WHITE PAPER

DIGITAL WEALTH MANAGEMENT

THE REQUIREMENT TO COMPETE IN TODAY'S MARKET

Mike Tropeano, CFA
Solution Architect, Wealth and Retirement, FIS

Changes in market dynamics are impacting all aspects of wealth management. If there is one thing that has become clear, it is that constant change is the new normal in wealth management. The investor of today, and more importantly tomorrow, is changing and becoming more diverse at a more rapid pace than ever before.

An aging population led by baby boomers is driving the biggest shift of assets in history with nearly $30 trillion transferring over the next several decades.[1] A transfer of this magnitude should offer a boon to advisors. However, the statistics are telling us something completely different. Sixty-six percent of children fire their parents' financial provider; not surprising since only 20 percent of advisors are targeting family members of their clients.[1] Furthermore, only one in 10 consumers expect to receive a wealth transfer in their lives, which also suggests a correlation of disparity, likely due to lack of education on what constitutes as wealth transfer.[2] For example, nearly 80 percent of today's baby boomers own property, which is likely to be passed down to younger generations.[2] Technology has a role to play in bridging the connectivity gaps among the generations and household relationships.

An equally important change in demographics is the impact of women on investing. Women are influencing more financial decisions, becoming an important voice for our economy and investing.

Based on a report from Bank of Montreal (BMO), women are the primary source of income in over 40 percent of U.S. households, controlling 51 percent of U.S. personal wealth.[3] What firms tend to overlook is how to engage women. We see different approaches used for millennials; why not personalize your message to women? EY, in its 2017 white paper on Women and Wealth, notes that the investment goals of women differ from men. It found that a greater percentage of women (35 percent) than men (30 percent) view an understanding of their investment goal as central to their experience in wealth management. Women also look for more frequent contact with their advisor and same-day responses.[4]

Understanding and adapting to demographic changes are highly dependent on a comprehensive digital strategy. A 2016 study by PwC showed a correlation between a comprehensive digital strategy and stronger financial performance. Firms scoring the highest reported revenue growth and profit margin increases above 5 percent for the past three years and expected revenue growth of at least 5 percent for the next three years.[5] We know more Americans are always connected through a mobile device (Pew Research projects ownership of smartphones at 77 percent)[6] and our 2018 FIS Performance Against Customer Experience (PACE) report found that 60 percent of banking customers are using financial mobile apps.[7] It is more apparent than ever that investors want information, anytime, anywhere and on any device.

Not to be forgotten is the impact of digital advice, also known as robo-investing, which has increased competition and continues to be a driver to reducing fees. S&P Global Market Intelligence estimates that the total amount managed by digital advisors could grow to over $450 billion by 2021.[8] The rapid emergence of digital advisors is setting the new standard for competition with the capabilities to address the concept of anytime, anywhere and on any device.

What does all this mean? Increased competition and greater portability of assets.

As we look forward to prepare for the next set of changes, we know we will have to solve new challenges. How firms adapt to the challenges will determine if they can turn this into opportunity. Firms that embrace change will flourish. Our mindset needs to shift from just solving the problem of how to catch up to how can we anticipate for tomorrow. First movers always have an advantage. You make investment decisions such that your clients can gain the largest return in the long run. Are you doing the same when you invest in your own operations and technology?

It is becoming more clear that holistic wealth management is no longer a nice-to-have. Developing a product-centric model is being replaced by an account-specific model where the experience is individualized to the user rather than treating all clients similarly. The objective is to achieve differentiation in message and service, which is the new baseline to remain competitive. At the core, wealth management can be a homogeneous offering depending on risk profile and aversion to some asset classes or securities. How firms innovate and provide a level of custom experience will determine their ability to improve profitability. Increasing transparency is crucial to move beyond the limited trust in the market. Other options are to unbundle services to better articulate value to the customer.

Regardless of how strong your profit margin is, we all need to avoid unsustainable cost reductions and race to the bottom on pricing. Margin compression must be met with strategies to increase volume – can you scale? Can you decrease your marginal cost of each unit of new business?

No matter the size of the organization, you cannot go it alone. The scope is too large and could possibly impact the ability to service clients. There is a need to drive efficiency in operations, compliance and data management while improving infrastructure to compete digitally, causing 60 percent of wealth managers to fear part of their business is at risk to Fintech.[5]

What is the new baseline requirement for wealth managers?

The constant change has created a new level of required service for wealth managers. We will focus on three areas that can provide a significantly improved client experience, driving revenue and lowering expenses:

1. Data delivery
2. Digital advice
3. Client onboarding

1. Data Delivery

Earlier, we noted the impact of mobile devices and the desire to see data anytime, anywhere and on any device. This is because people want to connect with their financial partners at their convenience. According to our 2018 PACE report[7], 60 percent of consumers in the U.S. use mobile financial apps. How you use data is the differentiator to that experience. The tendency is to forget about people when we design digital interaction. We need to understand how people want to use the technology, not how the technology can be used. The standard for your client is not your competitor's app; it's firms such as Amazon and Google that are setting the expectation for interaction and service. This leads to the question: Is your data infrastructure healthy enough to support the new type of investor? According to Capgemini, "Many firms are also moving toward big data and analytics applications as their clients become more demanding towards personalized and data-driven insights."[9] This further supports the migration from a product-centric to account-centric model.

How well do you know your client? Can you deliver real-time data that is truly pertinent to what they are looking for? Are you showing progress versus a goal to meet the needs of female investors? Machine learning or artificial intelligence can be used to mine data to create a more personal view of information. These tools can also be used to drive recommendations for additional products and services.

If 60 percent are using mobile apps then 40 percent are still relying on some type of human contact either via the phone or in person. Personalizing the experience goes beyond just using the client's information in the presentation. You need to personalize it to a message that shows you know them. This is especially important to women investors. Advisors can no longer use the standard presentation book to walk a client through where they have been and the plan to move forward or present a standard Investment Policy Statement based solely on a risk profile. Presentations need to show how you created wealth and how you intend to grow the relationship, correlating your approach to the investor's goals.

2. Digital Advice

The use of technology to deliver an automated, online and personal experience continues to grow. It is estimated that 59 percent of firms intend to invest in customer-centric digital engagement in the next two years.[10] Digital investing solutions allow small- and mid-sized organizations to expand brand and reach beyond their geographical region and attract millennials, a group where 33 percent said in our 2017 PACE report that they are having trouble finding their best investment options through their bank.[2] It also provides an effective way to manage mass affluent clients and attract younger investors in a cost-effective manner, narrowing the gap between large banks and smaller community banks. Also, by working with this underserved market, organizations can develop relationships early, rather than trying to win them when they become high net-worth (HNW) and displace a relationship.

Large organizations have leveraged existing technical and operational infrastructures to implement digital solutions. The main option for smaller banks is to expand their offerings through partnerships with Fintech firms. This enables smaller banks to affordably and quickly roll out these capabilities. It also makes another avenue available to retain customers, who expect them to have a solution.

As organizations refine their digital strategy, they need to consider factors beyond how the technology interacts with the consumer. Firms still need to realize that you are still a fiduciary in most cases. It is critical that you are still qualifying investors and the investment selections brought forward are appropriate. Also, because these assets have an even higher level of portability, determining how to develop a relationship with the investor is critical. Your organization needs to be perceived as more than the branding on a website or app.

3. Client Onboarding

Regulatory and compliance changes have made the account onboarding process more complicated and time consuming. The workflow to initiate a new relationship now involves several different departments, requires more documentation as well as access or entry into multiple systems. According to Kofax Advisors, it takes an average of 41 days to onboard a HNW client. Adding some perspective, for every nine new clients, one year of fees is lost.[11] You have already shown significant value for your firm and won their trust — now you run the risk of them losing confidence because you cannot open the account and transfer the assets.

Utilizing workflow with document management is a minimum requirement to onboard new accounts. This allows data to flow within the organization and provides a repository for critical documents, such as trust documents and investment policy statements. Many firms have integrated their CRM system into the account opening process, tying prospecting to account opening to significantly reduce the amount of duplicate entry and to streamline the process.

Firms that are looking to fully transform account opening need to consider a digital model. This not only allows for the process to be fully automated but accounts can also be opened 24/7, which is attractive to GenX and millennials. This approach relies on the ability to integrate all systems into the process in real time. It's critical that this experience is easy to follow, quick and finished in a single session. People's attention spans are getting shorter and the number of interruptions is getting larger. If there is any user frustration, the chance of the account being opened will drop.

What's next? Here come the bots!

Process automation using robotics may sound like 1960's or 70's science fiction, but it has finally arrived in financial services. Robotics Process Automation (RPA), or the use of "bots", is the process of automating functions with a less technical language to create automation while not impacting an underlying technology such as an accounting system. Bots can be used to automate higher volume, routine, repetitive and consistent tasks. Prime targets for the use of bots include trade processing, basic income posting, data delivery and reconciliation.

The most obvious value of bots is to lower cost of operations. Almost as important is improved quality of processing, which leads to an improved client experience through more timely and accurate posting. What may not be as obvious is the extension of your workforce. Bots can easily scale and provide extended work hours. However, when using them for operations, there is still a need for human oversight to monitor any exceptions and validate control reporting.

The front-office and end-client experience will also be reshaped with the use of Chatbots, which can be used in various ways. A Chatbot can be used to provide virtual financial advice, qualify prospects, route transactions, recommend additional products and educate customers. Firms such as Wells Fargo and Bank of America mainly utilize them for banking functions, however, wealth management providers, for at least the mass affluent segment, may not be far behind.

As with other aspects of the client interaction, making the interaction personal and relevant is key, otherwise the experience will not be positive and could put the relationship at risk.

How can firms move forward?

Moving forward to meet today's demands is no longer enough — organizations need to also anticipate the needs of tomorrow. Start with an honest evaluation of your strategic focus and resource allocation to ensure you continue to remain competitive. The answers to the following questions will help determine if your strategy needs to be realigned:

- What can be reasonably done within your existing budget?
- What are the risks of not doing one of your key projects?
- Can you meet the necessary return on investment?
- Are you performing tasks that are not adding value to your clients?

What's clear is that the requirements to serve each demographic vary significantly. Most firms cannot go at this alone. Based on the 2017 Global Digital IQ® Survey by PwC, 63 percent of respondents cited the lack of properly skilled teams as an emerging or existing barrier to achieving expected results from their digital technology initiatives, supporting the need to expand your talent pool through partnership with software and service providers.[5] Firms that can create the right blend of internal and external solutions will be able to turn the **changes** and **challenges** of today's market into **opportunities** to grow and prosper.

Mike Tropeano, CFA

Solution Architect,
Wealth and Retirement, FIS

Mike Tropeano is a solutions architect in the Wealth and Retirement group at FIS. He is responsible for designing client-centric solutions based on the client's requirements and FIS' suite of products and partners. Mike joined FIS in 2017 with over 20 years of experience in financial services and 15 years of focus in the private wealth and trust area. Mike holds a BSBA from Boston University with a concentration in Accounting as well as an MBA from Bentley University with a concentration in Finance. Mike is a Chartered Financial Analyst (CFA) and a member of the Boston Security Analyst Society.

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