4. The Future Wealth Advisor

An excerpt from the white paper, Wealth and Asset Management 2021: Preparing for Transformative Change

To stay relevant in a fast-changing marketplace, where investors are seeking greater value and on-demand support, wealth advisors will need to elevate their role in the wealth ecosystem. Next-generation wealth advisors will need to be hyper-responsive, highly empathetic, and digitally savvy. Equally important, they will need to be multidimensional professionals able to provide both specialized investment advice and whole life goal-planning – while always keeping the client's best interests in mind.

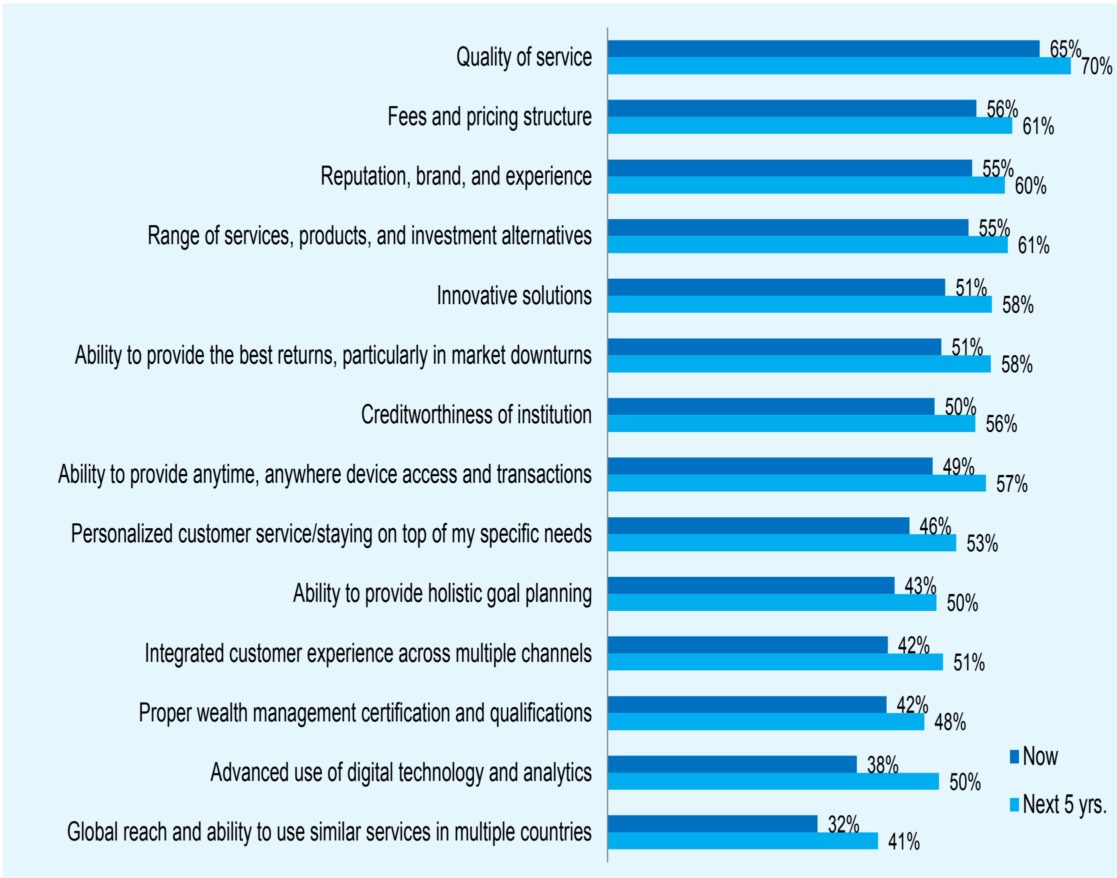
Something old, something new

In no industry is the juxtaposition of the old and new as evident as in the wealth profession. Just look at this study's participants. On one side of the spectrum is Berenberg Bank, founded in Hamburg in 1590 by the same family that owns it today. On the other is LearnVest, launched by Alexa von Tobel seven years ago after she dropped out of Harvard Business School.

Similarly, investors' attitudes toward advisors combine traditional values and innovative thinking. When selecting wealth advisors in the years ahead, long-standing criteria remain top of mind: fees, reputation, and range of service, but most of all, quality. (See Figure 4-1.) For Putnam President and CEO Bob Reynolds, it comes down to the essentials: "There's no question that the most important thing in selecting an investment company is which one offers high-quality products on a consistent basis."

But finding the right balance between quality and fees is crucial. Putnam's Reynolds put it simply, "People want to know what they're paying for, and what they're getting for it." But demonstrating higher value is far from straightforward.

Figure 4-1 **What is most important to you when selecting an investment advisor**



Source: Roubini ThoughtLab

"Differentiation is probably our biggest challenge right now," says Nathan Erickson, Chief Investment Officer, MRA Associates. "It comes back again to your ability to illustrate, almost quantify, value: 'Here's what you're getting for the fee you're paying.'"

Investors are also assessing wealth advisors on new criteria: their digital capabilities. These include anytime, anywhere, any device access, integrated omnichannel experience, and advanced use of digital technology and analytics. According to Amit Sahasradbudhe, Head of Wealth Management Strategy and Digital Solutions at RBC, "Digital is not just a separate, complimentary channel for our clients, is it becoming core to their wealth management experience."

The race against the machine

Technology will transform the wealth profession, but it will not replace humans anytime soon, according to our survey. Even after taking into account the lower cost of digital solutions, the majority of investors – including millennial and mass affluent ones – prefer using personal wealth advisors for every investment activity covered in our survey. (See Figure 4- 2.) This is the case for both matters of investment judgment and mundane tasks, such as rebalancing their

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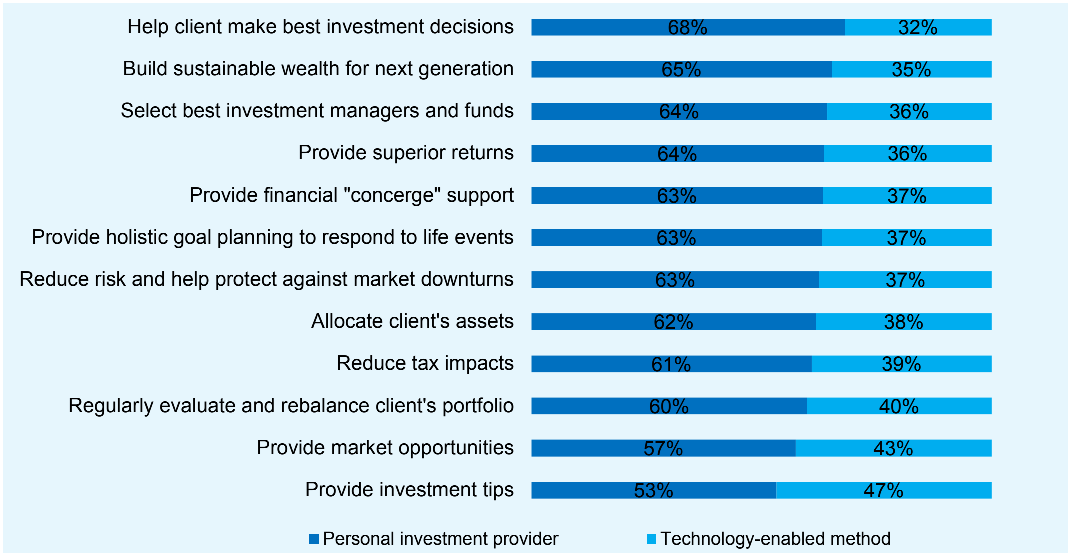
-NATHAN ERICKSON, CHIEF INVESTMENT OFFICER at MRA ASSOCIATES

Figure 4-2 **Personal investment advisor vs technology methods**



Source: Roubini ThoughtLab

portfolios and asset allocation. None of this surprises Dr. Dominik Helberger, Head of Strategic Clients and Managing Director at Berenberg: “While technology can offer much, in the end, money is a people business.” Clark Blackman II, Founder and CEO of Alpha Wealth Strategies, adds, “People are people. That doesn’t change. The advent of WebMD didn’t change the fact that people want to see a doctor for medical advice.”

However, Figure 4-2 also shows that machines are making headway. A significant minority of investors would rather use technology for getting investment tips and finding market opportunities. More worrying, just over one in five investors believes that by 2021, personal investment advisors will not be necessary for portfolio management, and a similar number says that technology will make advisors less important.

At the same time, technology is transforming client-advisor interaction from face-to-face and telephone to a wider mix of digital channels. “If the client has a question about anything, we need to be available to answer that by email or phone and provide the information that they want to see, when they want to see it,” Erickson says.

This does not mean that traditional methods of communication will be displaced. Instead, the popularity of a wide range of digital channels will rise substantially. (Figure 4-3.) This will be the case particularly for the young: In the future, 59% of millennials say they will use social media to communicate with advisors, compared with 29% of boomers, while for web collaboration tools the figures are 39% for millennials and 19% for boomers.

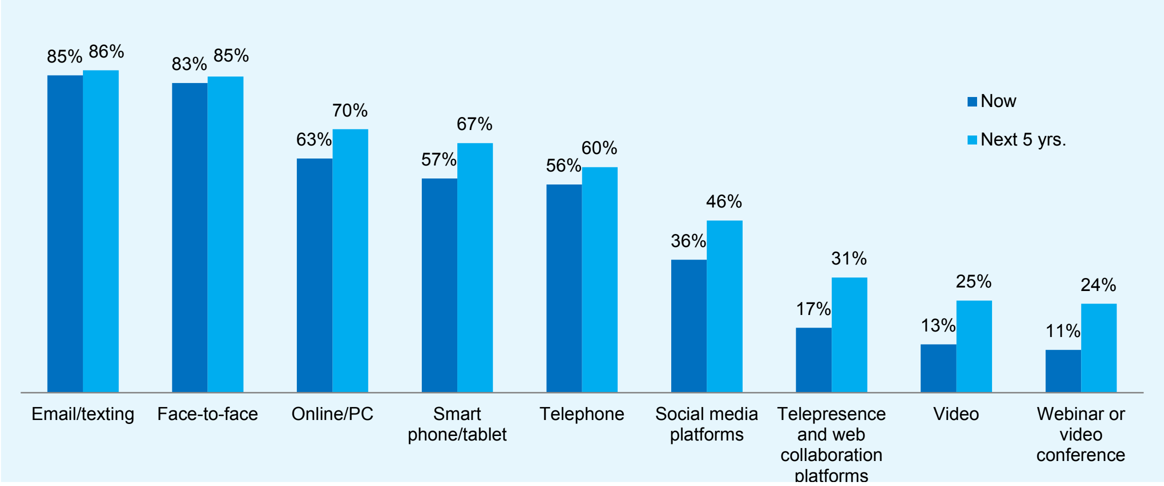
Just how fast digital technology will transform the industry is hard to predict. But it is safe to say that wealth organizations will struggle to keep up. “Wealth managers get it. They see it, and they’ve started to move,” says Erickson. “I just don’t think they appreciate how fast it’s going to happen.”

“While technology can offer much, in the end, money is a people business.”

-DR. DOMINIK HELBERGER, HEAD OF STRATEGIC CLIENTS AND MANAGER DIRECTOR at BERENBERG

Figure 4-3

How investors communicate with wealth firms



Source: Roubini ThoughtLab

How advisors can add value

Rather than compete with machines, personal wealth advisors will need to add value in the digital age. The most obvious way is through personal relationships, according to Bahren Shaari, CEO of Bank of Singapore. "Getting insights from clients and understanding their needs will always remain paramount to the business of private banking. This is something technology cannot do. Humans need to interact with humans."

Adding value may involve leveraging technology for the benefit of clients. In fact, Christopher Jones, EVP of Investment Management and Chief Investment Officer of Financial Engines, sees fintech morphing from self-directed applications to being advisor-directed. "You're going to see much of the actual generation of advice being done by computers and simply communicated by the human being, as opposed to a human being having an explicit role in creating it."

But repeating what a computer says is not a high-margin activity. Ways that machines cannot easily replicate, particularly to justify their fees, personal wealth advisors will need to apply judgment, intuition, and lateral thinking in during times of volatility. MRA's Erickson explains: "When crises come, it's not necessarily bad investments that cause people to lose money – it's bad decisions. The robo-advisor will not be able to call people at that critical moment to say: 'Everything is all right, stay invested, stick with the plan.' It's that personal relationship during the challenging moments that matters the most."

It is hard, then, to disagree with the view from Al Chiaradonna, SVP, SEI Wealth Platform℠, North America Private Banking: "In my lifetime, I do not see someone giving total control of their wealth to something completely technology-based." Rather, technology should be an integral part of a wealth manager's approach. In the future, the interplay of advisors and machines will reshape the advisor's role and the advisor-investor relationship.

"You're going to see much of the actual generation of advice being done by computers and simply communicated by the human being, as opposed to a human being having an explicit role in creating it."

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Case Study - Financial Engines: A fintech with a human face

When Financial Engines was founded in 1996, it was breaking new ground. Christopher Jones, Executive Vice President of Investment Management and Chief Investment Officer at Financial Engines explains, “In many respects, people think of us as the grandfather of the robo-advisors. We were the first company to provide personalized investment advice without human beings behind the scenes creating the portfolios.” The firm has been producing online advice since 1998 and, says Jones, has consistently worked at improving it. “We’ve invested around two to three hundred million dollars in our advice platform over the years with the explicit goal of providing truly personalized recommendations across any arbitrary universe of options.”

One important part of Financial Engine’s success, though, which holds important lessons for the market, is its steady expansion into person-to-person interaction with clients. As early as 2004, “We realized that a large number of our customers wanted a human being to talk to,” says Jones. “They wanted someone they could call up and ask questions. When the markets were volatile, they wanted somebody to talk to about it.” Accordingly, Financial Engines invested heavily in a call center advisory capability that now has over 250 advisors. These now can interact with clients using phone, video chat, and face-to-face meetings to provide an ever-expanding range of investment services.

More recently, the company that began as an online platform started offering direct personal interaction with named managers of client accounts. Jones notes that with the acquisition of The Mutual Fund Store in February 2016, “We now have the ability to offer a face-to-face dedicated advisor and face-to-face services in about 125 branch offices around the country.”

This evolution has nothing to do with how advice is generated – that still relies on Financial Engine’s extensive technology. Instead it, “reflects the range of needs that we’ve seen among our customer base,” says Jones. “Many customers are perfectly content to interact with us online. Others prefer to talk on the phone, maybe two or three times a year, to one of our advisors. But many, particularly our older clients with higher balances, want somebody to have a dedicated relationship with; to be able to look them in the eye, to go to their office and really work through concerns they may have. We really see the continuum of different ways of providing investment advice.”

The 24/7, multipurpose advisor

As Figure 4-4 shows, investors and providers have similar views on how the role of wealth advisors will morph in the coming years. The biggest shift is that advisors will need to provide even more responsive, on-demand advice. Bank of Singapore’s Shaari sees this already happening in Asia. “Our private bankers need to, and do, provide data to clients who want it anytime, anywhere.”

To Kevin Barr, EVP and Head of SEI’s Investment Management, the industry is at a turning point: “This is the last generation where the traditional model of a person conducting business with their clients on a quarterly basis is going to be successful.”

Offering 24/7 services often requires a team approach. For MRA Associates this means mobilizing a staff of 20 client-facing people. Erickson says, “We work in teams. Nobody is working on their own. If the client has a question, we’ve got to be available to answer and provide the answer when and how they want it.”

In the future, 4 out of 10 investors and providers also believe advisors will need to deliver high returns consistently to justify the fees. “But consistently outperforming the market without interruption is next to impossible for advisers,” says Blackman of Alpha Wealth Strategies. He suggests taking another tack: “What the sales pitch has to be is that ‘I am always here. I know you. When there is a problem, I am available 24/7 and we can deal together with other issues as well, such as estate planning, tax issues, or retirement concerns.’”

Not surprisingly, many providers and investors think that wealth advisors will need to become digitally proficient in the future. The attractions of technology are obvious: It can reduce costs, increase productivity, and facilitate communication with customers. But Financial Engines' Jones points out that technology can also raise the quality of advice by providing a more systematic framework. "With purely human advice, a lot of idiosyncratic risk exists. One advisor may tell you to do one thing and another to do something else."

Broadridge President Steve Scruton believes that creating a "smart easy-button" for advisors is critical for doing business in today's digital world, where an individual alone cannot reasonably sort through the firehose of available data. "Advisors need to be equipped with tools, preferably mobile, that allow them to focus on what's important for client and prospect engagement and provide them with insights into next best action for each client and prospect."

Technology can even help in developing personal relationships with clients. Technologies such as advanced analytics and artificial intelligence can provide firms with a multidimensional understanding of their clients and help them track changing priorities, behaviors, and attitudes. "If you do this right, "you can bring your empathy quotient up to a new level and improve margins," says Joseph Pagano, Practice Advisor, Financial Services Digital Transformation Group at Cisco.

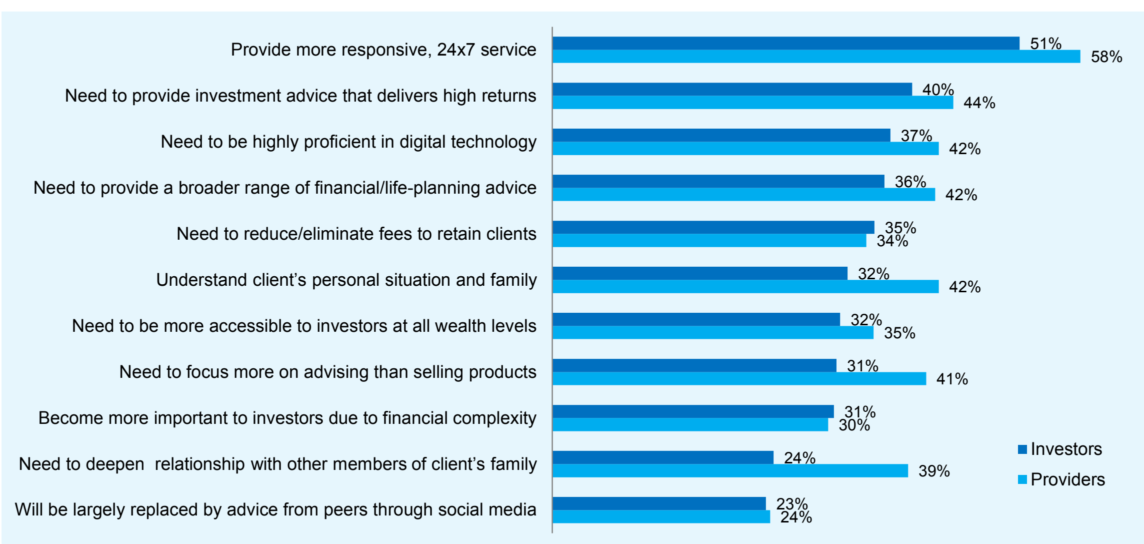
A generalist and a specialist

In the future, advisors will need to offer a wider array of financial and life-planning advice. Shaari explains, "Clients are looking for something extra – guidance and direction on investments, family philanthropy, retirement, succession, and estate planning. The role of the advisor is becoming less transaction-focused and more about sophisticated financial planning." This implies a further key shift, notes Burkhard Varnholt, Julius Baer's former Chief Investment Officer. "Clearly the wealth advisor of the future needs to be much more of a generalist, whereas in the past, he or she was often just an investment advisor."

Again, this may be best accomplished through a team-based approach, according to EY's US Wealth and Asset Management Sector Leader Marcelo Fava: "The role of the wealth manager is changing into that of a 'financial therapist,' who works with a cadre of specialists to meet each customer's specific needs." Harvard Business School Professor Luis Viceira likens this new role to that of "a money doctor" or a general practitioner whom his patients trust even if they cannot fully understand the science behind the treatments he suggests, and who, while able to meet some patient needs alone, also knows where to look for help in more complex situations.

Figure 4-4

How role of investment advisor will change over the next five years



Source: Roubini ThoughtLab

To fill this role, Pagano believes that future wealth advisors will need to be "hyper-connected," acting as the node in a web that includes the customer, relevant data, and experts in and outside the firm.

The new wealth advisor: Joining left brain with right

The next-generation wealth advisor will combine left and right brain thinking. As Bob Dannhauser, Head of Global Private Wealth Management at the CFA Institute, puts it, "The days of plug-and-play solutions are over. The real professionals in wealth management will have deeper knowledge of financial markets and products, coupled with top-notch relationship skills. Most importantly, the successful players will recognize that their knowledge is a wasting asset that constantly needs to be refreshed to best serve clients."

SEI's Chiaradonna agrees: "Advisors will have to be well-versed in investment management so that they can explain it to someone who is not. But they will also require a human side that helps them understand the fears and frustrations of customers, so that they can explain things in a way that will be interpreted properly."

The advisor's role as the bridge between clients and specialists has other implications. Jones notes that, if someone is being paid to help clients consider a range of products and options, "the expectation is that the advisor is going to bring a lot of expertise to the table." The future wealth advisor's generalist role, says Varnholt, will necessitate training in a wide variety of "product areas, but also, especially, in emotional intelligence. Advisors need the interpersonal skills to really understand a client or even a family of clients well."

Creating a workforce with this combination of skills is no easy task. Jones explains that wealth services firms have traditionally acted as sales organizations earning commissions or selling their own products. "A culture develops. These advisors can be very 'coin-operated' in how they see the world," he adds. "That creates a dynamic that is really hard to shift quickly." Change is also expensive, because it involves "really raising the capabilities of people," he concludes.

Both Jones and Alpha Wealth Strategies' Blackman believe that the transition from a product-sales culture to one highlighting objective, professional advice is long overdue. At the same time, they see it is as one of the biggest disruptions facing the private wealth management profession in the coming years, made all the more complicated by regulatory reform. Several experts interviewed for this study point out this cultural shift, combined with other market trends, may accelerate the retirement of many advisors in their 50s and 60s, particularly in the US.

Companies might be reluctant to grasp such a challenging nettle but, as Blackman says, change "will be about what clients are demanding, not what the industry is willing to do." Without the requisite skills, advisors will not be able to deliver the services that clients increasingly demand. Among investors surveyed, 44% will have a greater expectation in the coming years that their investment providers will have deep knowledge of market, investment and tax issues. Meanwhile, 37% will want to see proper wealth management certification and qualifications.

> ***"The days of plug-and-play solutions are over. The real professionals in wealth management will have deeper knowledge of financial markets and products, coupled with top-notch relationship skills. "***
>
> -BOB DANNHAUSER, HEAD OF GLOBAL PRIVATE WEALTH MAANAGEMENT at CFA INSTITUTE

The regulatory impact

An even bigger driver of change, however, and one which will make the industry's re-skilling unavoidable, will be stricter compliance rules. The regulatory push in major jurisdictions toward a fiduciary model of advice will do more than reduce conflicts of interest. Blackman's comments about the US could apply in any number of countries. "One requirement of a paid fiduciary is to be an expert," he says. "Not being one is a primary impediment to giving good advice, but that high level of expertise is not as prevalent in the marketplace as it should be."

"The typical components of fiduciary duty are loyalty, prudence and care," according to Dannhauser. "We see more attention in the future being focused on the care that advisors apply to their clients' investment and financial needs, perhaps with the benefit of easier access to information about client objectives and behaviors to inform that expertise."

The regulatory implications for wealth advisors go beyond their own areas of direct personal expertise. Increasingly, notes Blackman, there are fiduciary obligations and in some cases legal requirements for licensed advisors to conduct due diligence on any professional they recommend to a client – such as a money manager, custodian or even an estate planner, accountant or lawyer – and to be transparent about any benefit they receive from the referral. He believes that the only way for wealth advisors to have the ability to meet the whole range of fiduciary requirements in regulations is for the occupation of wealth advisor to become a full-fledged profession with clear, enforceable standards.

For the moment, as Jones notes, these cultural shifts will favor firms that already have a fiduciary fee advisory model, such as many American RIAs or British IFAs. These businesses, however, will face their own difficulties. The first is that many tend to be smaller than the big investment firms. In an era of price compression, they will need to learn how to deliver this model at scale. Jones adds, in the future, the industry will be "much more regimented in the way they are able to provide clients with solutions."

Julius Baer: Combining high-tech with high-touch

Swiss private bank Julius Baer is embracing technology to enrich its wealth management services. Burkhardt Varnholt, the bank's former Chief Investment Officer, sees Julius Baer as "an early mover" in this space.

"One crucial area of improvement for wealth advisors is in portfolio management and analysis," according to Varnholt. "Historically, wealth managers focused their attention on a single instrument view. Technology now allows us to move to a more holistic portfolio view." Varnholt believes that wealth managers will next develop more sophisticated analytical platforms that enable investors to assess the marginal impact of financial securities on their overall portfolio.

While technology can improve analytical insights to clients, Varnholt does not see it as replacing personal advisors. "The personal element in a relationship will be enhanced by technology, not diminished, simply because the relationship manager will have more time for the client."

In Varnholt's view, the adoption of technology will also reduce any threat to incumbent advisors from fintechs. "I don't believe – and I'm saying this with strong conviction – that upstart robo-advisors, for example, are well-placed to dramatically take away business from existing wealth managers."

His reasoning is simple: "There will always be a significant personal element in the wealth management business that high-net-worth individuals will value. Successful wealth managers will dramatically lower their cost by implementing new technologies, and then pass some of those cost benefits onto clients. That will have a significant business impact – and the leaders in the space will then grow at the expense of the other players."

For much of the industry, creating an appropriately skilled advisory network is, in Jones words, “going to require training, cultural change, and deep investments in compliance and management systems.” Those firms that do not make the transition, however, may face extinction at the hands of either competitors or more exacting regulatory standards.

Building trust

There are few industries where trust is as critical, yet so fragile, as the wealth industry. “The trust barrier has always been high,” says Jones. “But it’s gotten higher in the last 10 years because of the things that we have seen – the crises and potential crises. People’s level of trust in financial services firms is probably at an all-time low.”

Investors and providers largely agree on how to build trust. (See Figure 4-5.) The main task for advisors is to do their jobs well: Provide good risk-adjusted returns, achieve financial goals, and understand the client’s goals and risk tolerance. Putnam’s Reynolds put it simply, “If there is a value being created, people are willing to pay for it. If there is no value created, they’re not.” Of course, being responsive and vigilant also nurtures trust – investors cited protecting against fraud, being available when needed, and staying in touch during market disruptions.

Eliminating product complexity and pricing transparency is valuable for building trust, according to our survey. “Our view is that we just need to be incredibly transparent,” says Erickson of MRA Associates. “When we talk to clients or new prospects, we make sure they understand that nothing we’re doing is a black box. We’ll explain what we’re investing in, why we’re investing in it, and what the expected outcome is.”

Fintech eToro takes transparency even further by building it into its business model. Yoni Assia, Founder and CEO, explains, “Wealth management, by its nature, is a very social industry. But it has transformed from a group of people doing deals together in one room, to a lot of segregated, private discussions. Our social platform moves the interaction back to open discussions. It enables people to have transparent public portfolios, and communicate with one another openly about what they’re doing. This is a classic re-evolution of the industry for people that crave trust and transparency.”

Where providers and investors disagree is also revealing. Many providers believe that they can build trust by increasing communication around integrity and emphasizing their reputations. But as Figure 4-5 shows, investors give higher marks to providers that demonstrate they will work in a client’s best interest. And regulators are making sure this happens.

How MRA Associates is grooming the next-generation advisor

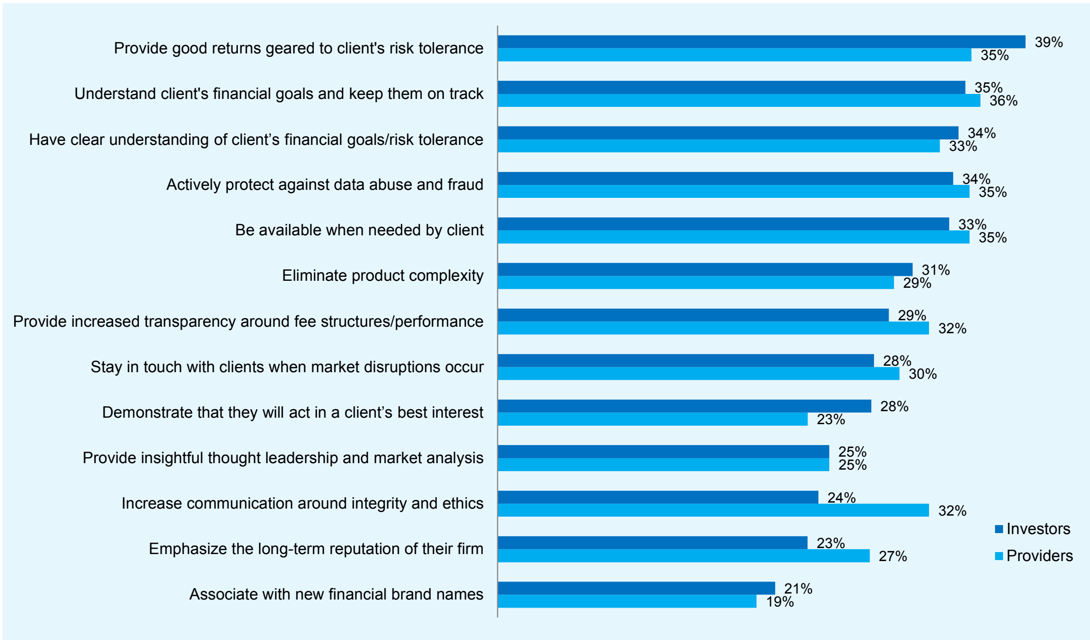
“The wealth industry won’t survive if the people in it are out only for their own best interests,” says Nathan Erickson, Chief Investment Officer of MRA Associates. “If I become a wealth advisor so that I can get rich or retire early, the clients of today will not accept that,” the way they might have even 10 or 15 years ago.

According to Erickson, the key is finding people with a desire to help. “Good candidates are empathetic. They feel good about being a part of someone’s success in retiring or providing for heirs, or whatever the client’s goal might be. There has to be some emotional or psychological benefit to be in the industry.” To attract and retain that type of talent, Erickson believes, “you have to give them an opportunity to own the business, own the outcomes.”

To do this, the company has developed an internal succession plan to motivate advisors. “We’re entirely employee-owned. Advisors can see, if I do a great job with this client and they refer five more clients, then the business is worth more, and that’s good for everyone.”

Figure 4-5

Best methods for investment advisors to gain trust



Source: Roubini ThoughtLab