WISE

GROWTH AT RISK

Defining, Communicating, and Delivering Value in an Increasingly Competitive Landscape

CONTENTS

INTRODUCTION

RESEARCH OVERVIEW AND METHODOLOGY

Research Overview

The roots of this study extend to our 2018 pricing and discounting research. Countless conversations with industry leaders that were nominally about fees and discounting quickly became conversations about defining service value. Even though they deliver a superlative service, relationship managers and sales teams often struggle to define "value" for the uninitiated. As a result, they too-often price with diffidence, not pride.

Heightened competition makes questions about value more germane than ever. This study, therefore, seeks to understand how banks and trust companies should position their services to improve sales and growth outcomes. Our answer to this question marries both "supply-side" insights from WISE members, consultants, and other observers with the perspectives of consumers, gathered from two separate surveys conducted in the first half of 2019 (below, left). The questionnaires and raw data extracts are available to WISE members upon request.

Two Consumer Surveys

Business Owners

- WISE partnered with Qualtrics to administer a web-based survey to over 300 US business owners.
- Data collection was completed in February 2019.

Affluent and High Net Worth Individuals

- WISE partnered with Qualtrics to administer a web-based survey to over 500 US high net worth individuals with a minimum of $500,000 in investable assets.
- Data collection was completed in May 2019.

Survey Design and Limitations

- To ensure that the research adequately captures the preferences of younger consumers and the emerging wealthy, WISE set the survey wealth threshold to $500,000 in investable assets.
- The surveys were administered online and, therefore, likely underweight wealthy individuals who are the least comfortable with technology and remote delivery.
- Our team has noted instances where online data collection may bias the results.
- Our team also compared demographic, wealth distribution, and advisor usage data against the Federal Reserve's *Survey of Consumer Finances* to check for sample bias and minimize its risks.

EXECUTIVE SUMMARY

GROWTH AT RISK

A MORE COMPETITIVE LANDSCAPE

Increasing competition is putting future growth and profitability at risk.

Banks and trust companies are contending with an array of competitors, from their peers to RIAs and brokers. A handful of larger nontraditionals—notably Fidelity, Vanguard, and Charles Schwab—are scooping up assets much more rapidly than traditional providers, and technology enables the introduction of new service approaches from a bevy of smaller firms. Greater competition has no end in sight:

- Fee compression and mediocre growth rates in other asset management businesses make wealth management an attractive place to invest.
- Technology and product distribution partnerships will power small advisory firms while eroding the benefits of service breadth.
- Firms who have used technology, favorable service economics, and good brands to make inroads into the mass affluent segments will expand further into the high-net-worth market.
- Firms who are resolving the economic challenges of serving the mass affluent are unlikely to let them go as they inherit and accumulate wealth.
- Evidence of service model convergence—such as the addition of human advisors to digital offers—is a sign of what's likely to come.

Competitive dynamics contribute to a palpable sense of anxiety among industry leaders, many of whom see parallels in the fates of the railroads, video rental services, and other businesses that have fallen prey to innovation.

Cast in this light, current period margins and fee premiums seem far from guaranteed. Competition may permanently depress growth rates and cause loss of market share. Real financial risks warrant a real and robust response.

WINNING IN THE NEW WORLD: SIX THINGS FIRMS NEED TO DO TODAY

Fortunately, bank wealth managers and trust companies have some well-known and indisputable strengths. As such, they still can determine their future growth trajectory. Conversations with industry leaders about "value," complemented by a comprehensive survey of affluent and high-net-worth individuals, suggest a realistic roadmap for many.

1. MARKETING & BRANDING

The most impactful marketing initiatives will affect behavioral changes in advisors and sales officers.

Firms are aligning their brands and marketing messages behind "advice" and slowly relegating "investments" to a secondary role. The strong consensus, however, is that firm-level differentiation is all but impossible. Despite strong theoretical appeal, even firms' fiduciary status—the pinnacle of "trustworthiness"—seems unlikely to favorably impact sales outcomes due to myriad practical realities.

Success, in contrast, is likely to come from relationship managers and sales officers whose labors are essential for helping prospects define "value." Firms need to ensure that their advisors are equipped with consistent and compelling stories—about their firm, as always—but also about changes to the competitive landscape, the value of advice-led offers, and the benefits of noninvestment services.

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY (CONTINUED)

Many firms are also redesigning sales practices to more closely align with new value propositions. Their efforts are pushing advice further into sales processes and arming sales teams with new language and tactics for engaging prospects.

2. PRICING

The core service is a premium service. Firms must not compete on price.

Client data confirm the findings of the WISE 2018 pricing research: fees are only somewhat important in purchasing decisions. On most matters, clients routinely say that fundamental service model characteristics—about investments or advice—matter more than costs or fees. Client data confirm our view that when sales conversations are effective—in other words, when teams are well-equipped to describe value—fees are not usually an issue.

What is true is that lower fees and high rates of discounting are associated with inferior financial outcomes, such as lower revenue returns on assets. Bolstered by client data, our view is the same as in 2018: firms have an opportunity to improve revenue outcomes by strengthening their pricing and discounting practices.

3. SEGMENTATION

Get in early. Firms who wait to acquire relationships may sacrifice future growth.

Scores of industry conferences would suggest that there's an otherness about younger generations—that they are somewhat akin to an alien species with indecipherable needs and behaviors.

Our data supports the counter-hypothesis: that on fundamental issues such as whether they value advice or how they prefer to engage a financial advisor, their stated preferences are similar to those of senior generations. They have not yet accumulated as much wealth as other generations, however, exposing the limitations of traditional, wealth-based segments with high (and often rising) minimums.

The "Millennial Problem," therefore, is actually a problem with us: high cost service approaches don't work for consumers who aren't very wealthy. For younger consumers, fortunately, competition is serving up more choice, especially for the large numbers who are comfortable using technology. Firms with strong digital offers or effective feeder systems for routing the emerging affluent into traditional wealth businesses are well-positioned to retain business over time. Firms who wait may find themselves on the outside looking in.

4. CLIENTS

Existing client relationships offer the best growth opportunities.

For most firms, at least 75-80% of business comes from existing clients and referrals. For firms—banks especially—with extensive networks of client relationships, the mandate is to optimize within their own fence posts.

Many firms are attempting to enhance past efforts by leveraging client data to identify high potential referral targets and sales opportunities. Others will find success in the tried-and-true. For example, our data suggest that client referrals remain an untapped resource: many more are willing to refer than have been asked.

EXECUTIVE SUMMARY

| EXECUTIVE SUMMARY (CONTINUED)

ANIMATING THE ADVICE-LED VALUE PROPOSITION

5. TECHNOLOGY

Technology has few direct sales benefits but will have an outsized impact on growth. Enhancing advisors' sales and service efforts is a best bet.

Digital tools, websites, and other "visible" technologies have little impact on purchasing decisions. For existing clients, they similarly score low on their lists of desired service improvements. Our view is that good technology is a minimum service ante, not a differentiator.

Behind the scenes, however, the story is totally different. At a minimum, firms are using technology to reduce operating costs and promote service consistency. Many firms have much greater aspirations, however, such as customizing advice using artificial intelligence.

Enhancing advisors' sales and servicing efforts is the promising middle ground. Firms who automate low-value servicing and administrative tasks can free time for proven, high-return relationship-building activities. Technology and client data are also improving sales and referral efforts by making them more targeted.

6. TALENT

Cultivating and developing the next generation of advisors is the final frontier.

Investment commoditization, widespread access to strong third-party technology platforms, and the challenges of differentiation imply that the quality of the advisor and sales officer will be the primary determinant of future growth. Moreover, people still like people. Face-to-face delivery of advice rates highly among consumers, a characteristic that—in our view—is unlikely to change for as long as wealth has an emotional component (e.g., it impacts feelings of security, family issues, and legacy).

As the value proposition has shifted, so too are firms' hiring profiles. Emotional intelligence, sales aptitude, and facility with technology are in high demand. However, a host of questions still require resolution: where to source new talent, how to prioritize skillsets, and most importantly, how to compensate talent. Firms' abilities to answer these questions effectively will go a long way to determining their future growth paths.

1 GROWTH AT RISK

- SLOW GROWTH
- AN INCREASINGLY COMPETITIVE LANDSCAPE
- IMPLICATIONS AND RISKS

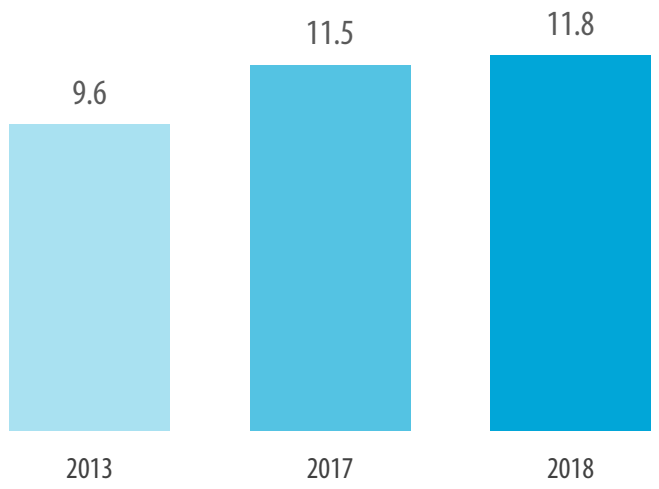
SLOW GROWTH

STRONG WEALTH CREATION, YET GROWTH RATES ARE MODEST

Periods of strong economic growth and market performance have buoyed the HNW population, yet growth rates for bank wealth managers and trust companies have been modest for several years. This disconnect has multiple causes, some of which are cyclical. One contributing factor, however, feels permanent: more competition. Despite a seemingly favorable hand to play, banks and trust companies are at risk of losing share to RIAs, brokers, and fintechs, among myriad competitors. Evidence suggests that the change in HNW household relationships for banks and trust companies already lags the total change in HNW households (gray box, bottom).

Number of Millionaire Households in the US, 2013–2018[1]

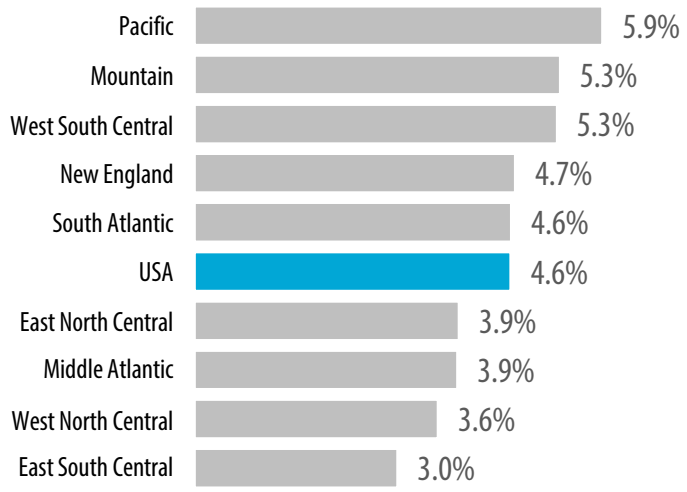
Households with $1 million or more in net worth



2013–2018 CAGR	2017–2018 CAGR
4.1%	2.6%

Growth Rate in Millionaire Households by Region[2], 2013–2018[3]

Households with $1 million or more in investable assets



Total U.S. Population CAGR, 2013–2018[4]: 0.98%

1.7% and 0.5%[5]

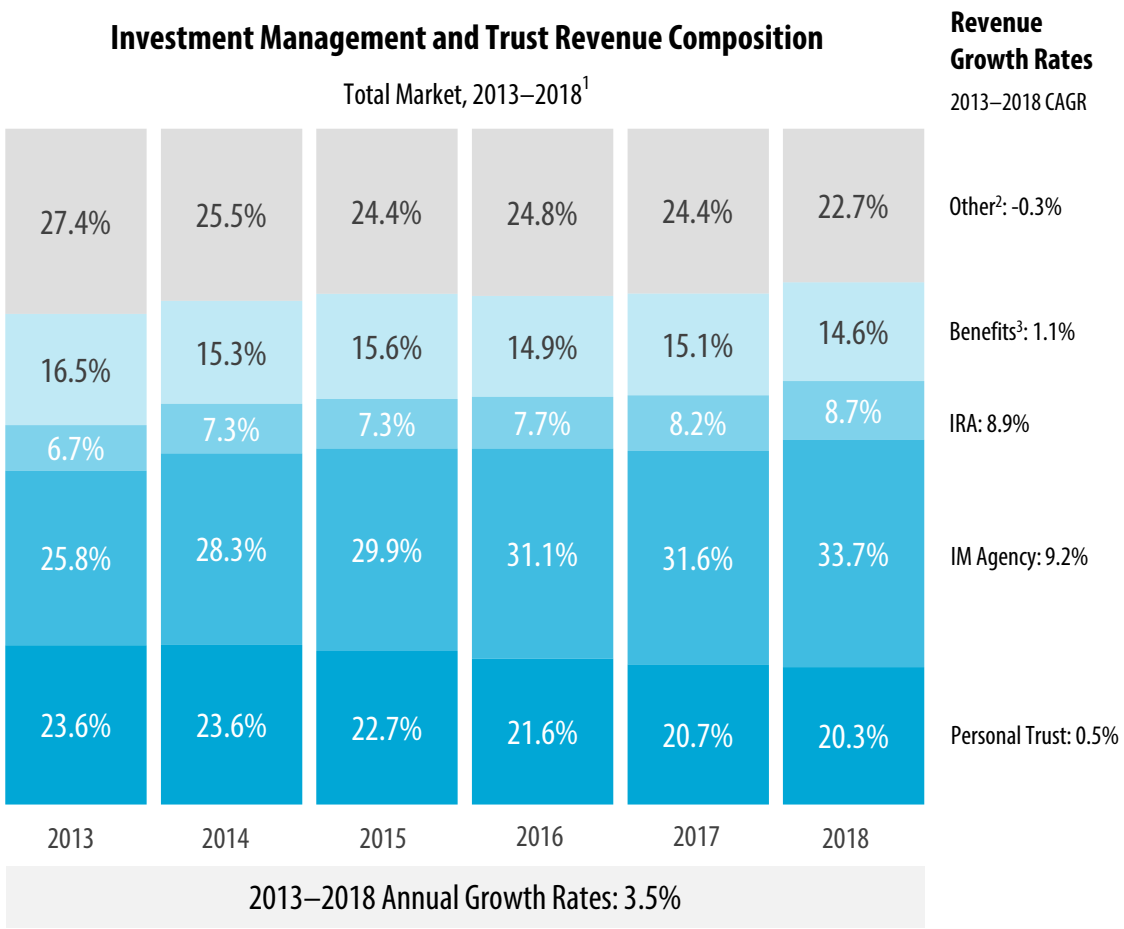
The median CAGRs for wealth management and trust-only client relationships for 2013–2017, respectively. The weighted average growth rates are slightly negative. In contrast, market estimates for millionaire household growth are closer to 4% (top left and right)[6].

Notes: [1]Spectrem Market Insights. [2]US Census Bureau Statistical Regions. [3]Phoenix Global Wealth Monitor. [4]US Census Bureau. Growth rates are compound annual growth rates. [5]WISE data. [6]Some of the decreases are due to segmentation strategies and small account initiatives.

SLOW GROWTH

MODEST GROWTH IN INVESTMENT MANAGEMENT AND TRUST

Weighed down by slow growth in personal trust, investment management and trust revenues have grown only 3-4% annually since 2013 despite periods of strong market performance. Growth rates have been lopsided, favoring revenues from investment management and IRAs. Competition, demographic changes, and a host of other factors contribute to concerns about revenue quality and future growth prospects (gray box, right).



Concerns About Growth Prospects

Organic growth rates are considerably less than total growth rates. Conservatively, inorganic growth and market effects account for at least 25% of overall changes in revenue and likely half or more depending on the market segment.

Declining demand for corporate trustees. One reason: more individual trustees. Since 2013, total personal trust accounts have declined 2.5%[4]. Of those with personal trust accounts, most households act as their own trustee while alive and name spouses as successor trustees.

Weakening trust demand makes differentiation harder. Trust powers are a key difference for firms that have them, yet trust is shrinking relative to investment management and other lines of business.

Slow growth and price competition in other asset management businesses will increase competition in wealth management. Investment management fee compression and slow growth in institutional lines of businesses are likely to spur greater competition in the HNW market.

Notes: [1]Source: FFIEC. Sample includes every company that files a Consolidated Report of Conditions and Income (AKA a call report). [2]Other: Foundations and endowments, corporate trust, other fiduciary accounts and revenue. [3]Employee benefits: defined contribution and defined benefit accounts. All metrics on this page exclude custody. [4]Source: Spectrem Market Insights.

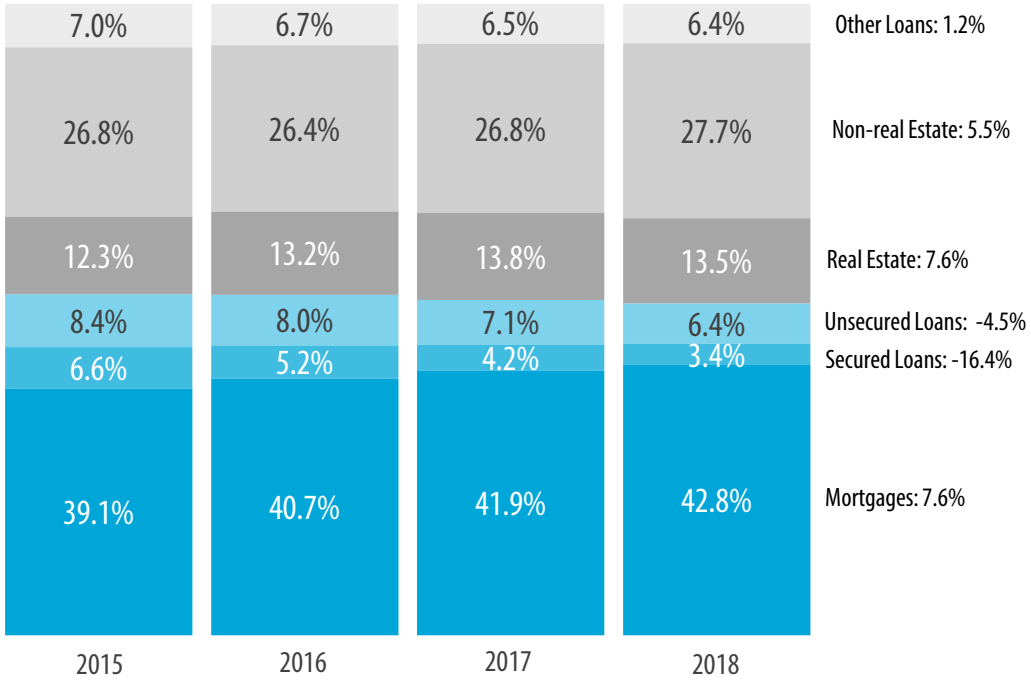
SLOW GROWTH

MODEST GROWTH IN PRIVATE BANKING

In private banking, weakening credit demand and diminished spread income are negatively impacting growth rates. Loan volumes and revenues are down year-on-year in WISE data, and many private banks are reporting fee compression on the balance sheet side of their businesses. Encouraged by banks who want to grow deposits and use loans to acquire investment assets, many clients and prospects are chasing yields.

Private Banking Loan Composition

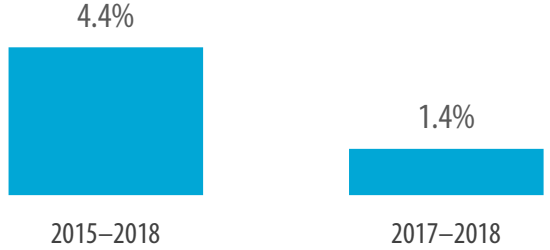
2015–2018 (Preliminary Data)[1]



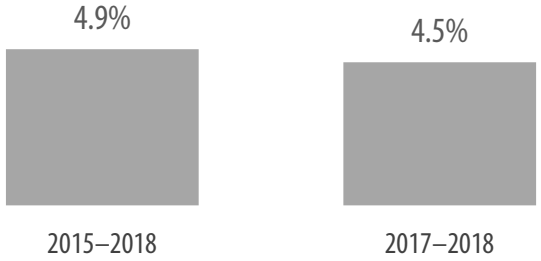
2015–2018 Total Annual Loan Growth Rates: 4.4%

Change in Loans Outstanding

Private banking, 2015–2018 (Preliminary Data)[1]



Total market, 2014–2018



2015–2018 Annual Growth Rate, Private Banking Revenue[1]: 3.9%

Notes: [1]WISE data. WISE data are the averages for the universe (all firms); the sample is longitudinal. Growth rates are compound annual growth rates.

COMPETITIVE LANDSCAPE

RIAS AND BROKERS: COMPETING FOR CLIENTS AND TALENT

Modest growth prospects are a significant risk of a more competitive landscape. The RIA community, in particular, represents strong competition for both clients and top talent. Research from Charles Schwab suggests that the typical RIA is growing faster than the typical bank wealth manager, trust company or independent broker-dealer (right). Some observers assert that RIA growth rates have been fueled by acquiring talent and existing books rather than by superior client acquisition practices. Indeed, the siphoning of top talent represents a different-in-kind risk: entrepreneurially-minded advisors seeking freedom from larger firms represent a growing 'independence' movement.

Competitive Advantages of RIAs: Perspectives of WISE Members

Competition for Clients

- Better branding and marketing
- Stronger sales cultures
- Better buyer experience
- Access to superior/newer technology
- Can claim to act as a fiduciary

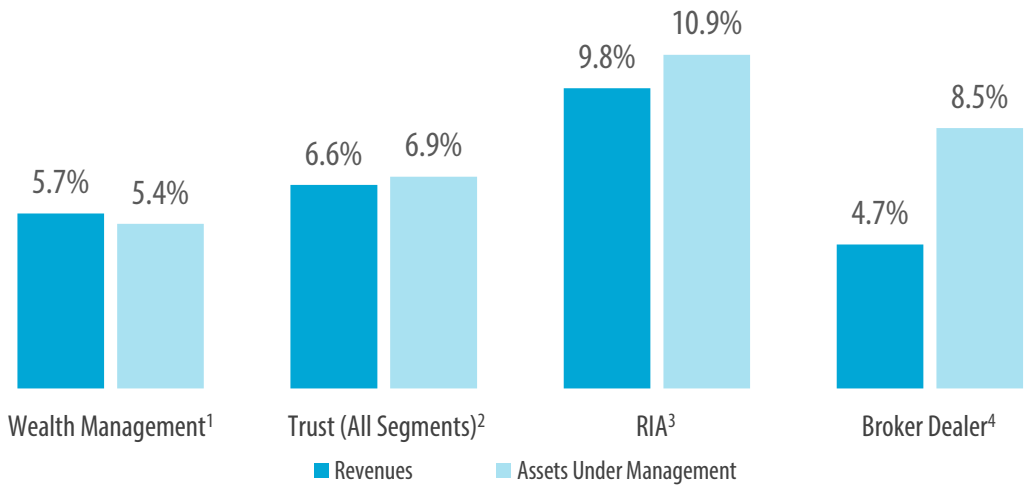
Competition for Talent

- Entrepreneurial work environments
- More flexible than larger firms

> "I think the rigidity at some of the [large wealth managers] drove many employees to leave. Some of the growth of RIAs arose from people getting frustrated. They didn't want to do all the stuff that the large firms were telling them they had to do."
>
> - Executive Vice President, Private Bank

Annual Growth Rate for the Median Firm*

By business model, 2013–2017



*To enable comparisons with third-party research, median growth rates are shown. Previous pages show weighted averages.

Median Growth Rate in Private Client Assets, 2016-2017

21.7%	RIAs with $10B–$100B in AUM[5]	11.1%	Other wealth managers with $10B–$100B in AUM[6]

Notes: [1]WISE Data, includes net interest income. [2]FFIEC Schedule RC-T data; banks and trust companies with minimum AUM of $500M and minimum fiduciary revenue of $500K; includes personal and institutional. [3]RIA Benchmarking Study from Charles Schwab, 2017 and 2018. [4]InvestmentNews Broker-Dealer Data Center. AUM shows total asset growth. Data from 70 US broker-dealers with median 2017 revenue of $140 million and assets of $18 billion. Growth rates are compound annual growth rates. [5]Financial Advisor Magazine RIA Survey and Ranking 2018. [6]Barron's Top 40 Wealth Management Companies, 2018.

COMPETITIVE LANDSCAPE

PARTNERSHIPS: WEAKENING THE BENEFITS OF BREADTH

Thanks to partnerships, service breadth is an insufficient defense against competition from smaller RIAs and brokers. Although many firms (banks, especially) tout their ability to advise clients on their full balance sheet, this strength is undercut by partnerships that enable small firms to similarly market "breadth." From technology companies to firms specializing in corporate trustee services (left), a variety of businesses will enable independent advisors and brokers to deliver integrated advice encompassing a variety of products and services.

How It Works: Trust Partnerships

Independent trust company focuses solely on trust administration, partners with advisors, and allows them to keep the end-client relationship.

Benefits for Advisors

Clients are tied to the advisor, not the independent trust company. The advisor can more easily keep trust clients if the advisor switches financial advisory firms or goes independent.

Benefits for Clients

Clients are not tied to the firm or even the advisor. Their account can stay with the trust administrator, and they can hire an entirely new advisor from a different firm with less hassle.

A threat for some banks and trust companies…

> **It is wrong to assume that smaller firms and RIAs have an inferior offer.** Partnerships are a competitive advantage. As an advisor, if I want a partner, I want multiple firms from which to choose.
>
> - J. Phil Buchanan, Chairman, Cannon Financial Institute

…an opportunity for others

> **We want to look at gaps in the RIA service offer, see what they need to compete, and fill those gaps.** Instead of liquidating a $10M portfolio, let's just lend against it so it can stay invested.
>
> - Head of Wealth Management, Bank F

COMPETITIVE LANDSCAPE

"KNOWN" NON-TRADITIONALS: SCOOPING UP ASSETS, EXPANDING INTO THE HNW

At the other end of the size spectrum, a handful of heavyweights such as Fidelity, Schwab and Vanguard are scooping up assets at rates far surpassing those of most other top wealth managers. Offering low-cost, high-quality investments and strong brands (among other things), the appeal of their value propositions cuts across wealth-based client segments. These firms are active in the mass affluent (quote box) but their scale positions them to acquire and serve more traditional wealth management clients over time.

> "The [asset] flows are overwhelmingly pointed to Schwab, Fidelity, and Vanguard. **And a lot of that is mass market and mass affluent but not all. They are spending money to pursue the high-net-worth.** I am getting flooded with solicitations, and the firms that are most aggressive are Fidelity and Vanguard. It would be a sign of hubris to think that they're not major players."
>
> - Head of Wealth Management, Private Bank

2018 Barron's Top 40 Wealth Management Firms Ranking	2013 Assets ($B)[1]	2017 Assets ($B)[1]	2013–2017 Growth Rates
Bank of America	$1,082	$1,349	5.7%
Morgan Stanley	$937	$1,260	7.7%
JP Morgan	$625	$774	5.5%
Wells Fargo	$495	$604	5.1%
UBS	$403	$601	10.5%
Charles Schwab	**$175**	**$421**	**24.5%**
Vanguard	**N/A**	**$406**	**N/A**
Fidelity	**$187**	**$400**	**20.9%**
Goldman Sachs	$235	$300	6.3%
Northern Trust	$186	$260	8.7%
BNY Mellon	$201	$246	5.2%
Raymond James	$99	$188	17.6%
Citi Private Bank	$100	$144	9.6%
RBC/City National	$97	$117	4.8%
Bessemer Trust	$64	$86	7.5%
Top 15 Median	**$194**	**$400**	**7.6%**

Notes: [1]Private client assets: US private client assets under management in accounts worth over $5M. In general, these firms' growth rates benefit from having direct retail brokerage as well as from serving as

COMPETITIVE LANDSCAPE

FINTECH: ADDING NEW SERVICE OPTIONS FROM THE BOTTOM UP

The fintech threat is similar to that posed by firms like Fidelity and Vanguard: firms with good technology and a foothold in the mass affluent will attract more HNW assets and clients. Technology-enabled fintech firms have found traction with less affluent individuals, at least some of whom are tomorrow's top wealth management prospects. Technology gives these newer competitors a foundation to eventually move up market into traditional wealth management segments. There is already evidence of a convergence in service models. Fintechs are increasingly becoming multiline providers, while Merrill, Betterment, and others are adding human advisors to digital offers.

> **Fintech startups have a head start with a generation comfortable with digital.** Established wealth managers should take little comfort in whatever growing pains fintech firms might encounter. **In many ways, this is the newer companies' race to lose.**
>
> - Wall Street Journal, September 2018[1]

60% Percent of wealth management executives who see **wealth management activities at risk** of moving to fintech companies[2]

Investing in the Future high-net-worth Client

Morgan Stanley

Morgan Stanley announced in February that it would acquire Solium Capital[1]. Solium Capital manages stock that corporate employees receive as a part of their pay. Given Solium's young customer base, Morgan Stanley appears to be moving towards a Millennial acquisition strategy.

Signs of Service Model Convergence: "Technology" to "Technology + Humans"

MERRILL
A BANK OF AMERICA COMPANY

Merrill is adding human financial advisors to its digital advice platform, Merrill Guided Investing[3]. The solution accommodates various investor types: Merrill Edge for DIYers, Merrill Guided Investing for mass-affluent, and Merrill Wealth Management for high-net-worth individuals.

Betterment

Betterment has launched a "premium" service for clients with $100,000+ that gives unlimited access to human advisors and carries an annual fee of 40 bps[4].

Charles Schwab is another example, see page 42.

Notes: [1]Wall Street Journal, "Morgan Stanley, In Its Biggest Deal Since Crisis, Courts Future Millennials," Feb. 2019. [2]PWC, "Fintech Report", 2016. [3]InvestmentNews, "Merrill Lynch adding human advisers to Guided Investing robo," Jun. 2019. [4]Wall Street Journal, "Wealth Management Firms Battle Over Millennials," Sep. 2018

COMPETITIVE LANDSCAPE

DO IT YOURSELFERS: A TOUGHER SALES PROPOSITION

Low-cost, technology-enabled service approaches seem like a good fit for the sizable segment of consumers who believe they can manage their own financial affairs. In other words, there are reasons why nontraditional approaches have found an audience. While self-described 'do-it-yourselfers' have always been a significant percentage of the wealth market, technological and service model innovations make it easier than ever for the DIY set to go it alone. Firms that focus on delegators, advice seekers, and high-wealth consumers define their market narrowly and may limit their future growth prospects.

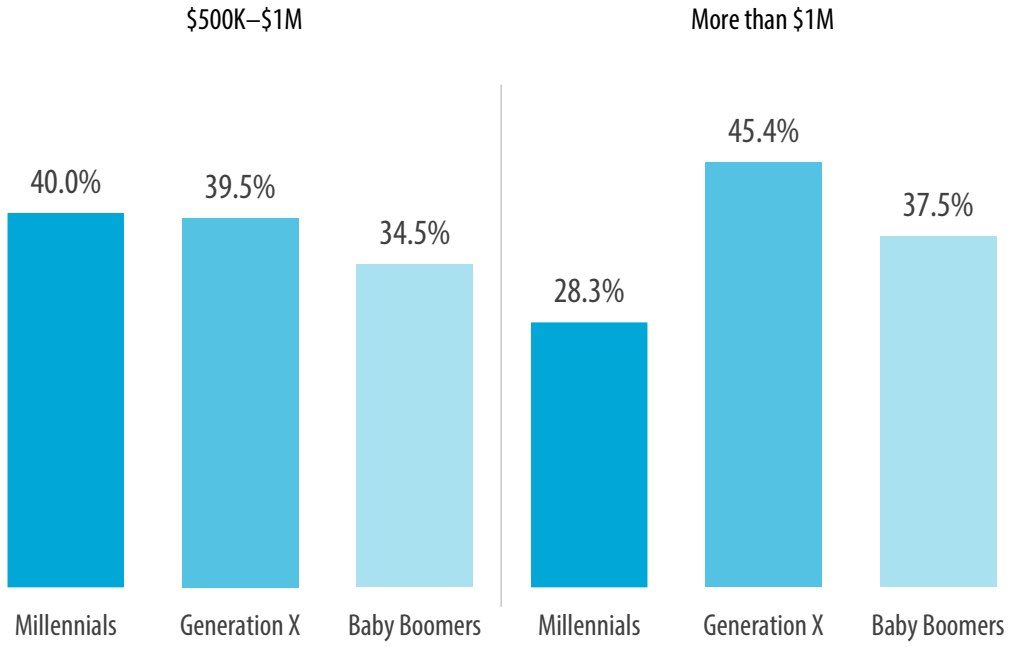
Fewer Clients are Using Corporate Trustees[1]

91% of households with $25M+ in net worth have trusts yet only **17%** of households with a trust use a corporate trustee.

44% of households with $5M–$25M in net worth have trusts. According to Spectrem, an **even smaller percentage** than $25M+ households use corporate trustees.

Overall, Spectrem data indicates that clients are leaning more towards self-directed trusts and other trust options that leave greater decision-making power with the clients.

Percent of Clients and Prospects Who Identify as Self-directed[2]



Self-directed: "I make most of my own decisions without help from a professional financial advisor." Note that the percentage of consumers who describe themselves as self-directed tends to be higher during periods of strong economic growth and financial market performance.

Notes: [1]Spectrem, "Eight Ways to Save the Bank Trust Market", 2019. [2]Q: How do you make most of your decisions about your personal finances? Select one. Millennials: 18–35; Generation X: 36–55; Baby Boomers: 56–older

COMPETITIVE LANDSCAPE

BIG TECH: ON THE HORIZON?

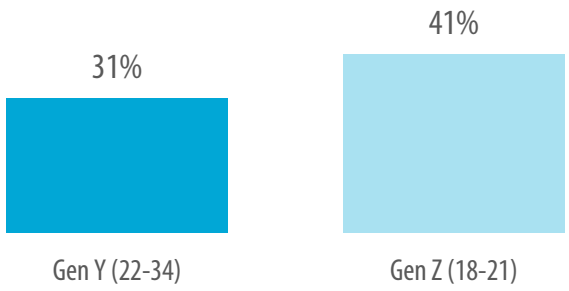
Looming on the horizon is the possibility that one or more large technology firms such as Apple, Amazon or Google will decide to offer financial advice to consumers. Industry pundits are already speculating about this possibility and there is at least anecdotal evidence of receptivity, especially from younger consumers.

"Although traditional financial services companies now offer mass-market financial advice via 'robo-advisers', **average US customers seeking investment advice are still underserved – and platform-based digital powerhouses like Amazon are taking notice.**"

- Luis Viceira, Professor of Finance at Harvard Business School and Co-chair of CFA Institute Investment Program[1]

Consumers Who Would Consider Purchasing Banking Services from Online Providers (Google, Amazon, etc.)[2]

By generation



"Apple was not in the music industry, Google was not in the mobile phone industry, and Amazon was not in the groceries business – until they were. **Tech companies are going to enter the financial services market in a very, very aggressive way.**"

- Robert Kapito, Co-Founder BlackRock[1]

"Amazon will embed itself in the fabric of the wealth management space unless the regulators intervene."

- Will Trout, Head of Celent's Global Wealth Management Practice[1]

Notes: [1]Capgemini, "World Wealth Report 2018," 39. [2]Accenture, "Beyond Digital: How can banks meet customer demands?", 2017.

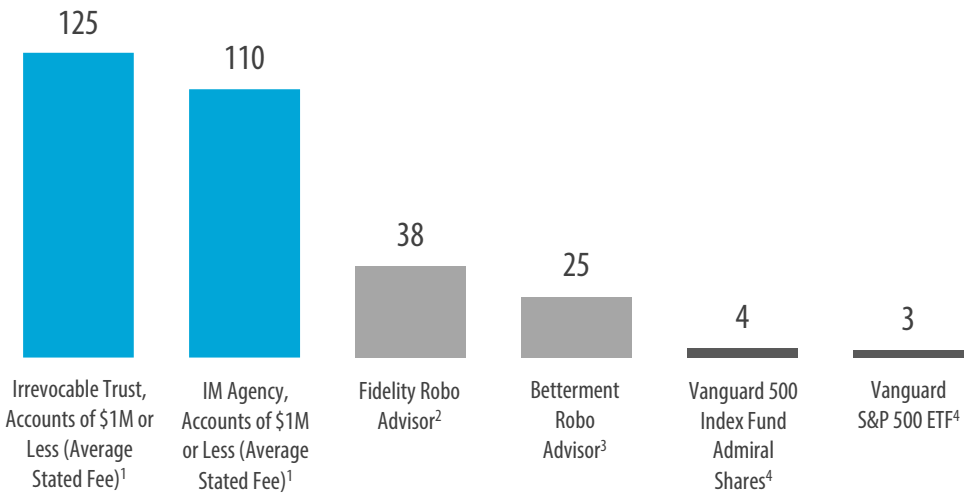
IMPLICATIONS AND RISKS

GROWTH AND PROFITABILITY RISKS

Competition has the potential to wreak havoc on pricing, profitability, and growth rates. The lure of new wealth creation, recurring fee income, revenue diversification, and premium fees are just a few reasons why wealth management will continue to draw new investment dollars and competitors. This trend introduces significant financial risk:

- **Fee premiums may come under greater pressure (exhibit, right).** Differentiation will become more difficult if more firms enter the market, and low-cost investment options and digital advice makes the fee premium for traditional providers more transparent. These dynamics will require firms to defend their fees. In other words, differentiation is going to get harder and more important at the same time. For the time being these risks are thankfully future risks; relatively few firms report fee compression in their high-net-worth businesses today.
- **Competition, technology investments, labor market trends, and advice-led value propositions will lead to margin pressure.** WISE data show strong margins for the past few years. Margins, however, have significantly benefited from limited spending and productivity improvements. In addition to the direct costs of competition, other spending needs—such as information security to name one of many—will likely cause profitability declines.
- **Ultimately, banks and trust companies may experience an extended period of low organic growth.** The optimist might assert that a "rising tide" of HNW households may lift all boats. Some amount of growth for the bank wealth management community is guaranteed thanks to their ability to source new clients internally. The bet here, however, is that the modest growth rates of the recent past will characterize the future for many.

Selected Fees (Basis Points)



Defending the premium: low-cost investments make the advice premium more transparent and put pressure on firms to explain their value propositions.

Notes: [1]WISE Data. [2]Fidelity; Fees are not tiered by account size; Fees are an average of robo advisor fee range. [3]Betterment; Fees are not tiered by account size. [4]Vanguard; Vanguard recently lowered its minimum investment threshold for admiral shares to $3,000.

IMPLICATIONS AND RISKS

RISK: STANDING STILL WHILE COMPETITORS INVEST AND INNOVATE

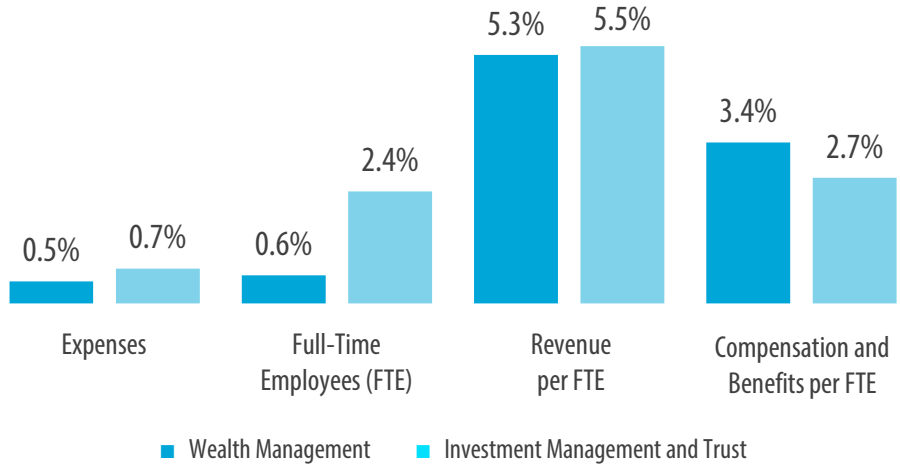
Many observers worry that banks and trust companies are not responding quickly enough to service model innovation and competition. Spending rates have been low for several years for wealth management and trust businesses (right). Budgets have been consumed by regulatory and compliance costs, as well as infrastructure maintenance and upgrades. Industry leaders fret that dollars for service enhancements, new technologies, and innovation are missing. The too-familiar culprit for many is stakeholders who are unwilling to reinvest in wealth management, even while the landscape changes apace.

Being late may lead to missing out on younger consumers. Service model innovation seems most rapid in lower-wealth segments; affluent consumers have more choice today than in the past. Firms who are focused on the "already wealthy" at the expense of others may wind up on the outside looking in as lower wealth segments inherit and accumulate wealth.

Growth outcomes will likely become more varied as the industry sorts itself into haves and have nots. The conventional wisdom favors firms with capital, access to technological innovation, differentiated value propositions (including at the subsegment level), and an acquisition strategy for the next generation. In the banking community and elsewhere, success in attracting deposits, leveraging bankwide client data for sales, and creating a frictionless feeder system for acquiring the emerging wealthy are among the keys for future growth.

Selected 2013-2018 Expense and Productivity Growth Rates

Wealth Management and Investment Management and Trust



Funding Sales and Service Enhancements with a "Big Shift" in Expense Allocations

One intriguing possibility is that firms will fund needed sales and service enhancements with a "big shift" in resources from investment to noninvestment services. The underlying premise is straightforward: greater standardization of the investment offer (e.g., greater use of models) is unlikely to impact client satisfaction, will yield risk management and service consistency benefits, and free resources for other pressing needs. WISE research in 2018 estimated that about 55% of client assets were invested in model portfolios; some firms have already moved to 90% or higher.

2 WINNING IN THE NEW WORLD

- A Strong Service Proposition
- Aligning Behind Advice
  - Marketing and Branding
  - Pricing
  - Segmentation
  - Expansion and Client Relationships
  - Technology
  - Talent

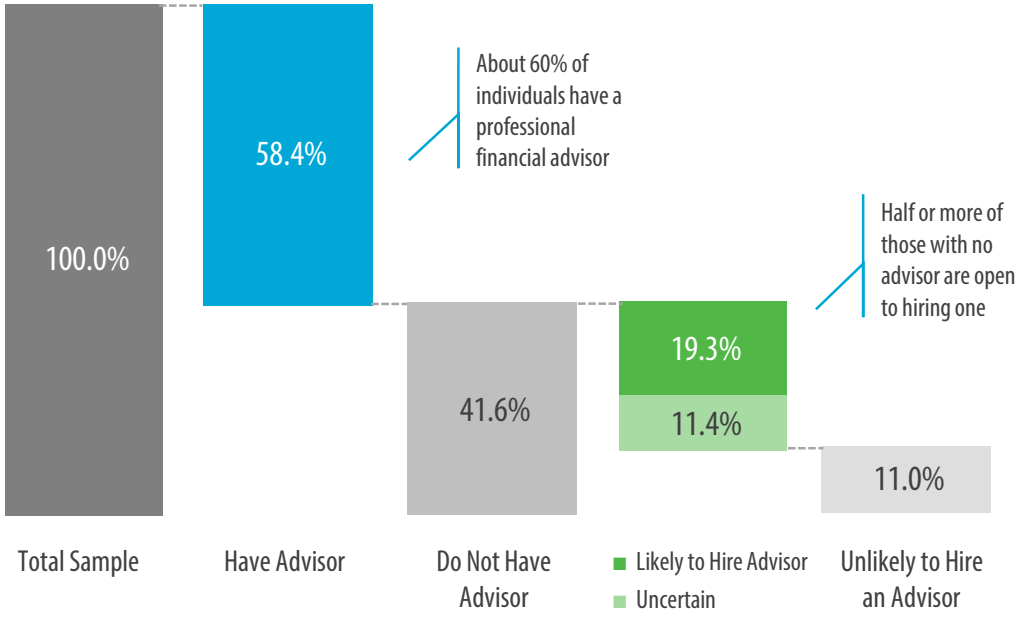
ADVICE AT THE FOREFRONT

WINNING IN THE NEW WORLD

Competition and service model innovation are forcing firms to adjust their value propositions and the practices that support them. There is compelling evidence from consumers that advice-led value propositions have broad appeal, but the way that they are sold and delivered remain a work in progress. Pages 20–22 provide an affirmation that firms' value propositions are strong. Subsequent pages explore how these propositions are positioned and delivered using a mixture of client data and insight from industry veterans. Some good news: data favor several well-established tactics—such as price discipline and client referrals—that don't require significant capital outlays:

- **Marketing and branding.** Align the field more fully behind advice-led value propositions (page 23).
- **Pricing.** Maintain pricing discipline in core client segments and avoid price competition (page 32).
- **Segmentation.** Develop strategies for acquiring consumers earlier in their lifecyles (page 35).
- **Client Relationships.** Drive growth by leveraging firms' key competitive advantage: breadth of client relationships and client data (page 43).
- **Technology.** Leverage technology to enhance advisor effectiveness (page 49).
- **Talent.** Align hiring profiles and talent development strategies behind new service propositions (page 51).

Percentage of Individuals Who Have an Advisor or are Likely to Hire One[1]



Demand is strong: large percentages of affluent and high-net-worth Americans work with a professional financial advisor (above). In addition, advice is a key advisor selection criterion, has cross-generational appeal, drives satisfaction, and is a solid defense against fee pressure (following pages).

Notes: [1]Respondents were asked if they worked with various professional financial advisors by title, including an investment advisor, banker, broker, trust officer, wealth manager, or financial planner. They were asked not to count accountants and attorneys as professional financial advisors. These roles are included in other surveys, notably the Federal Reserve's *Survey of Consumer Finances* .

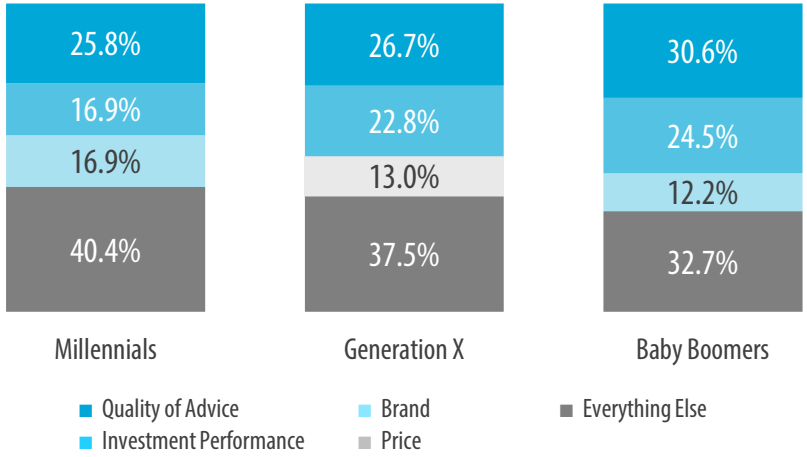
ADVICE AT THE FOREFRONT

ADVICE IS PARAMOUNT AND FOR GOOD REASON

At many firms, "advice" in some form or fashion is central to value propositions. The preeminence of advice not only reflects investment commoditization, it also has broad consumer appeal. For example, across generations, "advice" is the top reason why existing clients selected their advisors (left). It is also the service model characteristic that elicits the greatest satisfaction (right). Although "advice" has been central to the value proposition for some time, the service is still a work in progress. The future of advice will encompass a broader range of life goals and greater integration across products and services; as firms get better at managing client data, its delivery will be increasingly dynamic and customized.

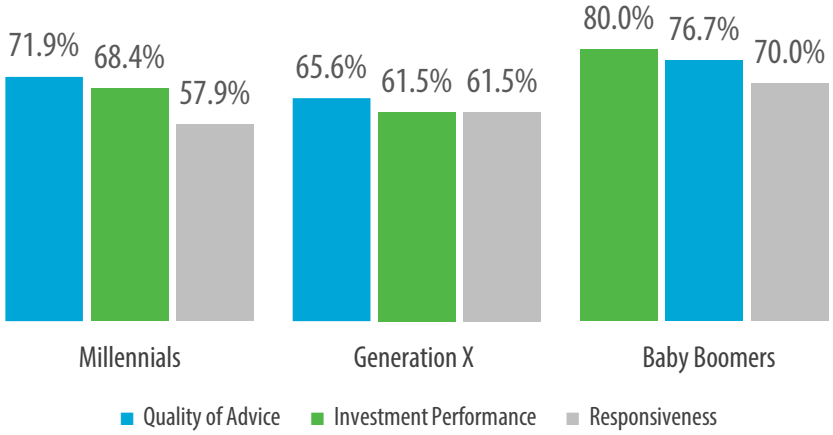
Top Three Reasons for Selecting an Advisor[1]

Respondents with advisors, by generation*. Respondents were allowed to select multiple criteria; percentages are the percent of total selections.



Top Three Reasons Clients are Satisfied with Their Advisor[2]

Respondents with advisors



Advice and Millennials: A Value Proposition for the Future

Millennials and younger consumers value advice about as much as senior generations. More broadly, generational preferences suggest that younger consumers are not fundamentally different than others*. Our data generally show a weak or no relationship between age and service preferences. Anecdotal confirmation comes from surprising places, such as reports that younger consumers use branch networks to collect information about products and services. For bank wealth managers and trust companies, this is good news, as it suggests their core value proposition is generally popular among consumers of all ages. Fears that firms need to concurrently run dual service models that appeal to young and old feel overstated.

Notes: [1]Q: What were the most important factors when choosing your primary professional financial advisor? [2]Q: What about your primary financial advisor's service quality are you satisfied with? *Caveat: the data shown were collected online and likely underweight consumers who are the least comfortable with technology. These are likely to be disproportionately older Americans.

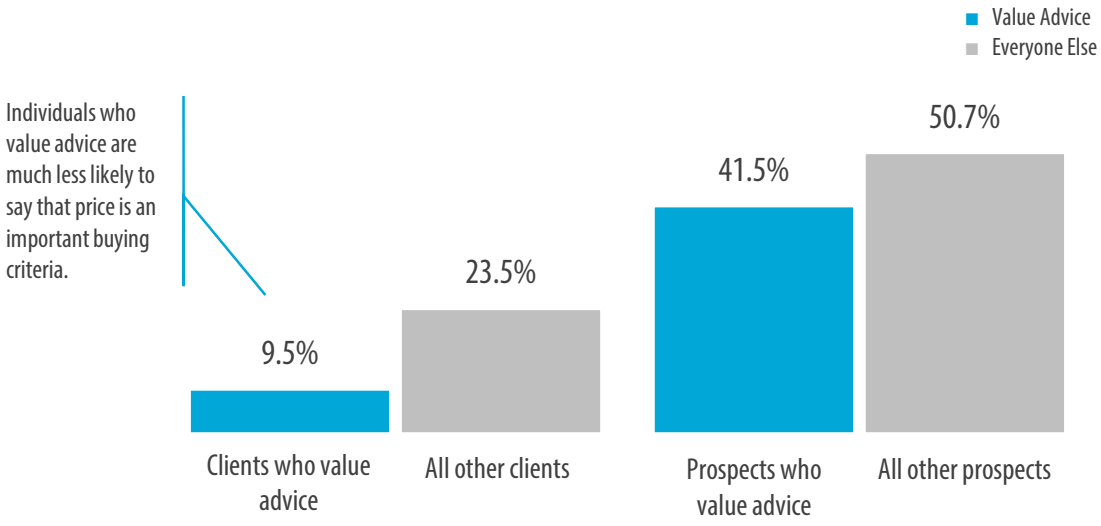
ADVICE AT THE FOREFRONT

ATTRACTING THE RIGHT CLIENTS

Anchoring value propositions around advice helps manage future fee compression risks. Advice-centric positioning attracts prospective clients who are less price sensitive than others and ultimately attracts prospects who become more satisfied clients. In the chart below (left), individuals who identified "quality of advice" as one of their top buying criteria are only half as likely as everyone else to believe that price is also an important buying criteria. By a large margin, those who value advice are more likely than others to say they are "very satisfied" with their financial advisors (right).

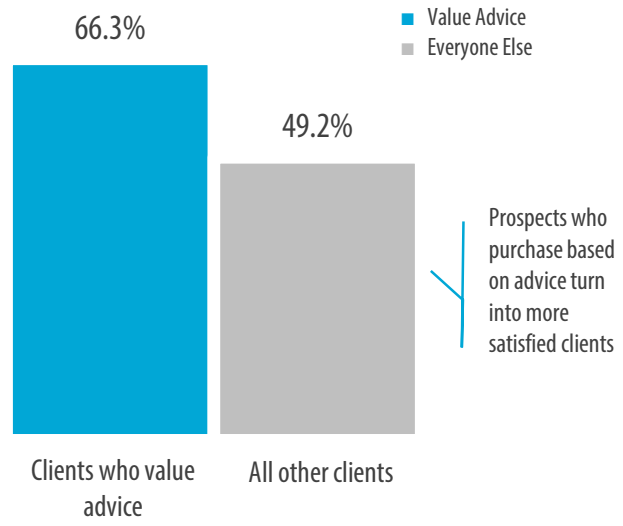
Percent of Clients and Prospects Who Say Price is an Important Selection Criteria[1]

Clients and prospects who value advice highly (blue) versus all others (gray)



Percent Who are Very Satisfied[2]

Clients and prospects who value advice



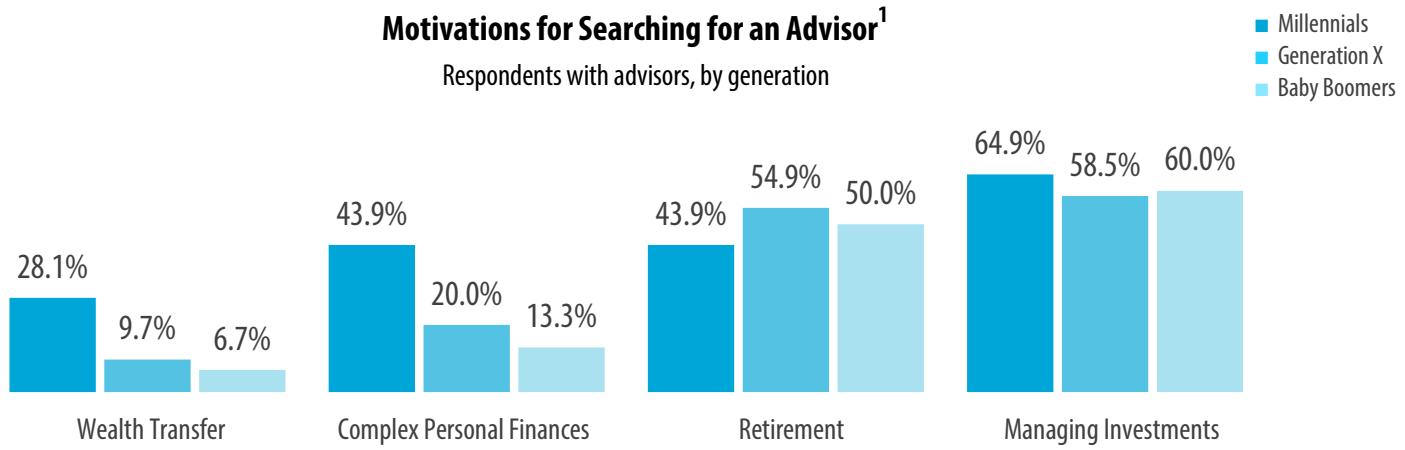
Respondents who value advice are defined as those that ranked quality of advice as the most important factor when hiring a financial advisor from a list of four attributes.[3]

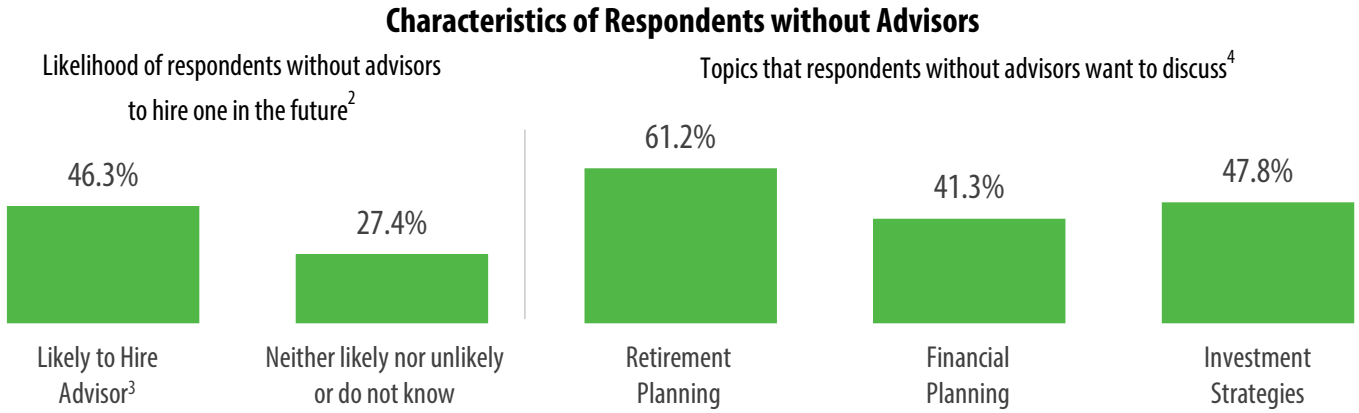
Notes: [1]Q: What were/are the most important factors when/if choosing your primary professional financial advisor? [2]Q: How satisfied are you with your primary professional financial advisor? [3]What is more important to you when/if hiring a primary financial advisor? Rank the following with 1 being the most important. Respondents were offered the following four options: receiving quality advice, strong investment performance, low fees, an advisor who is legally obligated to act in my best interest.

MARKETING AND BRANDING

INVESTMENTS ARE STILL A PRIMARY SEARCH MOTIVATOR

Although consumers find considerable appeal in advice, firms need to communicate its value more effectively to improve sales and pricing outcomes. Firms have made advice more central to their value propositions, but there is evidence of a lag in how consumers perceive value. Among the consumers who are most familiar with "value"—existing clients—many say their initial search for an advisor was motivated by a perceived need for help with the commodity service, investments (top right). Among the less familiar—prospective clients—there is evidence of interest in both advisors and various planning services (bottom), but their purchasing decisions are even more varied (next page).





Notes: [1]Q: Did any of the following motivate you to search for your primary professional advisor? [2]Q: How likely are you to use a professional financial advisor for your personal finances in the future? Millennials: 18–35; Generation X: 36–55; Baby Boomers: 56–older. [3]Respondents that selected somewhat likely, likely, or very likely. [4]Q: What personal financial issues would you like to discuss with a professional financial advisor?

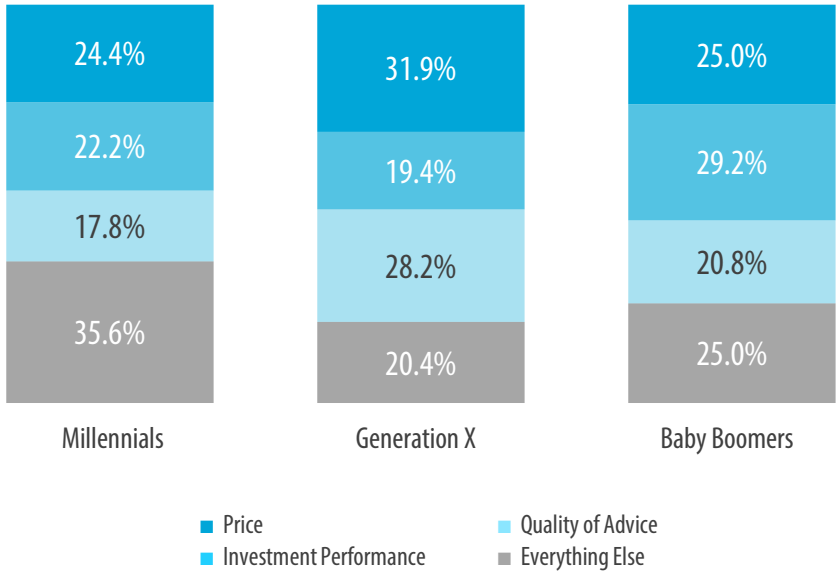
MARKETING AND BRANDING

A SIGNIFICANT EDUCATIONAL NEED

For prospective clients, advice is only one of many considerations for evaluating an advisor. Prospects value advice, however, not as highly as existing clients. Instead, they put more weight on price and investment performance, attributes with which they may be more familiar, or that may seem easier to evaluate (left). Prospects are also much more likely to identify as self-directed in their preference for engaging professional financial advisors (right). Their search criteria and self-directed orientation suggest a compelling need for education about the value of a professional advisor.

Top Selection Criteria of Prospective Clients[1]

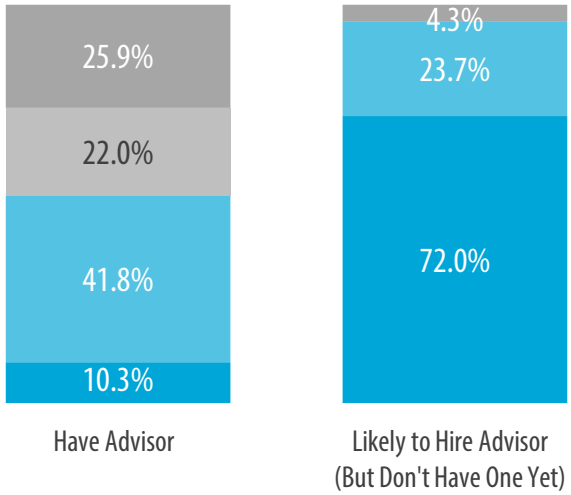
Prospective clients: no professional financial advisor but would consider hiring one in the future



Respondents were allowed to select two criteria from a list of ten. Percentages represent the percentage of total selections made.

Preferred Use of Financial Advisors by Prospective Clients[2]

Includes respondents who have no professional financial advisor; excludes those who are somewhat unlikely, unlikely, or very unlikely to hire an advisor



Self-directed
Make their own investment decisions without the assistance of a professional financial advisor

Event-driven
Make most of their own decisions but use a professional financial advisor for specialized needs such as retirement and planning, asset allocation advice or selecting alternative investments

Advisor-assisted
Regularly consult with a professional financial advisor regarding most investment needs but make most of the final decisions

Advisor-dependent
Rely on an investment professional or professional financial advisor to make most or all investment decisions

Notes: [1]Q: If you were to select a professional financial advisor for your personal finances, what would be the most important selection criteria? Please pick the two most important. [2]Q:How do you make most of your decisions about your personal finances? Select one. Millennials: 18–35; Generation X: 36–55; Baby Boomers: 56–older

MARKETING AND BRANDING

THE TOP OBJECTION: "I'VE GOT THIS"

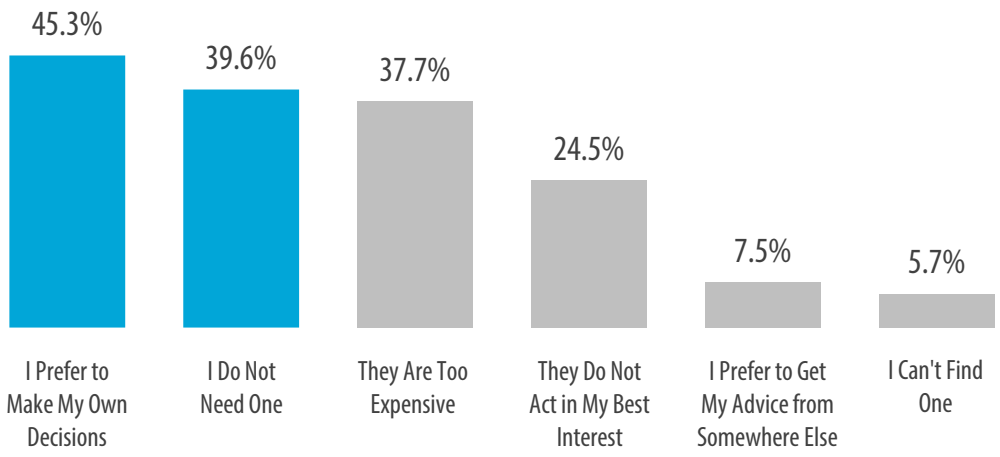
As prospects become less-and-less persuadable, the belief that they can handle their own affairs becomes the main objection. Almost half of consumers who describe themselves as unlikely to engage an advisor say they prefer to go it alone; more than 80% describe themselves as self-directed. Fortunately, this is only a relatively small portion of our sample, about 11%.

Paired with competitive trends, however, client data suggest a number of risks:

- **Even in the core market of putative "fans" (i.e., existing clients) the undifferentiated commodity product—investments—still motivated their advisor searches and remains a top selection criteria.** In other words, corporate marketing has fully embraced "advice at the core," but there is some evidence of a lag in the ways consumers evaluate their options.
- **Investment performance and cost are even more important to prospects.** Advice matters but not as much as it does to existing clients.
- **Sizable minorities of clients believe they don't need help.** Many consumers need further convincing of the value of professional advice.

The "Never Buyers": Objections of Prospects Who Are Unlikely to Hire an Advisor[1]

Respondents without advisors who are somewhat unlikely, unlikely, or very unlikely to hire one in the future



84% **of individuals who are unlikely to get an advisor describe themselves as self-directed**

WISE View: The perceived needs of many prospective clients are well-aligned with newer, technology-enabled service propositions and low-cost investments. Paired with consumer preferences, the success of newer and known nontraditional firms isn't surprising. Improving the way sales and service teams define service value for prospects is a need for many:

- Defining service value has never been an industry strength.
- Value propositions have changed, requiring new language and engagement strategies.
- Evidence suggests a lag in the way buyers define value.
- Concurrently, there has been an influx of new service approaches.

Notes: [1]Q: Why don't you have a professional financial advisor for your personal finances? Unlikely to hire an advisor is defined as respondents that identified as being somewhat unlikely, unlikely, or very unlikely to hire an advisor in the future.

MARKETING AND BRANDING

A SIGNIFICANT EDUCATIONAL HURDLE

Increased competition, new value propositions, and buyer behavior imply a course of action for firms' marketing and positioning efforts. There is a threefold need:

- **Educate consumers about the value of advice-led propositions.** E.g., anchor buyer perceptions around breadth of advice (investments, business, family, legacy); deemphasize investments in favor of attaining life goals (e.g., retirement, not performance); emphasize solutions over products; sell the value of professional advice versus do-it-yourself; etc.
- **Refresh brands and marketing messages to align with market trends and value propositions.** Firms are seeking to distance themselves from specific products (e.g., by calling themselves a "Wealth Advisor" rather than a "Trust Company", or by promoting "Life Guidance" over "Investment Counsel"). They are also attempting to disassociate themselves from specific geographies or from being a bank.
- **Differentiate from competitors.** This last goal has proven elusive for most. Although some see potential in using targeted messaging to appeal to lifecycle or demographic sub-segments of the HNW market, current messaging sounds very similar, even from different types of firms (gray boxes, right).

The challenge of sounding different potentially limits the marketing benefits of being a fiduciary (pages 27–28).

Sounding the Same

> We sell financial advice. That needs to be the centerpiece of any good value proposition in wealth management.
>
> - Top 30 Bank by Assets

> We don't just manage your investments. We can advise you on your business, on your family, and everything in between.
>
> - $1B Trust Company

> We have a fiduciary obligation to our clients to provide objective advice and identify the financial solutions that are in your best interest, not ours.
>
> - $5B+ Registered Investment Advisor

Notes: [1]Q: What were the most important factors when choosing your primary professional financial advisor? Respondents could pick up to two out of ten choices. [2]Q: What about your primary financial advisor's service quality are you satisfied with? Millennials: 18–35; Generation X: 36–55; Baby Boomers: 56–older

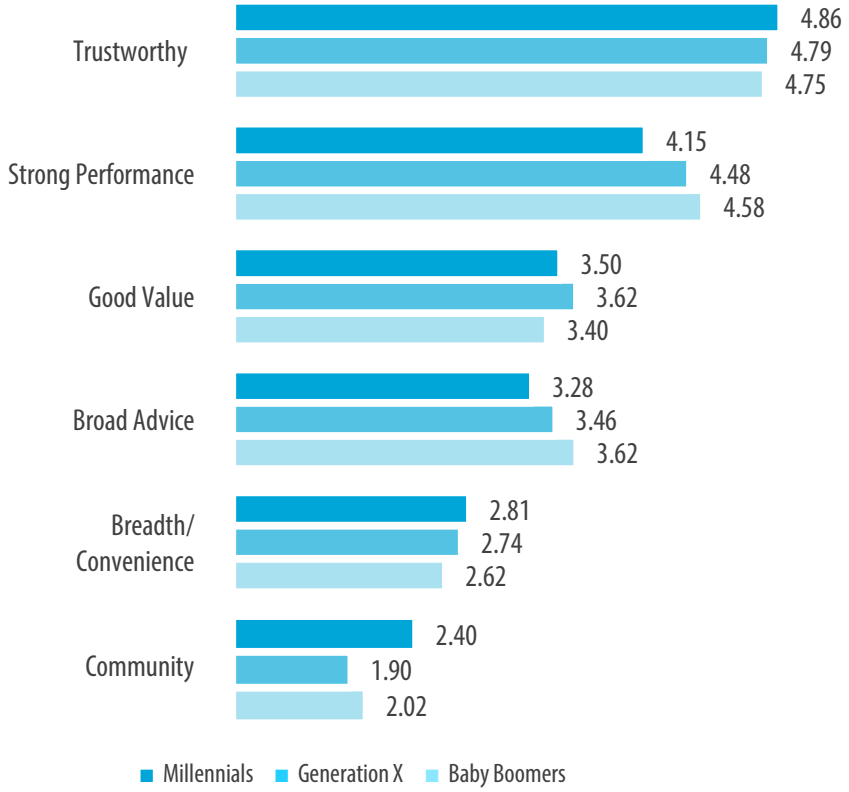
MARKETING AND BRANDING

TRUST IS A REQUIREMENT, NOT A DIFFERENTIATOR

Trustworthiness is a non-negotiable component of a firm's messaging and value proposition, however, it probably confers only limited sales and differentiation benefits. To be clear, "trust" is ubiquitous in industry brands, taglines, and marketing brochures because it is appealing to clients. Presented with six short wealth management value propositions, the one emphasizing "trustworthiness" was a clear favorite of clients and prospects ("performance" was second, with "value" and "advice"-related statements an equal third). Value propositions that promote trustworthiness have broad appeal, and regulatory trends are likely to evolve in ways that favor transparency and acting as a fiduciary.

Ranking of Various Service Value Statements[1]

All respondents, by generation, scale of 1 = low to 5 = high



Service Value Statements, in Detail

Respondents were asked to rank each according to its appeal

1. Trustworthy:	**We are a fiduciary and are legally obligated to act in your best interest**
2. Strong Performance:	We have a track record of strong investment performance
3. Good Value:	Our financial and advisory services are a good value
4. Broad Advice:	We advise you on your whole financial picture: investments, retirement, taxes philanthropy, asset transfer, and more
5. Breadth/ convenience:	We can provide for all of your financial and advisory needs
6. Community:	We are a local firm with strong community ties

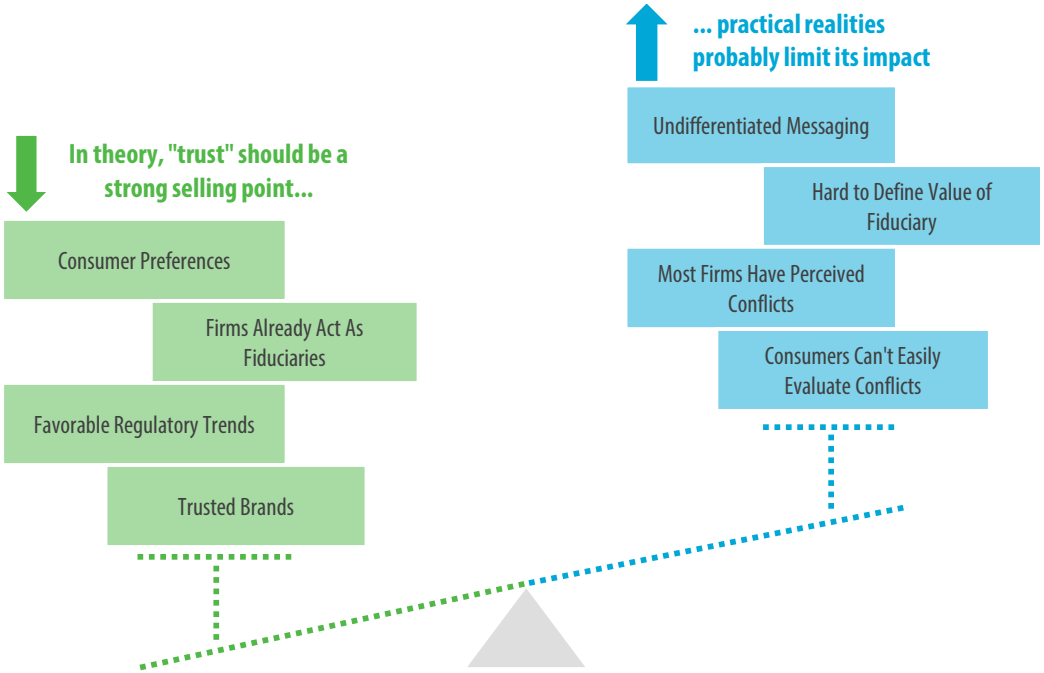
Notes: [1]Which of the following is most attractive to you? Please rank with 1 being the most attractive. Millennials: 18–35; Generation X: 36–55; Baby Boomers: 56–older

MARKETING AND BRANDING

NOISE CROWDS OUT AN IMPORTANT MESSAGE

Practical limitations limit the marketing benefits of "trustworthiness" or being a fiduciary. While many insiders are preoccupied with real and perceived conflicts—such as incentives to sell proprietary products and distribution fees—there is no evidence that trustworthiness is anything more than a minimum ante. For example:

- Perceived conflicts barely register on prospects' rankings of objections for engaging a financial advisor.
- Even firms who have an incentive to educate consumers about conflicts and standards of conduct find it challenging (quote box, "A Hard Sell").
- All types of firms appropriate the language of being trustworthy and acting as a fiduciary, diluting its import.
- Revenue growth rates for many "conflicted" business models are relatively strong. In other words, firms with conflict-free service approaches have not been rewarded with superior growth rates.
- New SEC standards seem likely to muddy the waters further about the different standards to which firms are held.



A Requirement, Not a Differentiator

"A lot of traditional wealth managers try to differentiate by saying, 'We are a fiduciary. The RIA can't be a fiduciary.' If that's your value proposition, you've already lost! The client has to trust their advisor no matter what and data show that they trust RIAs just fine. You can't sell on 'trust'."

- Vice President of Wealth Advisory Services, Bank A

A Hard Sell

"Are you a product shop or an advice shop? That is the fundamental difference that really shapes how a firm serves its clients, **but most prospective clients don't understand this, and it's hard to succinctly explain. We have tried for years.**"

- Director of Marketing and Communications, RIA B

"[Prospects] need to understand that [a trust company] is much different than a securities-regulated firm. **It is definitely hard to tease out. It's not a single conversation.**"

- Chief Fiduciary Officer, Trust Company C

MARKETING AND BRANDING

ENLISTING TEAMS TO TELL COMPELLING VALUE STORIES

Given the limits of firm-level marketing and branding efforts, many firms are focused on changing the way their teams describe value. In other words, they are seeking to change the dynamics of countless conversations with clients, COIs, and other referral sources. Strategies for affecting behavioral changes comprise a familiar set of tactics (gray box, right), but there is a sense of urgency shared by many industry leaders:

- *Value conversations are a perceived weakness.* Firms see big disparities in the way advisors describe value and the effectiveness of sales conversations, often to the detriment of price realization.
- *It's a different conversation: the new language of "value".* Many advisors continue to define performance in relation to market benchmarks rather than life goals. They similarly talk about mutual funds and asset allocation rather than goals such as legacy and health.

> "Firms have to undertake a massive re-education process to help front office advisors move away from positioning around products and services. They need to pivot towards a holistic planning-based advice model that orients the entire team around anticipating and solving client needs. They need to provide ongoing coaching to help clients act on the guidance."
>
> - Gavin Spitzner, President, Wealth Consulting Partners

Best Practice: Engaging the Field

- **Engage the field in promoting noninvestment services.** Have teams develop service value stories unrelated to investments to change the dialogue with referral partners. Case study, page 30.
- **Move advice further into the sales process.** Mandate the creation of partial financial plans for prospects to help demonstrate value during the sales process. Case study, page 31.
- **Redesign sales processes to align with brands and value propositions.** From formulating questions that foster emotional connections to redefining appropriate meeting attire, firms are redesigning the sales experience. "We used to have a one-hour slide deck where we told you about us. We even talked about individual managers! Now we listen. What's most important to you?".
- **Solicit buy-in by enlisting the field in defining service value:** "I ask everyone in my region to tell me 2-3 things that make us special. I use that to develop a vision for how we serve clients. This vision has to be consistent with the overarching firm. But the field has to embrace the vision for it to resonate. Corporate messages don't resonate."
- **Hire communications firms to video advisors and provide coaching.** Videos, written collateral materials, and training help promote message consistency. "We've done a lot of training. People will tell the story in their own way, but the overall message is consistent. Now we are working to tell the story to more prospects."

MARKETING AND BRANDING

CASE STUDY: PROMOTING NONINVESTMENT SERVICES THROUGHOUT THE ECOSYSTEM

Key Insight: Affect a widespread change in how employees, COIs, and prospects define service value by having everyone in the firm propagate non-investment service value stories.

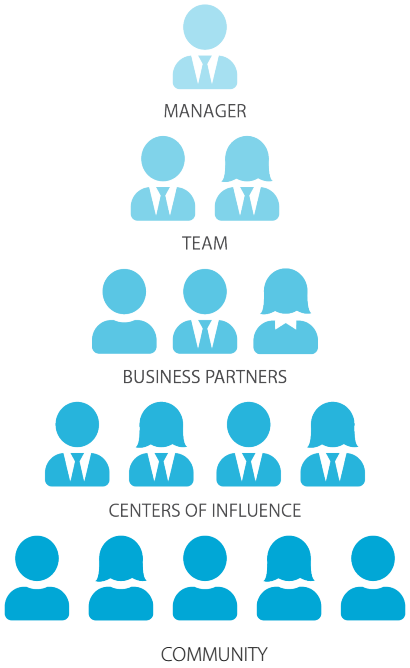
Background: Bank A is a midsize wealth manager located in the Midwest with more than $5B in fiduciary assets.

I. Develop Non-investment Service Value Stories

- The business unit head affects a shift in the mindset of his own team by asking every sales and service team member to practice telling stories about helping a client with something other than investment management (e.g., managing a difficult life event, the emotional complications of wealth, etc.). **"The industry is focused on performance reviews and security selection. Everything centers around marketable securities. I want my team to focus on everything else that we do."**
- To foster emotional connections and introduce a range of servicing opportunities beyond investments, sales officers are encouraged to connect with prospects about their sources of wealth (e.g., their business, real estate, etc.). This is often an effective entrée into broader, meaningful conversations about goals and needs.

II. Affect Changes in Perceptions

- **Centers of Influence:** "When we visit with lawyers, it changes the positioning. They'll tell you things like 'I have a sister or an uncle who acts that way'. They start to connect and relate and see the firm differently. **They'll tell you that until now, they never knew what a trust officer did."**
- **Business Partners:** **"Our commercial lenders down the hall had no idea that their teammates in wealth management can handle other aspects of their clients' lives."**
- **Community:** During estate settlement, for example, employees are encouraged to talk to neighbors about the settlement process as an informal marketing opportunity—that what the firm does is "above and beyond" investment management.



Key Outcome: Larger Relationships

Broadening sales conversations to emphasize non-investment services, being purposeful in establishing emotional connections, and initiating conversations around sources of wealth have contributed to larger new account sizes: "We used to be ecstatic when receiving accounts with $1 million in assets, but now $15–20 million in assets has become a lot more common."

MARKETING AND BRANDING

MOVING ADVICE DEEPER INTO THE SALES PROCESS

Key Insight: Firms have improved their sales outcomes by requiring sales officers to showcase advice and planning capabilities, and by engaging prospects in the creation of partial financial plans.

Background: Bank B is a Mid-Atlantic-based trust company (under $2B in fiduciary assets). Planning designations (CFP, CTFA) are common among the banks' dedicated sales officers and servicing teams; all sales and servicing employees are trained in using MoneyGuidePro.

First Meeting

- Sales officers are obligated to describe the firm's planning capabilities using standardized presentation materials and leave-behinds.
- Sales officers ask a lot of questions, especially about retirement; estate planning is another key topic for exploration.

- **Goals:** Leave the first meeting with enough information about the prospect's circumstances to give them something useful from a financial planning standpoint; set up second meeting.

Second Meeting

- The sales officer shares financial planning ideas, including concrete tactics. The goal is to whet the prospect's appetite for planning and advice.

- The partial plan will be enhanced during onboarding by the servicing team if the prospect agrees to engage the bank.

Implementation Tips

Keep it simple: Bank B's process is not labor-intensive, it is designed to pique the prospect's interest and showcase their capabilities.

Establish boundaries: Bank B has "soft" boundaries defined by labor costs and complexity. Prospects who request support beyond those boundaries are asked to establish a relationship.

Dedicated sales officers do the work: Relationship managers only participate if the prospect's needs are unusually complex.

Be flexible: Doing planning is not an all or nothing proposition for clients and prospects: "[W]hen we demonstrate these capabilities, we have a better track record of closes, but if they want investment-only, we'll just do that."

Be consistent: Presentation materials are standardized; all prospects go through the same process, regardless of the source of new business.

Key Outcome: Higher Close Rates

> **This is very intuitive. People who were doing planning were closing more business.** That is why we mandated that all salespeople do this, across the board. Prospects get the idea that we aren't just going to invest their assets but that we are going to tell them if they are on track to meet their goals.

- Executive Vice President, Bank B

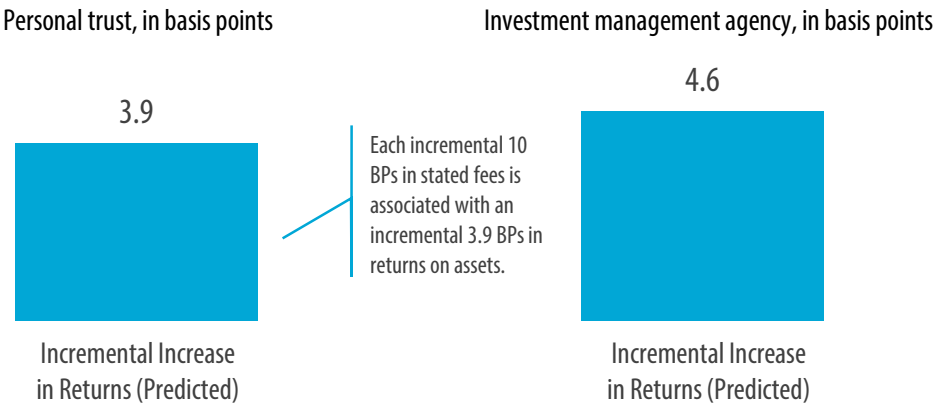
PRICING

THE CORE HNW SERVICE IS A PREMIUM SERVICE

Firms' core HNW service offer is a premium fee service. On balance, price competition and discounting negatively impact revenue outcomes. For example, our 2018 pricing research found no evidence that firms with high rates of discounting scoop up assets or grow revenues more quickly than others. In contrast, our research did show that higher stated fees are correlated with higher revenue returns on assets (top)—in other words, firms who do not compete on price are rewarded with higher yields.

Consumer data add to the substantial burden of proof on those who would compete on price or discount frequently. Fees aren't the primary objection for individuals who don't choose to engage a professional advisor. Prospects are more likely to say they perceive no need for advice or, similarly, that they can manage their affairs on their own. The insight from prospects matches the intuition of sales managers: firms need to work hard to define value, not reduce their prices.

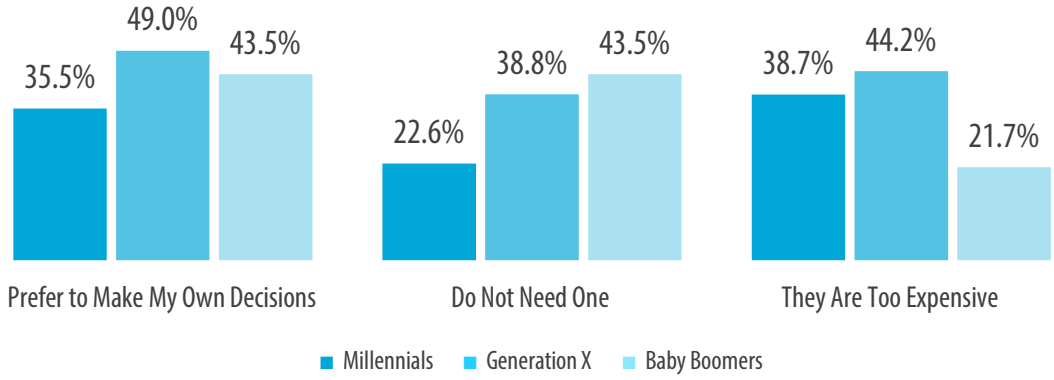
Predicted Incremental Return on Assets per Extra 10 Basis Points (BPs) in Stated Fees[1]



For individual firms, the change in expected returns will also be impacted by variations in discounting practices, the overall distribution of account sizes, and other factors.

Top Objections to Hiring an Advisor[2]

Respondents without advisors

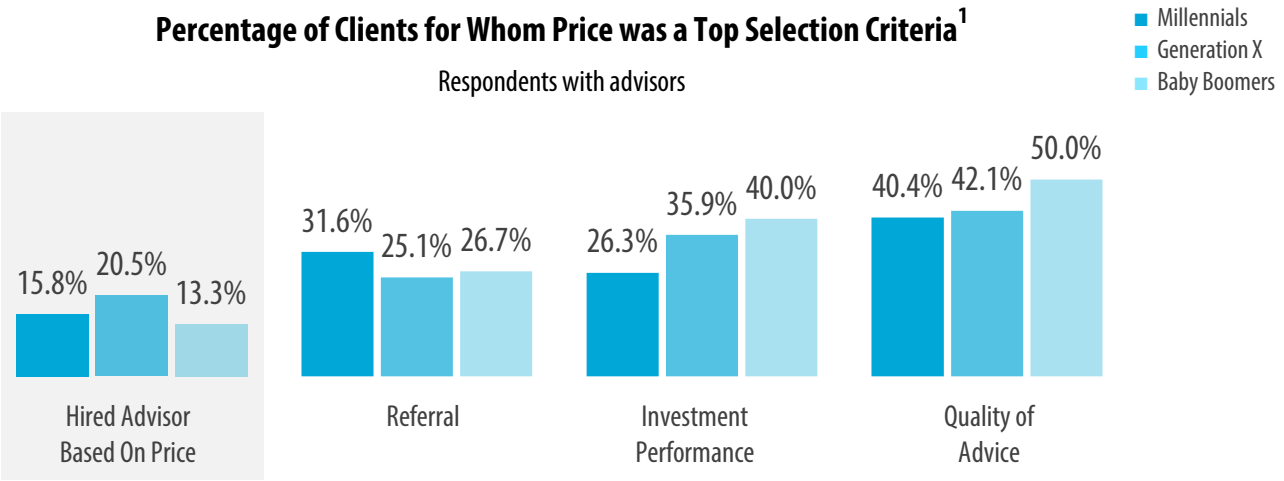


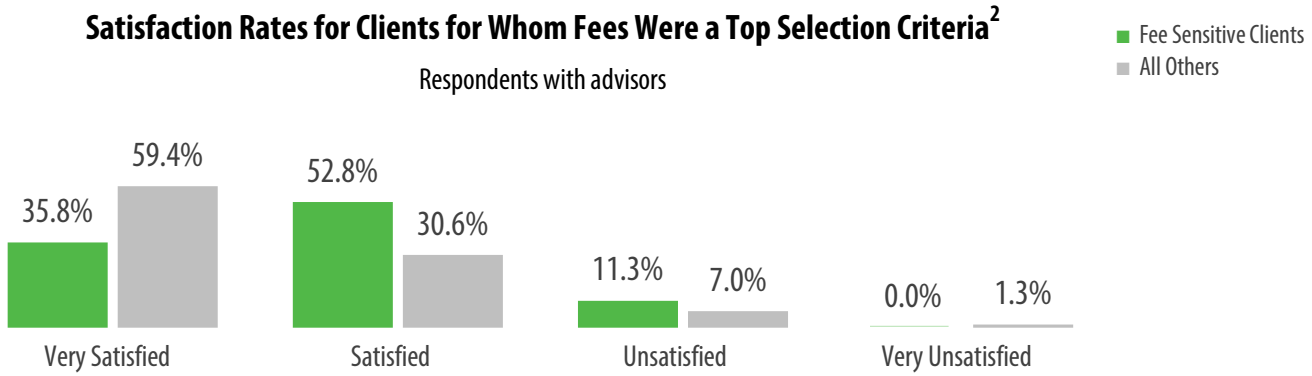
Notes: [1]WISE 2018 Pricing Study; 2016 year-end data. [2]Why do you not have a professional financial advisor for your personal finances? Includes everyone who doesn't have an advisor who would never hire. Millennials: 18–35; Generation X: 36–55; Baby Boomers: 56–older.

PRICING

PRICE IS NOT THE LEADING BUYING CRITERIA

Current clients are even less likely than prospects to say that price is important. Existing clients rank fees a distant fourth place on their list of selection criteria. Clients for whom fees were an important selection criterion generally report lower rates of satisfaction than all others. A prospect who is extremely price sensitive may be self-identifying as a lower-quality fit than others.





"Fee Sensitive" individuals are those that named fees as one of the two most important factors when selecting a financial advisor.

Notes: [1]Q: What were the most important factors when choosing your primary professional financial advisor? Please pick up to two. [2]Q: How satisfied are you with your primary professional financial advisor? Millennials: 18–35; Generation X: 36–55; Baby Boomers: 56–older

PRICING

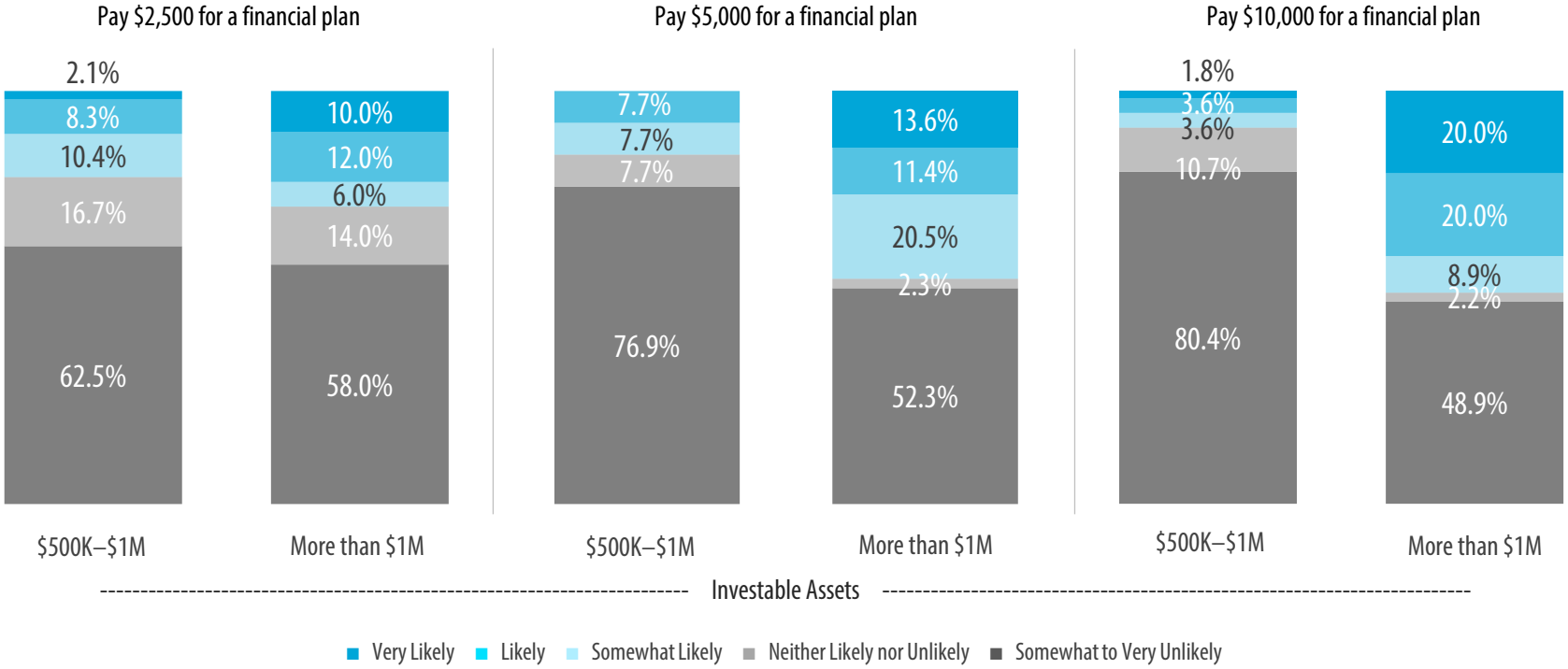
MANY CLIENTS WILL PAY FOR ADVICE

Data about financial planning fees suggests both opportunity and risk. Opportunity: roughly half of existing client with $1M or more in investable assets express some willingness to pay for financial planning (respondents were randomly asked to evaluate one of three fees, representing high, medium, and low actual fees in our pricing research; curiously, they reported greater willingness to pay higher fees than lower). Given the industry's reluctance to charge for this service, our view is wealthy individuals are generally more *willing to pay* than they are likely to get *asked to pay*.

Risk: at all fee levels, less affluent consumers are generally less likely to pay standard rates for financial planning, suggesting an opportunity for firms (perhaps like Charles Schwab) who are able to break tradeoffs between high service delivery costs and demands for advice from the less-wealthy.

Likelihood of Respondents to Pay for Financial Planning[1]

Respondents with advisors, by financial planning fee and by wealth



Notes: [1]Clients were randomly selected to evaluate one of three prices, $2,500, $5,000, and $10,000. These fees were selected to approximate the low, medium and high values for financial planning services in the WISE 2018 pricing and discounting research.

SEGMENTATION

A SMALL PIECE OF A SMALL MARKET

The ascendance of younger generations and new service propositions require firms to rethink traditional segmentation approaches. Acquisition strategies for younger consumers are a priority. Younger consumers will challenge existing segmentation approaches, but not because their preferences are transformative. Data show they value advice as much as senior generations, and their delivery preferences are also relatively similar. The most important difference is also the most obvious: they haven't accumulated enough wealth to meet common wealth-based service thresholds.

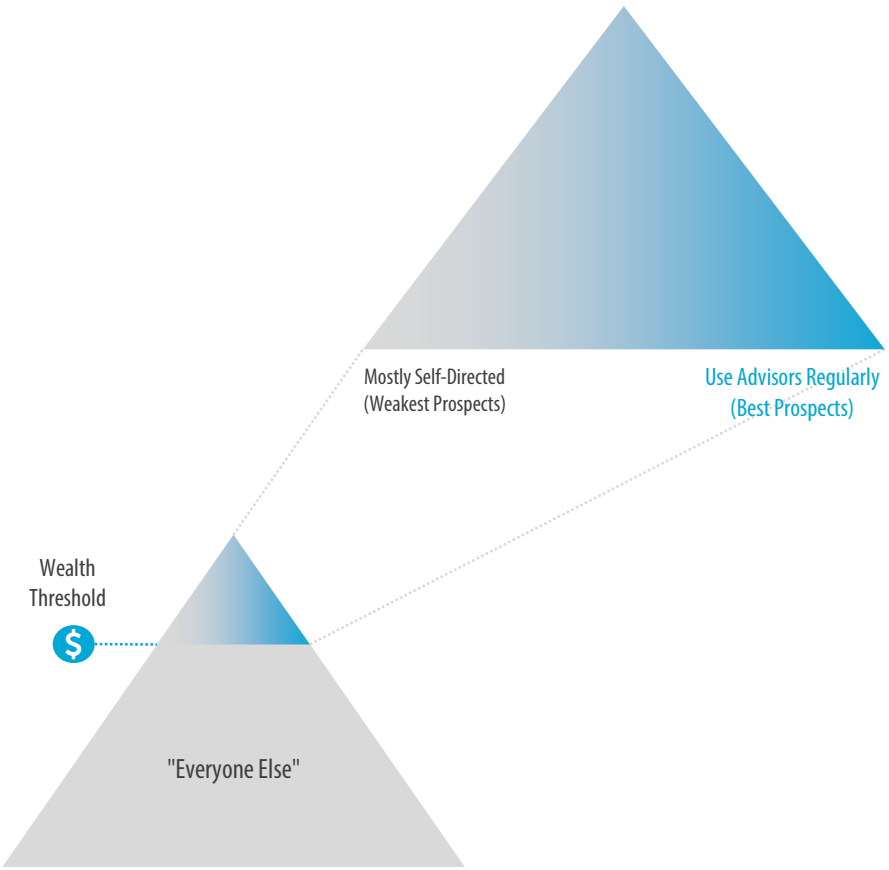
As they accumulate and inherit wealth, younger generations are an acquisition opportunity for firms with lower-cost service propositions and/or an effective feeder system for acquiring younger clients in their ecosystems. It is a risk for those saddled with high labor costs and legacy technology. Many young affluent consumers already have advisors; these firms are unlikely to want to let them go as they accumulate wealth.

Trend Watch

- **A Small Piece of a Small Market.** Many firms focus on a select few consumers (top) who meet wealth thresholds, are delegators, and at least somewhat value advice.
- **Excluding Too Many?** Many younger consumers, including many members of tomorrow's high-net-worth, fail to meet one of these criteria.
- **The Innovation Threat.** New and known nontraditionals, unencumbered by common challenges (legacy technology, high labor costs) are making inroads into "everyone else."
- **"Let's Talk When You Have $2 Million." As younger consumers accumulate wealth, will innovative competitors have 'right of first refusal'?**

Typical 'Ideal' Client, by Wealth and Advisor Orientation

Illustrative

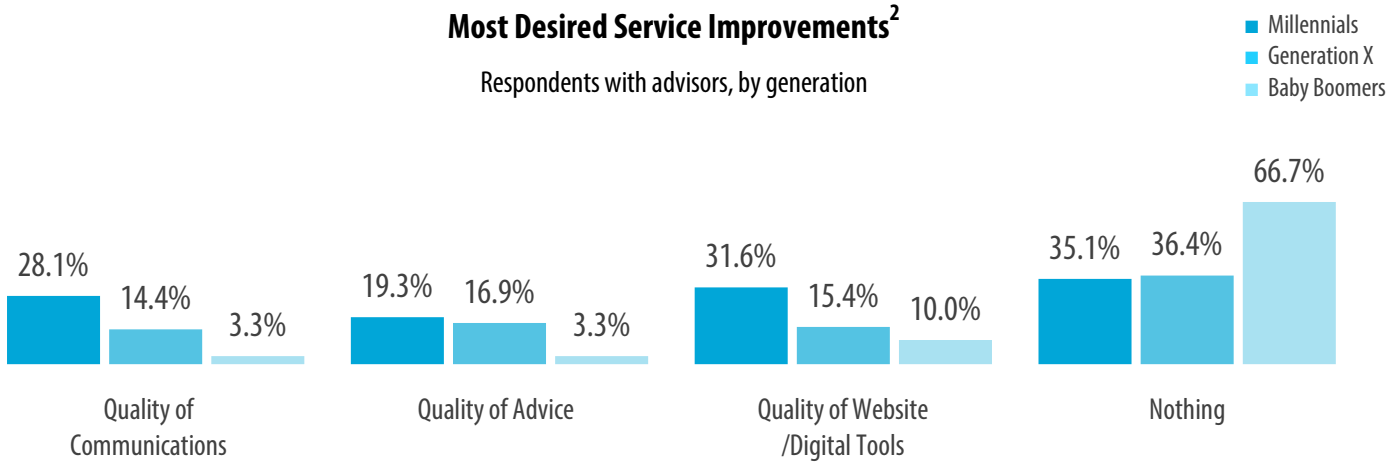


Segmentation strategies have traditionally been defined by service costs as much as by consumer preferences. New generations of consumers and new service models will force firms to rethink traditional segmentation approaches.

SEGMENTATION

CLIENTS OF ALL AGES WANT THE SAME THINGS

Given the pace of change, satisfaction drivers are refreshingly familiar, even across generations. Quality of advice, investment performance, and responsiveness were the top satisfaction drivers out of a set of ten possibilities. When pressed about what could be better, the most common answer by generation was "nothing." Many specific areas for improvement (e.g., digital tools, a choice for 30% of Millennials) showed low or no correlation with satisfaction.



Notes: [1]Q: What about your primary financial advisor's service quality are you satisfied with? [2]Q: What about your primary financial advisor's service quality could be improved? Millennials: 18–35; Generation X: 36–55; Baby Boomers: 56–older

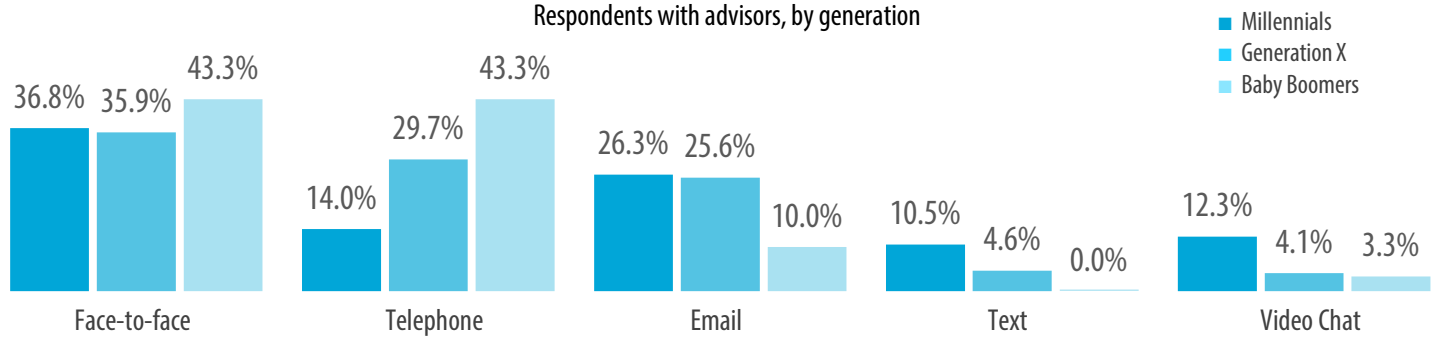
SEGMENTATION

AGE IS A WEAK PREDICTOR OF ROUTINE SERVICE PREFERENCES

Much has been written about the transformative power of Millennials, but their preferences are not fundamentally different than those of others. For example, similar percentages of Millennials, Gen Xers and Baby Boomers prefer face-to-face as their primary form of communication. Millennials are much less likely to prefer using the telephone (in favor of email, text, and video chat), but their communication preferences are otherwise similar to those of older generations.

Most Preferred Form of Communication[1]

Respondents with advisors, by generation



Most Preferred Communication Combinations[2]

Respondents with advisors

Combination Includes Face-to-Face

39.1%	Face-to-face Telephone Email	**7.7%**	Telephone Email Video chat
13.8%	Telephone Email Text	**6.9%**	Face-to-face Email Text
11.6%	Face-to-face Telephone Video chat	**4.9%**	Face-to-face Email Video chat
8.0%	Face-to-face Telephone Text	**3.2%**	Email Text Video chat

What to Watch For

- Each of the eight combinations shown is unique.
- Each combination represents the percent of respondents who ranked the forms of communication in their top three *in any order* (out of five options).
- The top ranking is arguably the **most personal**: 12.2% of respondents prefer face-to-face, telephone and email in that exact order.

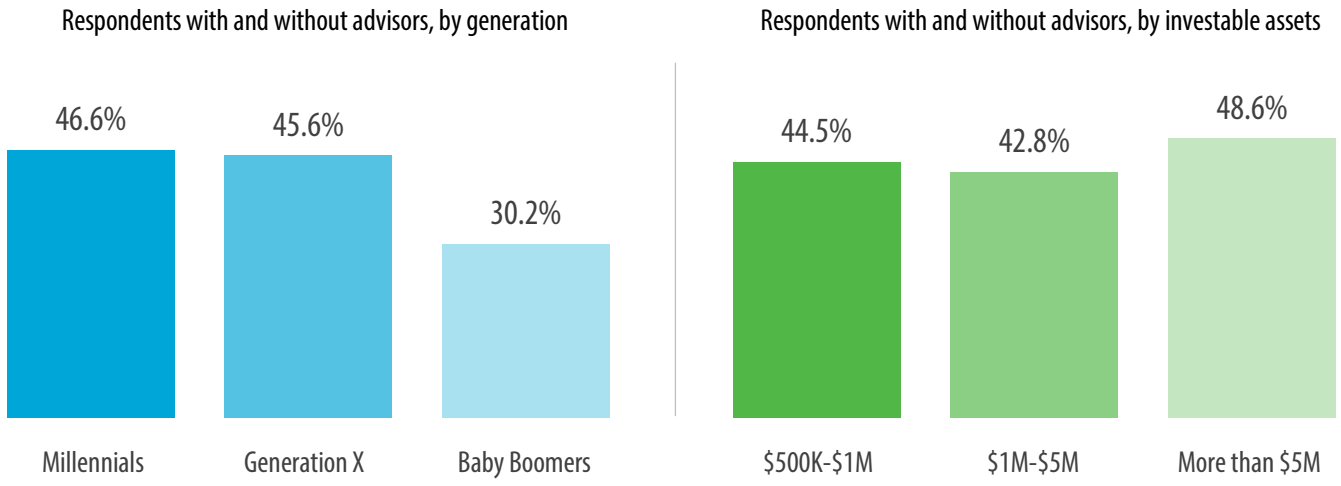
Notes: [1]Q: How would you prefer to communicate with your primary professional financial advisor? Please rank with 1 being the most preferred. NB: The survey was administered online and likely understates the preferences of consumers who are the least comfortable with technology. It is possible that our Baby Boomer sample shows higher preference for remote delivery than the overall population of Baby Boomers.

SEGMENTATION

PEOPLE OF ALL KINDS PREFER REMOTE DELIVERY

Wealth-based segments are not necessarily a good predictor of service preferences either. The percentages of mass affluent, wealthy, and very wealthy consumers who prefer electronic or remote communication channels are about the same. Firms have observed this in the behavior of their own clients, such as in the revealed preferences of ultra-wealthy clients who prefer the standard HNW service proposition (quote box). Client data (and behavior) suggest limitations in common segmentation approaches.

Percentage of Respondents Who Prefer Remote Communications[1]



> **We are starting to think about service delivery models in a way that is client segment agnostic.** Our new clients have different expectations, and I also have some very big clients who don't want our traditional model. They love the delivery model for the $1M to $3M account size range, and they are perfectly happy to park their $50M there.
>
> - Executive Vice President, National Private Bank

Notes: [1]Respondents who prefer remote communications are defined as ranking face-to-face communication as 3rd, 4th, or 5th. Millennials: 18–35; Generation X: 36–55; Baby Boomers: 56–older

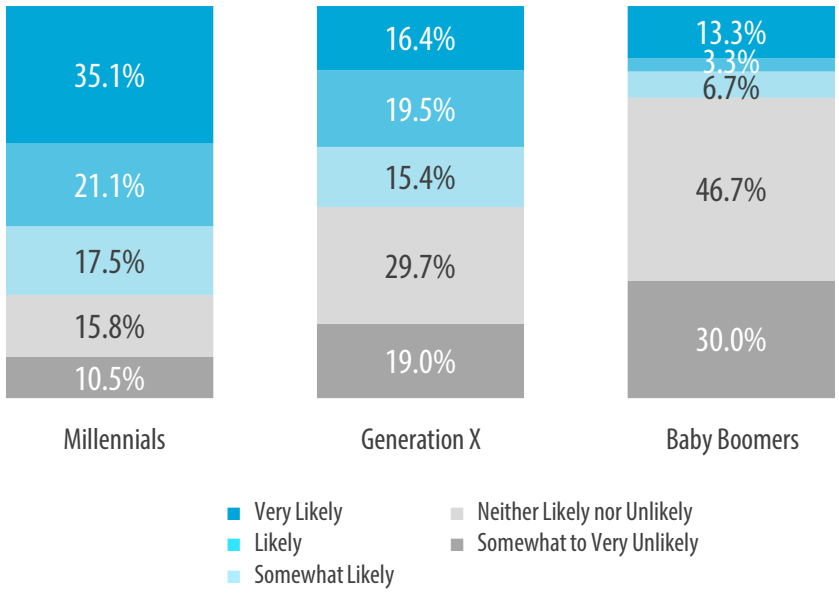
SEGMENTATION

THE MILLENNIAL CONSOLIDATION OPPORTUNITY

Interestingly, Millennials do show a greater likelihood of consolidating their relationship with their primary advisor. More than a third of Millennials described themselves as "very likely" to consolidate, more than twice as many as in older generations (bottom left). They are also more interested in consolidating assets with a single firm (gray box). These preferences may reflect lifestage rather than intrinsic differences. For example, older clients who prefer to consolidate have had more time to do so. Nonetheless, data suggest expansion opportunities among younger clients.

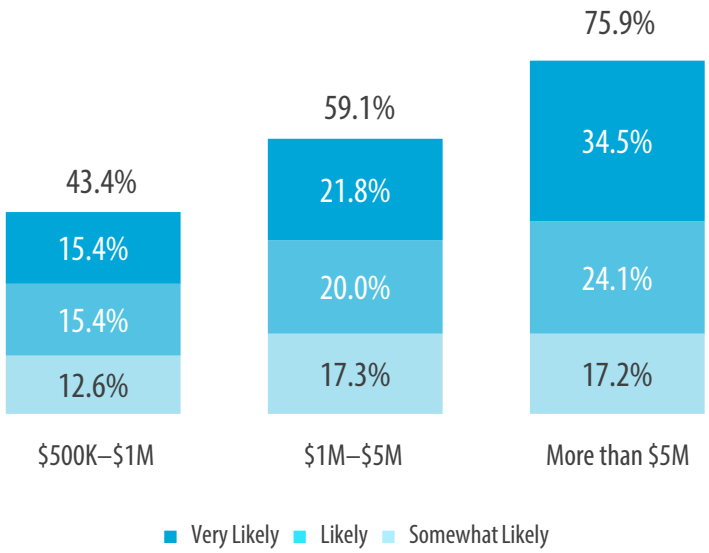
Likelihood of Relationship Consolidation in the Next Five Years[1]

Respondents with advisors, by generation



Likelihood of Consolidation in Next Five Years[1]

Likely to consolidate, by wealth



82% of Millennials prefer to consolidate assets with a single firm or advisor, about ten points higher than older generations.

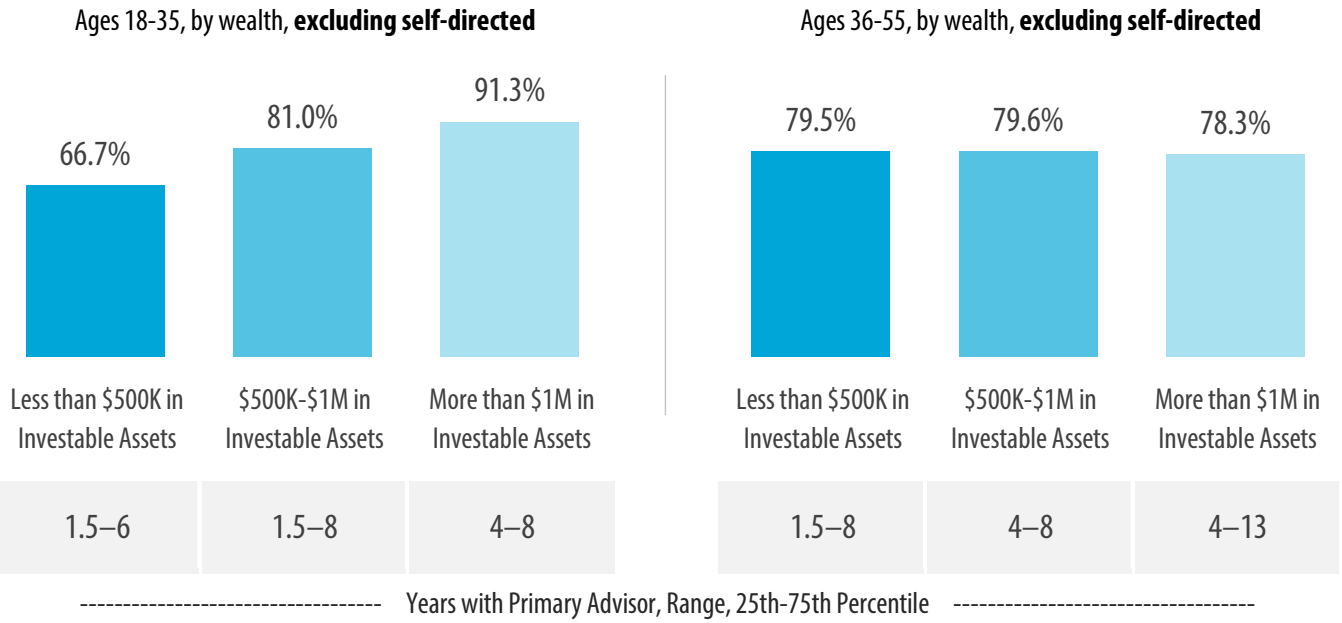
Notes: [1]How likely are you to consolidate your assets with your primary financial advisor in the next 5 years? Millennials: 18–35; Generation X: 36–55; Baby Boomers: 56–older

SEGMENTATION

GET IN EARLY OR GET BOXED OUT?

The benefits of consolidation are most likely to accrue to firms who get in early. For example, many of tomorrow's wealth creators—young business owners—already have a professional financial advisor. About 66% of business owners who are under age 35 and have less than $500,000 in investable assets have a professional financial advisor. As they age and accumulate wealth, those numbers rise rapidly, to about 80% to 90% for younger business owners with more than $1 million in investable assets (excludes self-directed). Firms lacking a strong value proposition for mass affluent and emerging wealth segments may miss significant opportunities as younger consumers inherit and accumulate wealth.

Percentage of Business Owners with Professional Financial Advisors[1]



> Some banks are using digital technology and call centers to deliver low-minimum advisory services. The goal is to tap into retail client bases that might not otherwise have a way to initiate an investment relationship with the bank's wealth management division.
>
> - Gavin Spitzner, President, Wealth Consulting Partners

Notes: [1]Q: In the past 12 months, have you worked with a professional financial advisor to help manage your personal finances?

SEGMENTATION

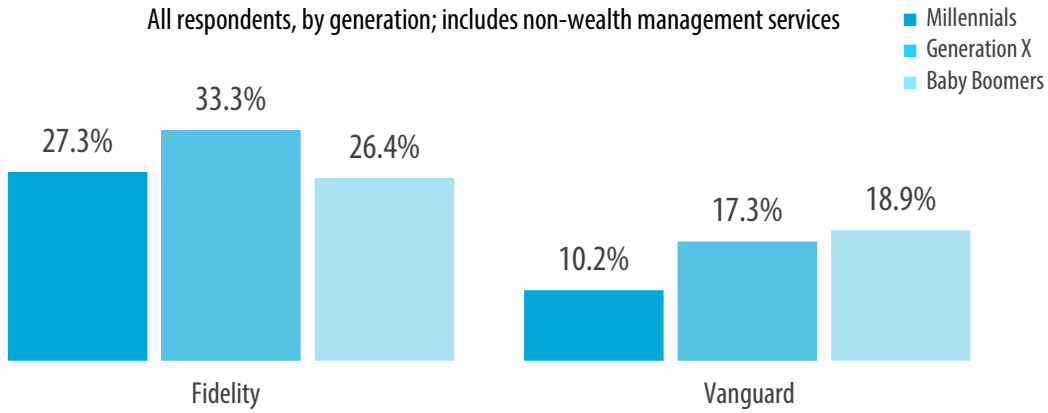
THE THREAT DOWNMARKET

The choices for younger consumers and emerging wealthy are getting better. As these segments accumulate wealth, the chief beneficiaries are likely to be firms whose service economics enable a strong value proposition in the lower wealth tiers where many of these consumers currently reside. Firms like Fidelity and Vanguard, for example, already have a vast network of relationships, including qualified retirement plans. Relationship breadth, scale, strong brands, and differentiated value propositions give these firms and others the opportunity to grow with their younger clients, at the expense of firms with high labor costs, old and legacy technologies.

> What are Fidelity and Vanguard doing that is attractive? **They are doing a better job of incubating [relationships] through their various lines of business.** You may have had an IRA 20 years ago. I did! Years and years ago, my wife and I rolled one over, and we have now had Vanguard accounts for 20 years. They do a great job of staying on top of us. They know a lot about us.
>
> - Retired Head of Wealth Management, National Private Bank

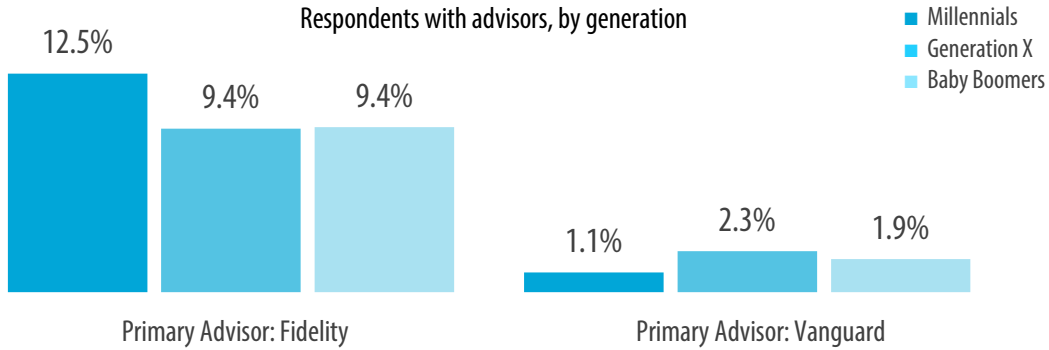
Respondents that Use Fidelity or Vanguard for Any Service[1]

All respondents, by generation; includes non-wealth management services



Clients that Currently Use Fidelity or Vanguard as Their Primary Advisor[2]

Respondents with advisors, by generation



Notes: [1]Do you use any of the following firms for financial services? [2]Do you use one of the following firms as your primary financial advisor? Millennials: 18–35; Generation X: 36–55; Baby Boomers: 56–older

SEGMENTATION

A BETTER OFFER FOR THE EMERGING WEALTHY AND MERELY AFFLUENT?

Other firms are also strengthening their value proposition to appeal to the "future" HNW. Charles Schwab's introduction of a subscription fee-based planning service and Goldman Sachs' acquisition of United Capital were both, in part, motivated by a desire to appeal to younger and mass affluent consumers. In contrast, many of their competitors have raised wealth minimums for their 'premium' services and lag behind in developing strong value propositions for the less wealthy. It remains to be seen whether Schwab or Goldman will be successful—both strategies have detractors—but their example shows the risks and opportunities for others.

Subscription Fee Model for Digital Advisory Services[1]

What: Charles Schwab has added a subscription-based financial planning option to its digital advisory service to provide clients with more hands-on help.

Target Market: Younger, tech-savvy customers who are very used to subscription service models; pre-retirees with significant rollover assets.

Old Price: Customers were charged 0.28% of their assets, which included access to a CFP and an in-depth financial plan. Current clients on this model will be grandfathered into the subscription fee model.

New Price: New customers will be charged a $300 upfront fee and a flat $30 monthly fee.

Expanding Advisory Options for the Mass Affluent[2]

What: Goldman Sachs purchases RIA aggregator and advisory firm United Capital to expand its reach in the mass affluent market.

Target Market: Mid-level Fortune 500 executives who are not currently served by Ayco, Goldman's financial counseling company (Ayco targets the most senior Fortune 500 executives).

Service Proposition:

- United Capital's service offers will be supplemented with Goldman products such as savings accounts and loans, hedge funds and alternatives.
- United Capital will offer financial planning and asset management service in partnership with Ayco.
- The combined entity will operate under the Goldman Sachs brand.

Notes: [1]Bloomberg, "Schwab Adopts Subscription Model for Financial Planning", April 1, 2019. [2]Financial Planning, "Joe Duran on how Goldman Sachs will build its United Capital RIA brand", Charles Paikert, May 20, 2019

EXPANSION & CLIENT RELATIONSHIPS

LEVERAGING A TRADITIONAL STRENGTH

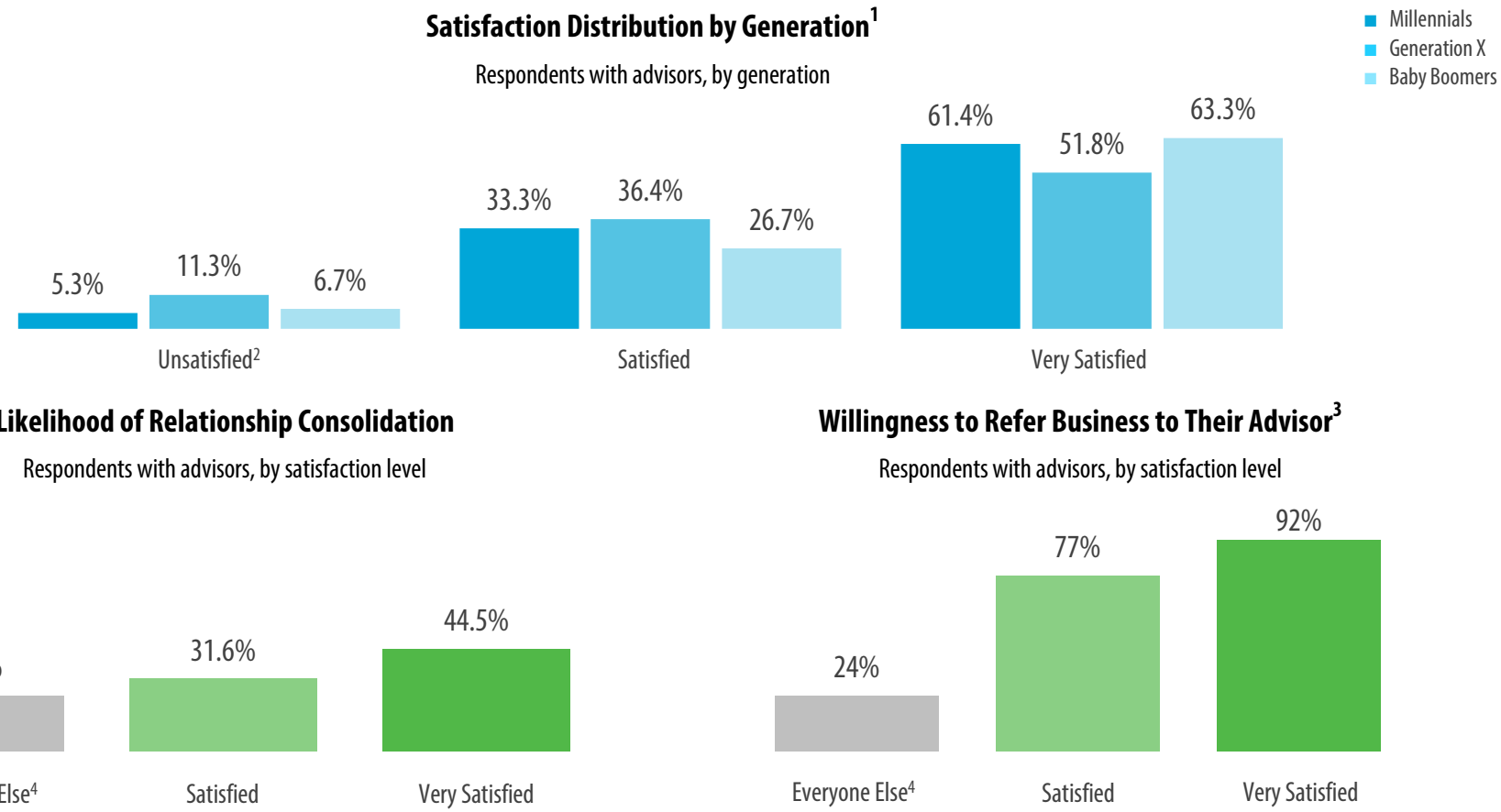
Firms' best growth prospects start with existing client relationships. It is easy to see strengths in others: a few heavyweight asset managers have amassed trillions in client assets, and there are veritable armies of independent advisors and brokers. The good news, however, is that banks and trust companies have an undeniable advantage to grow from existing clients. Priority one is optimizing relationships within wealth management, and data point to untapped opportunities. Priority two is extending beyond wealth management. Many firms will enhance prior years' efforts by using client data to pursue more targeted referral and acquisition opportunities elsewhere in the firm (bottom left).

Competitive Strengths, by Service Model

EXPANSION & CLIENT RELATIONSHIPS

HIGH RETURNS ON CLIENT SATISFACTION

New client acquisition may be as challenging as ever, but there is still abundant opportunity in firms' existing wealth management businesses. Some good news: most clients are satisfied. Satisfaction, in turn, correlates with good revenue characteristics. By generation, 80% or more say they are "satisfied" or "very satisfied" with their financial advisor (top). As satisfaction increases, so does the likelihood of referral and consolidation. For example, about 30% of clients who say they are "satisfied" with their primary provider are likely to expand the relationship. When clients are "very satisfied," that likelihood goes up significantly (bottom left).



Notes: [1]How satisfied are your with the service quality of your primary financial advisor? Not shown: somewhat satisfied and neither satisfied nor unsatisfied, which account for less than 1% and less than 2%, respectively. [2]Includes respondents that identified as very unsatisfied, unsatisfied, somewhat unsatisfied. [3]How likely are you to recommend your primary professional financial advisor to a friend, family member, or other acquaintance? [4]Includes respondents that identified as very unsatisfied, unsatisfied, somewhat unsatisfied, neither satisfied nor unsatisfied, and somewhat satisfied

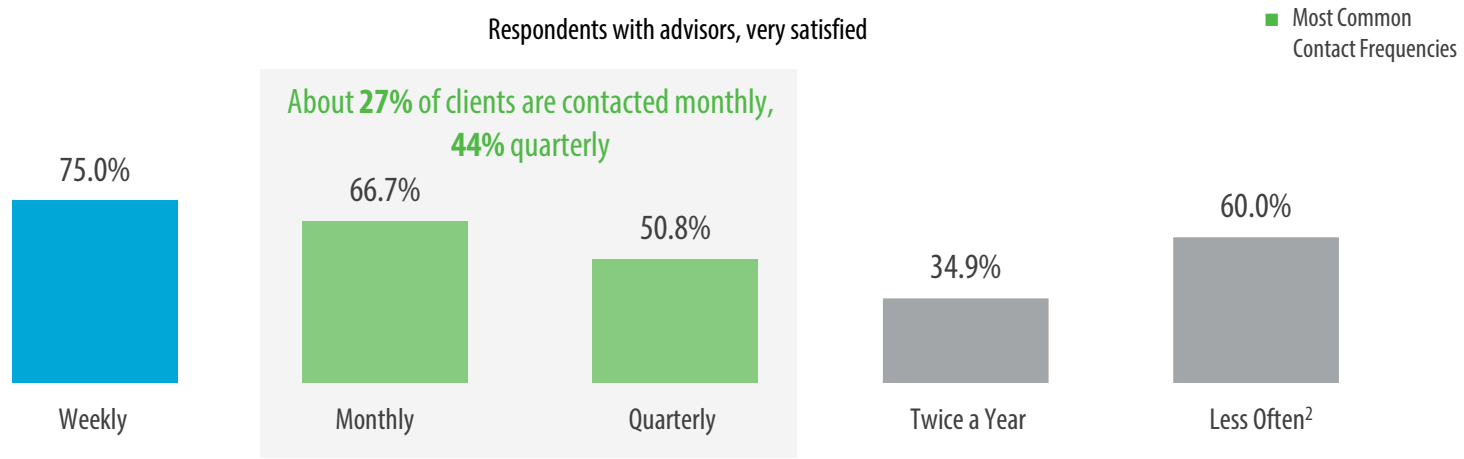
EXPANSION & CLIENT RELATIONSHIPS

MORE THAN ANYTHING: BE IN TOUCH

Improving satisfaction rates, increasing referral volumes, and expanding relationships are attainable goals. Data favors tried-and-true strategies such as greater contact frequency. The clients who firms contact the most are the most satisfied and the most likely to expand their relationship. Of those who are contacted quarterly—the most common contact frequency—about 50% are "very satisfied" (top) and about 15% say they are "very likely" to consolidate their relationship (bottom). More frequent contact—for example, monthly, which is the second most common cadence—yields substantial improvements in satisfaction and consolidation likelihood. This widely-understood relationship favors technology, centralization and support initiatives that free advisors to invest in building interpersonal relationships.

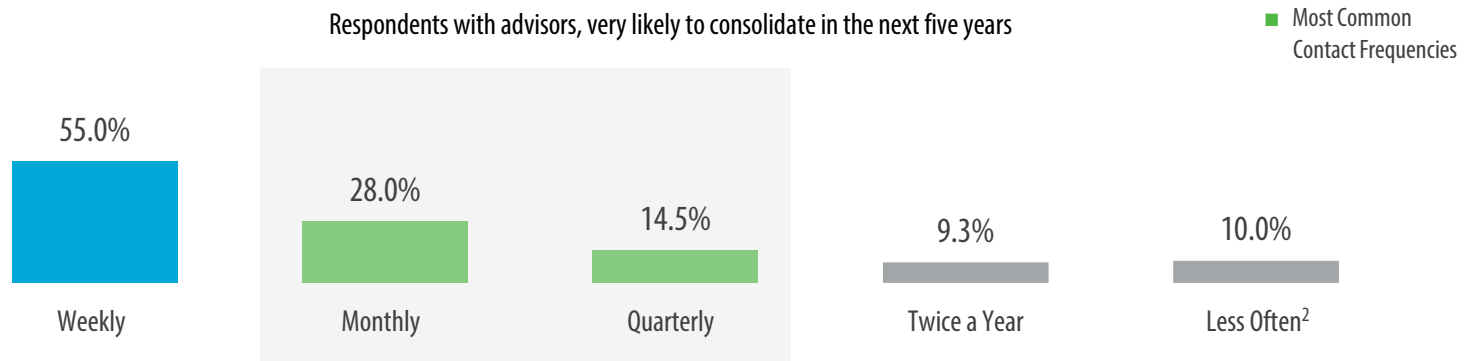
Satisfaction Levels, by Contact Frequency[1]

Respondents with advisors, very satisfied



Likelihood of Relationship Consolidation, by Contact Frequency[1]

Respondents with advisors, very likely to consolidate in the next five years



Notes: [1]About how often does your primary professional financial advisor contact you? [2]"Less often" is a small sample

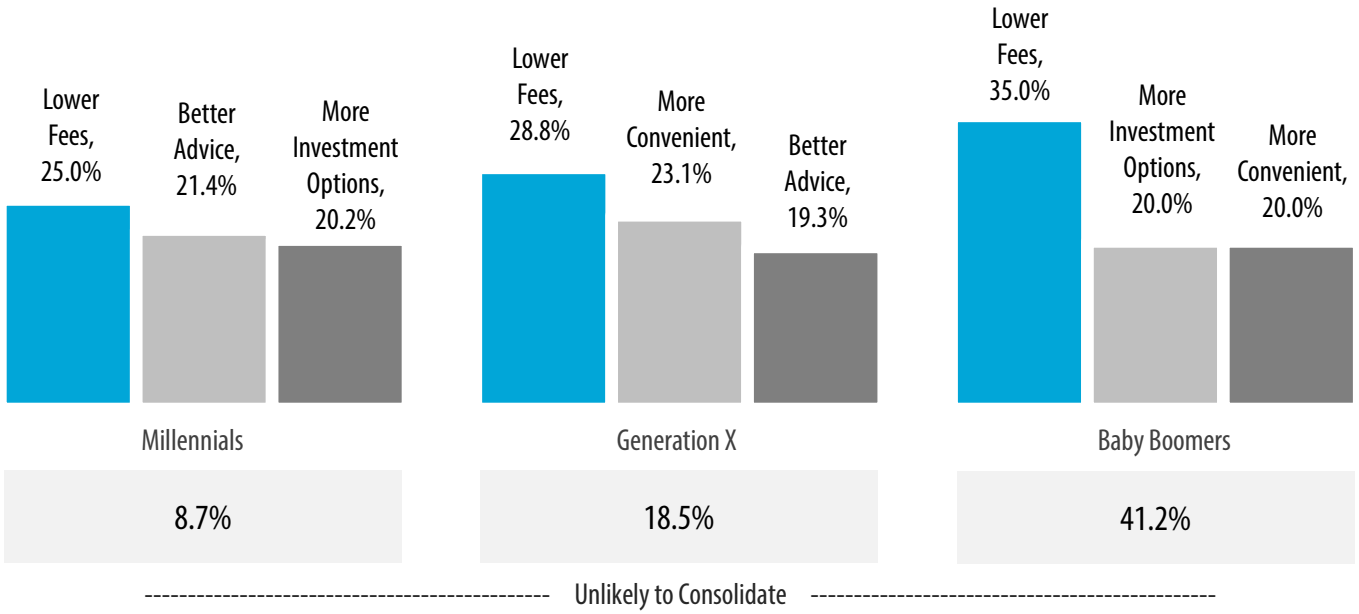
SEGMENTATION

CONSOLIDATION INCENTIVES

Regular contact, higher wealth levels, and youth are associated with higher likelihood of consolidation; incentives help, too. Across generations, a reduction in fees is a motivator for many to expand their existing relationships. Other motivators were more mixed, although firms who can make a compelling case that consolidation enables superior advice are likely to find a receptive audience.

Top Incentives for Consolidating Relationship[1]

Respondents with advisors, results are a percentage of total selections made



Notes: [1]If you hold assets with another financial advisor, what would motivate you to transfer those assets to your primary professional financial advisor? Pick up to two. Millennials: 18–35; Generation X: 36–55; Baby Boomers: 56–older

EXPANSION & CLIENT RELATIONSHIPS

CLIENT REFERRALS: AN UNDERLEVERAGED RESOURCE

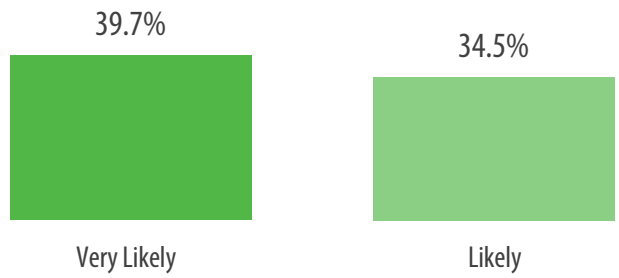
Clients are very willing to refer new business but many have never been asked. Nearly 75% of clients say they are likely or very likely to refer business (top, right). This resource, however, is underleveraged. Of the absolute "best bets" for referrals—clients who are very satisfied and very likely to refer—only 43% have been asked for a referral. For other clients, this ratio is even lower—by satisfaction and referral likelihood, only 25% to 33% have been asked to provide a referral.

> The only thing that drives success is client introductions. Marketing plays a small part but **almost all new relationships come from existing clients and COIs.** We have to bring our service offerings to them; they rarely find it on their own.
>
> - Executive Vice President of Sales, Bank W

> When people have needs, those needs are often identified by their trusted advisors such as attorneys and accountants. [Our bank] relies so much on internal channels. Referrals from COIs used to be so common in this business, but that skill has really died out. The people that are leaving in the silver tsunami understand the importance of COIs. It's a lost art that this industry needs to recover. **For a bank, 20-30% of new clients should be referrals from COIs.**
>
> - Chief Strategy Officer, Bank S

Percentage of Clients Who Are Willing to Provide a Referral

Respondents with advisors[1]



Nearly 75% of clients describe themselves as likely to provide a referral.

Percentage of Clients Who Have Been Asked to Provide a Referral[2]

Respondents with advisors, by satisfaction and likelihood to refer

	Satisfied	Very Satisfied
Very Likely to Refer	25.0%	**43.1%**
Likely to Refer	33.3%	29.6%

Only 43% of firms' best client referral sources—those who are very satisfied and very likely to refer—have been asked to do so.

Notes: [1]Q: How likely are you to recommend your primary financial advisor to a friend, family member, or other acquaintance?

EXPANSION & CLIENT RELATIONSHIPS

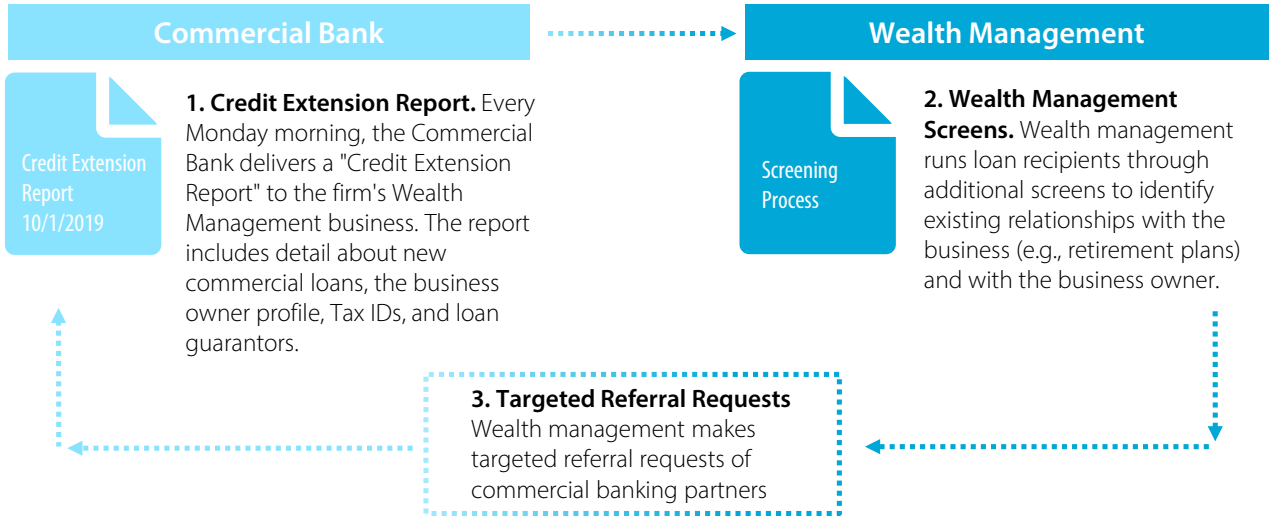
ENHANCING REFERRAL INITIATIVES WITH DATA

Despite years of effort, non-wealth management client relationships are an underdeveloped resource; client data initiatives are generating new optimism. By some estimates, only 10% of affluent households at the biggest banks in the US are clients of the firm's wealth management business. Client data offers a path for improvement, but the prerequisites are steep, including senior leadership support and organized, integrated, and readable client data. For regulatory and compliance purposes, many firms have started the latter processes. The lure of better sales outcomes will similarly motivate others. Firms see opportunities in new client acquisition (e.g., targeted referrals, below), cross-sales (e.g., "next best action" algorithms), and eventually, more customized servicing opportunities powered by artificial intelligence.

Case Example: Closed Credit Reports, Bank G

Key Insight: Firms are pursuing higher-quality referral opportunities by leveraging data about existing client relationships.

Background: Bank G is a Midwestern-based multiline bank wealth manager with less than $3 billion in assets under management.



Implementation Tips

Timing: Information is not provided to the wealth management business until after the loan has boarded. This preempts the possible objection from internal business partners to wait until the loan is on the books.

Executive Buy-in: As with almost every successful internal referral program, this initiative benefits from the support of senior leadership. Bank G's CEO is adamant that the firm offers the full spectrum of services to its clients.

Key Outcome: More Targeted Referrals

"The report allows us to be specific in our referral asks of commercial bankers. Otherwise, we have to ask in generalities and the commercial bankers may or may not get to it. We are starting to gain traction and this is our top business development initiative in 2019."

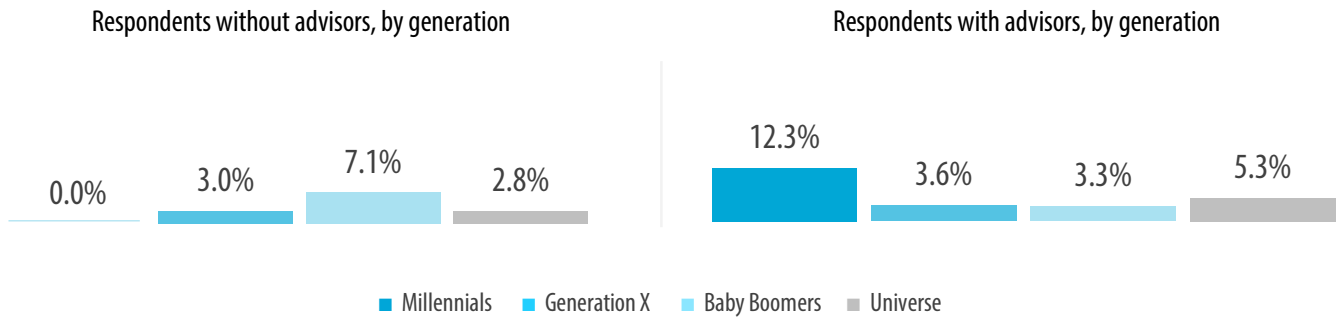
- Senior Vice President, Bank G

TECHNOLOGY

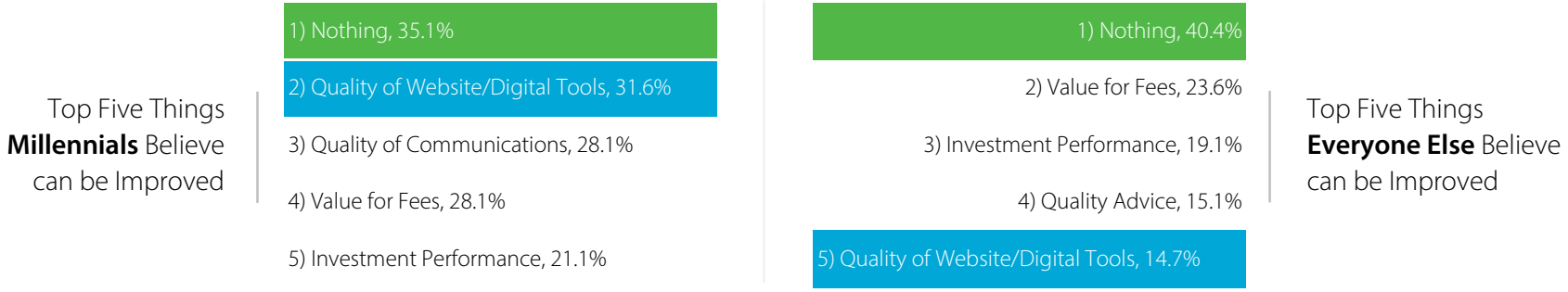
USE TECHNOLOGY FOR ADVISOR OPTIMIZATION, NOT DIFFERENTIATION

Technology won't directly impact sales outcomes for most, but it offers strong indirect revenue benefits. For a minority of firms, technology is central to the client service experience. It enables growth by appealing to tech-savvy consumers and by improving upon the options available to lower wealth segments. For most firms, the direct benefits are not that strong. For example, prospects rate technology-related characteristics low in buying decisions (top). Technology considerations aren't that important for existing clients, either. About 30% of Millennial clients said digital tools could be improved, but a higher percentage said that "nothing" about their current service experience requires improvement. For senior generations, digital tools rate only fifth on their list of desired improvements (bottom).

Percentage of The Respondents Who Selected "Digital Tools" as Important Buying Criteria[1]



Top Five Service Improvements[1]



Notes: [1]Q: What were the most important factors when choosing your primary professional financial advisor? Please pick up to two. Options included: referral, former relationship with employee, fees, brand, prior experience with firm, investment performance, investment options, advice, location, digital tools. Millennials: 18–35; Generation X: 36–55; Baby Boomers: 56–older

TECHNOLOGY

THE INDIRECT REVENUE BENEFITS OF TECHNOLOGY

The best use of technology is to enhance the effectiveness of advisors and sales officers. For certain, firms need to meet rising minimum technology service antes (e.g., self-service and remote delivery options, data security). Creating capacity for relationship-building (item 3) is an attainable 'best bet' that has high dividends: contact frequency is correlated with client satisfaction, and indirectly with referrals and consolidation. Firms are also using technology and client data (item 4) to improve sales outcomes.

Indirect Revenue Benefits of Technology

1. More efficient operations. Reduce operating costs, create process and service fulfillment consistency.

2. Enhance the HNW client experience. Many clients prefer online/remote delivery to access accounts, get information, conduct simple transactions, open accounts, and resolve problems.

3. Free up staff time for higher-value tasks. E.g., streamline account opening processes so teams can focus on higher-value servicing items and sales. Most clients prefer face-to-face for advice rather than remote.

4. Leverage client data to improve sales and service outcomes. E.g., develop algorithms to identify sales opportunities ("next best action") and top referral targets in other lines of business.

5. Improve experience for affluent, emerging wealthy, and clients who don't prefer face-to-face. E.g., human-digital hybrid service models.

6. Next generation advice platforms. Integrate disparate services (investments, banking, insurance, health care) into a unified platform. Customize advice using data, data aggregation, and artificial intelligence.

Requirements:

- Flexible technology: "plug and play"; upgrades/additions aren't disruptive
- Scale is not essential: firms can 'rent'
- Good client data: the fuel that fires technology

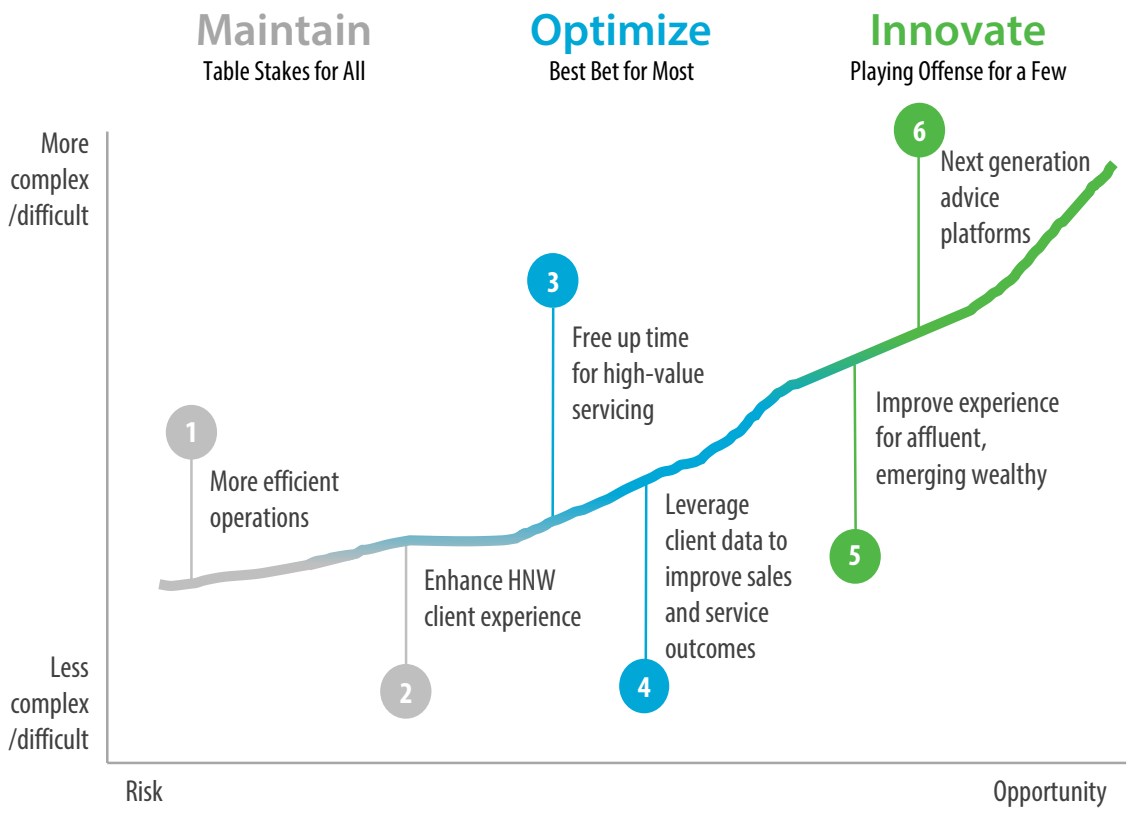


Table Stakes

> The minimum ante for delivery continues to increase: branch, web, mobile, chatbots, skype, instant messaging. **Right now, the need is to try to bring wealth management from the 1990s up to at least 2010 standards!**
>
> - Andrew Besheer, Head of Sales and Financial Services Solutions, North America, Appway

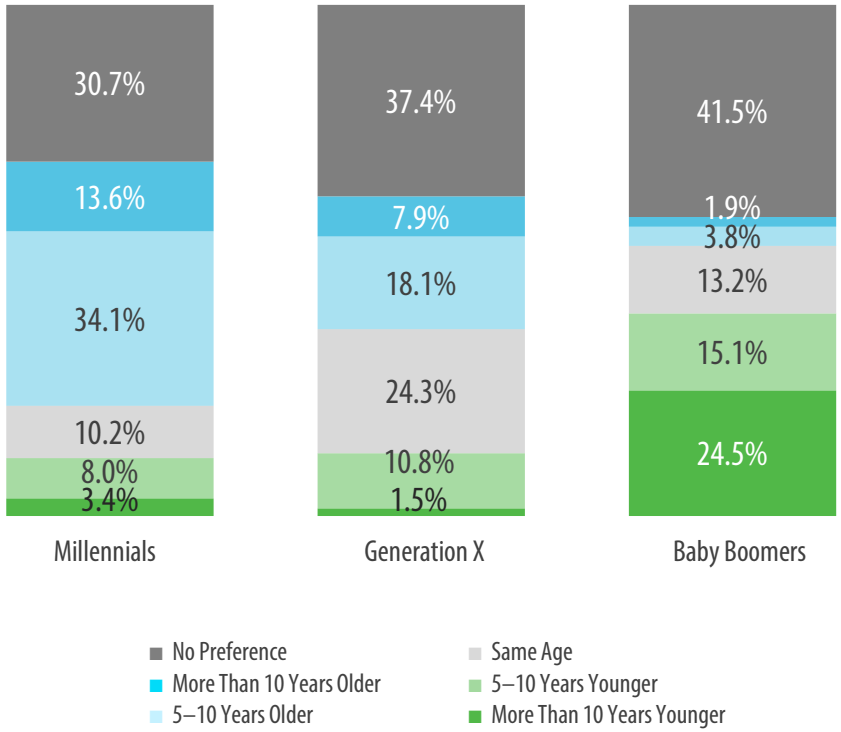
TALENT

ADVISOR PREFERENCES

Talent management strategies and new hiring profiles will become increasingly central to value propositions and growth. A full review of talent-related trends is beyond the scope of this research. However, if investments are a commodity, if many firms can claim 'trusted advisor' status, and if good technology is available to many (e.g., through partnership), talent necessarily assumes a larger role in determining growth outcomes. Some good news: in terms of demographics, the talent pool is big. Most clients are willing to work with advisors of any age and gender (below). Where they have preferences, they have minimal correlation with satisfaction rates.

Advisor Age Preference[1]

By generation; blue = prefer older, green = prefer younger, gray = no preference or same age



Advisor Gender Preference

By gender and generation, total sample

Female

	Prefer Same Gender	Prefer Opposite	No Preference
Millennial	18.3%	16.7%	**65.0%**
Generation X	9.1%	9.1%	**81.8%**
Baby Boomer	8.3%	12.5%	**79.2%**

Male

	Prefer Same Gender	Prefer Opposite	No Preference
Millennial	29.6%	0.0%	**70.4%**
Generation X	19.7%	2.1%	**78.2%**
Baby Boomer	27.6%	0.0%	**72.4%**

Notes: [1]What is your preferred age for your primary financial advisor? [2]How satisfied are you with your primary professional financial advisor? Millennials: 18–35; Generation X: 36–55; Baby Boomers: 56–older

TALENT

DESIRES FOR STRONGER SALES CULTURES LIKELY TO CHANGE HIRING NEEDS

Clients may not be overly picky, but firms still need to change their talent management practices to reflect new value propositions. Our view is that hiring and talent management practices lag behind the shift to advice- and planning-led service models. Even though firms possess (and also sell) the ability to advise clients across a range of needs, teams often function as a loose confederation of specialists, rather than a well-coordinated whole. In some firms, trust officers are awkwardly thrust into de facto relationship manager and planning roles; the integration of human and digital delivery brings a host of unresolved questions about performance metrics and compensation. Amidst the "new" are a host of known challenges, such as managing tensions relating to incentive compensation: high enough to drive growth and to diminish the allure of going independent, without impairing service economics or introducing conflicts.

New hiring profiles are among the first of many changes in the works. Compared to prior years, firms are placing more emphasis on interpersonal skills (such as their emotional intelligence) and sales talent. For obvious reasons, planning is atop many lists of desired technical skills; however, firms are more likely to compromise on technical skills in favor of proven sales acumen. Firms who are best positioned for future growth are developing talent internally, have a hiring profile that aligns with their value proposition, and a plan for employee engagement.

Help Wanted

- **"EQ not IQ".** Shift to integrated advice, hybrid service approaches will make a high emotional quotient more important.
- **More than just investment management.** CFP, LLM, and equivalent designations are in demand.
- **Strong sales talent.** Will recruit sales talent with limited wealth management experience.
- **Comfortable using technology.** Advisors' willingness and ability to use new technologies is a common (and sometimes unexpected) obstacle to successfully integrating technology into sales and service processes.
- **Still hiring from each other.** A minority of firms have talent development programs (a good practice). However, many firms still opportunistically hire from their competitors.

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