

THE EVOLUTION OF THE FINANCIAL ADVISER PLATFORM



ABSTRACT

Wealth managers are increasingly using digital platforms to revolutionise the industry. Investments in new technology are transforming financial advice and providing customers with an experience that rivals the most forward-thinking tech startups.

Over the last ten years digital disruption has had a profound impact across all industries, with the pace of innovation showing no signs of slowing down. However, financial services continues to track behind other industries. Many would argue that this is due to a stifling regulatory environment, while others would say that incumbent financial services organisations are too big and too complex to meet the required pace of change. Regardless of the rationale, it makes financial services a prime target for innovation and disruption.

The impact of digital disruption to wealth managers will vary based on the nature of the business, the segments it services and the role it wants to play as leader versus follower, and the investments that it has made historically to stay on par with the industry.

Across the spectrum, firms are aspiring towards a digital future where their core lines of business are accessible through a single platform, enabling clients to benefit from advice that accounts for their whole financial picture. New digital ecosystems are offering

the opportunity to deliver truly powerful solutions across the wealth management value chain.

Wealth managers are investing heavily in systems that will empower an adviser because, in the near to mid-term, clients still prefer a human element to managing their wealth. The differentiator among organisations will come down to the financial adviser and their platform's ability to service complex and growing needs of clients.

As industry competition grows, firms need to evaluate their digital platform strategy to determine which aspects of the value chain will be core to their value proposition (and therefore key to differentiation) and which can be delivered through strategic partnerships. A robust understanding of an organisation's strengths will aid in defining the right partners, the right roadmap, and the right execution model that will eliminate silos and maintain alignment to core strategy and business principles.

The firms that are successful in achieving a foundational digital platform that can easily adapt to growth will be best positioned to power their wealth management solution with intelligence, allowing a more rapid and flexible transition powered by the next wave of technology innovation.

WHAT DO WE MEAN BY DIGITAL PLATFORM?

- Digital platforms in the wealth industry comes in various shapes and sizes.
- These be classified into two broad categories: an adviser platform and a core operating platform.
- Whilst an adviser platform's role is to support the front office activities, the core operating platform supports the front to back interaction within a wealth firm.

INTRODUCTION

The wealth management industry has been subjected to a tremendous amount of change over the past ten years. Wealth and asset managers are investing significantly to digitise their business, addressing key trends (regulatory, economic, demographic and technology innovation) to remain relevant in the eyes of the consumer.

A generation of digital-first Millennial investors are entering their prime earning years and their desire for personal, easy-to-use technology has driven wealth managers to reevaluate their traditional interaction model, in fear of losing a key emerging customer demographic and their associated assets. Additionally, given digital standards across all markets have gone up, a new generation of digitally-savvy Millennial investors and Gen X pre-retirees in their 40s and 50s now expect better service, which would be underpinned by ubiquitous and instantaneous access and transactional capability to their pension and investments.

To address this concern, wealth management firms are beginning to implement foundational digital capabilities that will enable on-going transformation. Although the initial digital challenges are beginning to be met, companies now face another strategic cross-road: how do they future-proof their business model and technology for the next impending round of digital innovation?

Firms across the industry need to evaluate their business and platform strategy and develop a strategic roadmap to ensure they at least have parity with the industry today but more importantly, create a bold vision and strategy that allows them to increase their pace of change. Cutting-edge technologies, such as machine learning and artificial intelligence, have the potential to disrupt the industry more fundamentally than robo-advice – this time with a much bigger impact to the core wealth management business model. Organisations have an opportunity to develop their platforms to a point where they can absorb these innovations while maintaining superior performance and exceptional client service.


THE PLATFORM ADOPTION DILEMMA

The initial hype of direct to customer digital advice has certainly passed its peak, as new entrants have defined the best-in class digital experience. Although a simple and intuitive digital experience is paramount, ultimately wealth management will continue to derive the most value from an adviser focused business model, with the human relationship being key. Investors, predominantly, seek peace of mind and security that a reputed firm will help them manage and grow their investments and they will turn to 'experts' to help them.

However, the rate at which financial advisers are adapting to digital change is significantly lower than other industries, causing an expectation mismatch. Robust client relationships that provide personalised advice will always be the fundamental driver of revenue across the industry. Digital innovation will become the key enabler to drive efficiency, and support advisers develop deeper and more relevant relationships.

Ultimately, the digital platform is only as good as the advisers, clients, and assets it services. Some current digital platforms only address specific client segments and only service a portion of their financial needs.

Firms must ensure that their technological capabilities are flexible enough to address the needs of their clientele, regardless of total wealth or age or other demographics. Clients are showing a true interest in working with advisers who understand their individual needs, wants, and goals and are able to move rapidly with fintech growth – creating a more cohesive wealth ecosystem.



“ The ability to adapt to meet the evolving needs of Millennial investors will be paramount. ”

While wealth managers' average clients are currently aged in their mid to late 50s, 81 percent of managers say they are trying to attract much younger ones¹ — the millennials. The Millennial investor continues to represent a significant opportunity for wealth managers / financial advisers and a challenge in terms of propositional and technology solutions.

In the UK, Millennials hold an estimated wealth of £354bn (against an overall UK population of £11,134bn – 31 percent)². Of this 35 percent is property and 28 percent physical wealth – higher proportionately than other cohorts. Pension based savings for Millennials has seen some significant changes, partly associated with auto enrollment / workplace solutions with number of pension product holders increasing from 31 percent in 2012 to 66 percent in 2016 (to an estimated value of £86bn)³.

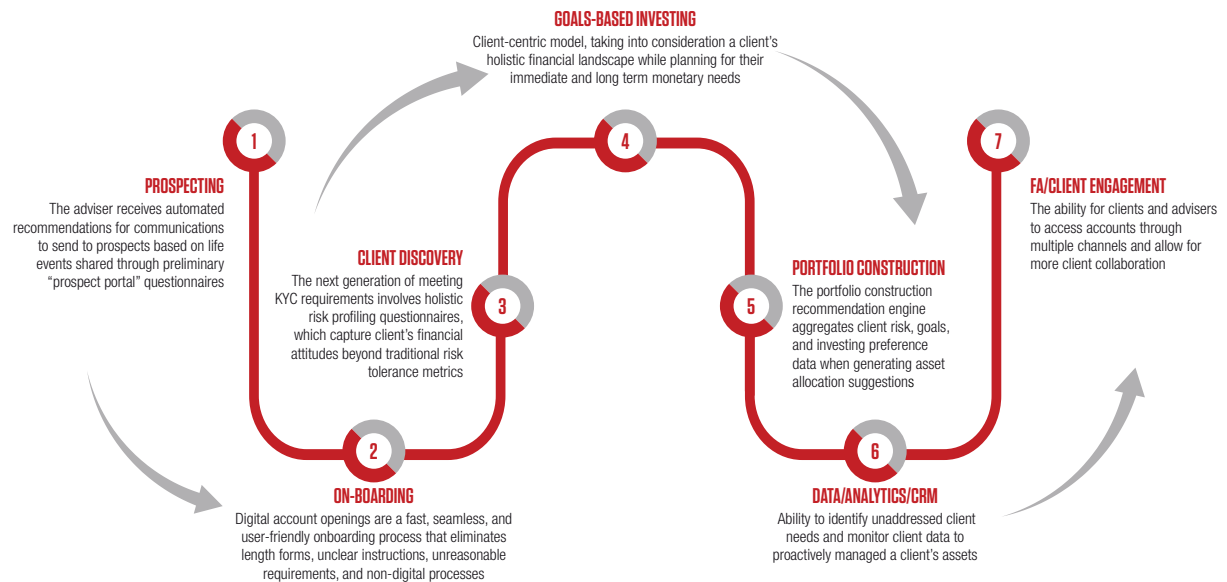
Having solutions and technology that meet the growing needs of Millennial investors and that can adapt rapidly to the emergence of new fintech solutions is paramount to retaining and developing new financial relationships.

EVOLUTION OF THE FINANCIAL ADVISER PLATFORM – UNDERSTANDING THE VALUE CHAIN

To best prepare for the next generation of digital innovation, wealth and asset managers need to build upon their current digital foundation to properly position themselves in the market. With most parts of the wealth and asset management value chain turning into a utility or a commodity, maintaining any sort of competitive advantage will be dependent on the ability to differentiate through the customer experience, new products, services, and business models. The premium on customer experience has gone up based on the emerging generation's expectation around simplicity, driven by their day-to-day digital interactions.

Every aspect of the adviser value chain can be enhanced, however, the most value can be created by focusing on the core business. Platforms that optimise the key business area with innovation will be better positioned to achieve scale and efficiency.

FIGURE 1: EVOLUTION OF THE FINANCIAL ADVISER PLATFORM



REFERENCES

- ¹ WealthX research for Financial Times
- ² ONS Wealth and Assets Survey ad hoc release March 2016
- ³ ONS Annual Survey of hours and Earnings Pension tables, March 2017

“ The premium on customer experience
has gone up... ”

DIGITAL MATURITY

It is evident that firms are investing heavily in digital innovation to keep up with a rapidly changing industry ecosystem. As firms fight to maintain relevancy, the way in which they adopt to this digital change has varied. However, one thing is common, it is no longer a question of “if we should change”, but rather “what we should change and how are we going to achieve it?”

The digitisation of prospecting and client onboarding has been prominent among industry leaders. They have been seen as ‘low hanging fruit’ and widely recognised as high value areas for digital enhancement for the financial adviser and the client. While UK / European investment in AI-driven hybrid advice models is behind the US, there has been a considerable expansion in the last 12 to 18 months. Fintech evolution generally continues at a pace, with an increasing demand for new propositions comes increasing pressure of wealth managers to adapt and grow their digital solutions. Increasingly we are seeing a major shift from “platform solutions” to a more connected and cohesive “wealth eco-system”.

The most prominent change has been the progression of firms’ direct to consumer and hybrid advisory solutions. Until recently, robo-advisers were a solution championed by startups, and were overlooked as non-essential and periphery to the core business model of many larger firms. However, evolving customer preferences necessitated rapid change, and those firms that could not offer a direct to consumer or hybrid advisory solutions risked losing significant market share among digitally inclined investors, particularly Millennial and Gen Z customers.

Although it is apparent that firms are investing heavily in digital innovation there are still notable gaps among some of the more complex innovations, including the current low take up and availability of cryptocurrencies. However, the rate of change within the fintech industry, coupled with customer demand suggests that these will not be gaps for long.

ADVISER PLATFORM OF THE FUTURE

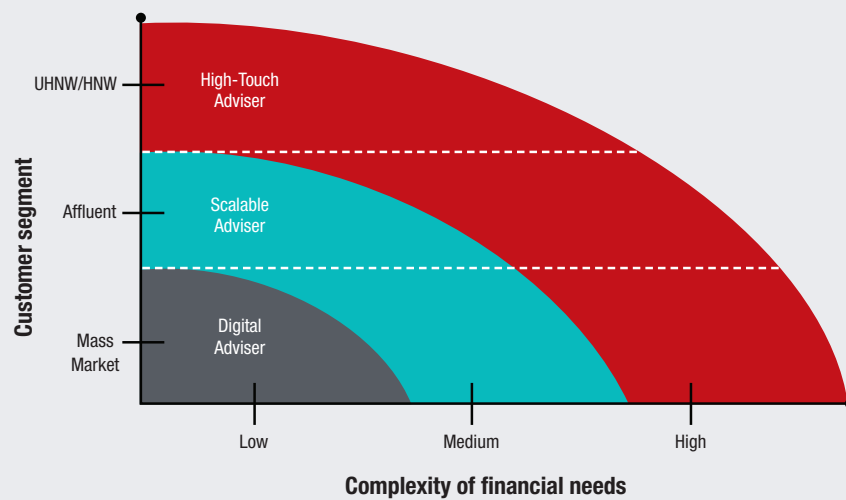
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Firms aspire to provide an experience that allows the investor to seamlessly transition across channels, with better access to products, allowing customers to graduate through segments as their financial needs change. There has never been a greater need for wealth managers to provide a flexible yet simple platform. One that allows the adviser to deliver banking, advisory, brokerage and insurance products, and ultimately improve the efficiency and scalability of their business. Although theoretically simple, this is a challenge to deliver on, given the complexity of legacy architectures.

The background is a complex digital visualization. It features a dark blue gradient with numerous white and light blue dots of varying sizes. Some dots are connected by thin lines, forming a network or data flow. There are also several horizontal and vertical bars of different lengths and colors (blue, green, red) scattered throughout. Numbers are placed at various points, some appearing to be data values or coordinates. The overall aesthetic is high-tech and data-driven.

“ Increasingly we are seeing a major shift from “platform solutions” to a more connected and cohesive wealth eco-system. ”

FIGURE 2: CUSTOMER SEGMENTATION AND FINANCIAL NEEDS



HIGH-TOUCH ADVISER

The high-touch adviser model provides tailored investment services for a larger fee to benefit customers with either high net worth or very complex financial needs.

We see further variations in propositions offered by large private banks, family offices, wealth managers, and discretionary fund managers.

SCALABLE ADVISER

The scalable adviser model provides automated investment management and basic financial advice for a reasonable fee to the middle market customer with accumulated wealth and varying financial needs. It is highly likely that adviser networks move gradually to this model.

DIGITAL ADVISER

The bolt-on adviser model provides quality financial services for an affordable fee, capable of serving all levels of financial complexity but best suited for the investor just beginning wealth accumulation. Bank and insurers are already making an entry through this space.

With the advent of digital advice, investors have raised a very important question; “Do I really need a financial adviser to manage my assets?” the key considerations here being the cost of advice and the prevalence of “self-serve” as the digital wealth eco-system matures. Today, the answer is clear that advisers still play an integral part of wealth management and financial advice, but to remain relevant must offer a broader service proposition to strengthen the value-add. Solutions that can support flexible hybrid business models will allow advisers to efficiently provide customers with a tailored wealth management solution based on customer segment and complexity of financial need. Digital solutions such as robo and hybrid advisers have proven their worth and will continue to garner market share, but as the industry evolves, solutions like the integrated adviser platform will empower financial advisers through cutting-edge technology, while enhancing the client experience.

It is important to look ahead and consider how the role of the financial adviser may change as automation and new technologies begin making their mainstream appearance.

With robotics, natural language processing, machine learning, and artificial intelligence now emerging, wealth managers need to consider what their business might look like in five, ten and 15 years, and ensure they are building platforms and tools that are ready to evolve with each coming iteration of automation within financial advice. A future where the adviser platform is not powered by an actual adviser, but by cognitive computing is closer than it might seem.

THE EVOLUTION OF THE CLIENT-ADVISER INTERACTION

The emergence of robo advisers sent a scare through the industry with many fearing the end was near for advisers, along with their traditional business model. However, the strength of the robo adviser is in its simplicity. They cannot compete with the wealth of knowledge, customisation, and intimacy a human adviser brings to a client relationship. When digital advice platforms are paired

with artificial intelligence, the gap between robot and human shrinks. There are already solutions on the market that utilise cutting-edge technology to better serve clients without the presence of a financial adviser.

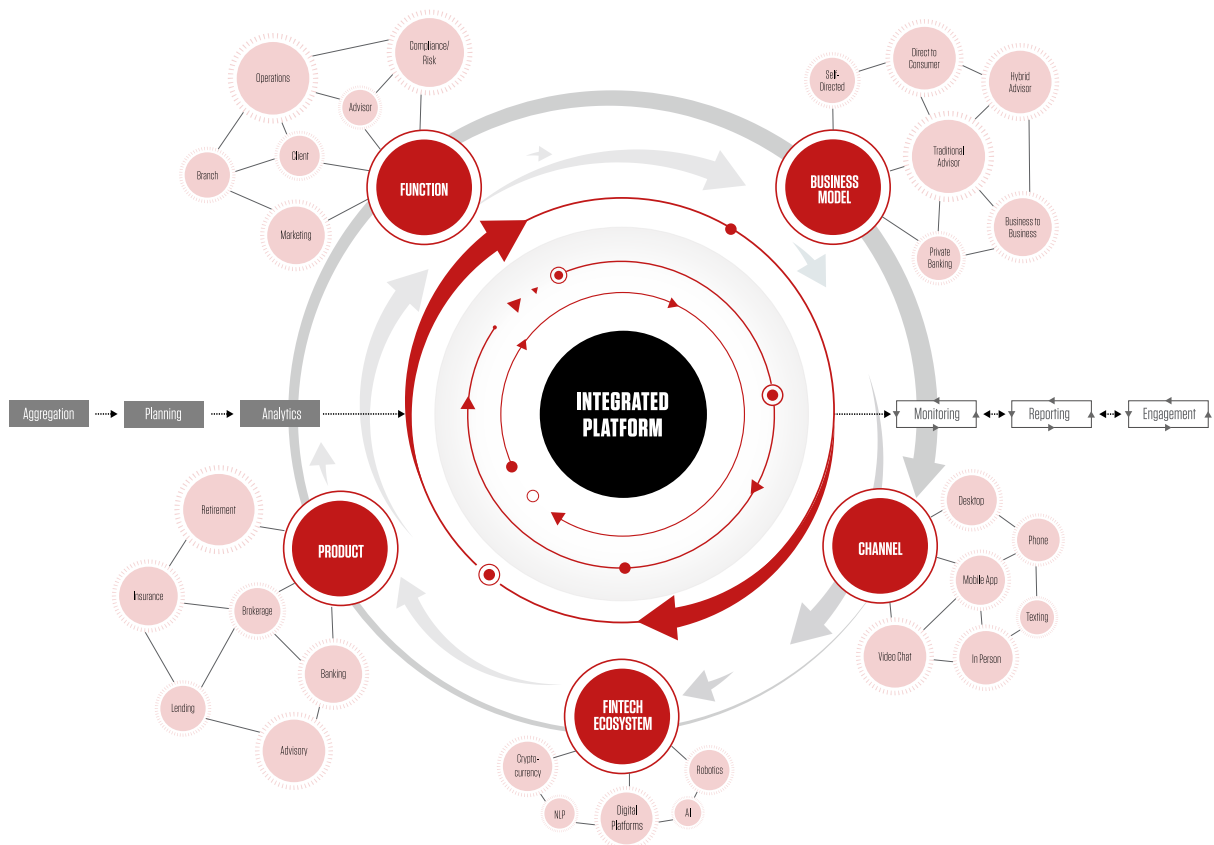
With the evolution of the peer-to-peer interaction moving away from real-time voice conversations to messenger-based communication, wealth managers will need to learn from progressive financial services markets like Brazil and allow the adviser to interact with investors through digital services. This will require unanticipated level of compliance to monitor all interactions between the adviser and investor.

Natural language processing (NLP) is the technology behind platforms like Amazon’s Alexa and Apple’s Siri, which have both made sudden mainstage appearances in our lives through our phones, smart speakers, and other IOT devices. The emergence of NLP within the wealth management space, while not yet mainstream, has begun with a number of ‘proof of concept’ initiatives underway.

Various elements of NLP are also being used in financial services to replace call centers by powering chatbots. In the context of wealth management, chatbots can be used to better understand the customer during on-boarding. For example, to automatically assist risk profiling through a pre-set chatbot questionnaire, as opposed to a manually-led discovery process.

Cognitive chatbots are challenging to get right and can be detrimental if not executed properly. For example, a customer may initially be excited by the speed and efficiency of the chatbot response, but disappointed by the bot’s inability to fully understand and deal with their query.

FIGURE 3: THE INTEGRATED WEALTH PLATFORM



COGNITIVE COMPUTING AND INSIGHT

Machine learning (ML), maybe the most important technology innovation for the wealth management industry. ML is the field of study that gives computers the ability to learn without being explicitly programmed. The technology can be used to identify relationships in data that could not otherwise have been spotted by a human. These insights can then be acted upon to provide real business value in a changing environment.

Firms like Morgan Stanley are leveraging ML to empower their advisers. Their new tool, Next Best Action, provides advisers with insights specific to their clients and even suggests portfolio adjustments, trades, or just reaching out for a client conversation.

Both natural language processing and machine learning will have significant impacts to the service a wealth management client receives. However, the paradigm shift away from financial advisers and towards digital advice will only come with the arrival of AI.

The impact to the investor adviser relationship is limitless with evolution and maturity of AI technologies and advanced analytics, and the ability for the intelligent adviser to provide targeted and relevant insight to advisers based on customer life events, macro-economic events, equity and bond market fluctuations with a high probability of execution.

The cognitive computing use case in wealth management most often spoken about is focused on the front office, however the impact is similar if applied to establish compliance mechanisms that are enabled with the ability to monitor patterns to proactively identify potential compliance violations.

Robo advisers cannot compete with financial advisers until they are truly cognitive and able to make decisions like a human. Over time, this ability may be possible with AI powering a financial advice platform built with all offerings and products of a wealth management firm seamlessly integrated. Firms need to be ready for the progression to AI-powered financial advice and ensure they have built a foundational adviser platform capable of integrating with cutting-edge technology. The flexibility to adapt as levels of automation increase will be imperative to balancing roles between human adviser and cognitive computing.

Technology has acted as a catalyst in bringing the wealth and asset management industries closer together. Firms such as Blackrock are leveraging their institutional caliber tools, such as Aladdin to provide wealth managers with insights in to their business that were previously only available to large fund managers. This convergence is a sign that both industries see available market share and are working to ensure they cover as much of the value chain as possible. Other asset managers are also investing heavily in creating alternative distribution channels for their products, whether that be direct to consumer through a digital channel, or an API-based service to custodians and registered investment advisers.

THE POWER OF AUTOMATION

Although many are not aware of it, automation has been a part of the financial system from the introduction of Microsoft Excel. Tools like Excel enabled massive amounts of data to be stored, manipulated, and managed where once we had file cabinets and calculators. Even within Excel, early stages of automation are present in functions like VBA and macros, eliminating tedious manual processes.

Today, financial institutions have complex webs of legacy systems used to maintain their technology infrastructure, built over decades of introducing new applications, system enhancements, and patchwork add-ons. The result is a façade of straight through, streamlined processing. But, in reality, many firm processes still require extensive manual operations to complete even the most basic financial transactions.



Robotic process automation (RPA) provides the ability to automate tasks that require little decision making, such as information extraction and keying. The RPA market is growing as the underlying technology matures and becomes more 'mainstream'. A good starting point for firms looking to implement RPA is the replacement of low complexity, highly repetitive tasks often found in operations, compliance, and other back-office functions. Within wealth management, there are already proof of concepts on the following areas:

- KYC processing
- Payments, sweeps, and reconciliations
- Asset transfers
- Corporate action processing
- Debit balance clearing
- Internal change: back-book consolidations, platform migrations

Advances in robotics have made automation possible where we once required a human. This is true across many industries and has been for centuries but financial services has been slow to make advances. Top firms have begun to recognise RPA's ability to cut costs and have made significant investments to identify opportunities for automation within their home office. Although RPA can automate and streamline many back-office functions, its initial value driver is in providing the financial advisory with greater efficiency in the day-to-day running of their business, freeing up time to build stronger relationships and allowing them to better manage their clients' money.

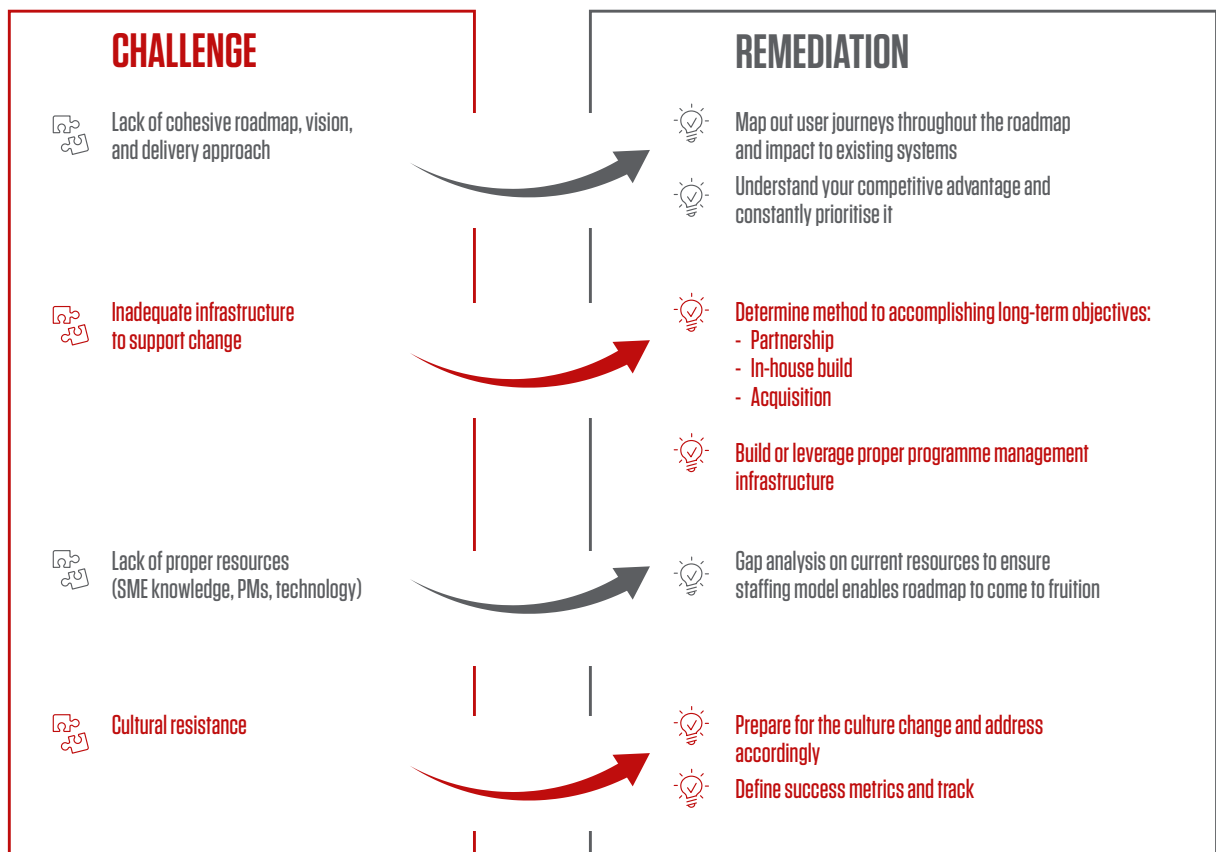
MANAGEMENT AND EXECUTION

Due to the rate of change and uncertainty involved in building the adviser platform of the future, a strong and unified leadership team is required to drive this magnitude of change. The platform adoption dilemma, or overall cultural resistance, can be overcome by socialising and sticking to core values as defined by the firm.

Digital and client experience goals tend to get lost in corporate execution, and firms need to align their strategy to strong digital principles to ensure efficiency and effectiveness:

- Omnichannel
- Mobile-first approach
- Data-rich analytics
- Cloud-based
- API-ready
- Sentient & scalable

FIGURE 4: CHALLENGES AND SOLUTIONS



EXECUTION

Firms, and the digital platforms they are building, need to be structured to enable an agile environment. An agile approach, is first and foremost a culture change, that requires stakeholder discipline to be successful. A strong governance model should be in place to facilitate the digital transition. A digital platform, supported by agile infrastructure, will allow for quicker and seamless enhancements throughout the development of the technology.

Firms should also constantly prioritise capabilities that differentiate and highlight their competitive advantage, whether that is advanced analytics or unique user journeys. This is especially imperative in the wealth management industry as the rate of change continues to accelerate and those who fail to address the latest trends are at risk of falling behind.

Managing change in large organisations is equally as important as the execution of it. As seen with the robo adviser trend, there are multiple avenues and speeds in which a business can transform. It is up to the judgement of senior leadership to understand what is changing in their business and the value proposition behind it. Digital adoption is a mechanism that empowers the core business with a focus on optimising the simplicity of the customer journey. Any investment in digital should be viewed as an opportunity to enhance the capabilities of the core business, rather than a demise of existing business operations.

Firms also need to solve for the issue of financial adviser and client adoption. New tools and technology provide a unique opportunity to grow and optimise the financial adviser's book of business, while providing individualised, scalable advice to their clients. They need to communicate their strategic vision, and ensure changes to tools, process, and technology do not negatively impact the day-to-day operations of the adviser, and their ability to generate revenue and service the growing client needs.

CONCLUSION

The firms that create a digital platform that can leverage the wider fintech wealth ecosystem, providing access to new and emerging technologies to help augment their core financial adviser business, will in the long-run have the largest competitive advantage. These organisations will be able to cater to an individual client need, while still providing their financial advisers scale and efficiency through digital technology.

Organisations are already starting to make significant investment to create the next generation of financial adviser platforms. As the wealth management industry becomes more commoditised through the proliferation of digital technology, it is important that firms understand which areas of the value chain are core to the success of their business, and which can be outsourced to strategic partners.

Firms need to take a medium to long term view of their technology, products, business models and partnerships to ensure they are well positioned to adapt to future changes in the industry. As emerging technologies mature, their role within the wealth management industry will become more apparent, with the scale for disruption increasing exponentially.

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