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The Race to Easy: Reevaluating the Wealth Management Technology Strategy

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EXECUTIVE SUMMARY

The Race to Easy: Reevaluating the Wealth Management Technology Strategy, commissioned by Scivantage and produced by Aite Group, explores differences in financial management behavior across generations and discusses the changes firms should consider making today to remain competitive over the next several decades.

Key takeaways from the study include the following:

- Traditional full-service wealth management firms underinvested in technology and lost focus on serving the mass-affluent segment after the financial crisis. While firms concentrated on the high-net-worth segment, dozens of startups emerged to capture the unmet financial advice needs of mass-affluent and mass-market U.S. investors.
- This entrepreneurial activity is starting to drive incumbent firms' investments in new digital wealth management business models that deliver certain aspects of the traditional wealth management offer at a discount and in a more engaging manner (e.g., Schwab Intelligent Portfolios and Vanguard Personal Advisor Services).
- Traditional full-service firms need to reevaluate their technology strategy in light of these new competitive pressures to deliver wealth management services digitally.
- Aite Group consumer research finds that Generation X and Y investors are looking for better technology with which to manage their finances and that this is also true for young investors who work with a financial advisor. By contrast, baby boomers who work with a financial advisor are much less interested in financial management technology to help them structure their financial lives.
- To keep up with the changing face of the wealth management customer, firms must invest in client-facing technology to give Gen X and Y investors the ability to structure their finances and provide them with always-on access to their wealth management information.
- While consumers indicate a need for better financial management technology, the reality is that self-service client-facing tools (such as personal financial management tools) are unlikely to be used by more than a minority of clients unless financial advisors incorporate them into their processes. Clients come to a wealth management firm for financial advice first and supporting technology second. Advisors must embrace client-facing tools and motivate clients to use them for firms to realize a strong return on investment (ROI) on their client experience investments.
- Overall, firms must evaluate how new digital technology can enable the advisor to provide better service and advice to clients across channels. The competitive wealth management firm of the future will have figured out how to combine high-tech with high-touch service to deliver an optimal offer at the right price point to the right client segment while meeting the firm's profitability goals.

INTRODUCTION

The wealth management industry has never been more dynamic. As traditional providers have focused on attracting and retaining their core high-net-worth boomer client, they have left mass-affluent and mass-market investors with limited options for obtaining independent financial advice and fiduciary investment management services. This void in the market is rapidly being filled by technology-based startups and traditional registered investment advisors (RIAs) that are leveraging digital technology to deliver low-cost investment products and advisory services to investors with as little as US$100 to invest. While these firms are not replacing financial advisors any time soon, many are evolving to address the needs of high-net-worth investors and baby boomers, many of whom are willing to forego face-to-face interactions for the convenience and cost-effectiveness of phone and Web-based services.

These new models should be particularly attractive to younger investors (21- to 49-year-olds) who are more interested in using technology to manage their finances than are baby boomers. These new startup firms are well-positioned to capture the wealth transitioning from baby boomers to Generation X and Y investors. According to the Boston College Center on Wealth and Philanthropy, US$36 trillion in assets are expected to transition to the next generation by 2061. Currently, financial advisors are not prepared to deliver the digital experience younger generations expect, and they have little experience working with investors under the age of 40. Only 20% of an average financial advisor's client base is younger than 40.

Financial advisors and their firms must reevaluate their technology setup in light of these trends. First and foremost, the new wealth management technology strategy must address clients' financial priorities. For Generation X and Y investors, a key financial priority is having access to good financial management technology. This white paper explores differences in financial management behavior across generations and discusses the changes firms should consider making today in order to remain relevant over the next several decades.

METHODOLOGY

The analysis is based on several Aite Group surveys and interviews with wealth management firm executives. Surveys include the following:

- An online consumer survey of 1,242 U.S. consumers who were recruited to represent the overall age, income, geographic, and gender distribution of the United States. The data have a margin of error of 3 points at the 95% level of confidence.
- An online consumer survey fielded in six countries that gathered the financial priorities and investing preferences of 1,126 North Americans to understand their approaches to investing. Results have a margin of error of 5 points at the 95% level of confidence.
- A survey of 18 wealth management technology executives fielded in Q2 2014 to gauge technology-budget drivers in 2014.

- A survey of 402 U.S. financial advisors conducted in Q2 2014 that was designed to be representative of the U.S. financial advisor population. Survey results have a margin of error of 5 points at the 95% confidence level.

THE RISE OF DIGITAL WEALTH MANAGEMENT

Between the financial crisis and 2013, most wealth management firms concentrated on restoring profitability by focusing on high-net-worth clients and investing in cost-cutting initiatives. Investments in client-facing technology were put on hold or kept to a minimum during these years, as many wealth management firm executives did not see this type of technology as a must-have for their wealthy clients. While firms concentrated on the high-net-worth segment, dozens of startups emerged to capture the unmet financial advice needs of mass-affluent and mass-market U.S. investors.

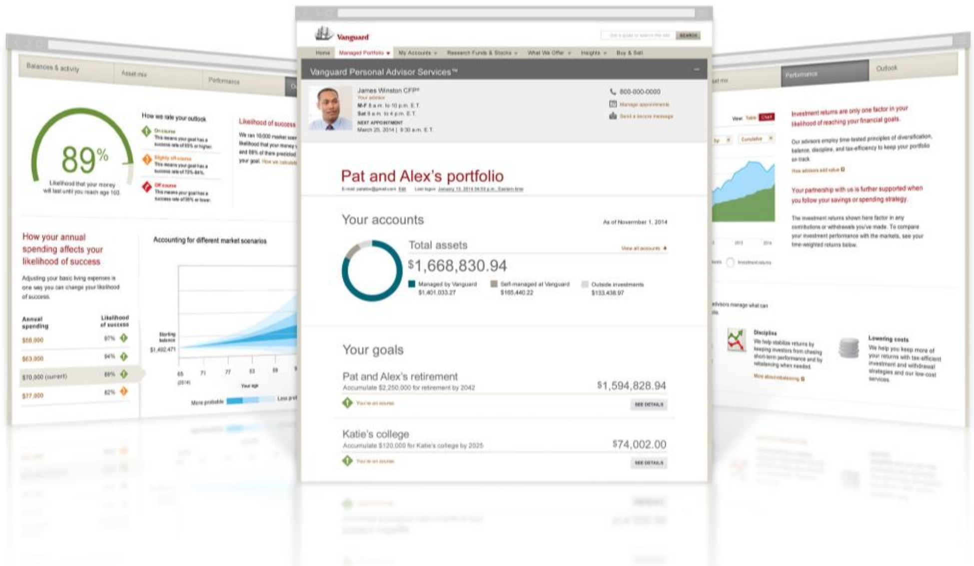
These firms leverage the traditional ETF advisory solution (or a portfolio of six to 12 ETFs) and sell it directly to end investors for one-fourth of the traditional cost. Other attractive features of these offers include efficient client onboarding and quality content communicated to clients through the Web, blogs, and emails. While many firms started out with a vision of addressing the needs of underserved mass-affluent clients, they are now discovering that high-net-worth investors and baby boomers are attracted to their professional investment management offer. For example, Personal Capital indicates that 30% of assets come from high-net-worth investors. The firm launched a new service for high-net-worth investors that includes private banking through BNY Mellon. These moves into the high-net-worth space should prompt financial advisors and wealth management firms to explore how they can leverage technology and content to deliver the experience and service that will appeal to young investors and the tech-savvy high-net-worth segment.

TRADITIONAL FIRMS START TO INNOVATE

The assets attracted by these young firms are small today (just over US$5 billion at the end of 2014) in proportion to the retail investment market (estimated at US$18 trillion), but these firms grew at triple-digit rates in 2014, while the industry grew at around 7%. These growth rates are catching the attention of incumbent firms, particularly those that share a similar vision of delivering quality financial advice to any investor.

Currently, Schwab and Vanguard are in the process of launching new digital solutions that will pose more serious competition to the traditional wealth management firms. Vanguard's new offer is a digital version of a traditional offer for the mass-affluent investor, as it gives those with a minimum of US$100,000 to invest access to financial planning services, a dedicated advisor, and an online wealth management portal that will include account aggregation and progress-to-goal insights (Figure 1). The fee for this service is 30 basis points which is around one-fourth the cost of a similar fee-based service in the traditional world. In 2015, Aite Group expects several incumbent firms will launch innovative digital services to compete with these new digital advisors and attract the growing group of investors younger than 50 years old for whom strong digital capabilities are important.

Figure 1: Vanguard Personal Advisor Services



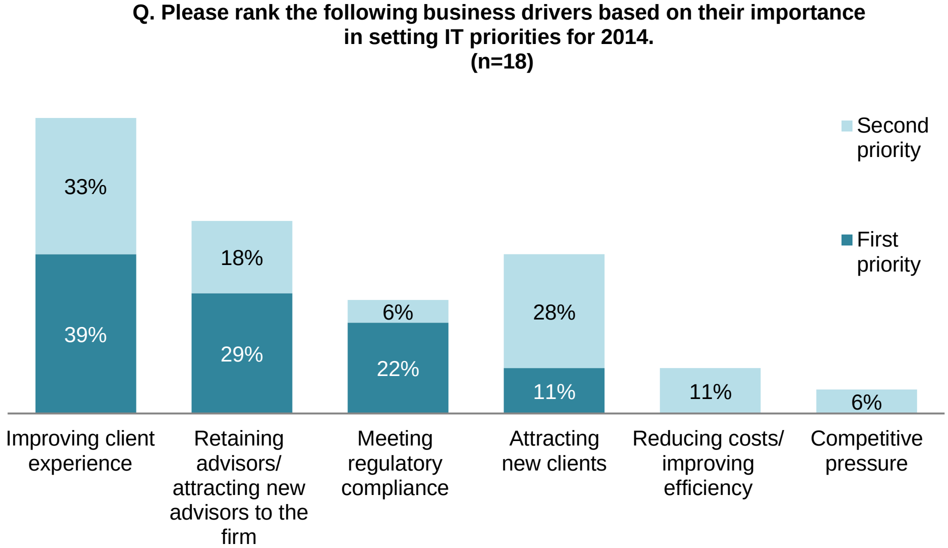
Source: Vanguard

CLIENT EXPERIENCE STARTS TO DRIVE TECHNOLOGY BUDGETS IN 2014

2014 was an important turning point for incumbent wealth management firms' technology decisions. Traditional firms, including wirehouses and private banks, came to the realization that their high-net-worth clients desire access to their wealth information online and, in particular, through tablet devices. A 2013 study conducted by the Pew Research Center shows U.S. tablet adoption is highest among wealthier households, based on household income, and among individuals aged 30 to 49 years old.[1] Investing in mobile capabilities is not just for the millennial generation anymore. This shift in mindset is visible through Aite Group's 2013 and 2014 wealth management technology executive surveys. In 2013, most survey participants indicated that either cost-cutting or regulatory initiatives were setting the course for technology spending. In 2014, most participants ranked client-experience improvements as the number one business driver setting technology priorities for the year (Figure 2).

1. Pew Research Internet Project, Tablet Ownership 2013.

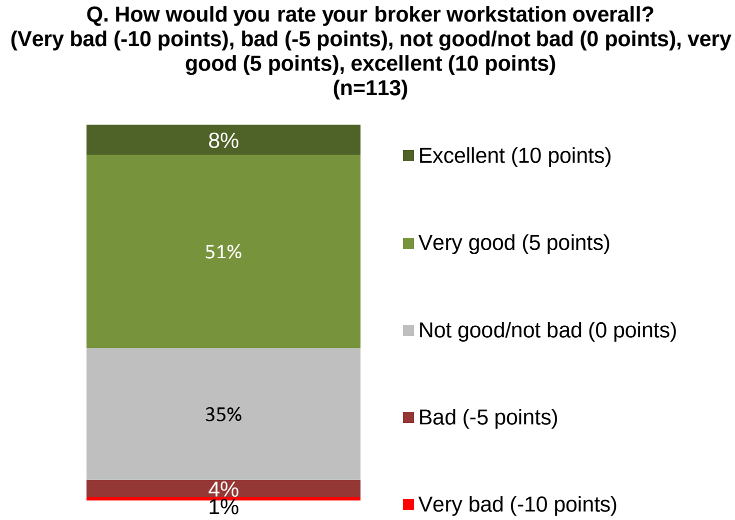
Figure 2: Business Drivers Setting IT Priorities for 2014



Source: Aite Group survey of 18 wealth management technology executives, June 2014

The second most important driver is advisor retention/acquisition. While most advisors are content with the technology available to them, many are indifferent to negative. An Aite Group survey of 402 financial advisors asked those who use a third-party clearing firm's broker workstation to assign a numerical rating that reflects their overall opinion of their workstation. Thirty-five percent of advisors give their workstations zero points, which is the numerical value assigned to the neutral, "not good/not bad" rating, and 5% assigned negative points to their broker workstations (Figure 3). At a time when wirehouse firms are investing in advisor technology with the goal of providing clients with a more interactive and collaborative service, firms that continue to provide technology that advisors don't see as uniquely valuable to their practice may risk higher advisor attrition. Aite Group analysts' conversations with executives at the largest wealth management firms indicate that advisor prospects are much more interested today in the client-facing technology capabilities of recruiting firms than they have been in the past.

Figure 3: Broker Workstation Ratings



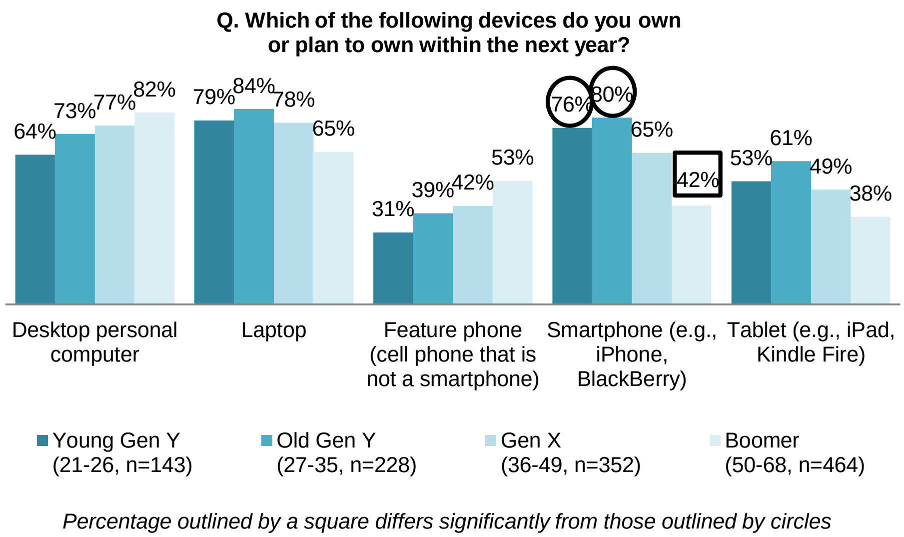
Source: Aite Group survey of 402 financial advisors, April 2014

Aite Group expects improvements to the client and advisor experiences to have the most influence on technology spending in 2015 and beyond as traditional firms work to ensure they don't miss opportunities to capture the next generation of clients and advisors.

GENERATIONAL DIFFERENCES IN TECHNOLOGY PREFERENCES

As firms embark on digital wealth management projects, they must first understand how digital technology can be applied to better meet clients' financial needs. Aite Group research and research from many other firms show that younger generations are more likely to leverage mobile and tablet devices than are older generations (Figure 4). What is not as well understood is how households seek to use these devices to manage their finances.

Figure 4: Technology Adoption by Type of Device and Generational Segment



Source: Aite Group online survey of 1,242 U.S. consumers, Q2 2013

Two Aite Group consumer surveys conducted in 2013 shed light on the importance of digital channels for financial management across generations.

An Aite Group survey of 1,242 U.S. consumers conducted in 2013 finds that younger generations are more likely to tap into a wider range of channels and media sources for financial help than boomers are (Table A).[2] This analysis focused on households with a minimum of US$70,000 indicating that they use third-party sources and tools for financial help. Findings include the following:

- Thirty-five percent of Gen Y households consult online discussion boards such as Motley Fool's for financial information, while only 9% of boomer households do so.

2. See Aite Group's report *How Millennials Manage Their Money*, May 2014.

- Twenty-three percent of Gen Y households and 20% of Gen X households leverage online personal financial management sites such as Mint.com, while 9% of boomer households do so.
- Forty-one percent of Gen Y households indicate self-help books such as “Rich Dad, Poor Dad” are helpful, while only 11% of boomer households do so.
- Almost 40% of Gen Y households site financial-related TV shows as beneficial, which is not materially different from the boomers’ opinions (26% of boomers see TV shows as helpful).

While Gen Y and X households are more likely than boomer households to find online personal financial management sites helpful, only 23% of Gen Y households leverage these tools. These households view TV shows and self-help books as more helpful. This indicates a need among the young for financial advice, particularly advice communicated in everyday language. This desire explains the appeal of sites such as LearnVest that deliver educational content on financial planning and investing that is clear and engaging.

While younger generations tap into a range of media to increase their financial knowledge, boomers are more likely to indicate that their source of help is an investment firm or a financial advisor. Almost 60% of boomers receive help from an investment firm/financial advisor, whereas 27% of Gen Yers do so. This difference is at least partially due to boomers’ larger wealth and their greater need for financial planning help in the years preceding retirement.

Table A: Tools and Sources of Financial Help by Generation

Q. Which of the following tools or sources do you use to help you manage your financial life? (Households with income of at least US$70,000)	Gen Y (n=81)	Gen X (n=86)	Boomer (n=94)
Bank/Credit union	46%	53%	37%
Credit card provider	31%	27%	11%
Financial self-help books (e.g., “Rich Dad, Poor Dad”)	41%	30%	11%
Online personal financial management sites (e.g., Mint.com)	23%	20%	9%
Financial-related TV or radio shows (e.g., Suze Orman)	36%	30%	26%
Online discussion boards (e.g., Motley Fool)	35%	24%	9%
Investment firm/financial advisor	27%	23%	57%
Financial management software (e.g., Quicken)	21%	21%	15%
Debt management providers	16%	7%	5%
Consumer advocate groups (e.g., public interest research groups)	10%	5%	2%

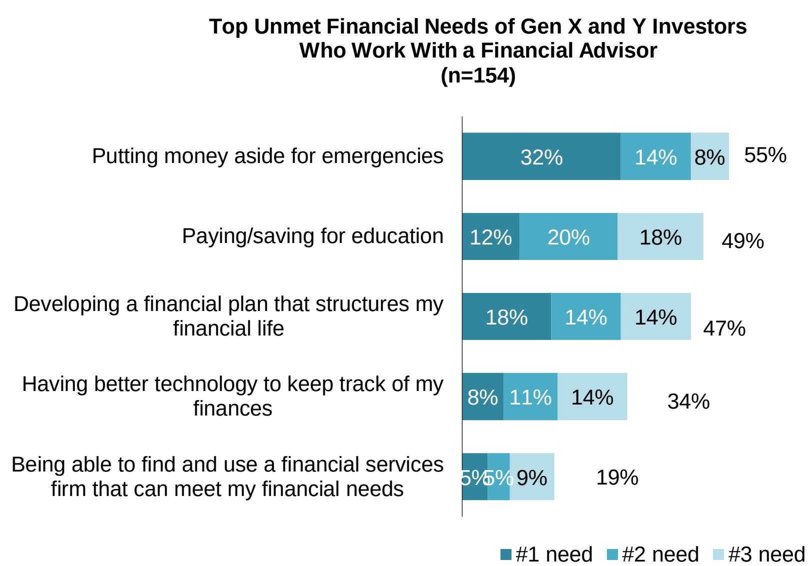
Q. Which of the following tools or sources do you use to help you manage your financial life? (Households with income of at least US$70,000)	Gen Y (n=81)	Gen X (n=86)	Boomer (n=94)
Government sources (e.g., Consumer Financial Protection Board compliant database)	9%	2%	5%

Note: Percentages in grey-shaded cells are significantly different from percentages in the same row
Source: Aite Group survey of 1,242 U.S. consumers, Q2 2013

Given generational differences in investment firms' importance as sources of advice, a second Aite Group analysis looks at financial management technology preferences across consumers who all work with a financial advisor. This analysis helps answer the following questions: Do Generation Y and X investors who work with a financial advisor continue to value online resources more than baby boomers do? Or does access to a financial advisor diminish the need for other information sources and online tools?

A second Aite Group survey of consumers conducted in 2013 finds that Generation Y and X investors who work with a financial advisor are more likely to seek financial management technology to organize their financial lives than are baby boomers. The survey asks investors to rank their top three unmet financial needs with the answer choice, "having better technology to keep track of my finances," one among 12. More than one-third of Generation X and Y investors indicate that having better financial management technology is a top three financial priority, higher in importance than other common goals such as saving for a large purchase and saving for retirement. Not surprisingly, the most important unmet needs for Generation X and Y investors is putting money aside for emergencies and paying or saving for education (Figure 5).

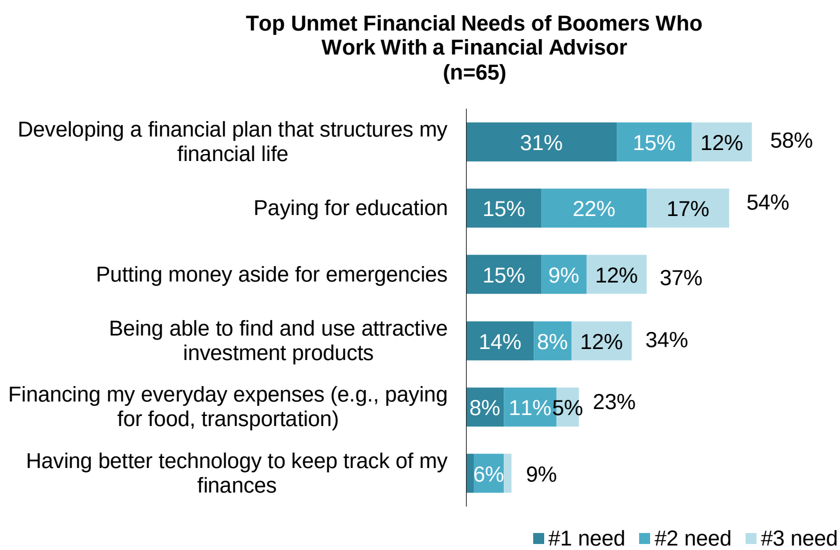
Figure 5: Top Five Unmet Financial Needs Among Gen Y and X Investors Who Have a Financial Advisor



Source: Aite Group online survey of 1,070 U.S. and Canadian consumers, Q4 2013

While boomers should have a more complex financial situation relative to Generation X and Y investors, their interest in finding better financial management technology is low. Only 9% of boomers who work with an advisor indicate that better technology is a key unmet financial need (Figure 6). Boomers do recognize that they need more structure in their financial lives, however, and close to 60% indicate that a financial plan is a top three unmet need.

Figure 6: Top Five Unmet Financial Needs Among Boomer Investors Who Have a Financial Advisor



Source: Aite Group online survey of 1,070 U.S. and Canadian consumers, Q4 2013

While boomers are not interested in using financial management technology directly, advisors should be interested in user-friendly tools that can help provide the structure boomers are looking for.

THE NEED FOR HIGH-TECH AND HIGH-TOUCHCAPABILITIES

Generation X and Y investors who work with a financial advisor clearly indicate that they also want access to financial management technology. Younger generations state that one of their top five financial priorities is finding better financial management technology, indicating that the current solutions are not meeting their needs. Firms building tools today must ensure that they incorporate client feedback throughout the development process.

Even more important for firms to focus on is securing advisor buy-in to these new online tools. Advisors have to want their clients to use these tools because they benefit the advisor and enhance client relationships. Adding digital tools without the advisors' support is unlikely to yield the benefits firms hope to achieve from their digital channels, benefits that include higher client satisfaction, deeper wallet penetration, and new clients. This is because most investors do not have the discipline to manage their finances on their own using online tools; they need their advisors' encouragement and coaching. Even the most automated of personal finance tools requires ongoing manual adjustments. The statistics in Table A show that less than one-third of Generation Y and X clients currently use online personal financial management sites such as Mint.com. Without the presence of a motivating advisor, utilization rates for personal financial management technology will remain low.

Client-facing technology will be most effective when delivered alongside an advisor who motivates clients to use it and who relies on the data provided by clients to deliver valuable advice and efficient service. Each firm will need to determine how advisors and digital technology combine to deliver omnichannel service in a way that meets clients' needs and the firm's profitability goals. Firms should focus their efforts on finding the sweet spot between high-tech and high-touch service.

THE WEALTH MANAGEMENT TECHNOLOGY ROAD MAP TO OMNICHANNEL SERVICE

Wealth management firms have been building separate user experiences for clients and advisors. These development paths are now starting to merge as firms look to build a unified experience that can combine the user-friendly and graphical features of client-facing tools with the robustness of advisor tools (Figure 7). For advisors, these unified platforms will add efficiency to the process of gathering information and delivering advice, and they will provide opportunities for advisors and clients to collaborate and communicate anytime and anywhere, and across channels. Future wealth management platforms will give a common core of data and tools to advisors and clients to enable collaboration and to give clients the structure and interactivity they are looking for.

Figure 7: Wealth Management Technology Evolution Leading to High-Tech and High-Touch Service

Source: Aite Group

Firms will be making changes to their front-office platforms and their data infrastructure to deliver this unified experience and provide omnichannel service.

This section explores how common wealth management applications will need to evolve to enable digital client engagement and looks at newer technology that firms should be investing in to provide clients with a differentiated client experience.

DIGITAL COMMUNICATIONS INFRASTRUCTURE

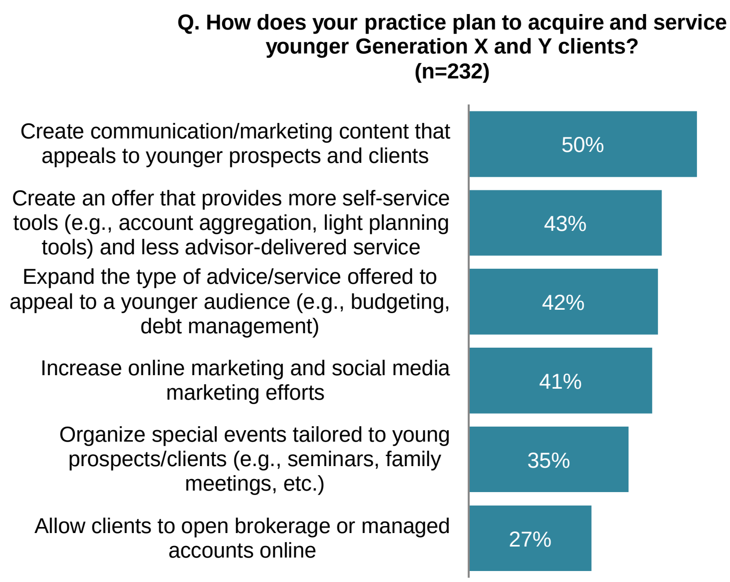
To support a multichannel wealth management delivery model, firms will need to invest in new technology to acquire and service clients digitally. Firms building digital channels today are investing in the following:

- Client portals that give clients the ability to aggregate their financial information, store and share important financial documents with advisors, and interact securely with advisors
- Cobrowsing technology to support phone or video-based conversations with clients in a seamless manner
- Video-conferencing technology to provide remote professional meetings involving more than one advisor
- IP phones to enable anywhere offices or the ability to receive calls via any device

DIGITAL MARKETING AND SELF-SERVICE TOOLS

Wealth management firms will focus more on acquiring and converting clients via the digital channel in the future. Today, 55% of advisors surveyed by Aite Group indicate that they provide content to clients through their practices' websites. Within a few years, this percentage will reach 70% to 80% as advisors recognize the importance of the website for attracting younger clients. Wealth management home offices will focus more on developing engaging website content and tools to attract prospects, and they will leverage marketing technology to convert prospects to clients. Advisors keen on acquiring younger clients (58% of advisors surveyed) recognize the importance of effective digital communications for acquiring Generation X and Y clients (Figure 8). In addition to increasing digital communications, advisors recognize a need to implement new service models for younger clients that lean more towards high-tech than high-touch. Forty percent of financial advisors who are focused on Gen X and Y client acquisition plan to invest in digital self-service tools.

Figure 8: Advisor Views on New Ways of Acquiring and Servicing Young Clients



Source: Aite Group survey of 402 U.S. financial advisors, Q2 2014

FINANCIAL PLANNING

Clients value advisors who provide proactive service instead of waiting until the annual review to provide advice. Advisors should be communicating meaningful financial plan updates as soon as they are available. Fortunately, many financial planning applications are becoming more dynamic, moving away from point-in-time analyses and toward delivering continuous monitoring and reporting of a client's ability to reach his or her financial goals. Firms should be reevaluating their planning providers to ensure they are working on these monitoring and alerting capabilities. In addition, firms should consider providing end clients with access to their financial plan information, their probability of reaching goals, and certain modeling tools. With access to financial plan information and planning capabilities, clients will feel empowered to explore financial decisions on their own at any time but under the guidance of the advisor and wealth management firm. With full visibility over how clients are using Web-based tools and information, advisors can be more prepared prior to meeting with clients to discuss financial decisions under consideration. This type of Web access and interactivity will become table stakes over the next few years, and many of the large wealth management firms have already delivered some of these self-service financial planning capabilities to end clients.

PORTFOLIO MANAGEMENT AND CLIENT REPORTING

Firms are adopting a goals-based approach to wealth management that focuses less on beating benchmarks and more on ensuring clients achieve successful outcomes. Aite Group expects that portfolio construction and management will be significantly more flexible by 2020. Advisors will be able to manage virtual portfolios that blend assets held across different custodians to deliver more accurate goals-based portfolio management. Investments in data aggregation solutions to ensure clients and advisors have continuous access to clients' full financial pictures will be essential for delivering goals-based wealth management and holistic advice.

As with other applications, portfolio management and client reporting applications will include a client-facing digital version to give clients always-on connectivity to their comprehensive investment information and information about their likelihood of reaching goals. These systems will also enable client and advisor collaboration. In the not-so-distant future, it will be feasible to imagine family members meeting in a virtual environment, with an advisor in his or her office dragging and dropping positions across a shared screen to suggest portfolio reallocations. Other scenarios might involve a client asking a question of an automated system or posing a change to portfolio allocation within that system, and the system will be able to automatically digest the question and raise any potential concerns.

DATA INTEGRATION AND BIG-DATA ANALYTICS

Firms with large amounts of portfolio and client information should be monetizing this information to deliver personalized insights and recommendations to advisors and end clients. Advisors and clients will be able to tap into the firm's collective wisdom when making portfolio decisions and broader financial planning decisions. Advisors will augment their advice by understanding what other advisors have recommended to similar clients. Firms with self-directed clients will be able to help clients further by giving them insight into what clients with similar wealth, risk, and life-stage profiles are investing in.

To ensure these recommendations are of the highest quality, firms may seek to train decision models by using their best advisors. Singapore-based DBS is working on such a solution using IBM's Watson platform to provide client portfolio recommendations to DBS's financial advisors. The firm has asked one of its top advisors to spend the better part of a year to train Watson, i.e., work through scenarios that allow Watson to build up a rules base. These capabilities will allow firms to deliver better and more cost-effective advice to larger numbers of individuals.

CONCLUSION

- In 2015, efforts from large discount/online firms as well as some leading private banks will deliver wealth management services digitally. These developments will act as a catalyst for a much-needed change in client engagement at full-service firms. A digital wealth management service model is becoming table stakes. Firms will need to reevaluate their current technology setup in light of these competitive pressures to provide omnichannel service.

- Existing technology providers will need to provide client-facing capabilities that integrate with advisor tools or face being replaced by firms able to offer both client and advisor functionality on a single platform.

- Full-service firms should prioritize investments in technology that can enhance advisors' capabilities along the client acquisition and servicing life cycle. These solutions include the following:

  - Light advice tools that advisors can use for prospecting and that clients can use to think through important financial decisions
  - Communications tools to facilitate professional video, Web, and phone meetings
  - Client portals to enable data and document sharing with advisors and delivery of interactive presentations

- Firms will need to devote time and resources to demonstrating the value of these tools to advisors and their clients. Many advisors feel threatened by client-facing tools that may take away some advisor tasks. Showcasing how client portals can help advisors provide more valuable advice and service will be critical for driving advisor and end-client adoption of digital channel capabilities.

- In addition to enabling digital service, firms must evaluate how to augment this service with unique data, tools, and insights, reflective of the firm's brand and intellectual capital. Delivering insights based on the collective intelligence of the firm will be an important new differentiator for wealth management firms in the near future.

ABOUT SCIVANTAGE

Scivantage is an independent financial technology provider with proven expertise in online brokerage, tax and portfolio reporting, and wealth management applications that automate and integrate key business practices for broker-dealers, mutual funds, custodians, and prime brokers. From trade order processing and account management to comprehensive cost basis reporting and automated account opening, maintenance, and funding, Scivantage's back-office independent solutions enable financial institutions and financial professionals to dramatically reduce operational costs, strengthen customer relationships, and improve productivity.

Founded in 2000, Scivantage was built on the vision of delivering high-performance technology solutions that redefine and streamline the way financial institutions, financial professionals, and their clients transact business. Recently recognized by Inc. Magazine and the Deloitte Technology Fast 500, Scivantage has quickly become one of the fastest-growing private companies in North America. Serving more than 50 leading financial institutions, Scivantage continues to drive innovation across critical areas of the front and middle office by automating and optimizing business-critical processes to generate operational efficiencies and help drive sustainable competitive advantages for our clients.

For more information, please visit www.scivantage.com or contact us at +1.866.724.8268.

ABOUT AITE GROUP

Aite Group is an independent research and advisory firm focused on business, technology, and regulatory issues and their impact on the financial services industry. With expertise in banking, payments, securities & investments, and insurance, Aite Group's analysts deliver comprehensive, actionable advice to key market participants in financial services. Headquartered in Boston with a presence in Chicago, New York, San Francisco, London, and Milan, Aite Group works with its clients as a partner, advisor, and catalyst, challenging their basic assumptions and ensuring they remain at the forefront of industry trends.

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