A High-Tech Challenge for High-Touch Advisors

By Kerry Pechter *Thu, Jul 6, 2017*

Wealth management firms know they need next-gen 'fintech.' But many of them don't know exactly which digital tools to buy or where to apply them in their businesses, tech vendors say.

Technology vendors with new digital tools—"inorganic intelligence," as one consultant calls them—are pitching their wares to wealth management firms these days with unprecedented zeal. Almost daily, a firm like Envestnet, Broadridge, FIS or Wealth2k unveils a digital or web-based solution for wirehouses, brokerages or boutique advisory firms.

Wealth managers are listening more closely (and more humbly) than they used to—and for good reason. Their cushy empire is under siege. The 401(k) revolution has gradually produced an unprecedented army of mid-sized investors, many now retiring. This army is now overwhelming a shrinking pool of advisors, and bringing the compliance standards, low costs and automated investment practices of the 401(k) world with them.

But many wealth managers, by all accounts, aren't sure which technologies to acquire in response. For the moment, they're shopping for solutions that will help them document their processes for complying with the fiduciary rule. Beyond that, they are said to be more or less unsure about which aspects of their businesses to automate or which slices of the wealth market they should pursue, defend, or relinquish.

"We're talking about wealth managers changing the way they do business, not just which technology products they buy," Alois Pirker, Research Director of Aite Group's Wealth Management practice, told *RIJ* this week. "The era when the business guys and the tech guys had separate problems is over. Most business model decisions today have technology implications and vice-versa."

"There's a gun pointed at the head of the advisory business, held there by government-mandated compliance directives and rapidly advancing fintech," said David Macchia, founder and CEO of Wealth2k, which began marketing web-based solutions to advisors more than a decade ago.

"This combination creates commoditization of advice, products and advisors themselves," he added. "This is the supreme challenge to the entire wealth management industry. My sense is that wealth management firms have been hyper-focused on compliance-driven technology spending that's directly related to their perceived obligations under the Department of Labor fiduciary rule. But they don't know, in general, what the next best move is."

The Broadridge view

These are busy times for technology vendors. A few weeks ago, Broadridge, the 10-year-old spinoff from Automated Data Processing (ADP), issued a white paper urging wealth managers to automate. Broadridge has jumped on the digital opportunity. The once-quiet white-label communications firm now offers client-engagement, compliance and trading automation tools.

Broadridge uses a novel term—"inorganic intelligence"—to describe what wealth managers need to leverage. The term encompasses "artificial intelligence, natural language processing, machine learning, complex event processing, cognitive computing" as well as behavior analysis tools, virtual assistants, chat-bots and predictive analytics.

These tools, Broadridge and other technology firms believe, will help wealth managers deal with the DOL fiduciary rule, financial advisor retention, competition from robos, the need to pivot toward Millennials, the tyranny of the smartphone and cyber-security.

"At Broadridge, we're asking, 'How can we help advisors use technology for relationship initiation and acceleration? How can we turn a two-dimensional investor into a real person?'" said Traci Mabrey, head of Wealth Solutions at Broadridge.

"This is about personalization of the investor base, about maintaining 'high-touch' world. With tech at their fingertips, advisors can focus on the business of financial advice and the intangible element of trust. We're hearing that the primary goal-set is around the 'digital engagement strategies,' a hybrid between the personal and the digital. As a fintech provider, that's where we think the excitement is."

The FIS view

FIS, the Fortune 500 financial software firm, recently announced a partnership with Trizic to deliver a pre-fab robo solution to banks and credit unions. The partnership is intended "to increase advisors' ability to provide investment advice to Millennials and tech-savvy high net worth clients more profitably," according to an FIS release.

The Trizic technology, which is part of the existing FIS wealth management platform for financial institutions, "automates the full advisor workflow from onboarding and risk tolerance to portfolio construction, reporting and billing. It also gives a complete digital advice solution to banks and other financial institutions without a wealth division."

"Wealth managers at every type of institution are struggling to attract the lower balance, emerging wealth from Millennials," said Will Trout, a senior analyst at Celent. "Some form of automation is required to cost-effectively service smaller-balance accounts.

"Bank wealth managers are using robo as part of the broader refinement of their segmentation/client optimization strategies. They want to hook younger people onto their investment platforms and activate dormant customers from within their wealth management units and other parts of the bank.

"The gains in fee income are expected to offset any cannibalization from their high-touch wealth advisory services. It's an efficiency play aimed at reducing costs. But it has the parallel objective of growing the business over time," Trout added.

"Within the institutions, robo will be a bottom-up phenomenon," he added, meaning that advisors want internal digital support, especially to serve lower-value clients, as much as retail investors want digital interfaces with the banks."

The 80/20 rule

All wealth managers face the Pareto principle, which states that 80% of a company's revenue from 20% of its customers. In that sense, all of them face the problem of serving the smaller clients efficiently.

"A private banker at one of the most profitable banks told me that 40% of his investment portfolios aren't profitable. That is, 40% of accounts are too small to pay for themselves," Aite's Pirker said, adding that the bank still isn't sure what to do about it.

At the same time, each wealth management firm has unique traditions and perceived obligations. "Take Merrill Lynch and Morgan Stanley, for instance. Merrill Lynch is part of the bigger Bank of America empire, and it has to come up with something for the middle market. It can't say, 'We don't care about people with less than $1 million,'" Pirker said.

"Morgan Stanley, however, might be able to say—though I haven't heard them say this—we're just going to serve the high net worth." Some companies have already decided what they will do. "Look at Goldman Sachs, which has made moves toward the wider market," he added.

It can be risky, but there's potentially a lot of money to be made by extending a luxury brand into the middle-market, Pirker noted. "Those firms that bring a high-end wealth management brand to the mass-affluent marketplace are the ones that will ultimately harness the competitive advantages of these innovative platforms," he said.

Whither or wither

Lots of questions remain. Before they can shop for digital tools, wealth managers have to decide what they want. To upgrade their front, middle or back offices? To make more sophisticated strategic decisions? To give clients a faster, cheaper, and simpler experience? To pursue or abandon the mass-affluent market? To analyze big data and refine their marketing? To control advisor conduct? To master the world of mobile?

It's an awesome challenge. "Big firms have deep pockets and can sort themselves out eventually. But you also need a willingness to change," Pirker said. "Some are better at that than others. It's a Netflix-versus-Blockbuster moment. And while financial assets are stickier than video rentals, technology is going to take its course."