THE CHANGING FACE OF FACE-TO-FACE

How advisor-centered relationships can thrive—even as technology races forward

Like many relationship-based businesses, wealth management has traditionally relied on face-to-face interactions and interpersonal communications. For decades, clients found a financial expert—often through a family member, friend or an organization like work or church—met face to face, shared the details of their financial lives, discussed goals and received a plan to achieve them. The advisor handled every aspect of research and account management and was typically paid a fee or a percentage of assets under management (AUM). The client met with the advisor a few times a year and typically expected the advisor to direct all account-related oversight and activities.

In other words, the advisor was the only interface to investment products and creating a financial plan.

Now, in an era of omnichannel service delivery, increasingly sophisticated digital resources and robo advisors, is there room for human interaction and interpersonal communication?

The evidence suggests the answer is "yes."

A changing relationship

While digital is a critical service channel, it's unlikely most clients will move to digital-only investment management any time soon. Instead, most will prefer a hybrid approach which combines the best aspects of digital—and human-based experiences. Consumers of every age and income, even digital-native Millennials, will seek a multi-pronged approach to advising that enhances—not replaces—face-to-face relationships.

Compared to advisor/client relationships of the not-too-distant past, the experience now lives on a continuum. On one end are relationships that follow the historic model; on the other are self-directed portfolios managed entirely by algorithms with automated tools to determine everything from a goal-driven asset mix to sophisticated risk tolerance evaluation and rebalancing schedules.

In many ways, the wide range of technology implementation is not unlike the progression of consumer-focused tax preparation. Until the mid-1990s, the yearly ritual of filing federal income taxes involved several trips to a tax preparer, paper forms, boxes of receipts and plenty of postage stamps. For those taking on the challenge themselves, long hours and math errors were commonplace.

Then, with the personal computer revolution, many consumers opted for step-by-step software to handle relatively simple returns themselves. Speed and accuracy were greatly improved, but many would still engage tax professionals to review the completed forms. Throughout the years, as capabilities, interfaces and consumer comfort improved, the role of the tax professional shifted away from forms, schedules and deductions and transformed into oversight, guidance and strategy.

So is history repeating itself in financial advising?

Today, although assets managed exclusively through self-directed tools (like robo advisors) make up a small fraction of all portfolios, they are attractive to a growing subset of the marketplace. And because robos tend to be intuitive, cost-efficient, real-time and easy to navigate—especially for those who routinely use computers and smartphones—their market penetration is only expected to increase. An examination of the industry's investment in these technologies shows where bets are being placed.

A snapshot of the investment in fintech and robo advisors

According to data from Financial Technology Partners, worldwide fintech investments were $36 billion in 2016[1]—a big jump from the $19.1 billion invested in 2015[2]. As a result, a wide range of start-ups and big players alike have successfully inserted themselves into the online financial services marketplace.

A noticeable outgrowth of this investment, combined with advancing tech capabilities, is digital advising and the emergence of consumer-facing robo advisors. A report by Cerulli Associates put the market for digital advising at roughly $83 billion at the end of 2016[3]. That's minuscule in the current investable assets marketplace that Cerulli estimates at over $33.5 trillion, but the evidence suggests these levels will continue to grow to $2.2 trillion by 2020.

Why? Because the underlying forces—chiefly, the delivery of better market performance at a better price—have always been the holy grail for fintech. However, as impressive as the technology has become, and as defensible as it may be from cost and efficiency perspectives, **elements of human-centered advice, built on relationships, continue to offer advantages not (yet) found online.**

[1] MESROPYAN, ELENA. "GLOBAL FINTECH FUNDING REACHED $36 BN IN 2016 WITH PAYMENTS COMPANIES SECURING 40% OF TOTAL FUNDS" LET'S TALK PAYMENTS JAN 2, 2017 HTTPS://LETSTALKPAYMENTS.COM/GLOBAL-FINTECH-FUNDING-36-BN-2016/
[2] KPMG. "FINTECH FUNDING HITS ALL-TIME HIGH IN 2015, DESPITE PULLBACK IN Q4: KPMG AND CB INSIGHTS MARCH 9, 2016 HTTPS://HOME.KPMG.COM/XX/EN/HOME/MEDIA/PRESS-RELEASES/2016/03/KPMG-AND-CB-INSIGHTS.HTML
[3] AGREEMENT EXPRESS "2016 FINTECH REPORT" HTTP://PAGES.AGREEMENTEXPRESS.COM/RS/979-XOS-122/IMAGES/2016%20FINTECH%20REPORT%20BY%20AGREEMENT%20EXPRESS.PDF

The *complexity* variable

It's unlikely that most investors will move to a completely tech-driven model any time soon. Consider, for example, any combination of factors which drive the need for holistic oversight, strategy and comprehension:

Divorce settlements and agreements	**A recent or pending inheritance**	**Long-term health issues**
A special needs child	**Business ownership**	**Debt load**
A terminally ill parent	**Complex tax situations**	**Estate/legacy planning**
Planning for college	**Social Security benefits/strategies**	**Legal obligations**

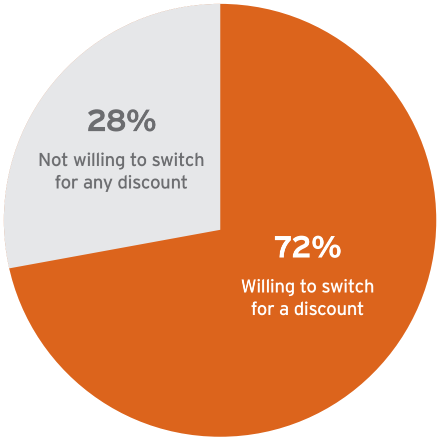
Any of these complexities, and especially several happening concurrently, quickly eclipse the planning capabilities of even the most sophisticated robo algorithms. Because of this, the advisor/client relationship maintains its rightful place in the center of holistic planning.

8 factors that affect client/advisor relationships

1. Consumers are very price conscious. Research from A.T. Kearney's 2016 report, Why Investing Will Never Be the Same, showed that nearly two-thirds of surveyed mass-affluent adult consumers, which it defined as those having at least $50,000 in investable assets, would be willing to switch advisor resources for a discount and that this willingness was strongly correlated with age.

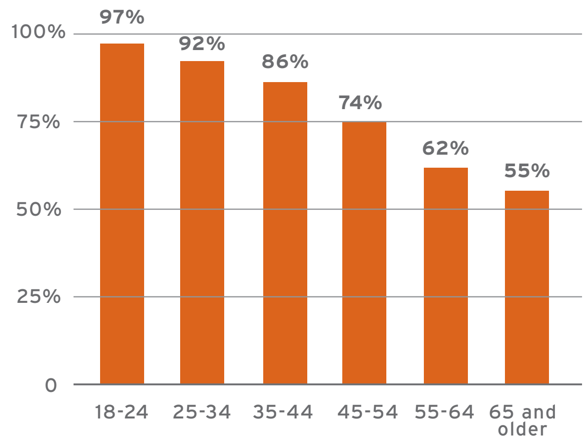
THE WILLINGNESS TO SWITCH ADVICE PROVIDERS FOR A FEE DISCOUNT IS HIGH

% Of mass-affluent, advised respondents who know the advice pricing approach of their primary investment firm.



SOURCE: A.T. KEARNEY 2016 FUTURE OF ADVICE STUDY (N=1,341)

Willingness to switch, by age.



2. Financial advisors need to do a better job communicating their value. A recent CEO survey by Tiburon Strategic Advisors showed CEOs believed clients thought advisors were less valuable than they had been in the past. That's something to keep in mind when building and growing relationships.

3. Hybrid investment models are becoming more popular. There's likely to be increased movement to what A.T. Kearney describes as "digital-plus," where technology is used to deliver investment advice via an online platform, but the client has access to a personal advisor.

4. Consumers want an app for everything. According to research from McKinsey, "'mobile first' is not just a buzzword—it is the clearest directive banks could receive from consumers about how they want to interact with their service providers." Advisors and broker/dealers need to be aware of this reality and deliver consistent, timely investment information across all channels: traditional web, mobile web and app-specific.

5. Investors like online data—but are also overwhelmed by it. Google has changed the way people research pretty much everything, including their finances. But that doesn't mean they always know what to do with their findings.

6. Investors of all ages/income levels are using or considering robos. There can be a tendency to assume robos are only desired by younger investors or those with smaller portfolios. The evidence shows that's not the case.

7. Consumers don't trust the financial industry…but do trust technology. Everything from the 2008 recession and resulting bank bailouts to the 2016 Wells Fargo scandal has consumers on edge and less likely to trust traditional financial institutions. In fact, one study found that only the government and the tobacco industry were trusted less.

8. Investors like the crowd to weigh in. There's an increasing reliance on "crowd sourcing" when it comes to financial information gathering and decision-making. According to LinkedIn's *Affluent Millennial Opportunity* study in 2016, 81% of affluent millennials use social media to get information about financial products and services.

The reality of technology and how to embrace it

The nature of technology's ongoing march means the inherent dynamics of relationships will continually change. It transcends time and affects every generation.

While it's tempting to view digital tools as a danger to traditional advisory practices, the reality is that they're here to stay and have the potential to be valuable relationship- and efficiency-builders. Further, they can allow advisors to connect with younger and lower asset clients—who could grow into full-fledged relationships over time—and help serve traditional clients in a more cost-effective way.

So instead of seeing digital merely as a disruptive force, it's important to recognize its value, reaffirm the difference a human advisor makes and position a hybrid advising model as the best way to meet the complex needs of clients and prospects.

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