Private Client 2020:

The Transformation of the Client & Advisor Experience

Disruption is on the rise in financial services - with significant opportunities for advisors and their organizations. Fueling the disruption are powerful demographic and competitive trends combined with a changing regulatory climate. Disruption is also the fuel for innovation, unlocking the creativity to build new and better client solutions. The resulting environment will benefit clients and reward the advisors and firms most committed to client success. One leading financial services CEO declared our industry now competes with ALL consumer businesses and their standards of response and ease of doing business. And a leading technology company has confidently proclaimed “The Age of the Customer”. Financial services are now a mainstream consumer business and can capitalize on rising client expectations.

Private Client 2020 is an overview of disruption and how financial services professionals can prepare for the future. First, by examining the key trends shaping our industry; second to forecast the impact of disruption on the Private Client experience, and finally to propose action steps needed to embrace disruption to further improve the client experience. The modern financial services industry has a rich history of innovation and the future leaders will continue to champion client needs and adjust their processes to ensure continued success in the Age of the Customer. But disruption takes no prisoners and is paced by ambitious competitors - some of whom are new to financial services but not to customer satisfaction. The disruptors won't wait.

About the Authors

Andy Davidson is the Sales Strategy Leader for Financial Services at Anaplan, a leading software provider for a new age of connected planning. Prior to Anaplan, Andy served as Growth Strategy Leader for Salesforce's Financial Services Industry. With Salesforce, Andy's contributions spanned work including: the future of private client services, client onboarding and the "RegTech" ecosystem, and blockchain. Prior to Salesforce, Andy was a strategy consultant for IBM Global Business Services, focused on new business model innovation. Andy has a Master's degree in International Finance from Columbia University and a B.A. in History from Duke University.

andy.davidson@anaplan.com
www.anaplan.com

Steve Gresham is principal of The Gresham Company, LLC, and has been focused on the transformation of wealth management for more than 30 years. He was executive vice president and head of the Private Client Group at Fidelity Investments until the end of 2017 and was also the co-chair of the Private Client Services Committee at SIFMA. In addition to his Fidelity role, Mr. Gresham held several executive positions across the wealth management industry. He is the author of five books and more than 100 articles about wealth management. Mr. Gresham also served as an instructor at Brown University's Taubman Center for Public Policy, 2008-2016, focused on the impact of demographic change. He is a graduate of Brown University.

steve@thegreshamco.com
www.thegreshamco.com

Rohit Mahna is SVP & General Manager of Financial Services at Salesforce, leading the company's global strategy in the Wealth Management, Banking, Insurance and Capital Markets sectors. Responsible for the product, marketing, partners, industry expertise and overall go to market strategy, Mahna and his team oversee industry products and customer engagements for the Financial Services industry. He was instrumental development of Salesforce's Financial Services Cloud, the company's first industry-specific product. Mahna previously led global development of IBM's Financial Services industry solutions for business analytics and the industry marketing team and began his career at T.D. Waterhouse. He graduated from Lehigh University.

rmahna@salesforce.com
www.salesforce.com

1

Private Client 2020: FROM DISRUPTION, OPPORTUNITY

Disruption is the new normal for financial services and especially for advice providers. New definitions of client service are being established by new players as lines blur across organizations and roles. Out with tradition – clients are responding to a new world of choices.

The New Client is a Family: The definition of "client" in the wealth industry is becoming more complex. Soon the norm will be a multi-generational household with needs as diverse as elder care, wealth transfer and new wealth accumulation, frequently all happening simultaneously. Today's top advisors create world class experiences for the demands of traditional heads-of-household. Servicing multiple generations requires the ability to provide various advisory services to different generations depending on their needs and expectations:

Aging Baby Boomers: Baby Boomers own the majority of the wealth in the US today – holding $10 trillion of the $15 trillion in tax-deferred savings retirement plans[1] and over $16 trillion in taxable retirement assets[2]. The oldest of these baby boomers – at 70 ½ years old - are now withdrawing from

[1] Monga, Vipal, and Sarah Krouse. "Pulling Retirement Cash, but Not by Choice." The Wall Street Journal. Dow Jones & Company, 16 Jan. 2017. Web. 15 May 2017.

[2] Baby Boomers Boom Into Retirement – How This Impacts Your Investments, ebix.com, 8 August 2016

IRA accounts, generating taxable income in addition to the spending power of their taxable asset base.

Unlike previous generations, Boomers have more complex financial lives. Nearly half of Baby Boomers don't expect to retire until they are 66 or older[3]. One in 10 predict they will never retire. Baby Boomers are expected to live longer lives, with a greater risk of cognitive decline. According to the Alzheimer's Association, about 11 percent of aged 65+ currently suffer from Alzheimer's disease, and that number is expected to triple by 2050[4]. The estimated lifetime cost of care for someone with Alzheimer's is roughly $300,000 in the last five years of life – with a WebMD study found that 71 percent of people admitting that their family is not financially equipped to handle the impact of the disease[5] [6].

Born Digital: Gen X and Millennials: Roughly $30-$60 trillion will be handed down to the next generations of Americans. As many as 95% of this next generation will leave their parents' financial advisors upon receiving their inheritance [7] [8]. These clients have high expectations for access, service and convenience on their terms - requiring a digital relationship. 25% of clients would fire their financial advisor if they did not have a satisfactory online experience[9].

Gen X: Categorized as individuals born between 1965 and 1984, this segment represents new challenges for wealth advisors. Gen X clients are busier than Baby Boomers and have less time to spend with their financial advisors[10]. They tend to more self-directed than Boomer clients. Gen Xers are also more tech-savvy – they are used to conducting business online, and want more technology-based tools to monitor their financial picture[9]. 72% of Baby Boomers feel their financial advisors

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[3] Gallup, Inc. "Many Baby Boomers Reluctant to Retire." Gallup.com. Gallup, 20 Jan. 2014. Web. 15 May 2017.

[4] "Insight into Alzheimer's Attitudes and Behaviors." WebMD (2016): n. pag. Web. 15 May 2017.

[5] "Factsheet." Alzheimer's Association (2017): n. pag. Web. 15 May 2017.

[6] "Insight into Alzheimer's Attitudes and Behaviors." WebMD (2016): n. pag. Web. 15 May 2017.

[7] Havens, John J., and Paul G. Schervish. "A Golden Age of Philanthropy Still Beckons: National Wealth Transfer and Potential for Philanthropy Technical Report."

[8] Rusoff, Jane Wollman. "How Advisors Can Stop Losing Clients' Heirs as Clients." ThinkAdvisor. ThinkAdvisor, 01 Mar. 2016. Web. 15 May 2017.

[9] Corbin, Kenneth. "Edward Jones Finds Online Experience Key to Client Retention." On Wall Street. SourceMedia LLC, 26 May 2016. Web. 15 May 2017.

[10] "2015 Wealth Management for Connected Investors: Insights into the Expectations of Modern Investor." Salesforce (2015): n. pag. Web. 15 May 2017.

have their best interests in mind, while only about half of Gen Xers feel this way[9]. Gen X overall is on track to be the first generation less prepared for retirement than its parents. Opportunity!

Millennials: The most educated generation of Americans, with 32% of 25-34 year olds possessing a bachelor's degree, many have started their professional careers burdened by student debt. They may distrust financial institutions or have a negative memory of recent stock market volatility. These are some of the reasons that Millennials seek financial advice and information from multiple sources including social media, personal financial workshops, friends and family[11]. This also impacts their behavior. In a recent study, millennials rank environmental, social and governance (ESG) investments as high as returns: one of the drivers for the 33% growth in ESG investments in the two years from 2014 to 2016.[12] Millennials are conservative investors (34%) vs 41% and 23% for Baby Boomers and Gen X, respectively[13]. One study showed that nearly 64% of Millennials prefer hybrid advice – a combination of full service and digital - rather than a dedicated advisor, compared to only 28 percent of Baby Boomers[14]. Opportunity!

Women: Women are expected to control two-thirds of the nation's wealth by 2030 and 24% of women currently take primary responsibility for day-to-day financial decisions[15]. Women claiming primary status for long-term retirement decisions has risen to more than 19 percent[16]. Their attitudes about investing are – not surprisingly – different than that of men: according to finance professors Brad Barber and Terrance Odean, women tend to focus more on longer-term, non-monetary goals[17]. When it comes to investing and planning for their future, women tend to minimize risk and take time to make investment decisions. They are more methodical in how they go about research, and ask more questions[16]. Only 14% of financial advisors are

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[11] Kent, David. "Millennials on Track to Be the Most Educated Generation to Date." Pew Research Center. n.pag., 17 Mar. 2015. Web. 15 May 2017.

[12] Isvari Mohan, "Millennials drive growth in 'impact investing'", Boston Globe, 17 January 2017

[13] "Think you know the Next Gen investor." UBS (2014): n. pag. Web. 15 May 2017.

[14] Thompson, Kendra, and Edward Blomquist. "The New Face of Wealth Management: In the Era of Hybrid Advice." Accenture (2017): n. pag. Web. 15 May 2017.

[15] "The 2013 Fidelity Investments Couples Retirement Study." Fidelity Investments (2013): n. pag. Web.

[16] "The 2013 Fidelity Investments Couples Retirement Study." Fidelity Investments (2013): n. pag. Web.

[17] Clements, Jonathan. "Women's Different Financial Needs Mean They Should Take a New Tack on Investing." The Wall Street Journal. Dow Jones & Company, 25 June 2000. Web. 26 May 2017.

women[18] [19]. However, a recent report from Cerulli Associates found a slight uptick in female rookie advisors, which it says could indicate a positive trend toward an even gender distribution. This trend is now on the rise: Compared with the industry average of 14.8% for established female advisors, women make up a greater percentage (23.8%) of new advisor cohorts[20]. This trend bodes well for addressing the projected gap in advisor capacity while aligning the diversity of advisors more closely with the projected trend in female investors.[21]

To serve these diverse and growing client expectations, top advisors will process more information and provide more complex insights in order to craft meaningful client experiences. Advisors supplement their skills with technology that will help them process more information, portray data in new ways and communicate with their clients when and where clients prefer.

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[18] Bier, Jerilyn Klein. "Wanted: Women Financial Advisors." Financial Advisor. Financial Advisor Magazine, 1 Mar. 2016. Web. 15 May 2017.

[19] "U.S. Advisor Metrics 2016." Cerulli Associates (2016): n. pag. Web. 15 May 2017.

[20] "U.S. Advisor Metrics 2016." Cerulli Associates (2016): n. pag. Web. 15 May 2017.

[21] Women: An Untapped Market for U.S. Advisor Talent, Cerulli Associates, January 2017.

2

Private Client 2020: THE RISE OF NEXT GENERATION FINANCIAL ADVISORY

While much of financial services disruption has led to innovation in the client experience, financial advisors are also seeking better experiences and beginning to demand smarter, digital tools. A study by Fidelity found financial advisors that take advantage of technology more than their peers – call them eAdvisors -- had roughly 40% more AUM, attracted more Gen X and Y clients, and are expanding geographically[22].

The average age of financial advisor in 2016 was 50 years old, and continues to rise each year. 40 percent of older advisors have completed a succession plan. The number of jobs for financial advisors is slated to grow by 66,400 by 2020[23]. The industry faces a need to recruit and retain more next-generation financial advisors, but also provide them sophisticated technology them to scale their expertise and reach.

So what will the private client experience look like in 2020?

1. Shifting to an *Experience*-Driven Model: The up-and-coming generation of investors who were born in the internet are more willing to share their personal data and experiences across the internet. Additionally, the internet has shown - with crowdsourcing, peer-to-peer and the "gig" economy - that multiple business models can be successful. Successful

[22] "EAdvisors Take the Lead." Fidelity Investments (2015): n. pag. Web. 15 May 2017.

[23] "The Next Generation of Financial Advisors", EY, 2016.

innovations all have one thing in common: the right user and client experience is the differentiating factor. Wealth management will be no different. We have begun to shift from the traditional binary choice of advisor-centric or firm-centric models to the experience-centric model: tools, techniques, products and services on flexible, integrated platforms that shape the advisor's ability to successfully serve tomorrow's clients.

2. Being a Smart Fiduciary: Perhaps the most impactful industry gains from disruption lie in the growth of truly consultative, compliant sales. To attract a new generation of advisers and clients, advisers will demonstrate and maintain not just professional accreditation, but capabilities that enable guided sales and take advantage of opportunities across a multi-generation household. In addition, intelligent interaction tools - with built-in audit trails and content indexing - allow advisor and firm outreach, consultation and sale to maintain compliance while also potentially meeting next generation clients' preference for self-service.

3. Leveraging Artificial Intelligence for Engagement: Financial advisors in the near future will utilize unified, intuitive Artificial Intelligence (AI) powered platforms to manage their clients -- replacing complex manual technologies. AI tools will also augment and streamline daily tasks and allow advisors to be more proactive. Data gathered from internal and external sources will generate important client insights -- such as the probability of a life event -- and deliver it within an integrated platform that advisors use to manage client engagement

4. Creating a Multi-Service, Single Company Experience

Multi-generation households will be able to explore and share financial needs and wants within a unified experience. Advisers may consider actively structuring cross-generational service teams offering a broad array of advice. For example, some top advisors today provide financial planning services to parents, while offering their college-age children self-service digital tools, like a personal financial management app or robo-financial planning service.

5. Pairing Health with Wealth

The next frontier for client engagement in financial services is the growing integration of health, well-being and financial planning, or "whealthcare." "Whealthcare" enables households to better protect assets, preserve lifestyles and maintain independence into older age. Additionally, the notion of "whealth" helps households address planning gaps and diversions for long term security. Multichannel experiences and cognitive intelligence facilitate the breadth and depth that "whealthcare" can offer.

Integrated Programs: Preparing for the Future
Fueled by employer incentives, multichannel experiences such as "lunch and learn" financial security seminars and online decision support tools are now offered alongside of health programs such as smoking cessation, weight management and physical fitness/training. Reflective of the financial burden of student debt on employees, a quarter of employers' plans to offer student loan counseling or repayment assistance.

A growing percentage of companies are expanding their well-being programs to include financial security, up to 84% this year from 76% in last year.[24]

Tailoring whealthcare programs for households represents a strategic opportunity for forward thinking advisory: embedding daily physical and financial activity with life event tracking into personalized journeys fuels augmented intelligence that can help drive better engagement and decision-making to improve "whealth".

Best Interests of Seniors
Financial abuse of seniors is estimated at between $3 billion to almost $40 billion annually.[25] "Whealthcare" can contribute to the protection of at-risk seniors by addressing and monitoring issues such as cognitive impairment in a holistic, integrated financial and physical health plan.

SIFMA remains at the forefront of promoting best interests of firms and their senior clients through events, partnerships and promulgation of industry trends such as "whealthcare".

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[24] Annual Survey on Corporate Health and Well-Being, Fidelity Investments and National Business Group on Health (2017).

[25] Recommendations and report for financial institutions on preventing and responding to elder financial exploitation, Consumer Financial Services Protection Bureau (2016),

Enabling the next generation of advisors to deliver on these five major trends implies investment in new capabilities: the "Future School" of financial advisors' customer engagement platforms. Agility is a new and critical factor in enabling advisors to apply the technological advances to personalize their client impact, while maintaining competitive efficiency and regulatory compliance.

The Future of Wealth and the Art of the Possible

		OLD SCHOOL	NEW SCHOOL	FUTURE SCHOOL
ATTRACT	PROSPECT	**Buy a prospect list** to cold call	**Leverage social media** for digital outreach	Match prospects with advisors based on **behavioral profiles** and financial needs
ATTRACT	CONVERT	**Offer prospects a wide-range of reasons to convert**	**Offer a more targeted set of reasons to convert**	Proactively apply **specific reasons and next steps to increase conversion**
ATTRACT	ONBOARD	Paper-based onboarding	Electronic onboarding	Immediate onboarding utilizing existing information, e.g. using blockchain
GROW	SEGMENT	Demographic, static **segmentation**	**Static, rule-based segmentation** incorporating behavior	**Dynamic behavior-based segmentation** uncovering unique segments
GROW	CROSS-SELL/ UP-SELL	Generic marketing drives personal calls	Static segmented campaigns drive heads of household calls	Household activity drives individualized opportunities proactively
SERVE	SCHEDULE	**Call clients** to schedule meetings	**Scheduling via text messaging, email, or calendaring tools**	**AI-powered assistants** handle correspondence
SERVE	VIEW	Account view for **servicing heads of households**	Household view to **service single generation in household**	Household view with individualized service across **generations.**
SERVE	PLAN	Manual / spreadsheet based tools	**Intuitive financial planning software**	Client-facing, hybrid/**robo software with configurable household views and rights**
SERVE	DOCUMENT MANAGEMENT	**Pre-printed generic documents**	Digitized physical documents	**Smart contracts** using blockchain to create, modify and track changes
SERVE	REPORT	**Paper statements and reports**	**Digital statements and reports**	**Interactive** statements and reports with natural language automated narratives
SERVE	RESEARCH	Provide research based on **'gut' feel or client request**	Provide research reports to clients based on **demographics**	Leverage behavioral data to automate and distribute recommended research
SERVE	RISK TOLERANCE	Paper-based **risk assessment tracked manually**	Digital **risk assessment**– triggered by life events	**Dynamic risk profile** based on client behavior, market and population
RETAIN	RETAIN	**Learn** about client attrition after the fact	**Proactively reach out to retain attrition risks.**	Predict client attrition, use all available data to **recommend best next steps**
PROTECT	SUCCESSION PLANNING	Find **willing buyer(s)** for book of business	**Actively plan for book of business sale or transition**	Match clients in book of business to the right advisor(s) based on **behavioral profiles**

ADVISOR OVERSIGHT	**Reactively respond** to complaints	**Reconstruct archiving of advisor-client interactions**	Intelligent scanning of interactions captured automatically to Identify potential misconduct
MARKET RISK MANAGEMENT	**Manually monitor market activity and impact** on client portfolios	**Automated alerts** for market activity that may impact portfolios	**Automated messaging** to clients based on **predicted client activit**y driven by market activity with recommended actions

The Case for Value: Graduating to Future School

As with any investment, a good financial advisor will want to understand the benefits and risks. As a launchpad into strategic planning, top advisors may consider the following impact scenarios.

A. Curating Multichannel Experiences

Keeping track of households requires a heightened commitment to data and customer relationship management, as well as the ability to refresh relevant information and act upon it, in context to the entire household relationship.

Younger generations represent future opportunity but may demand cultivation through service and education. In addition, younger clients may prefer digital services to human interaction.

> **Do you have a plan to combine and align personal interactions with digital, two-way communication?**

B. Addressing Fiscal Planning, Health Care Costs and Population Demographics

Aging investors represent the other end of the service spectrum with an emphasis on simplifying income and tax strategies. In contrast to the relative simplicity of their accumulation phase, disbursing income and managing expenses in retirement can be much more complex. Retirement is indeed both a balance sheet and an income statement issue. Maximizing limited resources will be increasingly complex. Many clients are finding they are unprepared for the demands of longevity and health care - especially in contrast with historically low interest rates.

> **Do you have planning systems in place to help maximize after tax income - and how do you answer questions about taxes?**
>
> **What about health care - and especially long-term care?**

C. Enabling Teams for Multigenerational Engagement

Gender and family issues challenge training teams as well. The empathy required to fully engage clients - especially "unengaged" spouses and other family members unfamiliar with financial matters - can test even experienced advisors. Recruiting and hiring will be a challenge due to the specialized nature of the skills and experience needed. Get ready to pay for talent!

Are your service and support team adequately trained?

Do they have sufficient time to engage with complex cases that may require additional client education?

D. Managing Compliance and Monetizing Data

The sheer mountain of client data and compliance requirements can skyrocket costs, with a risk of not capitalize on the data. Monetizing data profitably will require specific management skills and organizational capabilities as well.

Can your data can be utilized to "digitize" elements of service and overall engagement?

Will you provide alternative service options for clients to "self-actualize" specific needs now being handled by human service teams?

Will you centralize any of your service and provide relief to local resources?

What is the future role of the web for your firm in client engagement?

As innovation creates new business and servicing models, these questions – and many more – may shift the traditional role of advisors. At the high end, the best advisors must get free of service and minutiae so they can focus on clients and new business. If a client needs the services of a top advisor and is willing to pay, why would an advisor do anything else with than meet with new and existing clients?

At the "lower" end, service and sales roles begin to blur, with automation and self-service facilitating – and accelerating - that transformation: For example, if a client needs help - often triggered by an event such as a death or a significant event in the markets - and reaches out to an advisor or the advisor's firm, should firms provide enough capability for clients to guide themselves to the right activity and service group?

As the wealth management industry continues to transform, answers to these questions and more will be unique to every firm. In the following section, we provide five key factors to help guide and plan your future with success.

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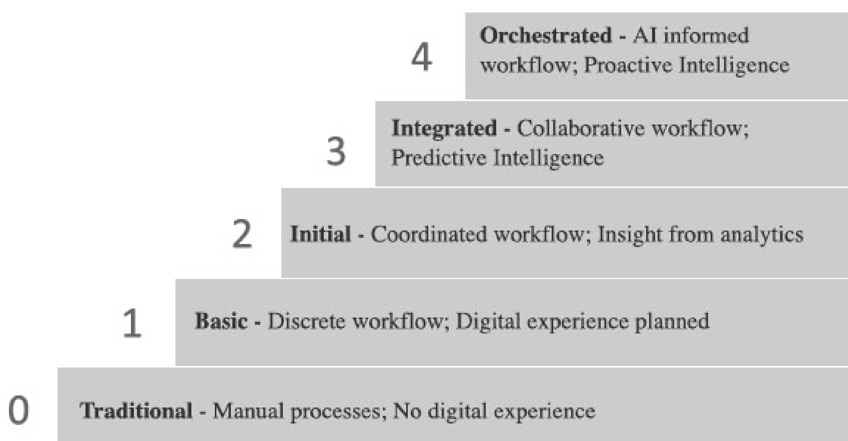
Private Client 2020: THE ROAD AHEAD – CAPITALIZING ON DISRUPTION

Amidst disruption some firms have begun experimenting with new types of private client experiences. In addition, well-established retail banks are launching new wealth management offerings, such as hybrid robo-advice, 4and are even publicly stating the "enormous opportunity" in the industry.[26]

Private Client Intelligent Experience Maturity Model



[26] Correia, Margarida. "Citizens Wealth Management Chases Mass-affluent Business." Bank Investment Consultant. SourceMedia, 09 Aug. 2016. Web. 15 May 2017.

Implications for advisors and their firms portend more opportunity. Independent of your place on the *Private Client Intelligent Experience Maturity Model*, five factors contribute to realizing your full potential:

1. Disruption demands new leadership and a longer view.

Begin your transformation journey with active participation and endorsement from leadership. Executive commitment demonstrates the priority to staff and to customers that you are committed to serving their needs, and improving their experience with you. Transformation begins with ruthless candor about your current experience. Given the pace of change needed to stay competitive, firms need to delight clients and customers and worry less about competitors who may not be keeping up.

2. Identify Your Value.

Create a business case that demonstrates the value of transformation – the endgame client experience benefits that clients will seek out and buy. Keep performance measures simple, well-defined and aligned with your top- and bottom-line priorities. A well-known business consultant said recently that current state KPIs (key performance indicators) have "imprisoned" companies – preventing the innovation needed to delight clients in a more competitive marketplace. A strong value case will keep your transformation in the forefront of your business strategy and position you well for lasting, profitable growth. Keep an eye on "community" as a draw for both employees and clients as both constituencies increasingly appreciate the reputation of their company.

3. Don't forget change management.

70% of transformations fail because firms have not paid enough attention to the impact of change on their people[27]. Staff - and customers - embrace change when it makes their lives easier and provides them value that they have not otherwise been able to achieve. Transformation usually requires investment in skills and capabilities that firms have not previously required.

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[27] Gilbert, Filip, and Lara Lorthois. "Demystifying Change Management." Deloitte (2016): n. pag. Web. 15 May 2017.

Assess your skills needs, invest in acquiring these skills with temporary or permanent staff. Support your staff and customers with communication, training, and making their lives easier from the beginning.

4. Disruption requires guides and partnerships.

The pace of technological change and diversity of choice expands every day. Ensure that you trust the technology platform to adapt flexibly to changing business needs, and allows you to address - and create - innovations that one cannot even imagine. The aging Baby Boomer clientele has increased service requirements. The total demand exceeds the capacity of client-facing human resources. Much like the challenge to personal health care providers, advisors and their firms will increasingly seek digital solutions for services now delivered by humans. Client self-actualization will grow as the industry and its technology partners create easier and more convenient self-service for common processes. Tech companies serve other consumer industries pacing rapid change – and are resources for guiding innovation and customer service improvements.

5. Launch and learn.

Winston Churchill said, "Perfection is the enemy of progress". Successful transformations depend upon continuous feedback about innovation once it is put into practice. Firms that wait for "big bang" or "cleaning up all of our data first" miss the mark on timing, business value, cost and ease of use. Commit to a platform that can support an agile approach to rolling out new capabilities in manageable phases: small steps begin long journeys.

This paper has presented just a few of the key themes that continue to disrupt financial advisory and the future of private client advice. Successful firms will apply technology intelligently and continue to listen to their clients to what Charley Ellis has called “values discovery”: the process of determining each client’s realistic objectives with respect to various factors—including wealth, income, time horizon, age, obligations and responsibilities, investment knowledge, and personal financial history—and designing the appropriate strategy.

With this combination, private client experience will innovate and advance in ways we have yet to imagine: a bright future for creation of new wealth, and “an admirable way forward that would inspire client loyalty—with all the attendant long-term economic benefits—and would provide practitioners with deep professional satisfaction.”[28]

[28] Charles D. Ellis, “The Rise and Fall of Performance Investing”, Financial Analysts Journal Volume 70, Number 4, 2014 CFA Institute