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How wealth managers can transform for the digital age

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Wealth-management incumbents can meet digital disruption head on by understanding core changes in their industry—and focusing on what really matters in a digital transformation.

The financial-services industry, including wealth managers, is widely considered to be on the cusp of digital disruption. Indeed, digital has the potential to generate significant cost reductions through robotics and automation, change business models with digitally assisted advice, and drive disproportionate market-share gains through digital acquisition and servicing of clients.

So far, very little has changed in US wealth management from an asset and revenue-generation standpoint. For instance, in wealth management, even as a wave of digital attackers storms the gates, the attackers still represent less than 1 percent of the global market, with less than $50 billion of $35 trillion industry assets under management in 2015. The most aggressive projections have attackers with 5 percent of industry assets by 2020. So for incumbents, the choice is between holding the current course and maintaining competitive position or “attacking the attackers” to drive change. Our view is that, while disruption may not change the landscape overnight, it represents fundamental change nonetheless, particularly because some incumbent wealth managers are making strong digital plays. Therefore, wealth managers must take action in the face of that change.

To make informed projections about how change in the wealth-management industry will play out, we conducted research on incumbent players, affluent consumers, and ancillary industries like retail banking. The research included focus groups with clients and interviews with start-up and incumbent executives. Our resulting perspectives on digital changes and how firms should respond follow.

Core trends in the wealth-management landscape driving the case for change

- *Clients are moving to omnichannel.* As they do in many other categories, wealth-management clients are increasingly beginning their investment journeys online—

searching for firms, making comparisons, selecting advisors and following social-media recommendations. Digital outreach or digital solicitation often drives clients to take action. In other industries, digitization has had dramatic impact (e.g., number of buyer visits to auto dealers has fallen from 4 to 1.8 per purchase). At the same time, in-person contact remains important. About half of all clients are self-directed, and the other half want an advisor's help. Of the latter group, only about 15 percent are comfortable with a purely digital interaction model. Affluent clients and other segments, such as older consumers, tend to prefer in-person interaction.

- *Mobile is rapidly gaining interaction share.* The mobile channel now accounts for about 35 percent of client interactions (compared with about 65 percent online) and is the fastest-growing channel across financial services. The mobile channel is now an area where firms can differentiate themselves.

- *Remote engagement is growing.* Across financial services, it is not only millennials who are comfortable with engaging remotely. There is a broader segment—call it the "millennial-minded"—for whom the definition of engagement changes from purely digital to include remote interactions. Around 30 percent of clients across all age groups are open to engaging remotely with an advisor who does not live near them.

- *Other sectors are raising expectations.* Client expectations of financial-services firms are high, particularly in the digital channel. Key processes such as account servicing, fund transfers, new account opening and account transfers are considered cumbersome in comparison with experiences in other categories like retail, content streaming, and ride sharing.

- *Key "experience battlegrounds" are emerging.* With the rise of great design as a competitive differentiator, executives are trying to figure out how to embed their firms in a client's ecosystem of solutions and services, recognizing that commerce, finance, payments, and other interactions are merging rapidly. Personalization is another emerging battleground where firms that can gather and act on insights about client needs and behaviors will have an advantage. Simplicity is another area that is gaining currency with clients and where firms can differentiate their offerings.

- *Regulation, including the Department of Labor (DOL) fiduciary rule, may change the game.* The final DOL fiduciary rule will set considerable amounts of money—and advisors—in motion, creating opportunities for well-positioned wealth managers. On the other hand, the rule will considerably increase legal and compliance costs and put pressure on pricing and third-party revenue streams for all players.

Digital transformation: What really matters

1. *Many companies confuse digital with technology.* Recognize that a digital transformation is first and foremost a culture change.

2. *Digital is an enabler, not an end.* Determine the value at stake and how “digital” is going to get you there. This means understanding the role digital marketing, digital servicing and advanced analytics will play.

3. *Focus on the customer journey, not just the customer.* Develop a view of your top customer journeys (based on rigorous journey analytics) and what these journeys should look like in a digital world.

4. *There’s more than one way to transform the business.* There are several models: outpost (completely new business), sidecar (adjacent business), factory (digital center of excellence) or organization transformation (rewire the business). Align on how to invest behind the chosen option and adjust funding mechanisms accordingly.

5. *Build for many speeds, not just “fast.”* Create an agile digital engine to move beyond the traditional, heavily sequenced “waterfall” approach.

6. *Prioritize advanced analytics* to accelerate new capabilities that scale your competitive advantage (e.g., being able to view client segments, journeys, holistic economics).

7. *Create a governance model* to facilitate the decisions required to digitize traditional organization structures.

8. *Embrace “two-speed IT”* to separate the systems of engagement from the systems of record to speed products, services, and innovations to market.

9. *Identify the digital talent and capabilities that will create new value* by creating a gap analysis.

10. *Develop a single set of digital metrics* to measure progress across the firm. □

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