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Wealth Management Digitalization changes client advisory more than ever before

How to serve the unique demands of a challenging new generation of wealthy individuals with smart digitalization of the wealth management value chain

Classic Wealth Management organization versus client expectations.
Globally, Wealth Management is still one of the most attractive sectors in the financial services industry, since it tends to have lower capital requirements and greater growth prospects than many other banking sectors. However less attractive cost-income-ratios are not the only problem to face anymore. The Wealth Management industry is in the midst of significant change: due to shifting demographics and the aging of not only its advisors but also its "baby boomer" clients; a new generation of investors called generation X and Y, whose expectations and preferences have been shaped by new technologies and by their living through the most recent financial crisis, have brought new standards to the industry in terms of how advice and investment products are delivered.

The electric light did not come from the continuous improvement of candles

Oren Harari

These new investors are not only shaped by a challenging investment environment, characterized by increased levels of uncertainty and rising costs of risk to investors and Wealth Managers alike where it is getting more and more difficult for advisors to generate superior investment performance for their clients. They are also aware of the fact that technological progress, regulatory changes, new business models, and new competitive patterns are about to disrupt the Wealth Management industry.

At the same time, the growing generational gap between advisors and in particular generation X and Y clients not only makes it challenging for some advisors to understand and adjust to the needs and preferences of this younger generation of wealth clients, resulting in weakened client-advisor relationships. The executive generation of advisors has also been and still tends to be very slow in adopting new tools, using mobile channels, and evolving towards new advisory models that balance human and science-based advice.

Change is nevertheless inevitable and it is taking place in every industry at unparalleled rates. There are many examples of client-facing companies, big names such as Amazon, Apple, UBS, Hilton, Netflix, Uber, or Starbucks, that have embraced the necessary change resulting from customers experiencing a lack of convenience. They took the risk of disrupting their businesses and industries without hesitation by reinventing the entire value chain based on a client-centric approach, leading to unprecedented innovation, attracting new clients and sustainable growth.

And now it's time for the Wealth Management industry to do the same.

Are Wealth Managers prepared to serve changing client needs in a disruptive environment?

Since the advisors form the heart of any Wealth Management business, they should be able to better focus on taking care of their current and the next generation of customers' life goals, building and sustaining their wealth, and proving advisor value through distinctive services.

In reality, though, they are not only impaired by a more complex environment due to regulations, low margins, globalization, complicated legacy infrastructures including disparate systems, and increasingly demanding customer expectations, but mainly by administrative tasks and cumbersome or disconnected workflows, resulting in less productivity and a loss of profitability. And all this largely because their organizations fail to modernize and to enable connection with the customer.

It is time to learn from innovative companies and to reinvent the Wealth Management value chain by supporting a long-term strategic vision: client-centricity.

In the near future, from 2017 to 2060, around USD 50 trillion[1] are expected to move from one adult population to another, initiating the largest transfer of wealth in history. Since the next generation will already control a remarkable and increasing share of assets over the next decade and since historical data show that wealth transfers from one generation to the next have resulted in 90% of heirs changing their advisor[2], their expectations had better not be left unaccounted for, but be turned into an opportunity for Wealth Managers.

Even though there might be some regional or cultural differences in client behavior that also have to be considered, they all have in common the need to become more and more knowledgeable about a broad range of user-built digital solutions for various needs and problems, powered by the technological drive. Digitalization is at the top of all agendas across all client-facing companies, also affecting traditional forms of Wealth Management services.

It is time to learn from innovative companies and to reinvent the Wealth Management value chain by supporting a long-term strategic vision: client-centricity.

The user experience is crucial for successful client interaction

The classic, relationship-driven business model with its communication channels such as telephone, email, and face-to-face meetings will not become obsolete, but there will be a shift from personal interaction to digitally enabled client interactions via intelligent solutions and social media.

And this shift is inevitable, since clients are getting used to experiencing the services of and interacting with a provider over several channels and they expect this communication to be as seamless as possible. These expectations include geographical freedom and device independence which is pushing solutions optimized for mobile interaction to the forefront.

Regardless of the communication channel, the client base requests information that has to be provided according to personal needs and the individual level of know-how in order to avoid misunderstandings and create real benefits. Being transparent is therefore vital in every interaction with the client.

An excellent user experience is also expected by more and more clients, especially the younger ones representing the generations X and Y. Their tolerance for redundancies

[1] Deloitte Research 2016
[2] Deloitte Research 2016

and outdated interactive solutions has significantly declined, due to commonly used digital innovations. Furthermore, clients expect at least a minimum viable answer for their question(s) in a timeframe not always corresponding to the business hours of traditional channels. But it is necessary to understand that wealthy individuals are also clients for all other industries as well. They may use certain same-day delivery services or video-on-demand providers and may interact from any location and via any device they choose.

Clients don't see or care about the internal obstacles of legacy IT systems, cost-intensive regulatory compliance, or various other possible limitations to a digital transformation of the financial industry. All they might notice are, e.g., slow and inadequate user interfaces, a lot of personally irrelevant information, user-unfriendly support, inadequate services, or the lack of timely responses while being used to smarter solutions and approaches from other industries, which have changed clients' expectations in a significant way in recent years.

These clients expect to be focused on, to be at the center of a business's philosophy, and to interact in the most user-friendly intuitive way possible. This applies not only to the speed and quality of the response they expect for any issue they have, but also to the level of service quality including access to tailored products, tools, content, and relevant information, the possibility of being engaged in managing their own portfolio, omni-channel support, and the flexible but secure use of devices – and all of it for a fair price.

Thus, since the threshold to dissatisfaction has never been reached so easily, and in order to create not only an excellent customer experience but also to avoid long-lasting negative client perceptions at any cost, the requirement is to get the most out of the available client-specific data, coming from existing or publicly available and social media sources – already updated on a regular basis. Only this will empower Wealth Managers to achieve a near 360-degree customer view and even to fulfil individual demands.

Since Wealth Management services often require more complex solutions compared to retail investment advisory, they need a detailed analysis of a large amount of information and a collaborative solution approach. For this reason, Wealth Managers also need cost-optimized solutions for more simple client requirements in order to be able to focus on expert knowledge and services for higher levels of complexity.

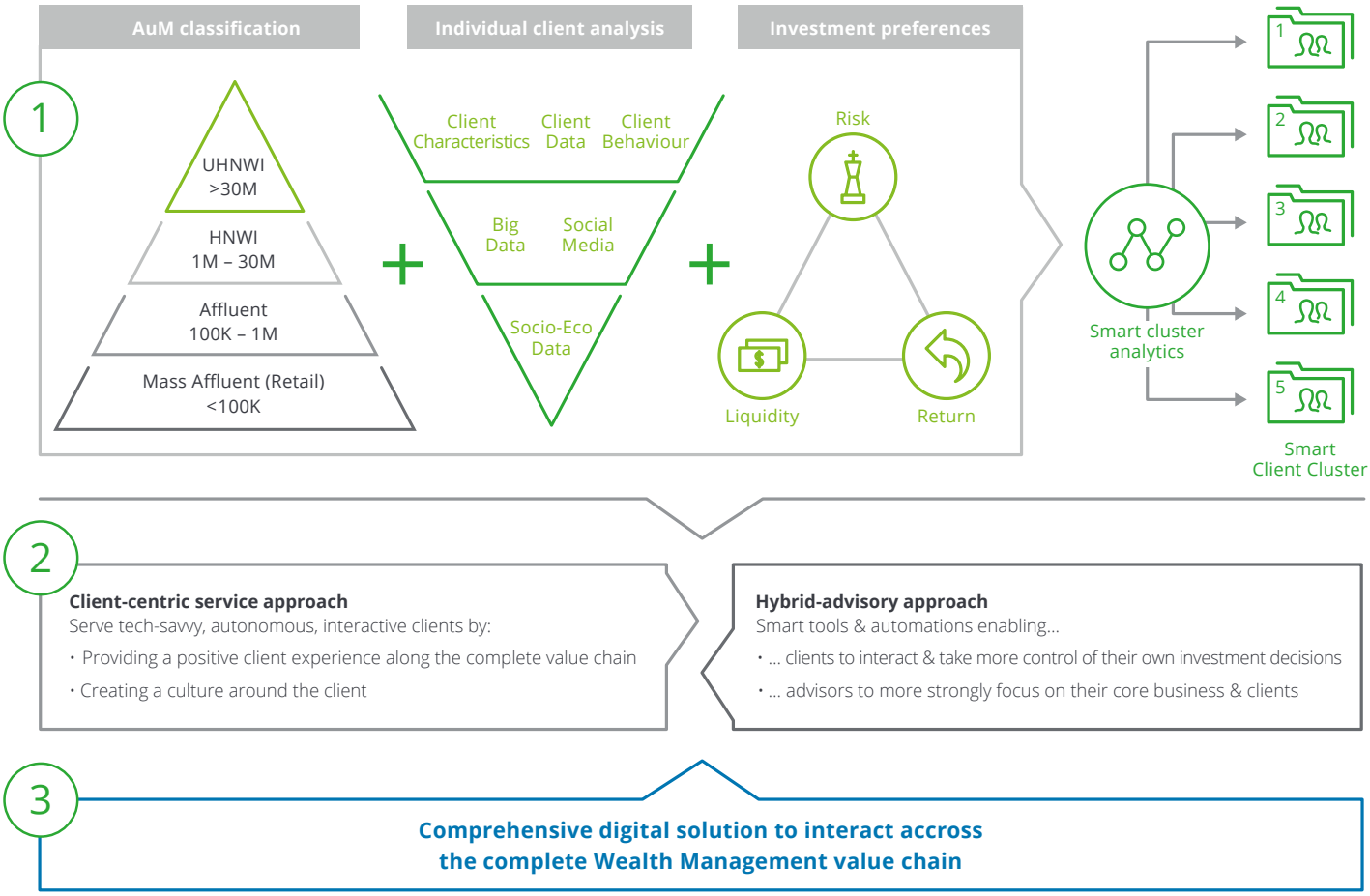
Simple requirements such as user-friendly and lean onboarding or a change of address can be delivered by automated/digital channels and might be outsourced to the clients, while more sophisticated needs, e.g., the creation of a detailed company succession plan, will still inevitably require personal advice. The development of such self-service solutions provides the advantage of releasing additional resources, consequently reducing the cost-of-service.

Moreover, Wealth Managers have to be able to communicate transparently and to proactively support the client in a highly economic way at any time, which is another reason for self-service and advisory-based solutions.

In summary it can be said that clients expect to be at the center of the business philosophy as well as to have the choice of how and when an interaction occurs. They not only require but also demand a greater level of individualization, with respect to communication and products, as well as services aligned with their individual needs, goals, and desires as they are used to it from other industries.

Meeting those expectations and moving from a product-centric to a client-centric approach is the key to fostering client commitment and benefiting from existing, as well as gaining additional client relationships and data.

Fig. 1 – Three major steps towards a new Wealth Management era



The roadmap to success for Wealth Managers

As there are already providers in the Wealth Management market who offer perfectly segmented client solutions equipped with a highly individualized communication and investment approach (e.g. FinTechs, robo-advisors), traditional market participants are exposed to new competitors.

Those competitors all have in common that they are highly specialized, but often lack essential customer awareness. To defend the market position and justify higher fees, playing the entire orchestra of services aligned to clients' demands, combined with a close relationship and a solid brand identity is a strategy that is likely to be highly successful.

In order to provide these Wealth Management services in the best way possible to existing and future clients, it will have to take place in three major steps, as shown in Figure 1.

The first consists of an in-depth client segmentation with regard to individual, personal, behavioral, and other aspects by combining similar clients into smart and dynamic clusters, detailed in a separate publication of the digital client engagement series. As a result, the method used so far to classify clients and wealth management potentials only according to their wealth status (e.g. UHNWI, HNWI or mass affluent), while accepting only clients of a certain status and aligning the provided service correspondingly is no longer a guarantee of profitable business.

Furthermore, new client segmentation approaches not only reveal that, e.g., some UHNWI may not be as profitable as thought, due to their requirement of a high level of personal support and complex advisory, but also that former non-preferential and neglected clients such as HENRYs (High Earners that are Not Rich Yet) rising through the mass affluent market can show a great potential to become profitable clients. Hence, thanks to new technologies regarding a device-independent client engagement over different interaction channels and for example automated investment solutions such as robo-advisory, the individual and mostly less complex requirements of many clients and wealth management potentials can be served with cost-effective digital and automated solutions.

Smart client segmentation therefore already leads the way to an enduring client relationship, since it will be used to create a near 360-degree customer view and tailored services along a client-centric value chain, considering personal client needs and individual profitability.

In a second step, after clients have been segmented into smart clusters and as covered in this paper, the resulting customer segments then need to be mapped to a client-centric service approach, which will have to be complemented by a hybrid advisory approach, smart interaction channels, and aligned with the needs and requirements of the client base.

The third major step towards a state-of-the-art operating model and the creation of an outstanding market offering is the implementation of a comprehensive digital solution that allows both the client and the advisor to act and interact in a smart way along the complete WM value chain, which it simultaneously transforms and automates in many parts.

Such a solution will enable both a client-centric (client benefit) and a hybrid advisory (Wealth Manager/Advisor benefit) approach, within the Wealth Management firm's individual capabilities.

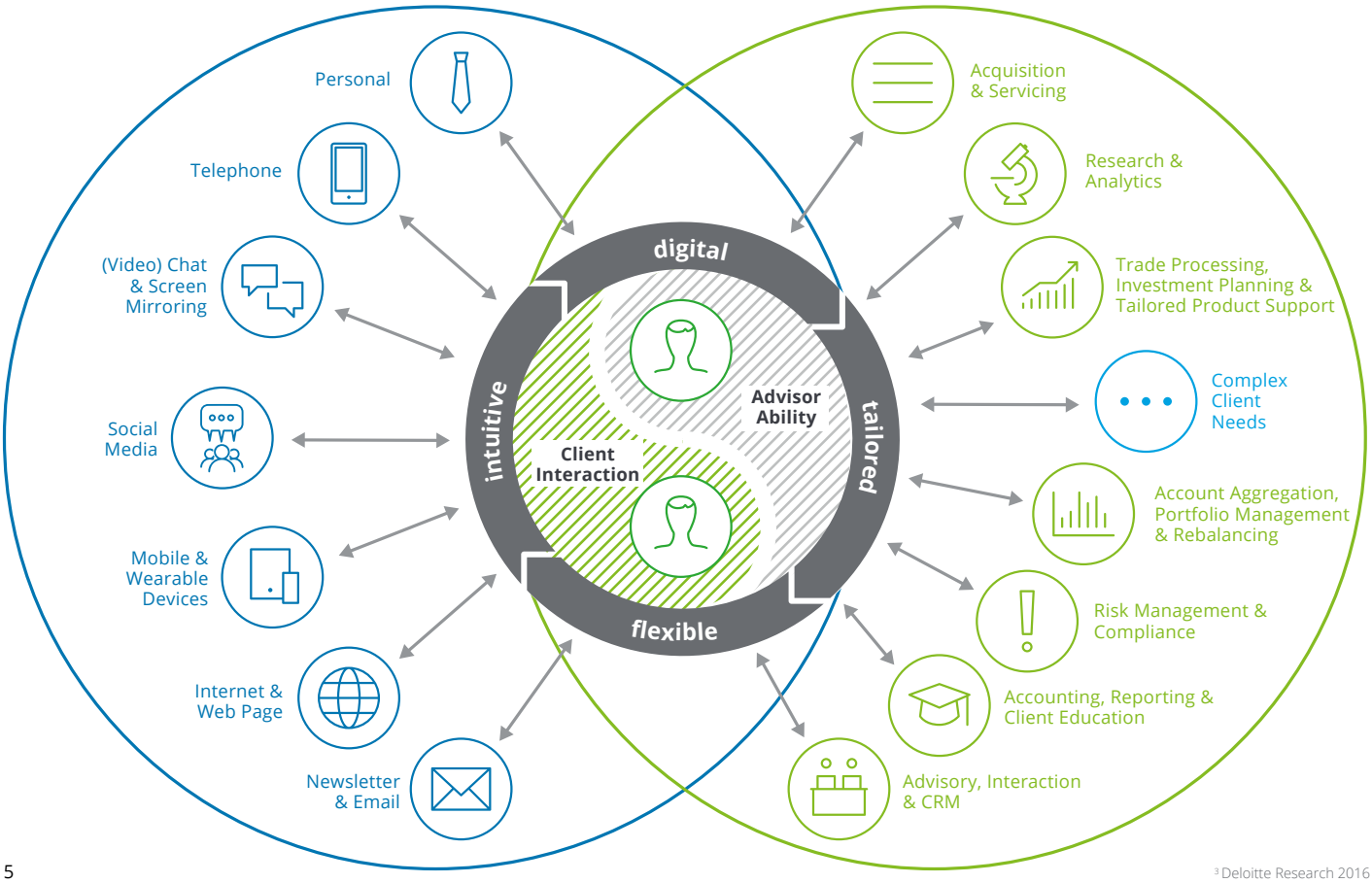
Client-centricity – a long overdue and necessary step towards a prosperous new era

Client-centricity is the most important factor in a successful business digitalization, since client-centric companies are 60% more profitable compared to companies not focused on the customer.[3] Its key component is to provide a positive client experience along the complete value chain, creating a culture around the client and their needs by using a (near) 360-degree customer view with the goal of anticipating the customer's needs and wishes.

In order to reach client-centricity in Wealth Management, two simple key factors are needed: a direct focus on client needs and digitally enabled interaction channels for both clients and advisors, as shown in Figure 2.

Focusing on client needs as the first pillar not only means that all client interactions and client needs have to be considered as highly relevant, but also necessarily require an appropriate and fast response. "Highly relevant" in this case expresses the requirement of treating the client as a top priority, interacting with them in a way they wish, solving their problems within a time period they expect, providing excellent 24/7 services in a way they would recommend to others, and treating them with the respect they deserve.
This not only includes tailor-made offerings in line with the client's preferences, but also a core data strategy combined with the relevant communications and reporting

Fig. 2 – Client-centricity in digitalized Wealth Management



[3] Deloitte Research 2016

capabilities to enable such offerings. This kind of strategy will create the foundation for improved further interactions, based on procedures applying smart customer data analytics.

This pillar offers enormous economic opportunities and advantages, but Wealth Management firms need to improve not only in collecting but especially in analyzing and using client data in order to add the required personal note to the client experience.

At the same time, consistency both in terms of service and in the provision of information and in communicating according to the individual client's needs, regardless of the communication channel, is essential in order not only to permit clients to determine their preferred channel, but to foster collaboration and interaction between clients and advisors, resulting in highly engaged, satisfied, and thus loyal clients, as well as possible service referrals leading to new clients and opportunities.

The second pillar for creating the prerequisites for client-centricity in Wealth Management firms is the provision of digitally enabled interaction channels for both clients and advisors by delivering smart tools within the digital environment.

Although affecting the complete value chain, this especially includes lean, easy, flexible, and intuitive on-boarding, portfolio management, account aggregation, reporting, and communication tools as well as trading, rebalancing, and transaction capabilities, and access to research and investment ideas. Each client-advisor communication also needs to be considered as additional valuable client data in future client interactions and product recommendations.

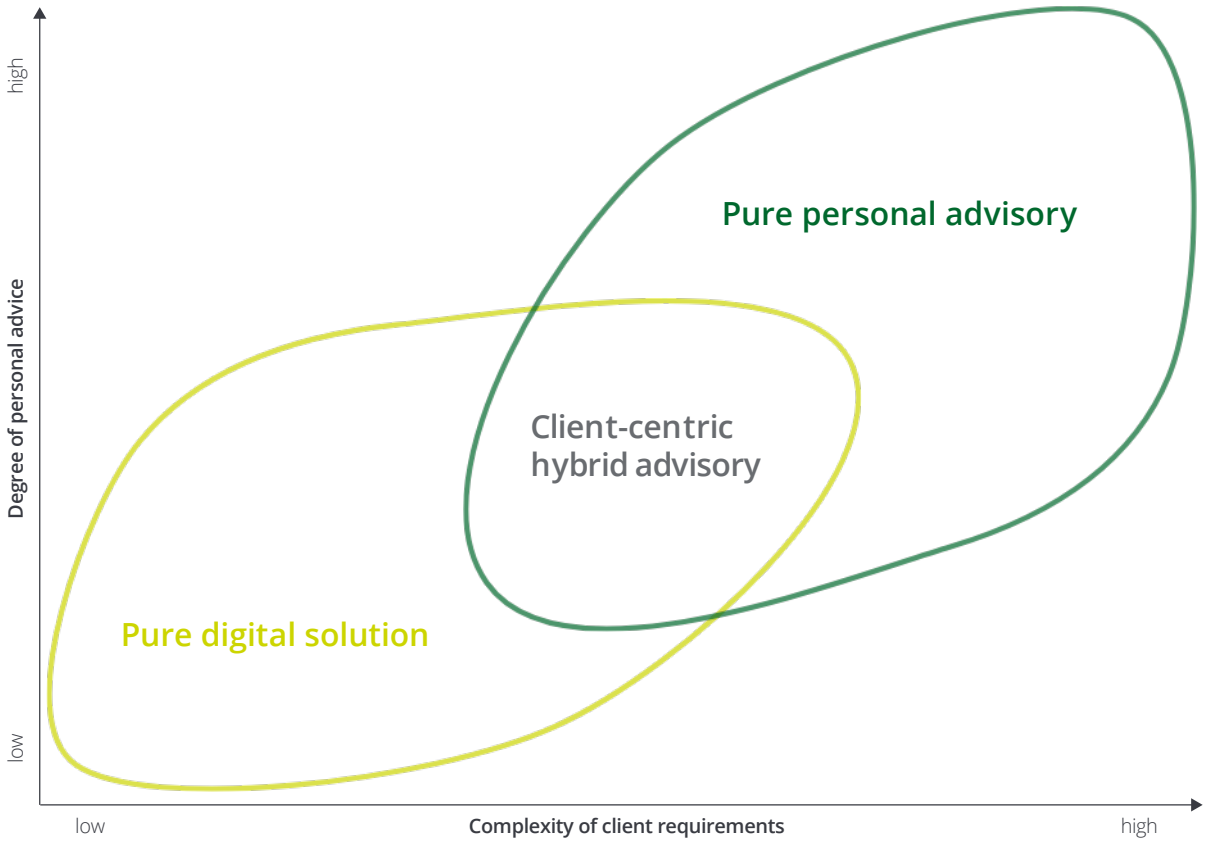
Hybrid Advisory – the missing link for a completely sustainable digitalization

As Wealth Management clients more often require solutions to complex financial issues in comparison to retail clients, the necessary advisory cannot be automated at the same level as the client interaction.

As shown in Figure 3, the role of personal advisors is supposed to be a direct and available contact for personalized support and particularly the resolution of more complex issues and questions, while being supported by digital solutions – something that is difficult to achieve in reality.

Consequently, pure unpersonal automated advice should be implemented where serving simple client requirements is sufficient and where clients want to take more control of their own investment decisions.

Fig. 3 – Automated and personal advisory as complementary approaches



This would not only free up advisor and middle- and back-office resources, but also enable relationship managers to more strongly concentrate and focus on and personally interact with those wealthy clients with complex tasks or requiring more personal advice, thus simultaneously increasing overall client satisfaction and also ensuring economic efficiency by applying client-centric, technology-enriched hybrid advisory.

A Wealth Management firm's objective needs to be the support of its advisors in the best possible way to achieve higher productivity by providing the necessary environment and tools, especially enabling advisors not only to spend more time on their core business but also to focus on revenue-generating activities with existing profitable clients, while simultaneously generating new opportunities.

Knowing that digital client engagement will reduce their current daily workload, advisors might perceive a certain loss of control, which needs to be avoided. For this reason it is vital for Wealth Management firms to illustrate to both clients and advisors that personal advisory still continues to form the heart of the client-centric approach and the corresponding client experience, since digital approaches should mostly focus on the optimization of the relationship manager's productivity and availability.

This enables a shift towards more client-facing tasks and the resolution of more complex requirements, allowing them to directly and more precisely respond to the needs and wishes of their clients, which is a key factor in strengthening a close relationship, creating more business opportunities, and attracting more clients, especially through referral. In order to enable Wealth Managers to provide a client-centric hybrid advisory approach, a comprehensive digital solution needs to be developed in-house or preferably be utilized from specialized third-party providers[4] such Envestnet, S.A.G.E., TechRules, Comarch, Personal Capital, MoneyGuidePro, CREALOGiX or Finametrix, to name just a few, which would allow the client and the advisor to interact in a smart way.

For this reason, such a digital solution requires several intelligent approaches with respect to business and technical challenges, since a complex system architecture simply built on existing outdated rules, silos, and mainly product-centric business needs would definitely be ill-equipped for creating and providing the necessary and intended benefit regarding a digital and especially a client-centric transformation.

Exemplary but powerful technical challenges are the flexibility to remain capable of adapting to necessary future changes (e.g. regulatory or technical improvements) as well as the interfacing of new solutions without the risk of inconsistencies and with a minimum of integration and implementation effort, which are as important as a smart user experience and usability.

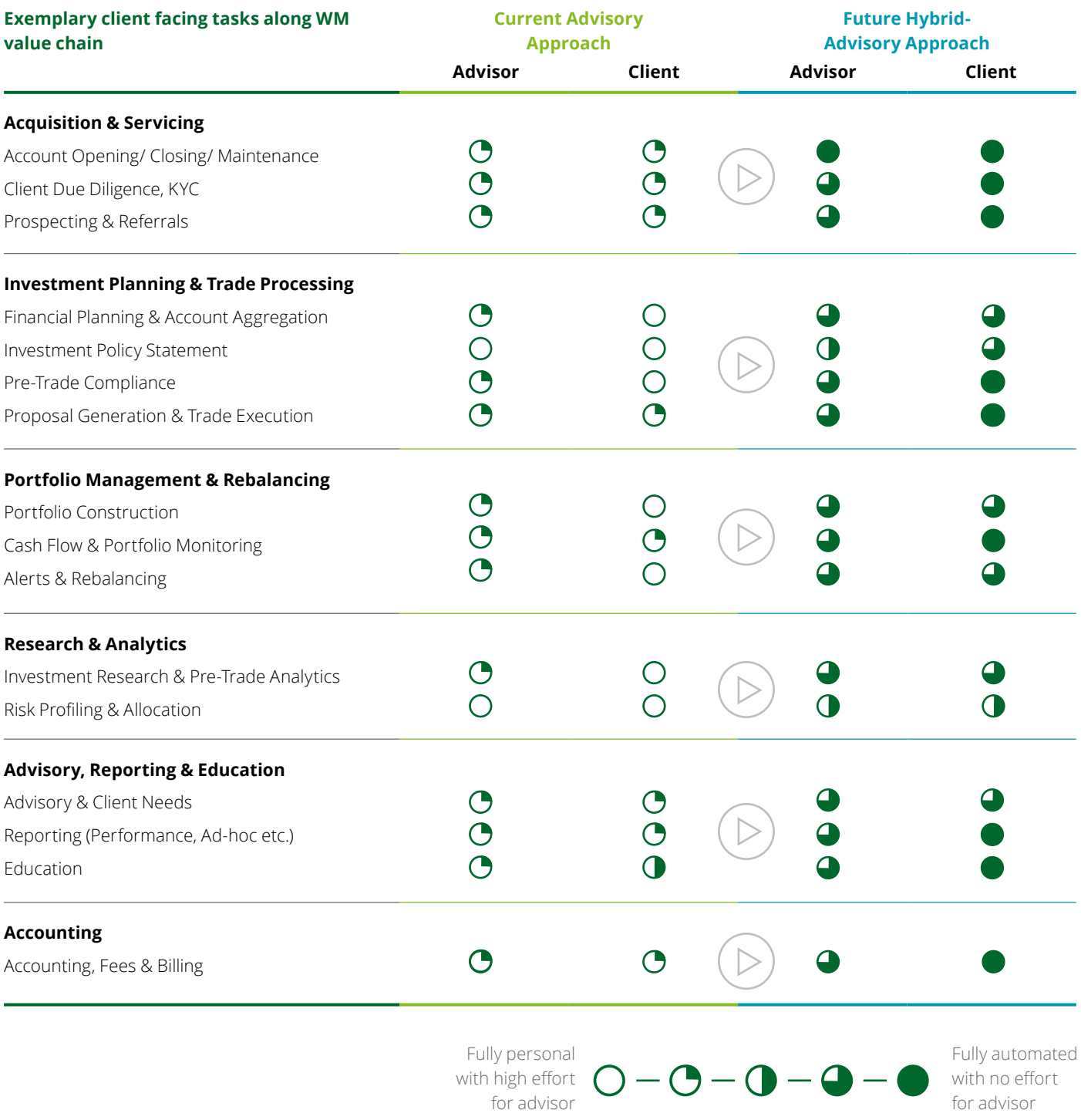
Digital improvements and a client-centric strategy will not be able to unfold their value, either for the client or for the advisor, if the design and the corresponding user experience are poorly developed or implemented, which is essential however to outline the relevance of digitalization and to achieve consent within the workforce.

Furthermore, the creation of a solid and effective data management system as the backbone of digitalization efforts is essential, since data is the core element for delivering outstanding digital solutions. For this reason, various data sources (e.g. onboarding, socio-economic and social media data) need to be accessed, well-managed, well-structured, and consolidated in order to tap the full potential by interlinking these data.

The business requirements of such a solution are no less complex and diverse. Based on both client and advisor expectations and led by the top management level of an organization, chief executives need to initiate a digitalization agenda and client-centric efforts, to create a culture of change, to track the progress, and to be accountable for the entire strategy and implementation.

[4] More details regarding third-party implementation solutions and specialized providers will be published as part of our series.

Fig. 4 – Automation as key to save costs and to enable both an advisor-focus on core business and an interaction-based client satisfaction



Wealth Managers will benefit from a clear USP towards their clients

The client benefit would be visible not only in cost-efficient pricing models, but in services along the complete value chain. Starting with a safe and simplified onboarding process, as well as smart reuse of client data and automatic checks for regulatory compliance, it would lead to a client-centric customer experience in other services such as device-independent interaction channels and advisor communication, investment and portfolio management, tailored product and education offering, robo-advisory, and real-time reporting and accounting.

For advisors, in turn, administrative burdens would be reduced enormously thanks to the hybrid advisory-enabled automation of tasks mainly in the context of regulatory compliance, such as data gathering and approvals (e.g. KYC approvals), evidencing of trading and communication activity, fraud and money laundering prevention, as well as transaction monitoring and alerts management, or tailored product offerings by leveraging various client data. This will lead not only to cost savings, but especially to improved client / advisor communication, experience, and relationship, characterized by a broad set of appropriate channels enabling seamless interactions.

Our recommendation and how Deloitte can help you to become a market front-runner

The required change leading to an excellent client and advisor experience including digital commitment and interaction cannot be achieved by the sole implementation of a top-notch communication tool or any other stand-alone digital solution that only adds partial value to a client-centric and hybrid advisory approach.

To become a front-runner in Wealth Management, digital initiatives have to be a core component of a Wealth Management firm's culture and vision, affirming that it is not a "digital or personal" advisory but rather a hybrid approach consisting of "personal advisory enriched by digital solutions" and "digital advisory, complemented by personalized solutions of more complex issues", with various manifestations depending on the client cluster to be served.

In the end, an advisor's workstation needs to be capable not only of interacting with the client via all necessary channels and portals, but also of all other smart functions and requirements introduced in this paper.

Whoever wants to play a leading role in Wealth Management in the future must focus on their strengths, provide clients with clear added value, have well-developed digital channels, and still need to be able to provide cost-effective and smart services.

Since several standard or collaborative tasks could be performed completely or partially by the clients themselves, Figure 4 outlines examples of possible combinations of cost-saving solutions where even in complex issues the advisor's time will not be demanded for each task.

Realistic but committed transformation and implementation milestones combined with a long-term vision support these efforts towards both client-centricity and hybrid advisory, but must be supported by management with personal responsibility and conviction in order to embed a digital mindset into all areas of a Wealth Manager's business model.

Deloitte is able not only to analyze the pain points and obstacles of your existing business, but can also provide an individual analysis of specialized solution providers directly adapted to your company's targets as well as highly professional support regarding the requirements of an inevitable and necessary transformation and implementation of hybrid and simultaneously cost-efficient advisory models including a client-centric approach and multi-channel interaction services, leading to increased revenue and opportunities while simultaneously enhancing the satisfaction of both your clients and advisors.

Digitalization towards a client-centric business model not only forms the backbone of future growth and success but also is a major opportunity, particularly for established Wealth Management firms, to be recognized as a state-of-the-art service provider who is only to be recommended.

Deloitte offers a proven track record and profound knowledge in the Wealth Management industry and is able to guide you along that journey, to assist in designing individual roadmaps, and to help you understand client-centricity, hybrid advisory, digitally enabled interaction channels, and the changing needs and requirements of your current and future clients.

Deloitte's Private Banking & Wealth Management team already collaborates not only with dedicated experts, consultants, and developers who generate eloquent and data-driven insights, but also with a number of companies to assess the impact on traditional Wealth Management and to define client-centric hybrid advisory business strategies.

As the future belongs to those who prepare for it today, Deloitte's solution approach will lead your business to newly arising opportunities, enabling you to effectively react and to catch up to the already initiated digital disruption of the Wealth Management sector.

Every great business relationship starts with one good conversation.

We are looking forward to answering your questions!

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Issue 07/2017