A New Paradigm:
Unified Digital Wealth Management

"Technology has become an increasingly key player in driving change across the industry. We've taken the view that we need to listen to our clients and implement digital strategies that support changing client and industry demands. Clients want a unified digital experience as they get increasingly active in monitoring their finances. As such, our digital strategy focuses on removing channel silos by improving the overall client experience, while providing scalability and sustainability to meet future needs."

-Kaushal Pandia, Head of Digital for Wealth Management - Bank of the West

Following the global financial crisis, financial services firms struggled with not only rebuilding damaged reputations, but also reduced revenue and shrinking margins. As the turmoil receded, a transformative change began to unfold across the industry: an exponential increase in self-service options. Savvy clients were unwilling to explicitly trust investment firms and advisors and demanded greater access to investment, account, trading and advisor information. Rather than risk losing clients en masse, firms slowly started offering a range of basic portfolio management and client service tools. As the industry recovered, the self service trend picked up steam, as seen with the growing market share of firms such as E*Trade, Vanguard, Charles Schwab and Fidelity. Full service firms have been slow to adapt, though changes are afoot that indicate progress.

Clients are looking for advice to be independent of the product or service channel they choose, so they can access advice only when they need and value it. Offering clients the opportunity to direct their own investments while also accessing advisory services blends two brokerage channels long thought of as divergent: self-directed brokerage and full service brokerage. For the latter type, advisors are still seen as the most important part of revenue generation, and supporting this, digital strategies are aimed at enhancing the advisor's services, not reducing his or her relevance or importance.

In its research report, "New Realities in Wealth Management: The Train Keeps Rollin", Aite Group notes that, on the heels of double digit growth and for the first time since the financial crisis, firms surpassed their pre-crisis asset levels. In 2014, self-directed brokerage firms grew client assets by 12%, or US$400 billion, more than any other industry segment. Full service firms saw client assets expand by 9.6%, the fifth time in the past six years that growth exceeded 9%. Even so, the trend is clearly the continued disruption of the advisor-based model, given the stronger push into "Hybrid Models" where firms offer a combination of self-service and full-service options.

Continued growth in client assets show that the full service offering is still valued by clients. Full service firms, with well-entrenched operating models, are typically slow, if not outright reluctant, to change their ways of doing business. Still, the push toward self-directed services will continue unabated. Firms can find a middle ground by providing digital experiences that complement the full service offering. In doing so, full service firms can work toward meeting the changing needs of clients, while continuing to grow and retain assets.

Get Digital or Get Beat

To deliver a hybrid service model, firms must implement digital strategies, and this requires a significant financial commitment. Evidencing this, Aite Group notes in its report, "Wealth Management Incumbents' Digital Strategies" that global spending on digital wealth management initiatives is projected to be US$12 billion by 2019, representing a 28% annual growth rate. Recognizing the trend, more than half of financial services firms have a digital strategy in place, while for another one-third, it's a work in progress. A small percentage of firms don't have a digital strategy, but plan to within the next twelve months. Such an investment is necessary to build, maintain and innovate to keep pace with ongoing change and the competition.

For most firms, digital efforts are aimed at improving the client website experience with a user-friendly "Client Portal" that offers several areas of capabilities:

Accessing Information & Operational Tools

- Online and mobile access to tools and self service capabilities
- Personalized Content
- Portfolio Analytics and Performance Reporting
- Online Account Opening

Financial Planning Tools

- What-if Analysis
- Scenario-Based Analytics

Money Transfer

- ACH, Wires, Online Bill Payment, Check Writing, Remote Deposit Capture in Mobile

Advisor Communication

- Advisor-Client chat via Client Portal
- Share documents and secure messages with advisor

Interestingly, most digital strategy investments and budgets have less allocation to online trading than any other component. This highlights the full service firm's focus on supporting clients who receive advice and the advisor-client relationship, and not the self-directed investor. Given the increasing trend of clients demanding more involvement and, in turn, blurring the lines between full service and self-service, it's no longer a question of if firms will adapt, but when they adapt.

A Generational Tsunami

Gen Y, the demographic cohort consisting of individuals between ages 15-33, is the most technologically savvy group. It's also the beneficiary of the largest ongoing wealth transfer, with the Baby Boomer generation expected to transfer more than US$41 trillion to Gen Y, the largest such wealth transfer in modern history. While this reveals tremendous potential, Gen Y's investor profile may well toss cold water on the opportunity, particularly for full service firms. Different than previous generational groups, Gen Y's investor profile has the following characteristics:

- More than half of Gen Y investors say they will NOT use their parents' advisor
- While 4 of 5 Gen Y investors use an advisor, they place only 37% of assets with a primary advisor
- Only 1 in 3 Gen Y investors are highly confident in the advice they receive from an advisor
- Average Gen Y investor has more than five advisors managing their portfolio

Unlike previous generations, Gen Y has experienced mostly negative or zero S&P returns, leading to a conservative investor profile. This bears direct correlation on the constituency's view and selection of advisors. These attributes present challenges to the full service model, however they also shed light on the significant opportunities for full service firms to embrace a combined service offering. The hybrid model, where firms offer clients self-service options along with an advisor relationship, will find appeal with clients that want advice, but prefer to conduct their own investment research and make investment decisions.

Though not seen as technologically savvy as Gen Y, both Baby Boomers and X groups are also demanding greater access to information, tools and functionality. These generations saw large chunks of wealth destroyed during the crisis, and are taking a far more active role in investment strategy, decision-making and portfolio maintenance. In a philosophical break from Gen Y, these cohorts also want to consolidate their investments, preferring a one-stop shop to maintaining assets with several firms. Where all generational groups agree is with the idea of a unified digital experience. That is, all want one log in process to see all of their account information; not several log in screens to do the same.

An Unstoppable Force

Whenever a widespread movement takes hold, progress is inevitable and change will occur. For financial services firms, in particular full service shops, the trend toward self-service continues to drive an industry-wide transformation. Long-standing barriers between full-service and self-directed brokerages have been obliterated, resulting in an unprecedented competitive environment. Self-service firms continue to attract more and more assets due in large part to the simplicity and ease of the offering. Full service firms have realized that a blended service offering that combines typical banking, brokerage, trust and insurance services with a self-service option is the new norm.

Some firms have thus far resisted making wholesale updates to business and models, perhaps believing that the trend will slow, or even reverse course. An old axiom in the industry is "Don't fight the tape", meaning that investors, or in this case, firms, shouldn't fight trends, lest they get steamrolled. Firms that hold off on making changes or fail to adapt, run the risk of becoming obsolete. The further along the trend moves, the harder it will be for firms to adapt that haven't already begun to transition to the new paradigm.

For full service firms, change isn't moving along comfortably; it's accelerating. The ongoing evolution of the full service offering features the hybrid model and a more typical self-directed service. Other new options, such as Digital Advisory Solutions (Robo-Advisors) will emerge. As with many other industries, Big Data will also pay a role in driving the delivery of targeted information and services to clients at the time they want and need it.

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A Winning Approach

It's been said that the financial services industry is the ultimate zero sum game. If one side wins, the other loses. While this is often the case with trading, it is not as clear-cut with respect to evolutionary changes occurring throughout the industry. Given the nature of a combined service offering, along with the resources and investment required to support it, the transformation will occur over time, with firms hopping aboard a train picking up steam. The proliferation of self-directed tools across wealth management firms of all stripes portends a future where the combined service offering is a primary tool for attracting and retaining clients.

Wealth management firms, especially full service firms, need to embrace the technology-driven change sweeping across the industry. Evolving technology will continue to impact the industry: new delivery models, compressing prices/margins and delivering consistent advice. Having and implementing a digital strategy is no longer a futuristic, nice-to-have vision; it's a critical success factor. Clients want anytime/anywhere access, and with a robust digital offering, firms can meet this demand. Firms that adapt quickly to the industry-reshaping change will win and outpace those that don't. Evolve, survive and thrive…or fight the tape and get left behind.

> "Leading providers have begun accelerating their digital transitions – some of it's due to competitive pressure, and some is probably prep for expected regulatory changes. Whatever the drivers, firms are making commitments to becoming more agile – digital advice delivery, optimized account opening, and dramatically improved user experience initiatives are moving from planning to deployment at broker-dealers of all sizes and business models."

- Jim Goodwin, President - Riperian, Inc

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