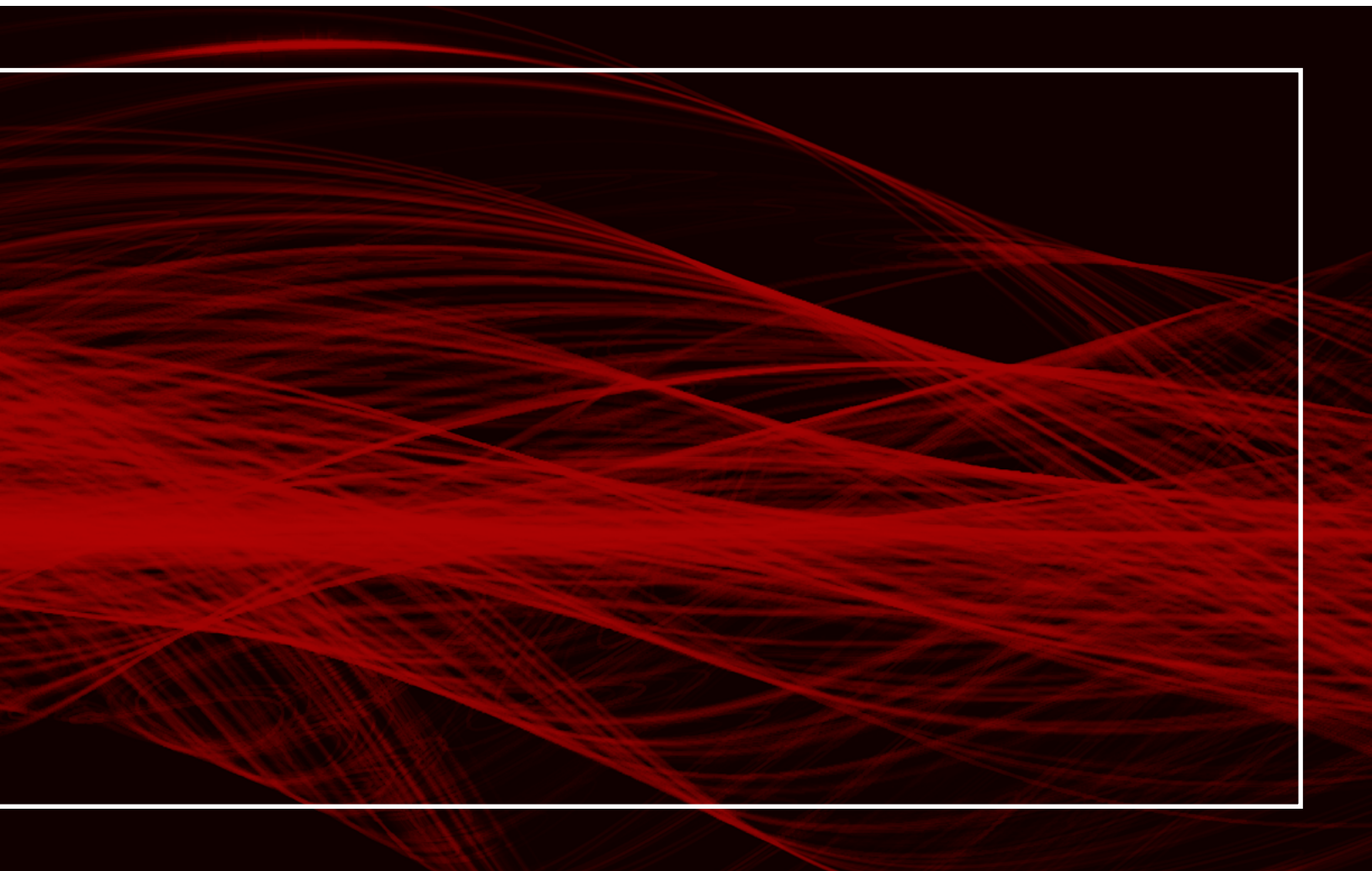


THE FINANCIAL ADVISOR PLATFORM OF THE FUTURE

HOW TO BUILD A FOUNDATIONAL ADVISOR PLATFORM THAT POWERS
THE NEXT WAVE OF DIGITAL INNOVATION



ABSTRACT

Wealth management firms are using digital platforms to revolutionize the industry. Investments in new technology are transforming financial advice, providing customers with an experience that rivals the most forward-thinking tech startups.

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

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

Across the spectrum, firms are aspiring towards a digital future where their core lines of business are accessible through a single platform, also enabling clients to benefit from advice that accounts for their whole, holistic financial picture. New digital ecosystems are aspiring to deliver truly powerful solutions across the advisor value chain, by both building internally and partnering.

Wealth management firms are investing heavily in infrastructure that will empower an advisor because, in the near to mid-term, clients still desire a human element to managing their wealth. The differentiator among organizations will come down to the financial advisor (FA) and their platform's ability to enable the advisor.

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

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

INTRODUCTION

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

A generation of digital-first Millennial investors are entering their prime earning years and their desire for personal, easy-to use technology has driven wealth managers to reevaluate their traditional interaction model, in fear of losing a key emerging customer demographic and their associated assets.

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

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

THE PLATFORM ADOPTION DILEMMA

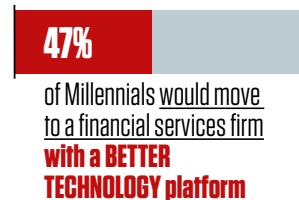
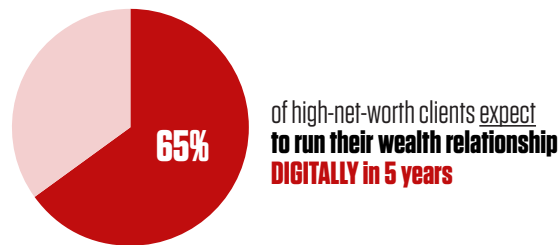
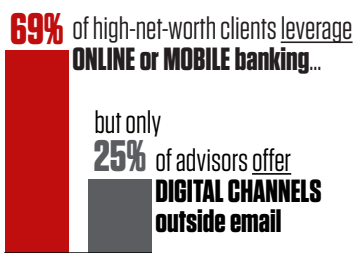
The initial hype of direct to consumer digital advice has certainly passed its peak, as new entrants have defined the best-in class digital experience. Although a simple and intuitive digital experience is paramount, ultimately wealth management will continue to derive the most value from a FA-focused business model, with the human relationship being key.

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

Ultimately, the digital platform is only as good as the advisors, clients, and assets it services. Certain available digital platforms in the industry only address a select client segment and only service a portion of their financial needs.

Firms must ensure that their technological capabilities are flexible enough to address the needs of their clientele, regardless of total wealth or age. Clients are showing a true interest in working with advisors who understand their individual needs, wants, and goals. Consider that 41 percent of millennials want technology-enabled financial planning tools and 39 percent want customized service. Building a flexible platform that services a wide range of advisors will attract new business from all client segments and optimize the client wallet across the entire financial relationship as new technologies are introduced.

“ Ultimately, the digital platform is only as good as the advisors, clients, and assets it services. ”



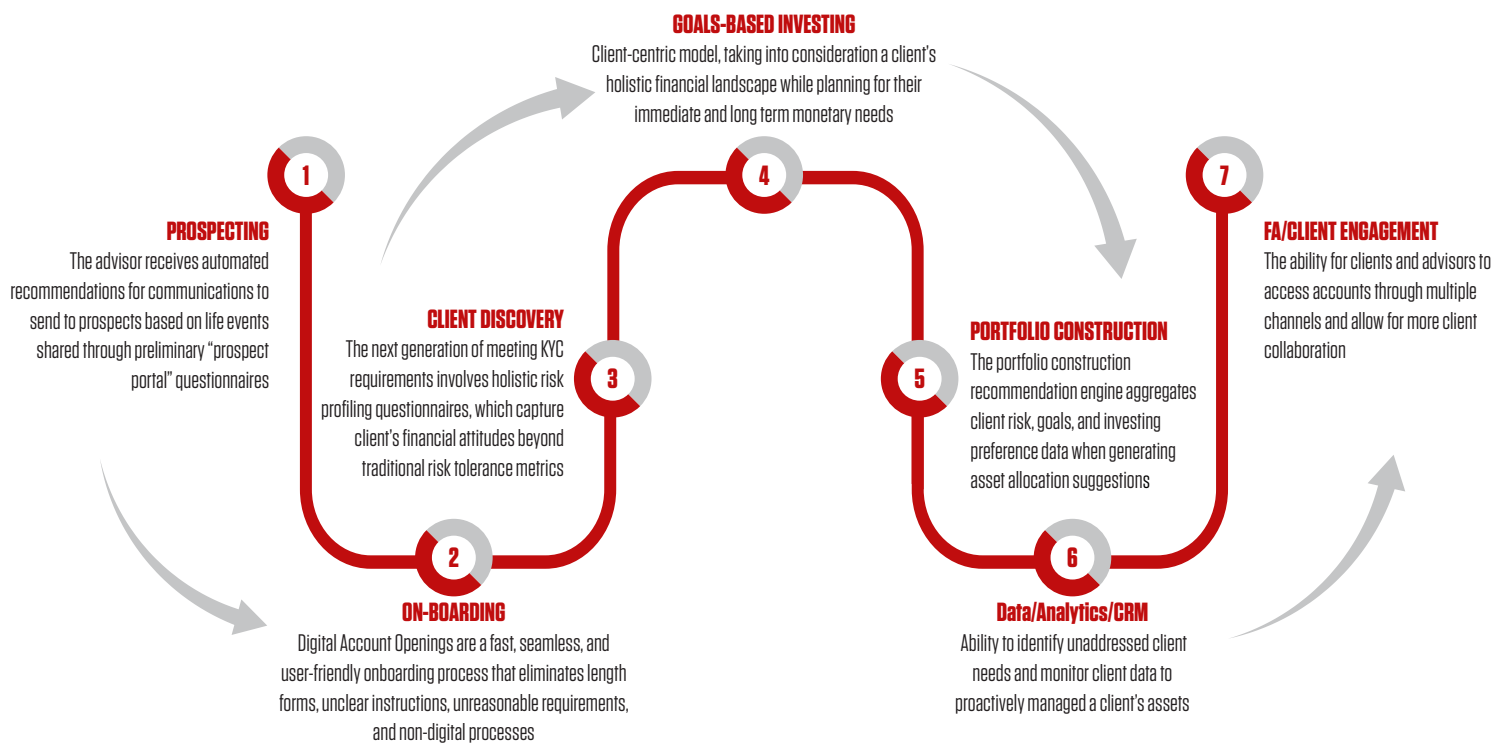
EVOLUTION OF THE FINANCIAL ADVISOR PLATFORM – UNDERSTANDING THE VALUE CHAIN

To best prepare for the next generation of digital innovation, wealth and asset managers need to build upon their current digital foundation to properly position themselves in the market. Maintaining any sort of competitive advantage in a saturated industry will be dependent on the ability to differentiate through the customer experience, new products, services, and business models. The premium on customer experience has gone up based on the emerging generation's expectation around simplicity, driven by their day to day digital interactions.

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

Despite the slow adoption of digital technology within wealth management relative to other industries, there has been a significant shift in the pace of digital change, putting the impetus on firms to either adapt or risk losing clients and market share as they are outpaced by their competitors. The degree to which industry leaders have accepted the digital movement, as despite various small gaps, they are generally mature across four innovation categories.

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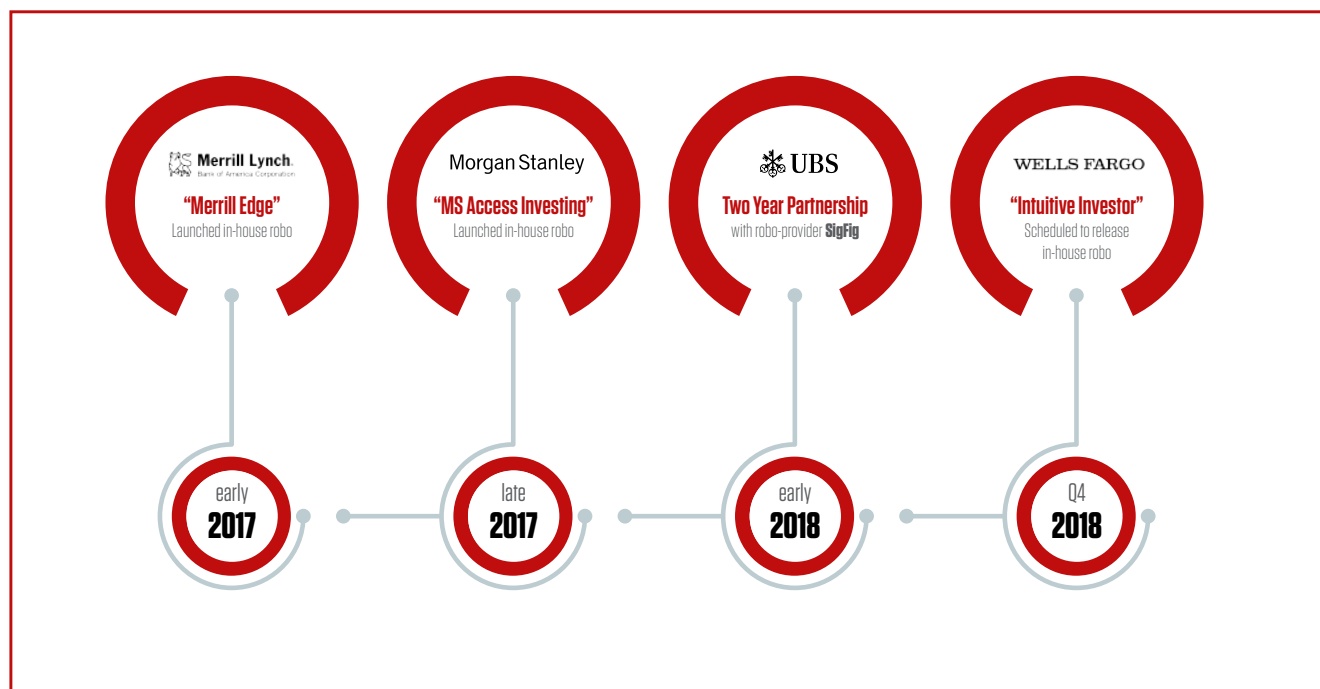
DIGITAL MATURITY

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

The digitization of prospecting and client onboarding has been prominent among industry leaders. They have been seen as ‘low hanging fruit’ and widely recognized as high value areas for digital enhancement for the Financial Advisor and the client. Morgan Stanley, in particular, has

invested heavily in their Goal Planning System, providing an improved digital experience that has allowed them to become a leader in this space.

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



Industry leaders recognized that risk and acted. Merrill Lynch launched their robo solution in early 2017 through Merrill Edge, and Morgan Stanley’s Access Investing can be considered a fast follow in late 2017. Wells Fargo’s Intuitive Investor is scheduled to release to the mass market in Q4 2018. UBS also entered the fray in early 2018 after nearly a two-year partnership with robo provider SigFig. The development of the robo-advisor among industry leaders is a clear indicator of the need to develop a digital footprint that is able to service all customer segments.

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

ADVISOR PLATFORM OF THE FUTURE

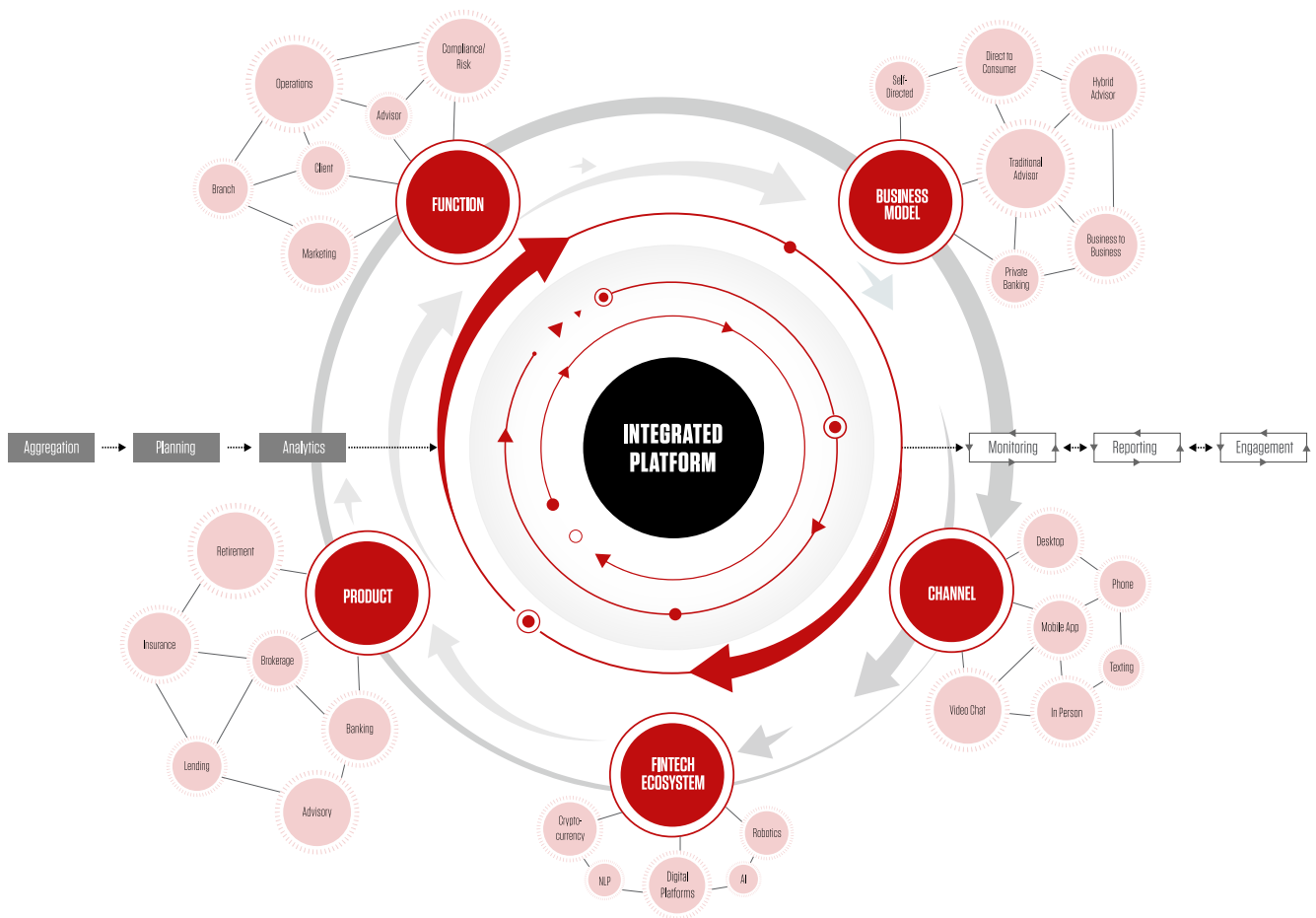
Firms aspire to provide an experience that allows the investor to seamlessly transition across channels, with better access to products, allowing customers to graduate through segments as their financial needs change. There has never been a greater need for wealth managers to provide a flexible yet simple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

With the advent of digital advice, investors have raised a very important question; “Do I really need a financial advisor to manage my assets?” Today, the answer is clear that advisors still play an integral part of wealth management and financial advice. Digital solutions such as robo and hybrid advisors have proven their worth and will continue to garner market share, but as the industry evolves, solutions like the integrated advisor platform will empower financial advisors through cutting edge technology, while enhancing the client experience.

Today this may be the case, but it is important to look ahead and consider how the role of the financial advisor may change as automation and new technologies begin making their mainstream appearance.

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

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THE EVOLUTION OF THE CLIENT-ADVISOR INTERACTION

Robo advisors sent a scare through the industry with many fearing the end was near for FAs, along with their traditional business model. However, the strength of the robo advisor is in its simplicity. They cannot compete with the wealth of knowledge, customization, and intimacy a human advisor brings to a client relationship. When digital advice platforms are paired with artificial intelligence, the gap between robot and human shrinks. There are already solutions on the market that utilize cutting-edge technology to better serve clients without the presence of a financial advisor.

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

COGNITIVE COMPUTING AND INSIGHT

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

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

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

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

Natural language processing (NLP) is the technology behind platforms like Amazon's Alexa and Apple's Siri, which have both made sudden mainstage appearances in our lives through our phones, smart speakers, and other IOT devices.

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

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

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

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

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

THE POWER OF AUTOMATION

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

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

Robotic process automation (RPA) provides the ability to automate tasks that require little decision making, such as information extraction and keying. The RPA market is still small but the technology is gaining

traction and the market size is projected to be \$5 billion by 2020. A good starting point for firms looking to implement RPA is the replacement of low complexity, highly repetitive tasks often found in operations, compliance, and other back-office functions.

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

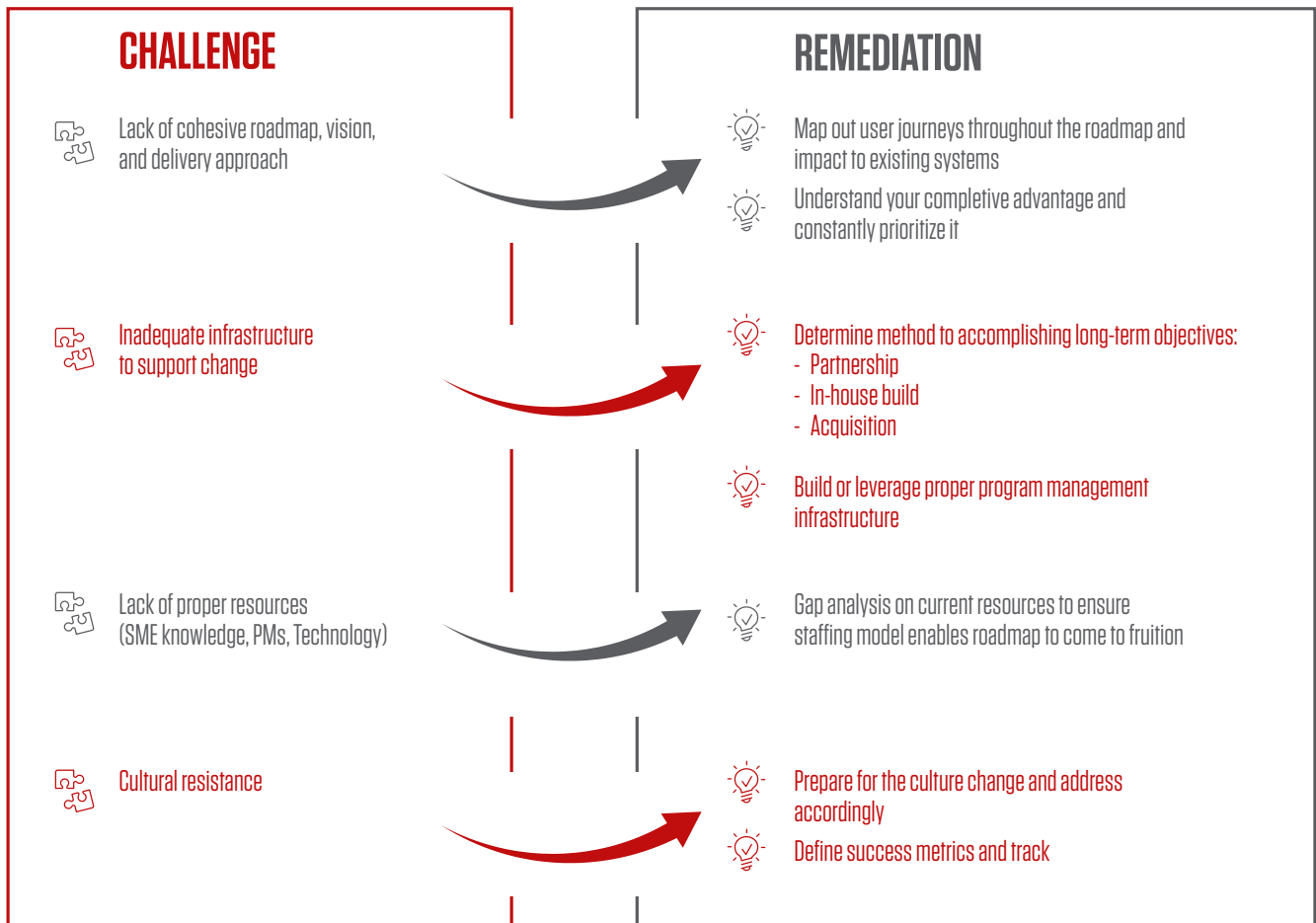


MANAGEMENT AND EXECUTION

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

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

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



EXECUTION

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

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

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

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

RESOURCES

Platform Adoption Dilemma Section

<https://www.forbes.com/sites/russalanprince/2015/04/01/what-clients-value-in-their-financial-advisors/#136ea14a1c50>
<https://thefinancialbrand.com/71459/millennial-wealth-management-banking-digital-cx-trends/>
<https://blog.kurtosys.com/8-impressive-stats-about-digital-client-engagement/>
<https://www.salesforce.com/blog/2013/10/customer-service-stats-55-of-consumers-would-pay-more-for-a-better-service-experience.html>
<https://www.broadridge.com/assets/pdf/broadridge-targeting-the-digital-generation-whitepaper.pdf>

Advisor Platform of the Future Section

<http://www.wealthmanagement.com/technology/farewell-robo-advisors-hello-cognitive-computing-pulse>
<https://www.bloomberg.com/news/articles/2017-05-31/morgan-stanley-s-16-000-human-brokers-get-algorithmic-makeover>
<https://www.appian.com/blog/two-hot-trends-driving-enterprise-automation/>

CONCLUSION

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

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

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

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