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PwC to Wealth Managers: Go Digital or Drown

By Kerry Pechter *Wed, Jun 29, 2016*

'Digital has the potential to completely transform every stage of the wealth management journey, from how existing clients are advised and serviced to how prospective clients are identified and marketed to,' says PriceWaterhouseCooper in a new whitepaper.

At a recent fintech conference, several people spoke highly of a new whitepaper from PriceWaterhouse Cooper called, "**Sink or Swim**." The paper's authors make a strong case for the idea that big wealth management firms don't fully appreciate the size of the competitive threat they face from the so-called robo-advisors and from the digital revolution generally.

For instance, wealth managers are kidding themselves, PwC says, in their much-too-common belief that merely having websites makes them "digital," or that rich people will only deal with advisors face-to-face, or that the wealthy are too secretive to share personal financial data with a website, no matter how secure.

As a group, they're just whistling past the proverbial graveyard. "Across the wealth management industry, current levels of digital adoption are chronically low," the paper says. "This is indicative of a sector that's been focused on human capital, of assuring individual clients high levels of discretion, and where there has been little or no internal impetus to change existing business models."

Three key misconceptions are driving wealth managers' complacency in the face of digital disruption, according to PwC consultants. The first one is that the rich don't want to put their personal information on the Internet, where hackers, swindlers or hucksters might find it. PwC's research shows that that's increasingly untrue.

While most (59%) high net worth individuals over age 45 are in fact still squeamish about data-sharing, two-thirds of those under age 45 don't mind using apps that gather personal information—such as purchasing histories—if the information is used to customize their online experience in ways that they like. In short, young people are ready to trade privacy for better service, PwC asserts.

"The world's wealthy are integrating digital technology into their day-to-day lives as rapidly as everyone else," the paper says. "Although they may have reservations about technology that draws on their personal data, ceding information is seen as a necessary price for enjoying the convenience that personalized digital services can bring."

Secondly, wealth managers vastly underestimate the scope of the digital revolution, PwC says. The consulting firm foresees the approach of a Third Wave of digital evolution, where trusted “digital infomediaries” will have access to fully-aggregated, continuously updated financial information and will push out recommendations to buy both financial and consumer products.

Many in the wealth management industry think they’re on third base in this game, PwC argues, when they’re still standing on first. Evidently, only a quarter of wealth management firms use digital channels beyond phone and email, very few have automated their back office and administrative functions and many are only now investing in web portals and mobile apps.

“Many relationship managers dangerously overestimate their firm’s digital capabilities. Some rate their business as digitally advanced when the only service offered to clients is a website. Low digital literacy throughout the sector means that most relationship managers cannot perceive their adoption of technology extending beyond tools to reduce their administrative burden,” the paper said.

Thirdly, PwC says, wealth managers don’t realize the fragility of their client relationships. Only 37% of wealth management clients strongly believe that their advisor “takes their life goals into consideration.” Only a third of wealth management clients claim to be “very satisfied with their chosen firm’s service.” And only 39% are likely to recommend their wealth managers to others. Of clients with more than $10 million, only 22% were very satisfied and only 23% would recommend their wealth managers.

“Sink or Swim” goes on to describe the steps that wealth management firms should take to avoid being left behind. These steps include: buying a robo-advisor instead of building one in-house; digitizing their entire organizations, from back to front; and recognizing that “bolted-on” (i.e., superficial) fixes won’t be adequate.

“Rather than just an add-on, digital has the potential to completely transform every stage of the wealth management journey, from how existing clients are advised and serviced to how prospective clients are identified and marketed to,” the whitepaper said.

In sum, PwC sees a future where wealth managers create a digitized, scalable version of the services that a typical family office currently offers high-net-worth individuals. “By capturing and interrogating client data digitally, wealth managers may eventually be able to consider offering this highly personalized life guidance to families with lower levels of assets."

The report, from a consumer's perspective, is actually a bit scary. It takes for granted that the financial industry will follow Amazon, Netflix and other digital pioneers into a Big Data era (the "Third Wave") where firms will know almost everything about their clients—their portfolio details, mental attitudes, day-to-day purchasing habits, life-event schedules and even their real-time geographic locations—and use this information to anticipate sales opportunities and recommend specific products.

Sounds like hell to me. "Sink or Swim" doesn't address the possibility that consumers, at every wealth level, might turn around and ask for as much transparency from wealth managers as wealth managers ask from them. Personal data-sharing will, arguably, require a lot more public trust in the financial industry than currently exists. PwC therefore takes a big leap in assuming that just because clients are embracing the First Wave of the digital revolution—the convenience of mobile apps and the low cost of robo-advice—they will accept the loss of privacy that arrives with the Third Wave. Or at least I'd like to think so.