finer and finer niches and offer generalized services to meet the client's needs.

  For example, an advisor can marry a client's shifting personal goals — travel, a down payment on a house, college savings — with automated functions such as a sweep account to move excess money from a checking vehicle into the best investment instrument at the time to meet the client's financial objective. Thus, personalized solutions based on personalized goals are provided with standardized products.

  The next wave of advice automation will go well beyond asset allocation, to holistic financial planning. This will combine structured and unstructured data of all types to infer investment behaviors and risk preferences using machine learning, models of individual decisions, and complex future scenarios.

Companies must design an onboarding strategy for generation X and millennials. By 2020 they will control over half of all investable assets.

- **The nature of advice.** The historic purview of wealth advisors was narrowly drawn around investment and asset management. But that's changing. Client expectations about the scope of advice are broadening to include liabilities, tax and estate planning, insurance needs, healthcare policies, assistance with budgeting and spending controls, and income generation. As wealth management evolves from a transaction focus seeking alpha returns to a goals-based approach, the new concept emerging is the "health of your wealth" — how clients build and use their assets and how they achieve their personal and professional goals.

  This shift is having a profound impact on the role financial advisors play and the level of expertise and creativity they must bring to the table. Instead of the advisor simply gathering information from the client, the advice model is more collaborative. Indeed, the distinction between advice and education will blur as product-focused pitches increasingly give way to financial wellness/financial life management guidance. More and more, an advisor's differentiation and value will be tied to the overall client experience, and to being an effective behavioral coach who helps people execute their plans.

  To a degree, this will impact fees because as the wealth management process becomes more open, clients will be better able to judge whether their advisor's performance is living up to how much they are paying for advice. In response, many advisors are working hard to make clients more engaged partners in investment decisions. This has the advantage of deepening the relationship. Further, by working together with their advisors to achieve the desired results, clients gain a clear ownership stake in their financial choices as well as some portion of responsibility for their results.

- **Advice delivery channels.** Typically, wealth managers have placed customers in standardized investment and interaction tiers. For instance, clients in the lower strata of wealth were pushed into more automated, less expensive channels. Wealthier clients received more personalized service. But although advice in general will be delivered in digital settings more frequently in the future, all of the firm's channels should be coordinated, integrated, and ubiquitous — and channel strategies that attempt to segregate customers should be minimized.

  Omnichannel delivery of advice will increase and will include mobile, desktop, telephone, and in-person sources. For example, a wealth manager recently told us the story of a millennial client who read a negative news story on his iPad about a company that was part of his stock portfolio. He worried about the effect that this would have on his immediate investment goals. So he texted his concerns to his advisor, who quickly responded by sharing some possible portfolio scenarios in real time over the Internet. The moral: Multichannel delivery will become a strategy for delivering advice to clients in the most convenient, most efficient way possible based on each client's particular needs at particular moments.

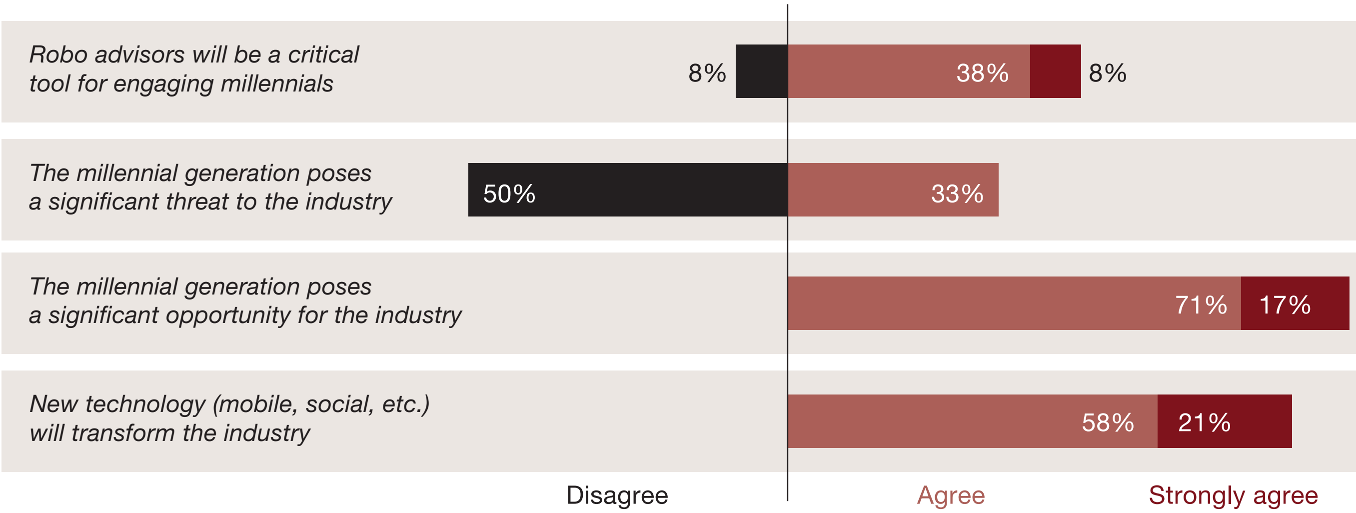
- **The new service model.** As a result of the significant shifts in the industry, wealth managers will need to offer and support a broader range of financial products, a task made more complex by the need to maintain a consistent wealth management experience and manage across disparate providers, regulatory environments, and processing back ends. All these changes will require extensive redesigning of current processes. Wealth managers need to offer live portfolio analysis, live reporting of positions and information, live scenario activity, and live alerts about a portfolio's or an individual investment's performance, as well as much better client reporting and interaction.

  What's more, wealth managers will have to be diligent about managing costs, particularly since creating an omnichannel platform rooted in the latest technology is an expensive proposition. Managers must also contend with growing regulatory costs, and a squeeze on fees and margins. The cumulative effect is that the cost-to-serve is increasing, so managers need to cut costs elsewhere through automation, internal workflow enhancements, and a lower cost to deliver advice through online, mobile, and video interactions.

Multichannel delivery is a strategy for delivering financial advice to clients in the most convenient, most efficient way possible based on each client's particular needs.

As millennials inherit assets held by older generations, wealth managers view them as a strong opportunity…

The degree to which respondents agree or disagree with each statement about trends in the wealth management industry



Source: PwC Wealth Management Infrastructure Survey 2015

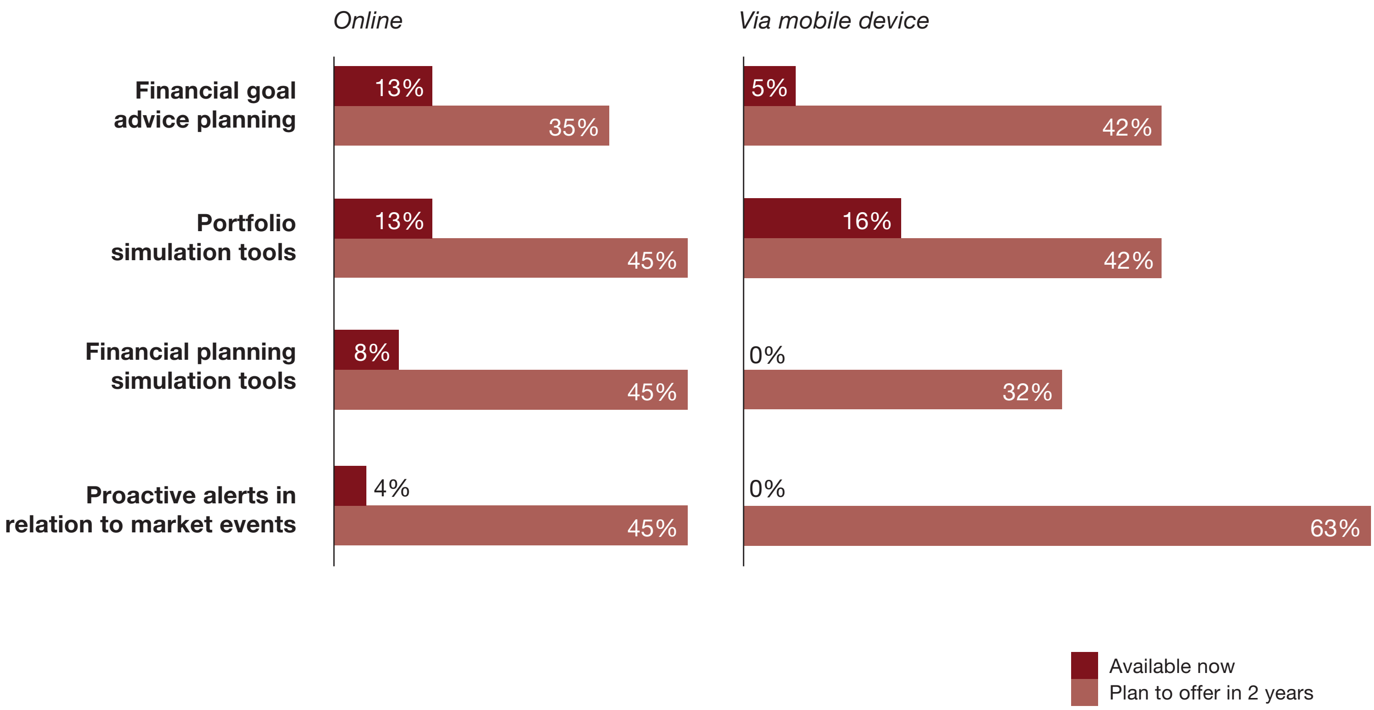
But traditionally a lot of money is lost during intergenerational transfers of wealth…

On average, what percentage of a client's wealth assets does your organization typically retain upon the demise of the client?

Source: PwC Wealth Management Infrastructure Survey 2015

So wealth managers are counting on new online and mobile offerings to attract clients.

Please indicate which of the following services are currently provided online and/or by mobile device to your clients



Note: 5% of respondents do not currently provide services online; 47% do not currently provide services via mobile device; and 5% do not plan to provide services via mobile device within two years.

Source: PwC Wealth Management Infrastructure Survey 2015

Looking forward

In 2016, wealth managers would do well to think deeply about their practices in light of the quiet revolution described here. Issues of trust, standardization and personalization, scope of advice, and channel delivery are redefining the nature and future of financial advice. Advisors themselves will have to adjust to the new expectations and adopt new technologies in a way that is meaningful and beneficial to their clients; meanwhile, institutions will need to upend their current operating model, and actively engage in reshaping the business to adapt and thrive in the wealth management environment.

Most of all, it is critical for wealth managers to ask themselves what they are doing to ensure continued authenticity, relevance, and engagement with a younger, technologically savvier, more digitally inclined audience. Given the vast amount of wealth that will soon reside in the hands of this new base of clients, these issues must be addressed by wealth managers immediately.

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