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DIGITAL WEALTH MANAGEMENT

WINNING CLIENTS IN THE ERA OF HYBRID ADVICE

PART 1: MAKING DIGITAL PAY



FACTSET) SEE THE ADVANTAGE

We concentrated on the digital transformation of the wealth management industry, with a focus on three key debates driving disruption: optimization, visualization, and personalization.

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FOREWORD

As a provider of award-winning data, analytics, and technology solutions to the global financial services industry, FactSet is highly familiar with the digital transformation that the wealth management universe is undergoing. As a business, we are committed to helping leaders in the advisor community put the right solutions in place to seize the opportunities presented by this shift, which first means identifying the keys to success in today's changing environment.

It is for these reasons that FactSet has undertaken our third consecutive survey into the behaviors and preferences of wealthy investors. In March 2018, FactSet, in association with Scorpio Partnership, conducted a global online poll of 877 investors with an average net worth of \$4.88 million. Respondents hailed from four financial hubs: the U.S., the U.K., Singapore, and Switzerland. We concentrated on the digital transformation of the wealth management industry, with a focus on three key debates driving disruption: optimization, visualization, and personalization.

With the shift to digital influencing change across different sectors, this year we expanded our research to include a series of expert interviews with influential disrupters who have leveraged digital technology to win business in their respective areas. The insights and observations shared by these cross-industry experts revealed key strategies that wealth firms could leverage to forge stronger client relationships, increase firm competitiveness, and improve advisor efficiency. Additionally, we hosted think tank roundtables with high-profile wealth management professionals in three major markets to gauge attitudes toward digitalization from the advisor side of the relationship, and further illuminate the opportunities that exist today.

Our findings indicate that optimized technology, improved data visualization, and highly personalized content can empower firms to supply clients with the tools and insights needed for a better digital experience, while boosting both firm competitiveness and advisor efficiency. What's more, our research shows that the common assumptions about investor attitudes toward technology in the relationship do not hold true. More than 80% of all respondents indicated that they would value a client-advisor relationship that is augmented by technology. By moving toward a hybrid-advisory model, incorporating digital appetite into their client segments, and tailoring digital tools to these new profiles, there are clear opportunities for wealth firms to increase share of wallet and improve productivity.

Here, we outline over a dozen tactics that can, from the perspective of wealthy investors, industry professionals, and challenger brands, help financial advisors implement and maintain a digital strategy that delivers value and engages investors.

We would like to thank Scorpio Partnership for collaborating with us as we dove into the behaviors of the high net worth community, as well as the 877 wealthy investors that took part in our survey. Additionally, we thank experts from BDO, Moneybox, Adarga, Triptease, Pointillist, We Are Social, and Receipt Bank for their time in sharing their insights and experiences within and outside of the wealth management industry. Finally, yet importantly, we extend thanks to our willing wealth advisors and in-industry specialists for their candid feedback on these three important topics.

Philipp Zerhusen VP, Director, Market Development, FactSet





ways advisors should approach technology to deliver enhanced value to end investors >



SHOW YOU MEAN BUSINESS WITH DIGITAL

Contrary to popular belief, clients are comfortable completing diverse activities through investment platforms. Digital delivery is therefore an emerging priority as more clients look for these services from wealth managers: 82% expect their primary advisors to enhance online capabilities over time.



CONFIGURE CLIENT EXPERIENCE TO EARLY ADOPTER EXPECTATIONS

Successful platforms must hit the mark with the Early Adopters who are first to trial new technology, yet wealth managers are failing to meet their discerning standards. Firms should prioritize providing customized information and portfolio data to address common frustrations.

USE THE HYBRID MODEL TO STAY CLOSE TO MASS AFFLUENT INVESTORS

Mass affluent customers need investment services, but are costly to serve in person. Advisors can improve their delivery model by introducing platform features that facilitate the goals of these investors: one-third of our research respondents would want access to interactive wealth planning tools.



HARNESS TECHNOLOGIES THAT OPTIMIZE PORTFOLIO MANAGEMENT

Wealth managers can optimize portfolio management by focusing on transparency of investment insights. Forty-six percent of investors say that real-time analysis of performance is the most urgent improvement, with real-time reporting not far behind.



OFFER ACCESS TO THIRD-PARTY PRODUCTS TO IMPRESS UHNWIS

Firms must delight their most valuable clients to improve share of wallet. Thirty-four percent of ultra-high net worth investors (UHNWIs) cite open architecture as a feature that would most boost the appeal of a platform offered by a wealth manager.

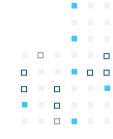
Our latest research debunks persistent myths about client attitudes toward digitalization in the wealth management industry.

FACTSET > SEE THE ADVANTAGE



In the world of wealth management, the shift to digital is often regarded as a problem to be managed rather than an opportunity to be seized.





INTRODUCTION

There are good reasons for this prevailing mindset. The core aspiration of wealth firms-to be trusted advisors to their clients—requires the human touch, meaning the precise role for digital is not always clear. Most of these institutions have undergone a long and painful period of cost consolidation¹, limiting the appetite for risky and expensive investments in emerging technologies.

Yet today wealth managers face considerable supply- and demand-side pressures to reappraise digital as a strategic priority. Expectations of online delivery are different from only a few years ago, with clients instinctively reaching for their smartphones to check their accounts, digest content, and carry out transactions.

This expectation is not just set by Millennials, who are most known for being difficult to please. Over the last three years², our research has consistently indicated that Gen-Xers are sweet-spot clients who mirror Millennial views. Fintech challengers intensify the competitive pressure and are well-positioned to address the needs of these segments through a relentless focus on platform experience.

Our latest study points the way forward for firms seeking to improve share of wallet and profitability. Wealth managers can use new technologies to improve portfolio management and deliver better investment outcomes. Firms can deepen relationships with their most valuable clients by considering differentiators in the customer experience. They also have an opportunity to make their delivery model more efficient and to boost the productivity of their advisors.

Now is the right time to progress the conversation on digital. As the context in which they operate continues to evolve, wealth managers will need to find new ways to deliver financial value to clients.

¹ Source: Scorpio Partnership Private Banking Benchmark 2017. ² See FactSet and Scorpio Partnership, The Culture Challenge: HNWIs' Vision for the Wealth Management Industry in the Information Age (2016) and The Resilience Agenda: The Wealth Manager's Guide to the New Era of Volatility (2017).

Investors across the wealth scale—from the mass affluent customer with \$100 to invest to the ultra-high net worth (UHNW) client worth \$10 million—are already embracing online platforms.



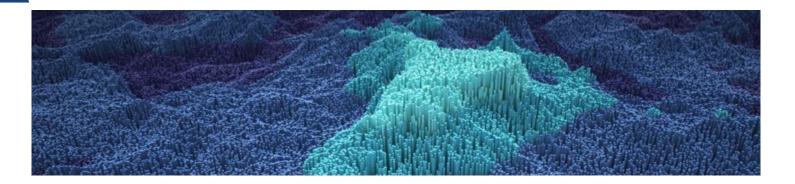
EVOLVE OR DISSOLVE

At a fundamental level, commercializing digital in wealth means giving clients compelling reasons to manage more of their money through an online platform.

Fortunately, investors across the wealth scale—from the mass affluent customer with \$100 to invest to the ultra-high net worth (UHNW) client worth \$10 million—are already embracing online platforms. Nearly nine out of 10 respondents use them to complete some investment activities; about half independently search for or even purchase new investment products. Only a tenth of our sample is unwilling to try these services. Critically, fintech firms are already taking advantage of this interest in new technology and are making a long-term play for young investors. Their approach is to onboard customers at an earlier age than is typical in the industry, knowing that the trusting relationships forged will pay dividends once these individuals require investments that are more sophisticated.

Cerrith Moore is Financial Controller of Moneybox, an app that allows customers to invest using their spare change. The app targets 18- to 35-year-olds, a demographic that tends to be ignored by investment managers until they have built up considerable assets, but who currently seek an alternative to cash that isn't prohibitively expensive. Moore comments: "Moneybox has created a platform where people can save as little as one pound per week and invest in tracker funds. Ordinarily, the trading cost would be prohibitive, but we can minimize it by amalgamating the orders of every customer into one trade per fund per week. It's almost like we're democratizing the stock market to a certain extent, so that younger people can get involved and start building their wealth from a younger age."

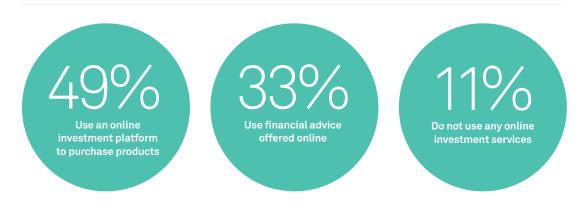
Although the Moneybox customer base is Millennial, this does not mean that platform adoption is contingent on age. Our research shows that while those over 55 are less likely to search for or make investments online, more than half readily do so. Their activity ranges from topping up model portfolios and stocks and shares ISA products, to more advanced trading.



respondents use online platforms to complete some investment activities. Digital take-up is visible across the board—including among UHNW individuals, who are most likely to have access to execution capabilities (59%). Overall, the vast majority of respondents—82%—expect their primary advisors to enhance the online investment process over time.

The move to virtual wealth management was also discussed at a recent industry roundtable series held by FactSet, where one decision-maker commented: "We clearly have some clients who are very interested in interacting with us digitally, but they only tend to be the more sophisticated investors." Another participant responded: "Yes, but in the future, with Millennials coming through and because of the revolution in technology, probably most people will want to have real-time access to their investments."

Clients embrace the chance to invest online



Rather than focusing on age, firms must prioritize the requirements of the so-called Early Adopters who will be the first to trial and assess new functionality. These individuals have an average net worth of \$5.82M

FEED THE (DIGITAL) HUNGER

While aligning platform design to the needs and priorities of a headline-grabbing age group—such as Millennials—is a good start, an even more lucrative group is within reach. Our research highlights a new set of profiles based on respondent readiness to adopt new technology in wealth. Rather than focusing on age, firms must prioritize the requirements of the so-called Early Adopters among their clients, who will be the first to trial and assess new functionality. These individuals self-categorize as "tech evangelists" and their patterns of usage will determine platform success or failure. Their views deserve precedence, given they have an average net worth of \$5.82 million.

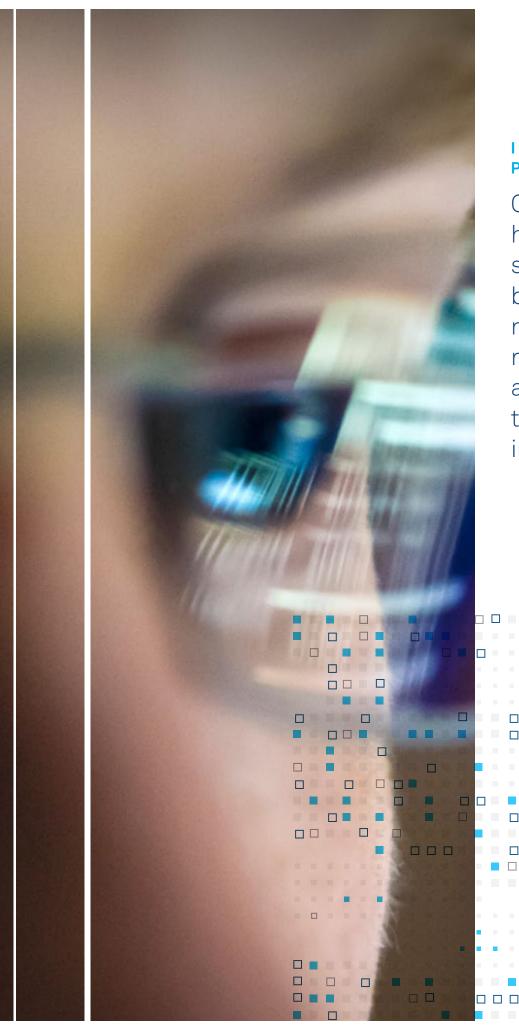
Early Adopters are willing to have more online interactions with their wealth managers, but they are unlikely to bother if their early experiences are subpar. For example, glitches and slow speed are problems for about a quarter of these individuals [Figure 1]. Equally frustrating is that security concerns are running up against their expectation of quick and pain-free login procedures. Matt Hopkins is Fintech Leader at BDO LLP, the global advisory firm. He identifies three barriers that typically hinder traditional operators from delivering the desired client experience: "First, cost—it is expensive and risky to develop new applications. Naturally, there is anxiety if it is not going to be a differential. Second, regulation. Third, there is anxiety over customer expectation. We have a strange situation where consumers expect incredible simplicity and access to tools and applications, yet there's also fear over loss and misuse of data."

To cater to Early Adopters, advisors therefore need to fix platform pain points. One of the common challenges for these individuals is that the insights delivered to them are not sufficiently tailored to their interests. Similar concerns are expressed in relation to performance data. Simply put, they do not feel investment information is easy to understand or analyze, nor is it truly relevant to their interests.

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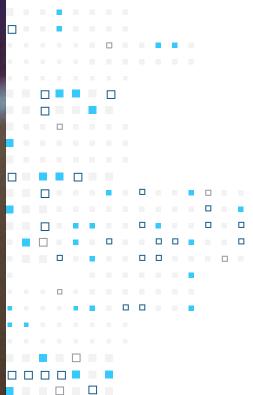
FIGURE 1: Balancing efficiency and security Are there any pain points in your online interactions with your primary wealth manager?

	EARLY ADOPTERS	DIGITAL FOLLOWERS	DIGITAL LAGGARDS	DIGITAL PHOBICS
Performance data provided on the platform isn't easy to understand or analyse	24%	26%	18%	14%
Information is not customizable to my interests and goals e.g. news, investment ideas	27%	23%	17%	7%
Their online platform doesn't feel sufficiently secure	25%	19%	17%	23%
There are occasional glitches that prevent access to my account	24%	22%	15%	9%
Their platform speed isn't fast enough	22%	17%	17%	13%
The range of investment products is too limited	24%	19%	20%	6%
The login/security procedures require too much effort on my part	24%	17%	14%	9%
Their online platform is not user-friendly	20%	17%	22%	11%
It isn't clear how to access help or guidance from a human advisor on their platform	18%	16%	17%	13%
My portfolio data isn't up-to-date	19%	15%	14%	10%



INVESTOR DIGITAL PROFILES

Our research highlights a new set of profiles based on respondent readiness to adopt new technology in wealth.



EARLY ADOPTERS

"I like to be one of the first to trial and use new technology in wealth management."

PROFILING INFORMATION

Average age: 37 Average net worth: \$5.82M Technology Usage:

- Laptop
- Tablet
- Smartphone Smartwatch Attitude towards sharing personal info: 🔵 🔵 🔵

KEY DIGITAL REQUIREMENTS

- Security
- Customization
- Optimization
- Experience

TOP EXPECTATIONS

- Guidance and execution functionality
- Interactive tools to assess their wealth and portfolio performance

TOP PAIN PONT

• Information feels insufficiently customized to their interests and goals

DIGITAL FOLLOWERS

"I'm not the first to use technology in wealth management, but instead become a user once technology has become well established."

PROFILING INFORMATION

Average age: 44 Average net worth: \$4.28M Technology Usage:

- Laptop
- Tablet
- Smartphone
- Smartwatch

Attitude towards sharing personal info: $\bullet \bullet \circ \bigcirc$

KEY DIGITAL REQUIREMENTS

- Security
- Customization
- Optimization

TOP EXPECTATIONS

- Automatic re-balancing of their portfolio alongside real-time analysis
- A platform that helps them find suitable products

TOP PAIN PONT

• Performance data on their platform is not easy to understand or analyze

KEY DIGITAL REQUIREMENTS

- Security
- Customization

TOP EXPECTATIONS

- Product recommendations based on similar investor behavior
- Visualization of portfolio information from their advisor

TOP PAIN PONT

• Their online platform is not user-friendly

KEY DIGITAL REQUIREMENTS

Security

TOP EXPECTATIONS

- Simple account dashboards
- Frequent, quality insight that is visually appealing

TOP PAIN PONT

• Their online platform does not feel sufficiently secure





Openness

to digital

Openness

to digital

DIGITAL LAGGARDS

"I tend to be one of the last to start using new technology after it is well introduced in wealth management." **PROFILING INFORMATION**

Average age: 48 Average net worth: \$3.77M Technology Usage:

- Laptop
- Tablet

Smartphone

Average age: 50

Laptop

Tablet

Smartphone

Technology Usage:

Attitude towards sharing personal info: • • • •

PROFILING INFORMATION

Average net worth: \$4.3M

Attitude towards sharing

personal info:

DIGITAL PHOBICS

"I try to avoid using technology to manage my wealth."

APPEARANCES REALLY DO MATTER

Fixing platform pain points is an important objective, but to generate returns on their digital investment, wealth managers must consider what features would drive up share of wallet.

Intuitively, respondents indicate that tech improvements that enhance investor outcomes should be prioritized. At a recent FactSet-hosted roundtable for wealth managers in New York, a participant from one firm commented: "We've just started an exercise around client reporting. One major gap we're consistently finding is 'so what?' reporting. We provide a bunch of data, but we're not focused enough on the 'so what?' There is a massive opportunity there."

Hopkins agrees and notes that challenger firms are beginning to raise the bar in this precise area. In doing so, they are addressing genuine client pain points. "Solutions in the past have been slow, and nowadays people want data immediately. We're seeing sophisticated dashboards that provide a global view of portfolio choices and easy access. That gap between expectation and delivery is finally narrowing, which is really positive."

For investors as well as firms, the value-drivers of the online wealth proposition center on portfolio optimization [Figure 2]. Clients believe an interactive and instant-access approach to investment insights would improve how their portfolios are managed. Forty-six percent say that real-time analysis of performance is an urgent priority. In line with trends from previous FactSet research, the same proportion believes that real-time reporting of their investment positions should be an area of focus.

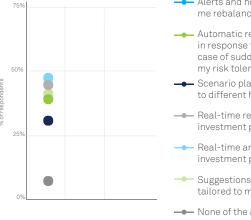
There is other low-hanging fruit for wealth managers when it comes to optimization. For instance, 42% of investors believe that they should receive proactive suggestions for investment opportunities that are tailored to their interests. A sizeable minority (40%) would also value automatic rebalancing of their portfolios in response to events, such as spikes in volatility. Wealth managers are expected to bring together their understanding of client tastes and tolerance with new technology to improve the online proposition.

Perhaps unsurprisingly, the pressure to introduce these capabilities is highest in the U.S. and Asia, where self-directed investing tends to be more commonplace and clients have come to expect innovation in wealth management. In Singapore, for example, clear majorities of respondents demand more dynamic investment analysis, reporting, and recommendations.

Regardless of jurisdiction, wealth managers can and should rethink portfolio optimization, an area where fintech firms are starting to pull ahead by reconsidering how performance data could be visualized. Advisors that focus and invest in this area not only have an opportunity to deliver added value to clients; they also have a chance to be the standard-bearers on an emerging priority for the industry as whole.

FIGURE 2: Real-time analysis and reporting are the priorities

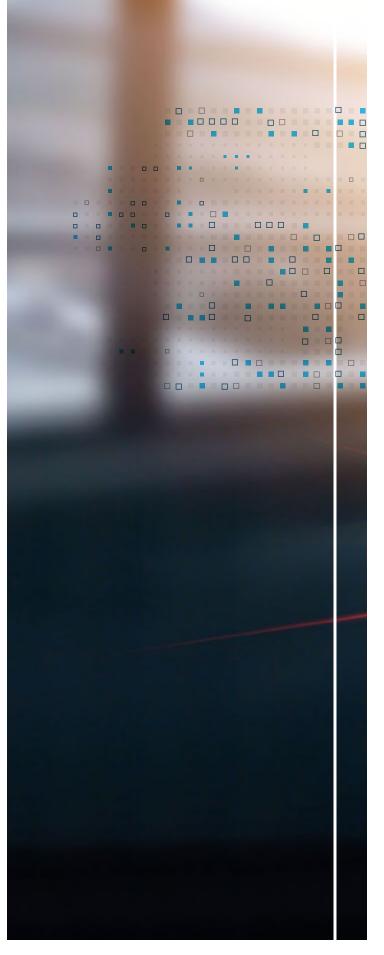
Which of the following do you believe would be most helpful to optimize how your portfolio is managed?



- Alerts and notifications to help me rebalance my portfolio quickly
- Automatic rebalancing of my portfolio in response to market events (e.g., in case of sudden volatility beyond my risk tolerance)
- Scenario planning of my response to different hypothetical market events
- Real-time reporting of my investment positions
- Real-time analysis of my investment performance
- ---- Suggestions for different investments tailored to my areas of interest
- ---- None of the above

Clients believe an interactive and instant-access approach to investment insights would improve how their portfolios are managed.

FACTSET) SEE THE ADVANTAGE



UNLOCK PROFITABILITY THROUGH HYBRID ADVICE

With profitability at the top of the business agenda, financial firms must carefully consider their delivery model. While advisors would like to focus intently on their UHNW clients, they must also seamlessly support customers further down the wealth scale, raising the risk that they will try (and fail) to service both segments efficiently.

Here, digital offers a viable path forward. The so-called "hybrid -advice model" can be used to transition costly-to-serve customers (usually mass affluent) online to complete most of their investment activities. Human advisors remain accessible for value-added interactions, but are freed up to focus on wealthier investors. At the same time, firms do not lose out on the large proportion of the market that needs investment services but is difficult to support profitably.

For this to work, customers should see advantages in managing their wealth online with their primary advisor—rather than a rival provider or challenger. Their demands are straightforward and start with a more transparent presentation of fees and charges, and clarity on ongoing portfolio performance. As many as 40% believe it is essential to be able to complete end-to-end investment activity online. They are wary of encountering a disconnected experience that forces them to switch between different channels to undertake a transaction.

A similar proportion expects, at a minimum, an easier comparison of products and services across the marketplace. To activate online self-service, firms must therefore be prepared to provide clients with cross-market comparisons on their investment choices.

However, to differentiate against other offerings available in the market, firms will need to focus on what is important to all clients: the ability to build their wealth.

For mass affluent investors, a critical advantage that could be offered by an online platform relative to an offline experience is access to interactive planning tools [Figure 3]. They anticipate the positive impact that a more dynamic relationship with their wealth could have on their longer-term trajectory. These clients are willing to mostly self-serve online if they continue to receive tangible evidence of their wealth managers' expertise. A successful platform strategy should also seek to drive net new assets to the platform by delighting the most valuable clients.

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 Such tools can take a variety of formats. Moneybox, for example, believes education is the key to building wealth in an era of historically low interest rates. One of the company's strategies is to present content around the science of saving to encourage young customers to adopt a long-term mindset.

This was also prominent in our previous eBook where it was discovered that more interactive investor education is necessary to improve resilience of client investment strategies and confidence in the advisory relationship.³

Moore comments: "Customers are served with education pieces via our 'Featured' content section. We've had good engagement with these resources, even when explaining complex topics like compound interest, because we show our customers quite clearly how it impacts their money. If you have a direct platform, you have a duty to educate people, so that they are making decisions in their own best interests."

A successful platform strategy should also seek to drive net new assets to the platform by delighting the most valuable clients. For investors across the wealth scale, access to relevant and unique insights that support wealth goals is the top differentiator. But UHNW clients have a different priority: for them, open architecture is important. Thirty-four percent say it is a benefit of managing more of their investments on a platform, second only to desiring more transparency on fees and charges.

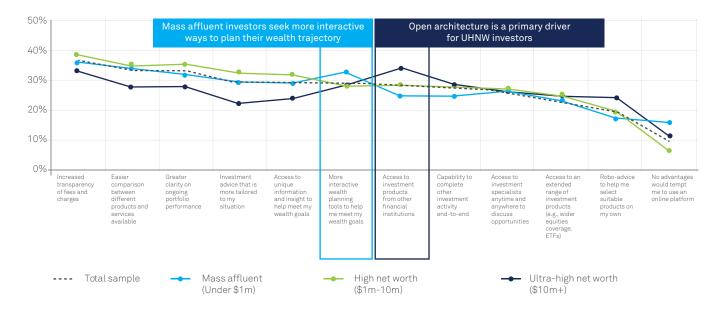
By prioritizing these features, firms will be doing more than simply introducing digital for digital's sake. They will be enhancing value in their client relationships by enabling investors to approach their wealth priorities in new ways.

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FIGURE 3: 'Value' means different things to investors

Imagine if your wealth manager were to offer you the option to conduct the vast majority of your wealth management online. What kind of ADVANTAGES would you need to see as a client in order to be tempted to use this platform?



³ Please see FactSet and Scorpio Partnership's research initiative from 2017 (The Resilience Agenda) for more information on why more interactive investor education is a must for wealth management.

CONCLUSION

The wealth management industry has historically relied on a series of hypotheses about digital behaviors that is beginning to crumble. Clients from across the spectrum, interacting with advisors in different ways, are using the available capabilities to make meaningful decisions.

New demand- and supply-side pressures are showing that clients expect these choices to be offered by their primary institutions. The question for firms is therefore not whether they introduce more advanced functionality, but when and how.



Investors surveyed with an average net worth of \$4.88M

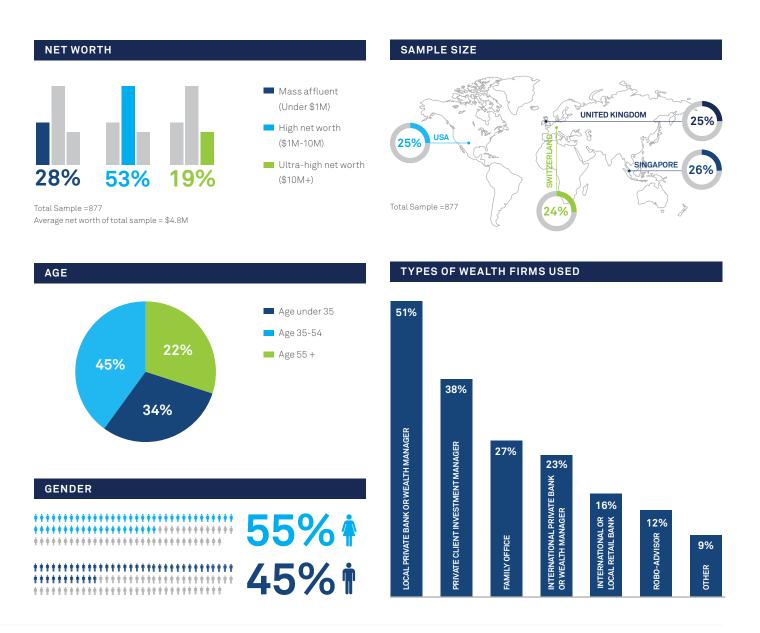
Harnessing the digital opportunity requires a shift in mindset among traditional operators, and perhaps even taking a lesson or two out of the fintech playbook. Firms should address the pain points holding clients back from interacting with them online. They should assess which functionality will nudge costly-to-serve customers to do more wealth management themselves, as well as which platform features would grow the volume of UHNW assets under management. A segmentation strategy based on openness to technology would improve advisor efficiency by avoiding over- or under-servicing clients.

Crucially, advisors should also go further and make full use of the transformational potential of new technology. The most successful firms will introduce tools on their platforms that enable more effective portfolio management through real-time analysis and reporting. These digital investments are intuitively prioritized by investors because they are tangible and deliver financial value. As Hopkins observes: "If your innovation won't change outcomes or customer experience, then stop." The most successful firms will introduce tools on their platforms that enable more effective portfolio management through real-time analysis and reporting.

METHODOLOGY

To support this white paper series, FactSet and Scorpio Partnership conducted an online survey with 877 investors in March 2018. The participants were independently sourced residents of the U.S., the U.K., Singapore, and Switzerland. Average net worth was \$4.88 million.

Interviews were conducted with 10 technology experts at some of the most innovative businesses in retail, hospitality, financial services, recreational, and business software to forecast how trends in digital transformation could be applied to wealth management. We gained the industry perspective from roundtables in three locations (Zurich, New York, and London), attended by key decision makers from wealth management firms.



FactSet Research Systems

FactSet creates flexible, open data and software solutions for tens of thousands of investment professionals around the world, providing instant access to financial data and analytics that investors use to make crucial decisions.

For 40 years, through market changes and technological progress, our focus has always been to provide exceptional client service. From more than 60 offices in 23 countries, we're all working together toward the goal of creating value for our clients, and we're proud that 95% of asset managers who use FactSet continue to use FactSet, year after year.

To learn more about FactSet's solutions for financial advisors, visit www.factset.com/wealth.

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Scorpio Partnership – an Aon company

Scorpio Partnership is a leading insight and strategy consultancy to the global wealth industry, owned by Aon plc.

We specialize in understanding high net worth individuals and the financial institutions with which they interact. We have developed four transformational disciplines – SEEK, THINK, SHAPE and CREATE – each designed to enable business leaders to strategically assess, plan and drive growth. These include market research studies, client engagement programs, brand assessments and business intelligence initiatives.

Scorpio Partnership has conducted more than 450 global assignments across Wealth for institutions in the banking, fund management, family office, law, trust, regulation, technology, insurance, and charity sectors. During these assignments, we have interviewed over 100,000 private investors and advisors.

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