



Key trends in digital wealth management—and what to do about them

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The buzz around the new advisory products and platforms offered by digital attackers and established wealth managers (i.e., incumbents) alike has prompted my colleague Adele Taylor and I to look across our proprietary research on more than 10,000 affluent clients in the U.S. (including “Money in Motion” which we recently completed), as well as other client, advisor, and industry data in our Wealth and Asset Management Practice databases, to learn what’s working for digital attackers and incumbents—and what isn’t. Here are our most important findings.

- **Client uptake of digital advice offerings is slow...** A slew of digital attackers, such as robo-advisors Betterment, Wealthfront and Future Advisor, have appeared on the scene recently, and incumbents are mounting energetic responses. Despite all this activity, the amount of assets migrating to automated advisory portfolios (i.e., portfolios with rule-based allocation recommendations, automated rebalancing, and the like) from both digital attackers and incumbents is relatively low. Expectations for digital attackers are high—Betterment and Wealthfront, for example, were each valued at \$700 million in March 2016—but both companies are still small players in the industry, each with less than \$5 billion of assets under management (AUM) at the time of their valuations. Even when combining digital attackers and incumbent, assets with a robo remain well below \$100 billion—a mere speck against the more than \$20 trillion in client assets in the U.S. market. Clients aren’t aware of these offers — less than 10% of affluent clients have heard of even the biggest digital attackers. That lack of awareness might also be

spurring the current flurry of deals and partnerships that attackers are forging with incumbents.

- **...but digital attackers' clients are happier.** Clients of digital attackers report high levels of satisfaction— 5 to 10 times higher than clients of traditional wealth managers—due in large part to their improved experiences. Their satisfaction extends beyond the onboarding experience to the entire process such as adding funds, changing investment allocations, and viewing all their accounts. If digital upstarts can crack the client acquisition code and drive down costs, they will be able to continue their fast growth and gain real market share. At the same time, incumbents can learn a lot from digital attackers—how they view all their activities through a client-first lens, work in more agile ways, employ design thinking and capitalize on advanced analytics.
- **More affluent clients are moving their assets.** According to our recent “Money in Motion” research, we know assets are clearly in motion across all client segments, and we believe size of this “jump ball” will only increase in the coming years. Today, across incumbents, while client accounts are quite sticky, affluent clients’ assets are a bit less so. Last year, twelve percent of all affluent clients’ investable assets move on an annual basis. Roughly \$2 trillion (or 7%) of those assets moved directly between institutions, i.e., one institution won and one institution lost. We expect that with further digital evolution and regulatory changes, this movement will accelerate. Our “Money in Motion” research found that ~44% of affluent clients facing some potential Department of Labor’s Fiduciary rule scenarios would close or decrease their level of investment with their primary retirement account compared to 10% without the DoL scenarios.
- **Now more than ever, mobile matters.** The mobile and digital client experience is becoming the new currency of success across the wealth management industry. In fact, the mobile experience, including apps and the mobile web, is one of the two most important channels for affluent clients when considering whether and where to move assets. Clients who engaged through a mobile experience (e.g., the mobile web or an app) were 3.5 times more likely to move assets than clients using other channels. Still, while the mobile experience is quite important and 9 of 10 incumbents surveyed recently have mobile functionality, client engagement remains low. Only about 15% of wealth management clients logged into their accounts through their mobile devices in the past 12 months. By comparison, about 25% of banking clients logged in through their mobile devices in the past 90 days, alone.

- **The digital tide is still rising.** Although digital attackers aren't scaling AUM as quickly as many anticipated, customer awareness and consideration has clearly moved toward digital. Today, about 30% to 35% of searches for investment products go through digital channels rather than through family and friends, word-of-mouth and other sources. To catch the shift to digital, incumbent firms need to ramp up their digital marketing capabilities and capture their clients' attention and consideration at the start of their investment journeys.

We believe digital engagement will continue to gain importance in wealth management, and the prospect and client and experience is already becoming one of the industry's most potent strategic weapons. That means that the race to deliver the best digital client (and prospect) experience will become even more competitive. The pressure is now on incumbents to take quick but thoughtful actions to raise their digital games. Despite the temptation to tackle everything at once, they should focus on those interactions with the customer that matter most, working together across functions to accelerate development. Personalization makes a real difference to clients and prospects, so digital marketing needs to be attuned to their most important moments (such as life events). Progress on these dimensions can produce quick results and create organizational momentum for moving deeper into digital.