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FROM SELLING PRODUCTS TO DELIVERING FINANCIAL ADVICE

The Role of Technology in the Shift to Holistic Financial Planning

Technology & The Digital Advisor

SUPPORTING THE SHIFT FROM PRODUCTS TO PLANNING

The financial advice industry is in the middle of a transformative period. The business models that have underpinned the sector since its inception are being disrupted and re-shaped by a number of forces ranging from regulatory pressure to technological change. The commission-based model financial advisors have typically seen success from is being challenged as the industry—and perhaps more importantly, its investors—embrace an advice-based approach that provides advisors with the opportunity to charge for their service rather than only for the products they sell. In fact, figures from a Fidelity Investments® study show that between 2004-2015, the percentage of advisors following a commission-only model fell from 21% to 3%.[1]

[1] Fidelity. 'Step Up to a Fee-Based Model.' Available at: https://goo.gl/Cjq6bx. Accessed October 2017.

Driving this shift, are a number of complex factors...

1 The New Fiduciary Standard

The Department of Labor (DoL)'s Fiduciary Rule is having a major influence on the financial services industry. The legislation takes a strong stance against potential conflicts of interest and demands that advisors act in the best interest of their clients at all times. The introduction of a fiduciary standard will eliminate many commission structures in the industry and push advisors toward offering more detailed advisory services. And these changes are not limited to the retirement market, which the Fiduciary Rule originally targeted. The industry is beginning to adopt the new standard across all client types, as businesses recognize that it doesn't make sense to offer different service levels to different clients.

2 The Empowered Consumer

The average smartphone has more processing power than the computers NASA uses to guide their rockets[2], while high-speed internet can be accessed from almost any location in the developed world. As a result, the current generation of financial consumers has far greater access to information than any preceding it and this is influencing how they invest. Not only can those interested in purchasing a financial product carry out their own detailed research, they can easily access any number of online platforms to execute a transaction, and often for a lower fee than a traditional broker. Consequently, many advisors have witnessed a compression of the fees they are able to charge for similar services, which eats into profits.

3 Automated Advice

The pressure on fees is being exacerbated by the rise of automated investment platforms and hybrid models, which combine self-guided functions with human services. With robo-advisors costing in the range of 15-35 basis points, and hybrids around 50 basis points, some investors are now questioning the cost of a traditional advisor-only offering. Meanwhile, interactive technology like chat bots are becoming more sophisticated and can be used to provide increasingly complex, and seemingly human, financial advice.[3] As financial services become more automated and commoditized, advisors are being forced to differentiate themselves by offering ever more value-added services.

4 Generational Trends

Approximately 10,000 baby boomers are retiring every day in the US,[4] while millennials will control $24 trillion in assets by 2020.[5] This demographic shift will have profound effects on the industry and, more specifically, expectations of advisors. It's no secret millennials typically have different values, needs, and challenges when it comes to financial advice. They have seen the hardships that previous generations experienced during the great recession and other major world events.[6] They tend to be educated and expect transparency from their advisors both in terms of fees and returns. In addition, they want cutting-edge technology and customized, value-added advice.[7] This necessitates a different approach from financial advisors, based more on partnership than transaction.

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[2] Business Insider UK. "Your Phone Is More Powerful Than The Computer In The Spaceship NASA Launched This Week." https://goo.gl/QRBDSU. Accessed December 2014.

[3] American Banker. "This is how financial services chatbots are going to evolve". Available at: https://goo.gl/L6tYnk. Accessed October 2016.

[4] The Washington Post. "Do 10,000 baby boomers retire every day?" Available at: https://goo.gl/VJRnBe. Accessed September 2017.

[5] UBS. "Millennials – The global guardians of capital." Available at: https://goo.gl/oZjSjF. Accessed September 2017.

[6] Crossmark Global Investments. "The Millennial Market for Financial Advisors." Available at: https://goo.gl/gJMZQU. Accessed September 2017.

[7] Deloitte. "Millennials and wealth management: Trends and Challenges of the new clientele." Available at: https://goo.gl/oP9ie6. Accessed September 2017.

In light of these factors, *it's clear advisors must shift to incorporate planning into their practice if they want to continue to run and grow a successful business*, remain or become DoL compliant, and work toward the best outcomes for their clients for many years to come.

While many financial professionals see the need to pivot their businesses toward a more service-driven model that relies on the sale of comprehensive advice, actually executing this shift is no small feat, particularly for those who traditionally have not included financial planning in their offering.

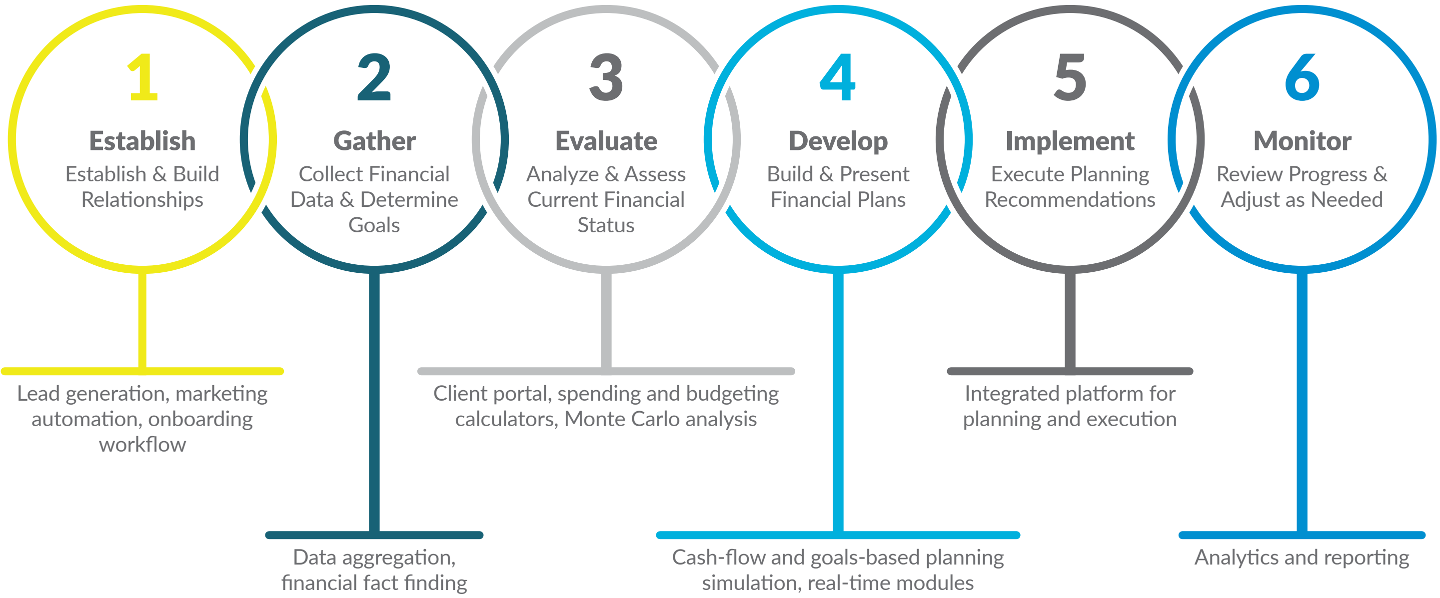
Enter technology; from automating phases of the financial planning process, to executing a new marketing strategy, and streamlining additional compliance and oversight complexities, a well-integrated tech stack can be a key enabler for advisors interested in transforming their businesses from a product-to planning-based model.

This whitepaper will provide a blueprint on how to do just that, examining the critical role of technology as a driver of success for advisors and firms undertaking this effort.

Supporting the Financial Planning Lifecycle

In the digital era, product-centric practitioners tend to already rely on comprehensive tech capabilities in areas such as portfolio management, trading execution, and client relationship management. Though these tools are still essential to the planning advisor, those looking to move to a service-based advisory model must also consider expanding their tech stack to directly enable planning.

A good place to begin is with a digital platform that can support each well-defined phase of the financial planning lifecycle.



Establish & Gather

The onboarding and fact-finding process that kicks off each relationship can be time consuming, especially if a client has a wide variety of asset types and accounts. By using a digital platform with an onboarding workflow or aggregation software, an advisor can quickly and accurately consolidate all of a client's financial information in one, easy-to-use interface. This provides full visibility into a client's financial situation. What's more, as data-points change the system can be automatically updated, meaning the advisor is always seeing the real picture.

Evaluate & Develop

Once the information has been organized it can then be analyzed. For example, if an advisor has accurate information on all of a client's income streams and expenditures, they can easily demonstrate basic planning topics, such as retirement readiness. Software can automate this process allowing an advisor to quickly and collaboratively model any number of goals at the touch of the button.

It is also important in this phase to show a client how different actions and strategies can influence their financial goals. There are a number of tools to help with this. For example, an interactive goal planner can display multiple financial scenarios, side by side, allowing a client to see how changes (e.g. retiring one year earlier) affect their ability to reach their financial goals.

START EVALUATING!

Think carefully about the tech stack you will use for financial planning and provide answers where you can:

- Is your onboarding process automated?
- Do you have access to real time account values?
- Do you have the ability to prioritize goals and easily model strategies for reaching them?
- Can you easily show your clients the impact that decisions will have on their financial goals?
- Are you able to automatically monitor and track changes in your client's financial needs?
- Are you able to easily gather relevant analytics to demonstrate success?

Implement & Monitor

Once a financial plan has been developed and implemented, it is important that an advisor continually monitors its performance. This is one area where a digital platform can offer a major advantage over more manual methods, as it allows continuous interaction with a client. Traditionally, an advisor might have delivered a financial plan to their client once a year and then reviewed progress annually. However, with a digital solution, the client's financial information is automatically updated. As a result, an advisor can review progress in real time. If a client is getting off track or if their situation has changed, they can make any necessary corrections to quickly rectify the situation.

Adding Value through Interactivity & Collaboration

For those looking for more advanced functionality, there are many tools that promote interactivity and collaboration. Perhaps this is unsurprising given that financial planning is a service, so advisors are under increasing pressure to differentiate themselves by delivering additional value for the client. For example, if the platform offers a client-accessible website, the advisor can collaborate with the client remotely or together online. Such an option would work well for next generation or tech-adopted clients who expect digital access and insight into their financial world on-demand.

Further, behavioral studies support the power of vivid images, tools and stories to increase understanding of the impact of decisions. When people see images of their future selves through future-aged technology, they are more likely to save in retirement accounts.[8] The same potential exists for financial planning and investment tools that use powerful visualizations to help investors better understand their current financial situations and how their decisions impact their future. This can be especially useful with more complex or emotionally charged topics such as estate planning. Mapping and visualization bring clarity and peace of mind to the process.

[8] Hal E. Hershfield, Daniel G. Goldstein, William F. Sharpe, et al. "Increasing Saving Behavior Through Age-Progressed Renderings of the Future Self." Journal of Marketing Research. Available at: https://goo.gl/TJY24Y. Accessed September 2017.

Tailoring Your Marketing & Business Development Efforts

One of the most challenging elements for any business is attracting new clients. As advisors shift their focus to more planning-based services, many will have to re-think their approach marketing and sales.

On one hand, they will need a reliable and scalable way to bring in new clients, which won't break the bank. But perhaps more fundamental than that, they may need to reposition how they brand their business to reflect their new value as a planning advisor. Marketing technology can help advisors reach both of these goals.

Content is Still King

It's essential that advisors think carefully and strategically to ensure their messaging not only reflects their new capabilities, but also resonates with prospects as well as existing clients, may be interested in expanding their relationship.

With prospects, for example, advisors may want to base a campaign around the misconception that financial planning is only for the wealthy. They could do this by sharing articles or videos the importance of sound financial planning for all wealth groups. An even stronger approach would be by creating their own content, such as a how-to guide or a blog article that gives their perspective on the issue. For existing accounts, it can pay-off to take a more personalized approach. As there is already a relationship, advisors have the opportunity to explain in more detail how their new services can help a client reach their specific goals. In both cases, infusing the value of planning into their existing messaging is essential to building this area of their business.

Also, it is important to consider the demographics of the group they are communicating with. Millennials will have very different goals and concerns to those who are on in the peak of their earning years or who are on the cusp of retiring. Employing technology that seamlessly connects content to contacts enables advisors to reach their audiences more effectively.

Picking the Right Channel

When launching a new service, there are many potential channels for an advisor to pursue, from advertising in local publications, to attending or even organizing events. Alternatively, they may rely mainly on referrals from existing clients or even word of mouth. However, one of the most cost-efficient and scalable ways to search for prospects and to build up a network is through social media platforms. For existing clients, a regular newsletter, filled with interesting or educational information, is a great way to promote engagement and to keep the advisor front of mind.

Automated Marketing

One of the challenges of a content-based approach is that finding the content to share – or creating it from scratch – can be time-consuming and challenging. Also, there can be numerous regulatory restraints concerning what content can be posted. This is an area where technology can assist.

Advisor-focused marketing platforms can include functions that help firms scale their marketing functions. An example would be providing access to a library of in-depth, compliant content, such as articles, videos, ebooks and infographics. An advisor can then share this content with leads and clients via their own website, through email or on social media. Some integrated platforms even automate this process, and make smart recommendations for content based on client demographics and goals. Most also include the ability to track these digital assets at every stage of engagement, so advisors can understand what topics matter most and why.

In essence, this technology creates an instant marketing department for the advisor. If they are trying to approach a new market or change the perception of the services they offer, having a scalable resource that can help communicate their message in a professional and engaging way, can make all the difference.

Your Marketing Toolbox
Developing a LinkedIn Strategy

LinkedIn is arguably the most effective social media platform for financial advisors. Indeed, there are more than 3.5 million investors with over 100k in assets that regularly use LinkedIn to make financial decisions. One of the benefits of LinkedIn, is that is has numerous filters allowing users to search precisely for potential prospects, which they can then target through the messaging service. Another good tactic is to use LinkedIn's Groups. These are usually based around specific subjects or industry sectors, and act as a forum where people can discuss the topic and ask questions. Joining a Group can allow an advisor to reach out to people with queries or who are showing interest in certain services. A more advanced approach is for an advisor to create and brand their own Group and invite participants to join. For example, they could host a Group around retirement planning, and field any questions that people may have on this topic. This can help position them as an authority in their space, while giving them a reason to reach out to Group members in order to offer their services. In essence, it can turn cold leads into warm leads and potential clients.

Targeting the Next Generation

Millennials – defined as those born between 1980 and 2000 – are currently the largest cohort in the American workplace. By 2020, the aggregated net worth of millennials around the world is estimated to be $19trn-$24trn.[3] As they mature in the workplace and also begin to receive an inheritance, this wealth is going to grow substantially. Tech-savvy, entrepreneurial and flexible, millennials are on course to be the richest generation that has ever existed.

But for all of their prodigious knowledge of technology, this new generation can fall short in some key areas: a recent survey of more than 5,500 millennials showed that only 24% had basic knowledge of financial concepts. With this in mind, offering information with an educational slant or on specific high-interest areas, such as student debt, with informative content, is one potential marketing approach. This could, for example, include videos on why someone needs financial planning in the first place.

Bottom line: It makes sense for financial advisors to target this generation early and begin building relationships that can last for decades.

START EVALUATING!

Think carefully about your marketing strategy and provide answers where you can:

- Have you developed key messages that support your service or help change the perception of financial planning?
- Have you identified the right channels to connect with potential clients?
- Do you have a scalable system for customer acquisition?
- Do you have sufficient content to share on a regular basis?
- Have you segmented your audience, and do you tailor your approach for different demographics?
- Are your marketing assets compliant?
- Do you have a nurturing strategy for existing clients?

Managing Compliance in the Post-DoL Era

Regulatory compliance is another important consideration when transitioning your business from a product -to a planning-based model. In the post-DoL environment, financial advisors—and the firms that employ them—have a responsibility to demonstrate they are acting in the best interest of their clients at all times. However, proving this in practice can be challenging as it requires additional supervision and archival of a variety of advisor/client interactions.

From data gathering to record keeping, reporting to review processes, an integrated technology platform can alleviate much of the additional compliance burden associated with the fiduciary standard in an advice-centric model by automating many these tasks. For example, some platforms can provide audit logs that track interactions performed on the system. Others provide cloud-based storage for convenient record retention. Still others simplify the oversight workflow. Overall, the right system will enable advisors and their firms to streamline many of the more time-consuming and manual elements of compliance.

START EVALUATING!

Think carefully about how you manage compliance and provide answers where you can:

- Are you able to automate all or part of your compliance requirements?
- Do you have the ability to track advisor/client interactions?
- How do you ensure financial facts remain up-to-date?
- Are you able to provide online storage for client documentation?
- Do you have an archiving function for all financial plans?
- Can a manager easily view all financial plans and other deliverables to ensure compliance?

Scaling a Services Business

One of the major bottlenecks that many service businesses face is how to scale effectively. This is especially true for financial planning businesses, which rely on a deep understanding of – as we all as unique personalization for – each client.

The Productization of Service

Creating replicable processes that promote consistency and efficiency is one way to overcome this obstacle and support scale. For example, using a technology platform to breakdown and automate more basic and universal elements of their experience, such as onboarding and client engagement, lightens the advisor's load and enables them to serve more clients more meaningfully in less time. In essence, this "productization" of service not only meets advisors' needs, it also better supports the expectations of clients – all within in a fee structure that promotes sustainable growth.

While many advisors employ solutions to automate back-office tasks, those looking to fully embrace a scalable planning business are also incorporating technology into front-office functions, such as fact-finding, plan-building, and reporting. With technology, advisors who may not have had the bandwidth or functional expertise to create even basic financial plans, can now create detailed plans quickly – and at scale.

Empowering Clients through Self-Service

In addition, there is growing demand for self-service tools that empower the investor to take a more active role in the management of their finances. An example would be a portal where users have visibility into their financial picture, as well as resources to model basic planning goals, like saving for retirement, without input from their financial advisor.

This is part of a broader trend toward self-guided engines that allow investors to perform many basic elements of the financial planning process themselves. Although fully automated advice platforms have been available for a while, a hybrid model has emerged, combining both technology automation and human advice within a single platform. Such an approach can help advisors increase the volume of clients they serve, while freeing up time to focus their efforts on more high-value activities – such as relationship building.

START EVALUATING!

Think carefully about how you will scale your financial planning services and provide answers where you can:

- Do you have established, repeatable processes for your planning-based business?
- Can you provide a consistent and sellable service to different types of clients?
- Do you have automated solutions for standard activities?
- Do you have the tools to easily create and update financial plans?
- Do you have self-service options that help put clients in the driver's seat?

The Importance of a Fully Integrated Platform

Getting the right technology can play an important part in the success of financial advisors as they move to a planning-based business model. However, it is important to consider your technology needs in a strategic fashion, rather than taking a piecemeal approach. The tendency to focus on individual applications that have specific function, rather than thinking about how the whole system operates together, can prevent advisors from getting the most out of their tech capabilities. In some instances, productivity can actually be hindered due to the problems of managing a suite of disaggregated and incompatible pieces of software.

To try to outline the potential complexity, it is common for an advisor to have separate applications for each of the following functions,[9] often supplied by different providers, with some installed while others are hosted.

- Customer Relationship Management (CRM)
- Financial planning
- Account aggregation
- Client engagement tools (portal)
- Analytics
- Portfolio construction, rebalancing and trading
- Performance reporting
- Fee collection, accounting and billing
- Compliance management
- Workflow
- Risk tolerance scoring
- Document management
- Product, manager, platform research

[9] Envestnet. 'Technology Integration Turbocharges. Advisor Productivity: Making Time for Clients.' Available at: https://goo.gl/U9QqpZ. Accessed October 2017.

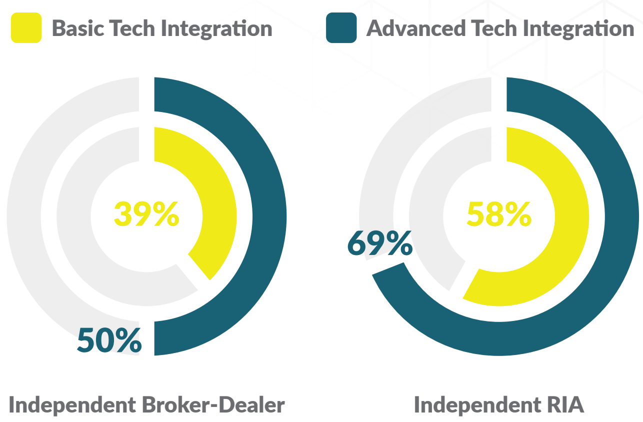
As a result, many advisors waste time transferring data from platform to platform – or even entering it manually. Even a seemingly simple task, such as onboarding a client, can degenerate into a multi-step task that consumes hours and even days. If servicing an account requires a workflow process that spans multiple different applications, efficiency is compromised.

Greater than the Sum of its Parts

A cutting edge, integrated technology platform combines all these functions and more, so that an advisor or firm can return to focusing on the client. Indeed, recent research has shown that RIAs with an integrated tech stack spend 19% more time on client-facing activities, such as creating financial plans, or taking meetings with customers.

Imagine the utility of a platform that provides a single sign-on for all of the functionalities necessary, from pre-engagement to financial planning and execution. A well-integrated platform will cover all stages of the advisor client lifecycle and all stages of a client's life. This is what providing a truly holistic service looks like. When advisors possess the right tool for every situation, financial planning can more easily take its rightful place at the center of the advisor-client relationship.

Percentage of Time Spent on Client Management



Source: Aite Group survey of 330 financial advisors

START EVALUATING!

Think carefully about your tech integration and provide answers where you can:

- Do you have adequate integration between applications?
- Are you able to single sign-in between applications?
- Do you have to transfer data manually between different systems?
- How much of your time do you spend on client management?
- What are the major pain points associated with your existing tech stack?

Conclusion:
The Rise of the Digital Advisor

Technology offers many opportunities for financial advisors looking to move to an advice-driven business model. From pre-engagement, to marketing, compliance, and the planning process itself, those who can fully understand and integrate sophisticated software and applications into their practices will be at a powerful advantage. In fact, these professionals have more potential than ever to make a demonstrable difference in their clients' lives – and in their bottom line – as the industry continues to shift to a planning-based model.

That concept holds true for large organizations as well. But as compared to individual advisors, enterprises have a number of additional unique and complex considerations when implementing a similar transition across their firm. They have much larger teams with advisors operating in multiple locations, and therefore have more comprehensive requirements regarding oversight and visibility of operations. But not only do enterprises need tools that provide a line of sight into the actions of their advisors, they also need technology that enables their advisors to reach their individual business goals, such as growing their planning efforts. Therefore, the need for a scalable and integrated technology solution is even greater for large firms promoting a shift to planning across their organization.

Bottom line – whether an individual advisor or an enterprise – those who are leveraging the technology available will be able to most effectively evolve and compete as the industry continues to move from product-to planning-based service.

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