

Reinventing Wealth Management for the Digital Age

A blueprint for accelerating digital transformation and business growth for wealth management firms.



Wealth management firms today are on course to lose the next generation of customers to fintechs and discount brokers. The challenge for wealth managers caught in the eye of the brewing digital disruption is not only to retain high-net-worth clients but to attract new customers and rise to the expectations of a demanding generation of technology and data-driven millennials.

Traditionally, wealth management firms have allowed financial advisors and existing high-net-worth clients to dictate the firm's business strategy from the bottom-up. To drive profitability in the digital age and leapfrog past the new wave of competition, firms need to flip their strategy and take a top-down approach to carry out large-scale digital transformation that will breathe a new lease of life into their businesses.

Barriers to Digital Adoption

The majority of wealth management firms understand that fintechs and discount brokers pose a significant threat to their industry and are wary of losing considerable chunks of their business to these new entrants, yet, most are found dragging their feet when it comes to fully embracing digitalization which is clearly the answer to their woes.

In our expert view, there are three main factors hindering the evolution of wealth management firms today.

1. A Workforce Powered by Financial Advisors – Boon or Bane?

Traditional Wealth Management Business Model

Wealth management firms have been built on a bedrock of a workforce comprised primarily of financial advisors. These advisors are essentially entrepreneurs within the framework of

a corporation and have been allowed to act in their own best interests. The entire organization is geared to enable revenue-producing financial advisors do what they do best: sell product and generate revenue; which has been a successful working model to-date.

However, in the midst of increasingly strong headwinds from both increased competition and decreasing prices, this business model is proving to be an impediment to the necessary digitalization of the business. What this leads to is the strategy for the entire firm being driven from the bottom up – from the financial advisor to the C-suite.

Fintech and Discount Broker Business Model

Fintechs and discount brokers on the other hand drive strategy from the top down and are able to implement enterprise-wide, agile initiatives because their businesses are built on a traditional corporate hierarchy with regular employees at the bottom and not entrepreneurial salespeople, and cater to a broad customer base spanning the net worth spectrum with clients that expect an intuitive, digital experience.

A financial advisor-dominant business model also poses certain strategic risks:

- > Challenges of a dwindling workforce and a failure to attract the next generation of financial advisors with majority of the workforce skewed towards an older demographic.
- > Those financial advisors that do remain, if dissatisfied with the direction of the firm, could easily leave and take the firm's clients with them, thus hurting revenues.

Risks of the Current Wealth Management Model



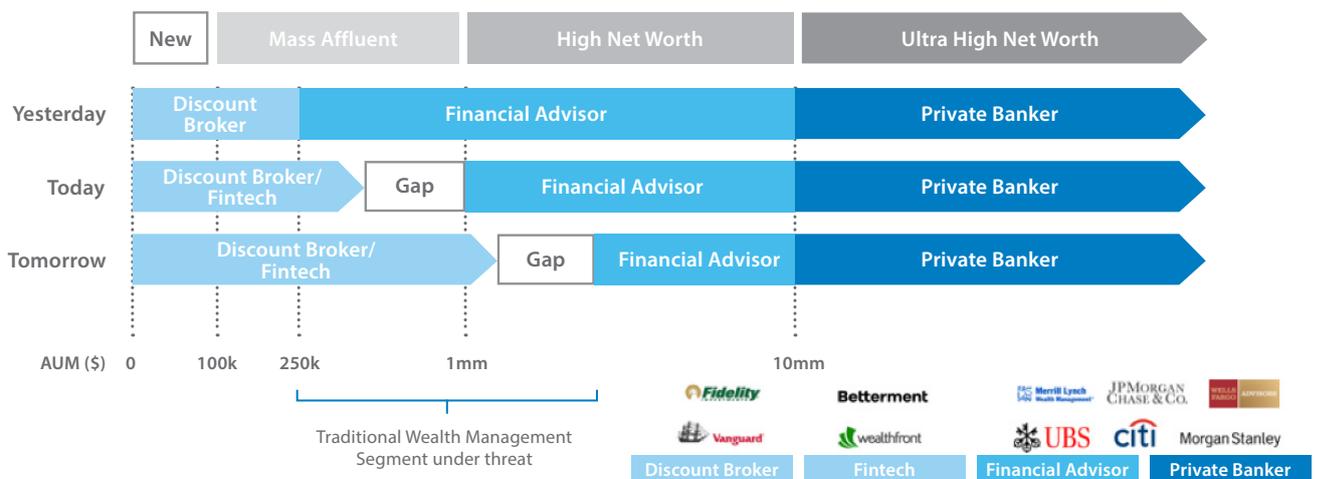
2. A 'Misplaced' Focus on High-Net-Worth Customers?

One of the major roadblocks holding wealth management firms back in the digital race is the narrow focus on their wealthiest and largest client base – the high-net-worth (HNW) customers who generate the biggest revenue for the firms as their model is based on charging a percentage fee on clients' assets under management. This fee-based model, although profitable today, comes at a future cost; it exacerbates the ignorance of mass affluent individuals, including the next generation of high-net-worth customers: the digitally native millennials.

To alleviate this problem, wealth management firms' current strategy is to bifurcate their offerings based on net worth; to push mass affluent, millennial customers to a digital or robo-advisor channel and move high-net-worth customers to a financial advisor. This approach, however, could ultimately prove fatal to the future of their businesses if these clients become accustomed to discounted fees.

Today, declining fees are forcing financial advisors to move up the net worth ladder to maintain revenues. This is creating a gap between the minimum asset size they accept and the average asset size discount brokers and Fintechs typically attract. Tomorrow, these competitors will continue to absorb the left-over customers and move up the net worth ladder themselves.

Opportunity Costs of a Misplaced Customer focus



3. Rising Price Wars and Diminishing Revenues

As revenues ebb due to mounting price pressure from increased competition and newer and inexpensive product offerings such as exchange-traded funds (ETFs), wealth management firms are scrambling to reduce costs and maintain pre-tax profit margins. Technology budgets are barely sufficient to maintain legacy systems with insignificant investments planned for emerging technologies like artificial intelligence or robotic process automation.

The proliferation of cheaper investment options has eroded the generous commissions advisors were able to command on the sale of actively managed mutual funds and in some cases robo-advisors have eliminated the need for a financial advisor altogether.

Although wealth management firms acknowledge that game-changing technologies are important to future-proof their business, they have little faith in their ability to deliver. There are valid concerns that their senior financial advisors may balk at any technological changes that may diminish or eliminate their role or change the way they have been doing business for decades.

Price Impact of Competition



Winning in the Digital World: Our Recommendations

Wealth management firms need to proactively push the digital transformation agenda across the spectrum of their client portfolio or risk losing their best clients to new players in the market. What is needed is a complete shift in focus and a rethink of their business model across the following four key digital themes.

1. Enhance Customer Centricity and Experience

If wealth management firms expect to maintain their position at the premium end of the market and charge more than their new competitors, they must invest in the next generation of digital tools and deliver a client experience that is not only commensurate with that price point but is more sophisticated and dynamic than what is currently on offer by fintechs and discount brokers.



Customer 360° View

A complete revamp is required that provides high-net-worth customers with an intuitive and comprehensive, enterprise-wide, 360° view of their entire financial situation in real time. This digital dashboard would incorporate multiple life goals against assets and liabilities, annual income and expenses, along with an analysis of cash flow. Data should be sourced internally from all divisions within the firm and externally from third-party vendors and social media.

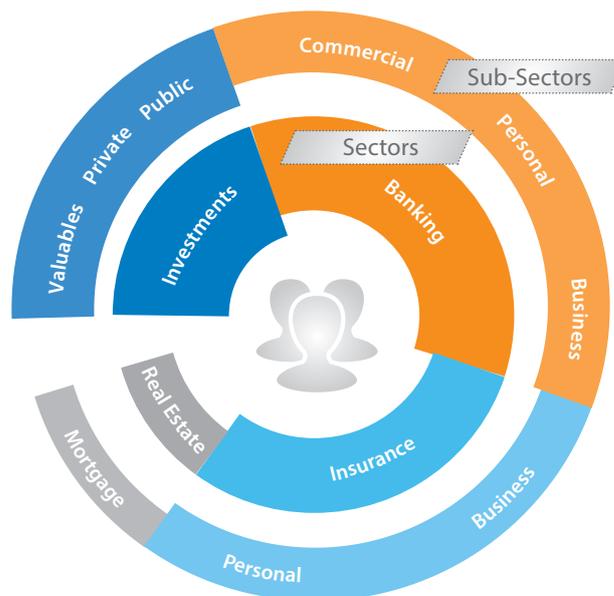
High-net-worth customers require tools that enable them to monitor the management of their investments with the same level of scrutiny as they would a business. Such tools should allow for the aggregation of investment management performance across all products, from the individual stock all the way up to the most sophisticated hedge fund and private equity investment.



Live Observation and Co-Browse

Financial advisors should have the ability to have live observation and co-browse capabilities to see exactly what the customer sees and provide direction. It would enable advisors to handle more clients remotely and more clients in general. This will be important due to the impending retirement of many older advisors and the dearth of new financial advisors coming into the industry.

Customer 360° View



Fee-Only Advice

To truly move to a consumer-centric approach, wealth management firms need to switch from offering customers commission-based financial advice to a fee-only mode, where advisors are held to a fiduciary standard, which means they are legally required to act in the client's best interest. By doing so, firms can reshape the impression of the financial advisor in the eyes of the client to one of a true advocate like a doctor or lawyer as opposed to the inherent conflicts of interest that exist when the financial advisor is selling a product for commission. It would also align wealth management firms to their robo-advisor competitors who have already adopted the fiduciary standard.

2. Digitize the Core



Robotic Process Automation

Wealth management firms need to adopt intelligent automation or robotic process automation, for greater efficiency of client servicing processes. Financial advisors are currently unable to deliver the type of white-glove treatment that they claim to provide for their best clients as the greater part of their day is consumed with mundane client requests.

This problem will only become more acute once more advisors retire and a greater number of clients are thrust onto a smaller pool of advisors. Intelligent automation of these routine tasks can create greater efficiencies to free up time for advisors and their assistants to focus on high-value activities.



Robo-Advisor

Another way to boost operational efficiency is by embracing automated investment services, or robo-advisors; not only for mass affluent clients that do not qualify for an advisor, but also for high-net-worth customers who are traditionally steered to a unified managed account (UMA).

UMAs are professionally managed accounts that include multiple types of investments: exchange traded funds (ETFs), mutual funds, and equity or fixed income professional investment managers, also known as separately managed accounts (SMAs), in a single account. These accounts are already partially automated as they are rebalanced on a specific schedule, but involves an advisor helping customers select the initial investment options and revisiting those selections manually.

Firms could upgrade the UMA product by leveraging a robo-advisor-like customer experience whereby the client selects the options directly online. By creating a client-directed product, it could eliminate the need for the advisor to manage that portfolio altogether, freeing up time for other financial planning activities. As a result, customers could choose which advisor services they require a la carte on top of the management of the portfolio and pay accordingly.

3. Insights Driven Innovation



Big Data and Analytics

Financial advisors currently provide the insights and advice that customers rely upon when making investment decisions. Often, this advice comes at a great expense to the customer and

is sometimes at odds with what is in the client's best interest. However, innovations in big data and analytics could alter the relationship, transforming the financial advisor as a true advisor as opposed to a glorified salesperson.



Artificial Intelligence and Machine Learning

Financial advisors' human-based, experiential knowledge can only go so far. Artificial intelligence and machine learning can be used to provide better, more personalized recommendations, which will be paramount when handling a large amount of clients.

4. Leverage the Disruptive Ecosystem of Fintechs

Wealth management firms could forge a partnership with fintechs who have managed to create innovative solutions for the market but lack the client clout and assets of the established firms.

Financial Advisors should focus on macro decisions while all micro decisions should be outsourced to new digital tools created by these fintechs.

A Future Reimagined

The relevance and survival of wealth management firms today is hinged on the ability to create a reimagined future enabled by digital transformation for their clients. By embracing an augmented business model empowered by newer technologies, wealth management firms can rethink the role of the financial advisor and create a customer experience that is truly exceptional and befitting of both their current and future high-net-worth clients.

Recommended Shift to New Digital Tools

	Analog FA Human-based	Digital FA Big Data/AI/RPA-based
Investment Recommendations	Mutual Fund Wholesaler Ideas Firm Research Reports	AI/Big Data: Forward Lane, Infosys NIA Robo-advisor: SigFig
Mortgage/Lending	Mortgage Specialist Loan Office	Lending: OnDeck, Bond Street
Financial Planning/ Insurance	Certified Financial Planner Insurance Agent	Financial Planning: PeFin Insurance: Policygenius
Customer Service	Client Service Associate	RPA: Automation Anywhere, UiPath Cobrowse: Glia Virtual Assistant: Google, Alexa, Siri

About the Experts



Constantine Polites – Principal, Financial Services & Insurance practice

Since joining our firm in 2015, Constantine has been a key advisor to some of our top clients in the banking and financial services space. He has over 13 years of experience in the financial services industry including 8 years as a financial advisor and an analyst in the wealth management division of a major international bank. He has worked with several global financial firms in the areas of customer strategy, product envisioning, experience redesign, process redefinition and design thinking. Constantine graduated from the NYU Stern School of Business with an MBA in finance. He is the lead author of this paper.



Rajesh Menon – Partner, Financial Services & Insurance practice

Rajesh spent a decade in the capital markets industry prior to joining us in 2003. He started the regulatory compliance practice in 2005, which has grown into one of the strongest offering areas in financial services. Since taking on the role of a partner in 2009, he has been managing the largest industry practice in the region, working with top global firms.



Satish Swaminathan – Partner, Financial Services & Insurance practice

Satish is a veteran in the organization with over 15 years of service within the group. He has an overall experience of 24 years in financial services and leads the capital markets segment in North America. He has been a trusted advisor to various Wall Street banks in the areas of core capital markets, risk and compliance. Over the last several years, he has been focusing on risk management and assisting several clients to comply with increasingly tough regulatory mandates.

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