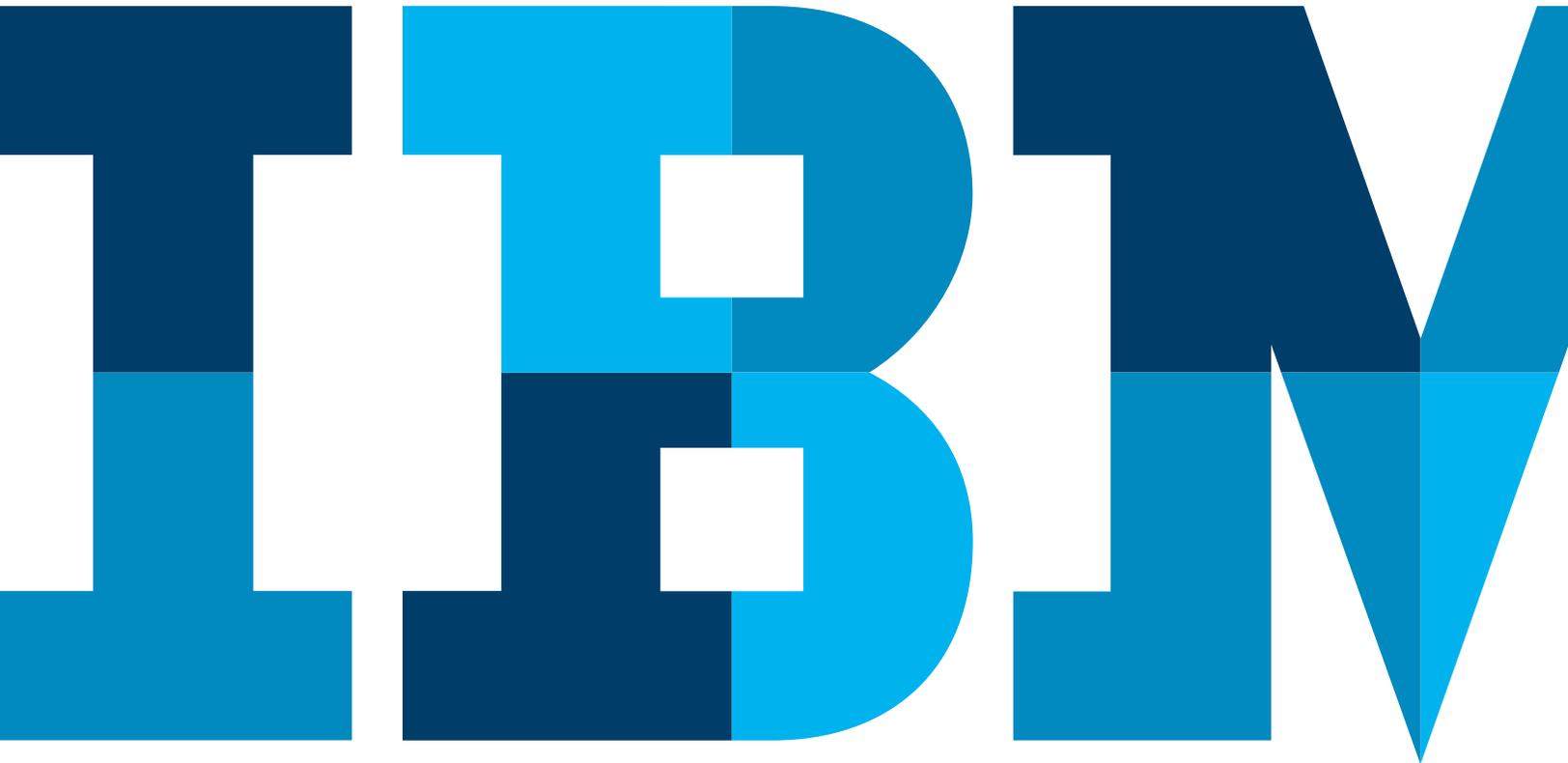


Advising the empowered client

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and Mark Dunford*



New entrants, the failure of active managers to deliver results, and changing market preferences have resulted in a growing universe of empowered clients, and a wealth management ecosystem that has begun to commoditize much of the world of traditional wealth management firms.

Incumbents, threatened by innovative automated offerings, are forced to choose between partnerships, acquisitions and replication/integration. Differentiation will increasingly focus on understanding and serving the needs of the client in order to win the relationship, which will pressure advisors and firms to develop new ways to personalize offers for a broad range of clients.

Relationship as the new differentiator

Shifting consumer preferences and the commoditization of investment advice change the relative importance of the key factors supporting development of a wealth management relationship.

Top client relationships are commonly thought to be anchored by customized, high-touch service and advice. Yet this is just as much about personal relationship and emotional understanding as it is about service or a complex product solution (e.g., complex trust or philanthropic advisory).

How does the client teach a child about financial management without imparting an unwanted sense of entitlement, *knowing the family dynamics*? How much will I need to spend in retirement *based on what you know about me*? Do you remember our phone conversation six weeks ago *about my daughter's graduation*?

If traditional firms are to continue to command the 75-100+basis point fees that are common today, they must develop stronger relationships with their core client base, not just with top clients.

Though change in wealth management tends to be evolutionary, not revolutionary, senior managers in the industry today are facing unprecedented challenges, muted only by the market's strong performance in recent years, and by the concentration of assets with boomers and the silent generation who are slower to change.

A change in mindset, with supporting technology to meet expectations for integration and execution and to drive personalization, can enable incumbents to meet the relationship expectations of broader wealth management segments; and overcome the diminished importance of the core advice offering.

The key factors supporting relationship development, defined below, are continuing to evolve:

Personal Relationship: The emotional connection between client and advisor, including how well they know each other, take pleasure in each other's company, and demonstrate compatibility

Advice: Recommendations provided by the advisor, directly or indirectly through an extended team or platform tools, to the client on investment and other personal financial management topics, extending to broader subjects of family and personal interests

Trust: Client faith in the brand and the advisor, belief that value is being delivered and that recommendations are in the client's best interests

Execution & Implementation: Services delivered in a seamless manner, across multiple channels and devices, in accordance with industry standards and client expectations

The Empowered Client and Diminished Appeal of Product Solutions

Technology has increased the expectations of clients across virtually all of their daily actions. They expect to have more information, with an ability to manipulate it, exert greater control over interactions with providers and receive personalized offers.

The empowered client increasingly spans all generations—it's not just millennials expecting to interact on their terms on any device from any location at any time. In the past, clients typically shopped for and accepted siloed product solutions, but such narrowly focused relationships will not be sustainable as clients crave a deeper understanding.

The Impact of New Entrants

In recent years, the pace and outlook for empowerment have accelerated with the rise of “robo-advisors.” These point solutions offered by the new entrants, taken in isolation, are revolutionary in the experience they offer and in pricing.

In a matter of minutes, an individual with limited investment needs (how limited is a matter of opinion) is easily and relatively accurately profiled based on needs without the burden of assembling a sheaf of documents and statements. They can be rapidly matched with a solution of their choice, regardless of behavior category, by selecting the right provider.

The black box asset allocation models historically reserved for use by typically well-compensated advisors are now easily accessed by investors. Investment and non-investment products alike are tailored and available with minimal human intervention, if desired.

The relatively poor performance of active managers in recent years (in 2014 80% of active US equity fund managers underperformed their respective index¹) has increased the appeal of low-cost passive funds and ETFs favored by new entrants, as evidenced by the fact that active US equity funds have not had a year of positive inflows since 2005.²

The market attention devoted to automated investment tools has incumbents scrambling to determine the optimal strategy to respond (buy, build or partner), at the same time they confront business model questions such as perceived competition with in-house advisors and expansion to mass markets.

Rich valuations for new entrants reinforce the need for incumbents to act, and have spurred interest in platform enhancements to replicate features offered by automated firms. Though robo firms have grown rapidly, they have yet to attract the critical mass of paying clients, increasing the appeal of buy-outs to founders and early investors.

Regardless of a firm's business model, what is clear is that the bar is steadily being raised to provide a modern personalized digital wealth management experience.



Figure 1: Empowered clients are changing the wealth management ecosystem.

Though advice alone will not be the differentiator that it was in the past, the competency must be maintained for delivery in a new context. Even those clients with the most limited needs, who may rely on automated advice and solutions under most circumstances, must be able to easily access advice from a qualified advisor when needed and desired in order to be satisfied with the provider.

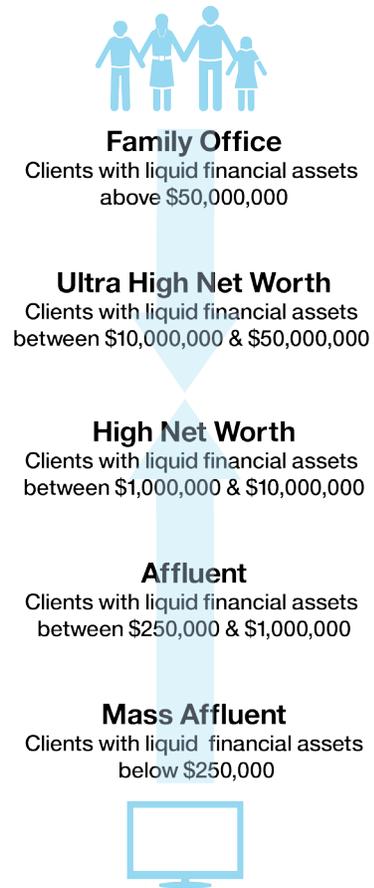
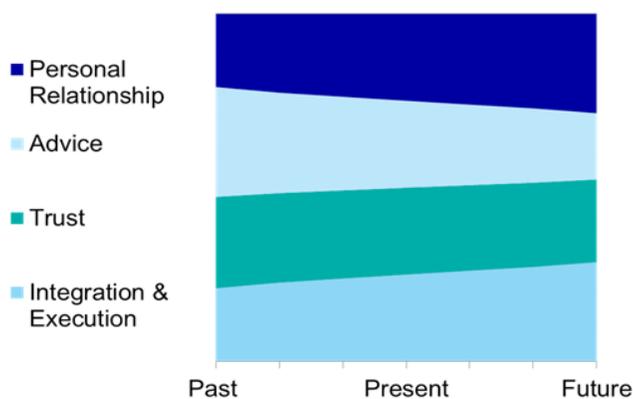


Figure 2: The pressure from scaling service models means investors can access black box asset allocation models without using advisors.

Roadmap for Success—Smarter Relationships

Consumers with basic wealth management needs will find a streamlined marketing / sales / prospecting experience a few clicks or taps away; with optional and selective advisor involvement to find an investment or credit solution. The core process of gathering profile information, basic goals-based planning, portfolio construction and ongoing monitoring is increasingly simplified and automated.

Trends by Driver



Personal Relationship grows in importance as clients expect increased personalization and understanding of needs

Advice decreases in importance as investment advice becomes more commoditized and passive, offset by greater interest in financial planning

Trust of brand and advisor continues to be a major driver, and value contributes to perception

Integration & Execution grows in importance as clients increase reliance on technology, further heightened by demographic trends

Figure 3: The drivers of relationship development shift over time.

As the wealth management industry evolves, we can expect to see greater differentiation in the sales and servicing model and a redefinition of segments away from a simple stratification by investable assets.

Some client segments, including those with simpler needs and those who feel enabled by new technology, will be matched with solutions with limited human intervention in the marketing and sales process, as well as in investment selection. Others, with more complex needs, will continue to attract a highly orchestrated sales and marketing pitch, with hands-on, expert-driven, solution development.

Client interest in financial planning has grown for several reasons, and firms have been investing to make it easier for both clients and advisors to take a holistic approach to planning:

- With increased acceptance of market-based returns, and a belief that annual returns will be lower, the ability to meaningfully change outcomes shifts to management of spending and liabilities
- Aggregation offerings and market take-up have been growing rapidly, which simplifies the gathering of data to support advice across the client's entire financial picture
- Many younger clients are contending with student loan burdens, the "elephant in the room" in developing a saving or investing plan
- As basic financial planning and investment solutions are automated, advisors are increasingly seeking to assist clients with other planning challenges, such as long term care

Virtually all wealth management firms are aware of the heightened importance of relationship in cultivating wealth management clients, but are they taking the deliberate steps to capitalize on the opportunity instead of playing defense?

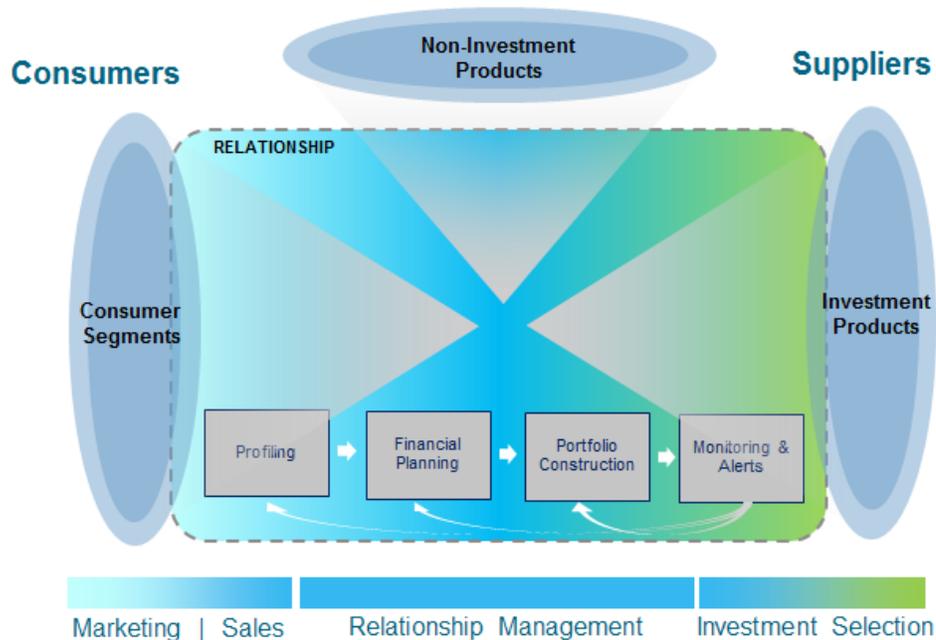


Figure 4: Providers and market forces are increasingly calibrating sales, advice and product delivery to suit the segment, aided by technology.

- Incumbents
 - Differentiate on relationship and strive to establish premium service identity
 - Establish capability to match clients to advisors to maximize development of potential, and opportunistically in repositioning existing books, as well as for new clients
 - Embrace automated advice technology to streamline experience, provide access to core advice and enable clients and prospects to explore solutions
 - Focus advisors on client's entire financial wellness and relationship enhancement, supported by analytics for personalization
 - Position for margin pressure on commoditized offerings through process automation
- Robo / Automated Advice Firms
 - Recognize that incumbents will be replicating features and experience, and consider partnerships
 - Integrate human advisor consultation at key points in prospect and client journey
 - Apply behavioral and sentiment analytics to increase personalization and tailoring of offers
 - Establish distribution relationships with manufacturer
- Manufacturers (Asset Managers)
 - Continue to focus product development on offerings that can command a premium (e.g., smart beta, international, alternatives)
 - Consider new distribution options / partnerships with automated advice firms

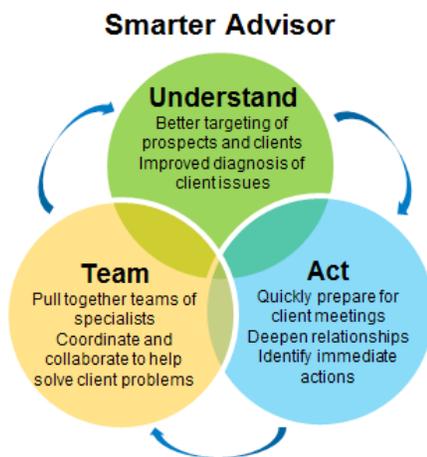


Figure 5: Applying analytics to each of the dynamics in servicing clients can help enhance relationships.

Successful firms will blend personalized advice and servicing provided by a human advisor with an automated toolset, all focused on establishing and strengthening the client relationship, calibrated by segment and need. It is common for wealth management firms to aspire to have advisors serve all of their clients the way top clients are served—close personal relationships, effective and informed teams supporting the advisor and such continuity in the dialogue that each conversation begins right where the last one left off, aside from intervening research/actions. Of course, there are multiple barriers to achieving this aspiration, but today firms have the option to apply analytics to develop the three pillars of Understand, Team and Act in support of enhanced client relationships.

Enhanced capabilities in the three pillars of “Understand,” “Team” and “Act,” support a new paradigm in relationship management, driven by advanced analytics and cognitive computing, leveraging structured and unstructured data—from both enterprise and public sources

Smarter Relationships—Understand

Wealth management firms have long recognized the importance of personality fit if a firm is to successfully develop the full potential of a client relationship. The benefits begin with improved conversion of prospects, and run through the client lifecycle, enabling the firm and advisor to achieve the role of primary wealth manager, with an accompanying larger share of wallet, improved retention, and greater propensity to make referrals.

In the past, an office head might have assigned leads and referrals based on personal knowledge to achieve personality fit. Today, with well-honed lead generation mechanisms and the emergence of online channels, there is a need and opportunity to identify compatible prospect and advisor personality matches without the benefit of personal knowledge.

Personality modeling from IBM® Watson™ helps a firm to match prospects and clients to a compatible advisor, capitalizing on available but potentially hidden data, meeting prospect and client expectations across a wide range of business models and channels, and positioning the firm to maximize the long term potential of the relationship.

In addition to personality matching, a core measure of potential prospect compatibility is the business fit between prospect needs and the competencies of an advisor, as well as common interests that they share. For instance, an entrepreneur is likely to want a business-savvy advisor who can anticipate needs, an art collector will appreciate a relationship with someone they can relate to culturally, and a golf enthusiast may value the hosted round to complement investment advice.

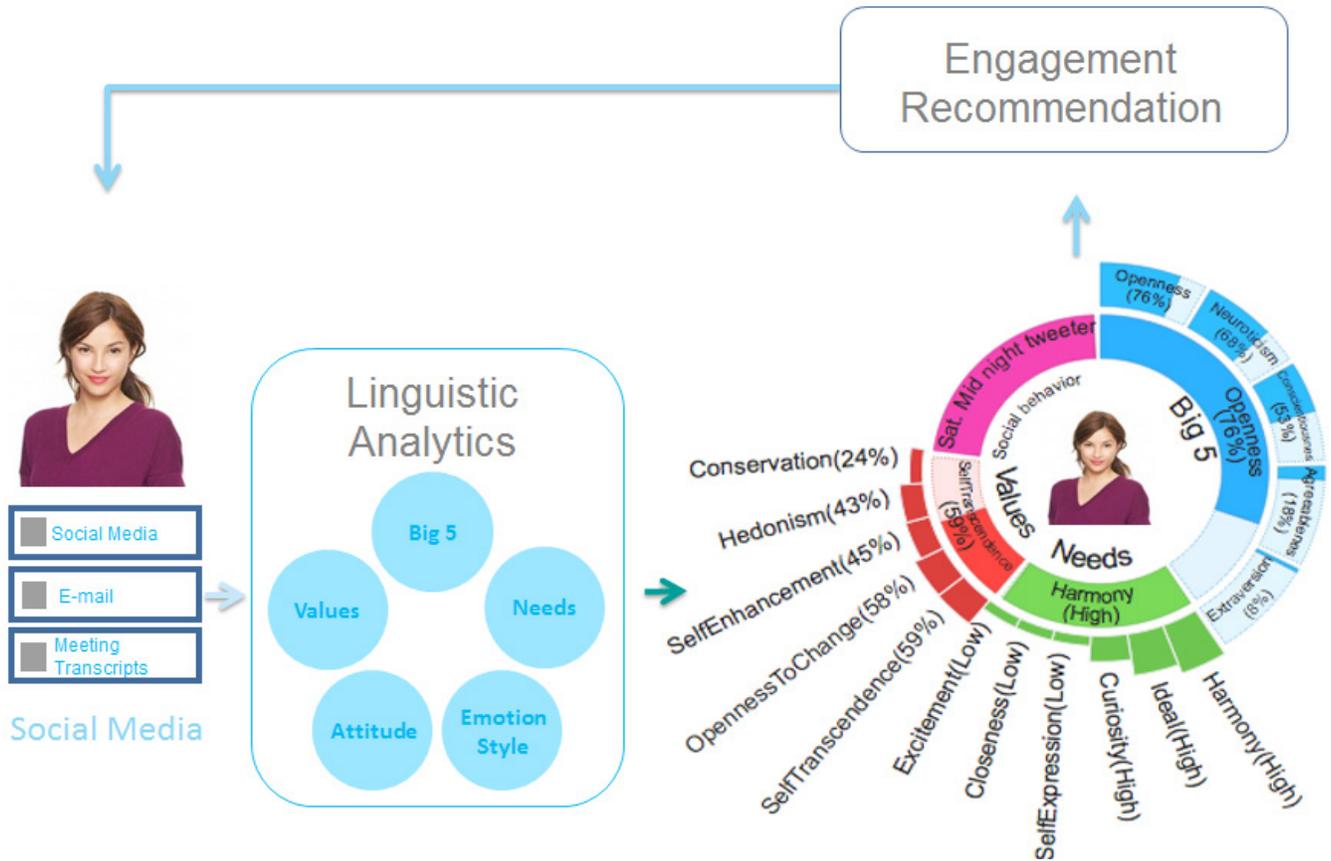
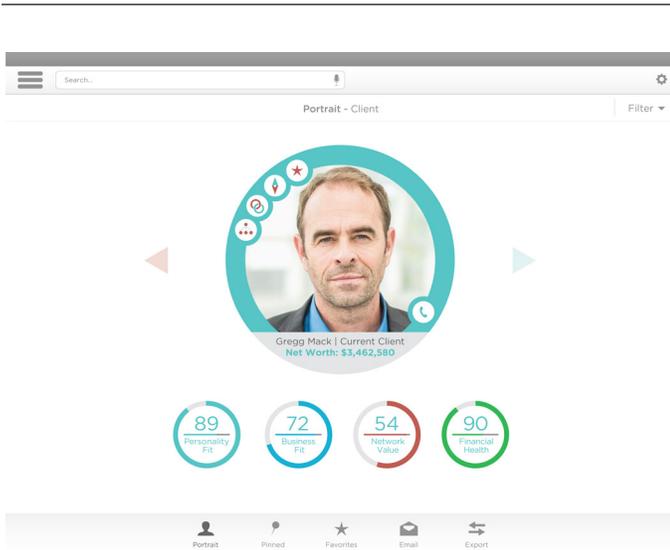


Figure 6: Successful firms will blend personalized service by a human advisor with an automated toolset.

These are simplistic examples, and one can easily imagine the complexity of trying to achieve optimal matches in a large organization. Advanced analytics capabilities mine structured and unstructured data, both from a public and enterprise perspective, to profile potential clients and to align the relationship for optimal rapport based on the profile of the advisor and the advisor’s existing clients.

Once a prospective client has shifted into an advisor’s book of business, a continuous and holistic view of a client’s financial health is an integral part of achieving long-term financial goals and meeting relationship expectations.

The need for a comprehensive health overview has drastically increased with the shift to goal-based investing. Advisors are now able to glean insights across a client’s entire financial picture to ensure that long-term objectives are within reach, looking beyond a simple investment return relative to objectives.



Advisors can quickly assess clients and prospects based on personality fit, business fit, network value and financial health.

Figure 7: With the right toolset, advisors can make quick assessments to develop a prospect or client portrait.

Advanced analytics capabilities allow advisors to integrate data that is currently spread over many systems and dashboards to produce this health score of each client. Advisors who currently use their intuition, memory and various systems and approaches to perform this assessment for top clients can now immediately understand the financial health of each and every client.

Smarter Teams—Team

Wealth managers increasingly strive to serve the entire client, ratcheting up the pressure on individual advisors to establish a team of experts, formal and informal, to meet client needs.

At the upper end of the market the lead advisor often plays a relationship manager role, necessitating collaboration with others, often in other parts of the firm to access sophisticated expertise. Clients expect both seamless sharing of information (as appropriate) to avoid having to repeat the facts, as well as coordination of experts on investment, legal, tax and succession planning matters. The process of determining what expertise is necessary, locating it and then incorporating it into the client solution is lengthy and historically difficult to scale or leverage beyond each individual advisor's capabilities and network.

Collaborative solutions and cognitive (expert) question and answer systems improve accuracy and facilitate responsiveness by the advisor and other team members, contributing to relationship development.

In addition to locating specialists for consultation and placement on a client solution team, there is also pressure to increase the accessibility of a firm's collective knowledge on a particular topic. This may be located in product and solution guides, training materials, recordings of daily briefings, recordings of panel discussions with clients and visiting experts, supplemented by vetted external experts and resources.

Digital endorsements and tagging of expertise allow for advisors to rate experts and to easily locate the resources they need in the future, creating a continuously updated internal catalog. Leading wealth management firms with a breadth and depth of expertise have an opportunity to differentiate themselves by leveraging innovative technologies to empower the individual advisor to easily deliver the full capabilities of the firm in support of the client relationship.

Smarter Conversations—Act

Advisors today are challenged to serve more of their clients the way top clients are served—a close personal relationship, attentiveness to needs and continuity and familiarity in the dialogue, while balancing exponential increases in data, including market news, product recommendations and updated client circumstances.

Clients, influenced by increased personalization across other commercial relationships, expect every advisor interaction to be both relevant and insightful. As advisors service growing numbers of clients, it is impossible to scale a time-intensive preparation process, just as it is impossible to prepare for impromptu client calls. The shift to a relationship model that centers on goals-based investing further intensifies the need for advisors to sufficiently prepare for meetings and to be more attuned to client needs.

A key point of differentiation for wealth management firms will be the use of analytics for a deep, individual understanding of clients based on a wide variety of inputs and the ability to translate this information into highly relevant on demand conversation points.

Advisors and their support teams currently make manual determinations of which actions are the most impactful for their clients. Inputs into this decision process include time sensitivity, value of the action, value of the client, the time and effort to complete the item and numerous other factors. For advisors looking to increase efficiency, particularly those without extensive experience, this poses a challenge, just as it does for firms seeking to establish standard service levels. Actions easily become overdue or are not addressed in alignment with firm expectations.

Cognitive systems can now effectively conduct this prioritization. These systems learn a framework for action recommendation and deliver a prioritized set of items for advisors to address, with easy configuration to suit a variety of roles on a team. The learning continues through system usage to incorporate personal preferences of advisors and clients to yield the most relevant actions to further develop client relationships.



IBM Watson presents client conversation starters across all facets of a client's life supported by evidence and message coaching.

Figure 8: IBM Watson helps turn client understanding into impactful conversations.

Moving Forward

Wealth management firms have a significant opportunity to differentiate themselves by strengthening client relationships through better understanding their clients and prospective clients, enhancing their teaming capabilities, and increasing their preparedness for client interactions.

IBM Watson and related advanced analytics provide innovative firms with the differentiating capabilities to build stronger relationships. Modular design supports phased implementation and near-term benefit realization, while the cognitive capability helps ensure the long-term value and growing relevance and sophistication of recommendations.

Firms may be lulled by client inertia which tempers the reaction to the commoditization of investment advice, but those who wish to be leaders, particularly in positioning to win the business of younger investors, will capitalize on technology to enable their platforms to support stronger client relationships.

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Roger Hu is a Partner and the Wealth Management Industry Leader in IBM Global Business Services. Mr. Hu spent more than 15 years in the Wealth Management industry focusing on issues such as salesforce effectiveness, Advisor & Client experience, platform strategy, and business process transformation. Prior to IBM, Mr. Hu worked at Morgan Stanley in National Sales and Private Wealth Management. Mr. Hu currently owns IBM's Smarter Advisor Offering for the Wealth Management industry.

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