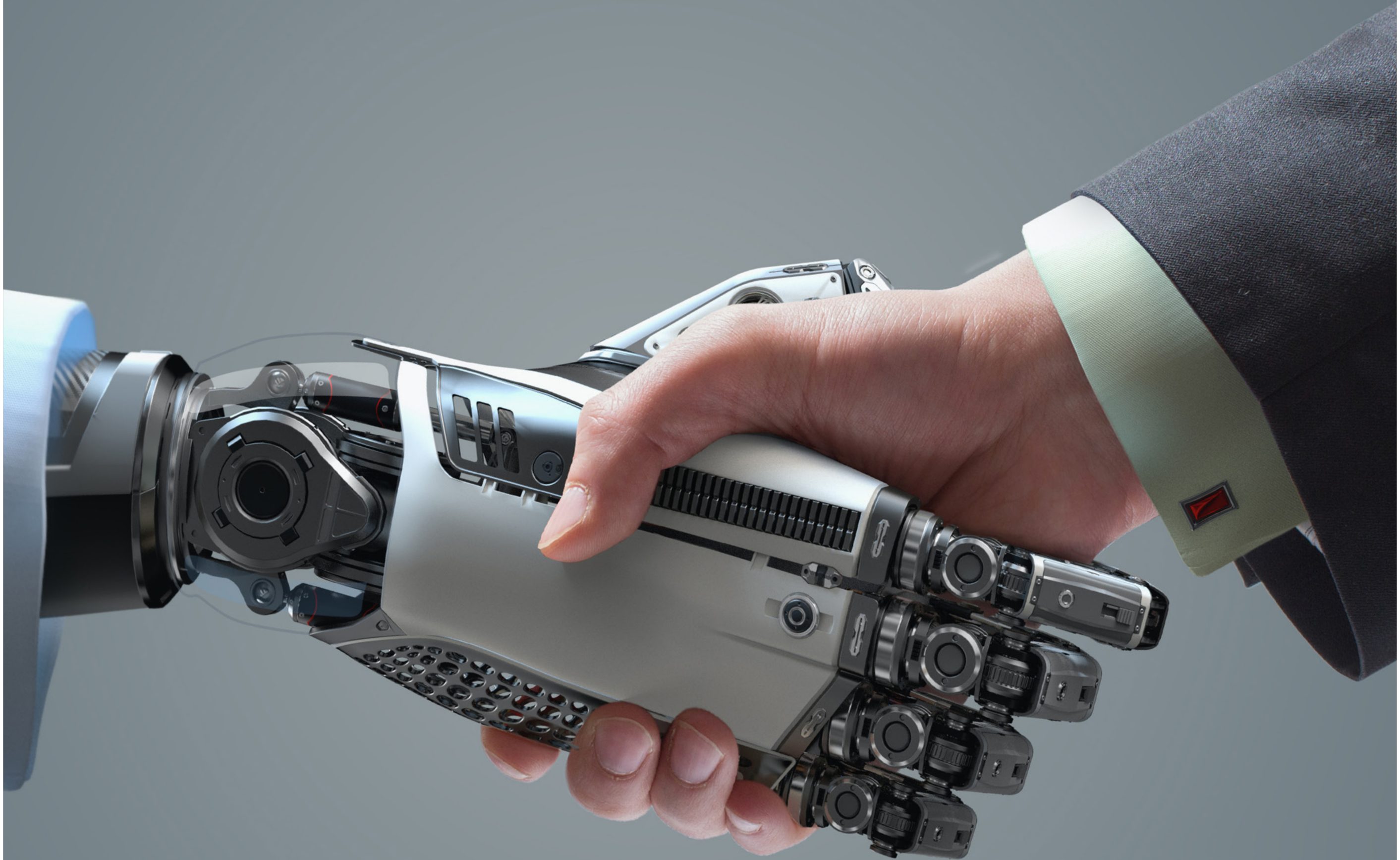

Thought leadership

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Robo-Investors: A Strategy for Millennials and High-Net Worths (HNWs)

Robo-Investors: A Strategy for Millennials and High-Net Worths (HNWs)

Since Wealthfront and Betterment came onto the scene in 2008, Robo-advisors have given wealth managers a reason to rethink business models, how to attract millennials and how to generate a more compelling offering for high-net worths (HNWs). According to a report from CEB Tower Group, The Robo-Advisor Threat and Opportunity: The Client Perspective, organizations including Bank of America, BMO, Charles Schwab, Deusche Bank, RBC Financial Group, UBS, US Bank, Vanguard and others are offering or developing robo capabilities.

These firms have realized they can take best-of-breed FinTech capabilities from Betterment, eTorro, Wealthfront and others, and offer a lower-fee service for tech-savvy, fee-conscious clients, as an acquisition technique for millennials and a way to more efficiently administer lower-value offerings to free their time for higher-value services.

A recent Temenos and Forbes Insight report found:

- 42% of wealth managers believe that a mix of digital and offline ways of communicating is ideal.
- 34% of HNW clients want either digital-only or a mix of digital and offline communication.
- 62% of HNW clients say that the digitization of wealth management services is good overall, but they still want to meet often with an advisor.
- 17% of HNW clients say technology is essential.
- 48% of HNW clients rate cyber risk and hacking as a top concern related to the use of technology.
- 45% of wealth managers believe detailed analysis of financial results and performance is the best way to build trust with clients.

Significantly, the CEB Tower report found, “Charles Schwab and Vanguard were two of the first established financial services firms to launch robo-like offerings, and their growth quickly outpaced that of the disruptors.” In fact, “Vanguard’s Personal Advisory Services’ assets under management is nearly four times greater than the largest three robo-advisors combined.”

This demonstrates that wealth managers have a lot to gain by considering an integrated Robo-offering and even more if they can make it a hybrid Robo/Investor offering. So, what factors should investment firms think about when considering this path?

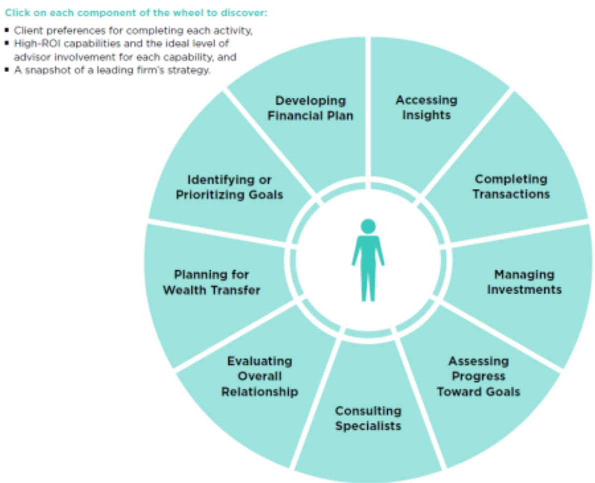
- **Does it make business sense?**
  First and foremost, these businesses need to look at their book of business and determine would existing clients benefit from this type of solution and does it support their customer acquisition strategy.
- **How will I understand risk, KYC and suitability?**
  Businesses will need to consider the operational and technology aspects of selecting the right risk questionaire to determining how to feed that new data stream into internal KYC account opening systems and using that information to create a complete view of the client.
- **What features will make my service unique?**
  One idea we have heard firms discussing is creating persona classes around top performing

investors, and then allowing users to select to mirror their strategy. These businesses will need to think about the regulatory requirements in their respective countries related to what constitutes offering investment advice and how fees would be considered in this type of framework.

- **What data am I using to automate investment decisions and for auditability?**
  Companies like Xignite offer real-time data fees that can be fed into the Robo-advisor, but firms will also need to think about the market data feed and reference data they are creating via the Robo-advisor and how that data is communicated to regulators and feeds into industry initiatives like the Consolidated Audit Trail (CAT).
- **How am I incorporating new data sources?**
  Social media is a new data source that has received a lot of interest from fintech has been social media data, in an effort to correlate Facebook, Twitter and LinkedIn data that can be used as another market data source to understand the sentiment around a company.
- **What kind of customer experience am I creating?**
  Chatbots are an area where we are seeing financial services firms experiment with virtual assistants to gather and communicate data directly with customers. They can be a great intermediary to build into the chatbot to engage with your clients on transacitonal tasks and escalate interations to an advisor when a more high-touch, advisory relationship is needed.

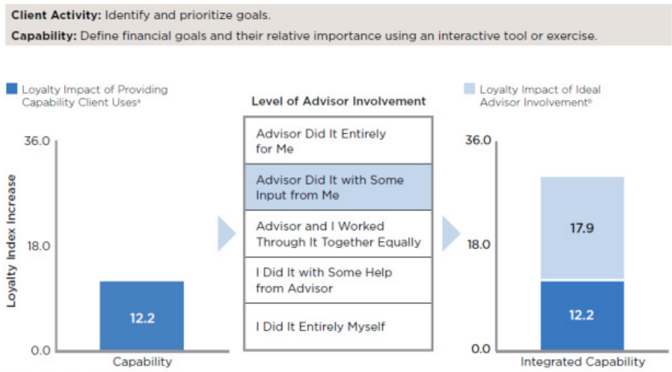
While FinTechs have a headstart, established advisory firms can significantly benefit from the Robo-advisor opportunity by integrating this service as a larger component of their advisory services. This would allow customers the self-serve, lower-fee experience they desire for some investments while still maintaining the high-service advisory relationship around more strategic investments.

BUILD CLIENT LOYALTY THROUGH KEY ACTIVITIES



ADVISOR INTEGRATION ADDS VALUE

Loyalty Impact of Providing Digital Capability and the Ideal Level of Advisor Involvement
Example



n = 173 HNW clients.
Source: CEB 2016 Digital Experience Survey.
[a] The loyalty impact of providing the capability is defined as the gap in median loyalty between "I/my advisor used the capability" and "Unavailable."
[b] The loyalty impact of ideal advisor involvement is defined as the gap in median loyalty between the level of advisor involvement where loyalty is highest and the level where loyalty is lowest.

- Each year $1 trillion is inherited by new generations.
- Global High-Net-Worth Individual capital is estimated at over $56 trillion and is anticipated to grow at an average annual rate of 7.7% over 2017.
- By 2020, baby boomers and millennials—those currently aged 50 to 16, will retain over 50% of all investable assets in the U.S., some US$35 trillion.
- While generation X will continue to be the most affluent segment leading up to and beyond 2030 their share of net household capital will reach its zenith in 2020 and trickle down to 44.4% by 2030.
- In 2017, younger investors will never be more important to wealth managers, and therein lies the biggest challenge for the industry.
- According to a 2015 report by PwC, asset attrition rates exceed 50% in intergenerational transfers of wealth. Robo advisors may well be the answer in solving customer retention and loyalty in an environment of constantly changing demands and availability of choice.