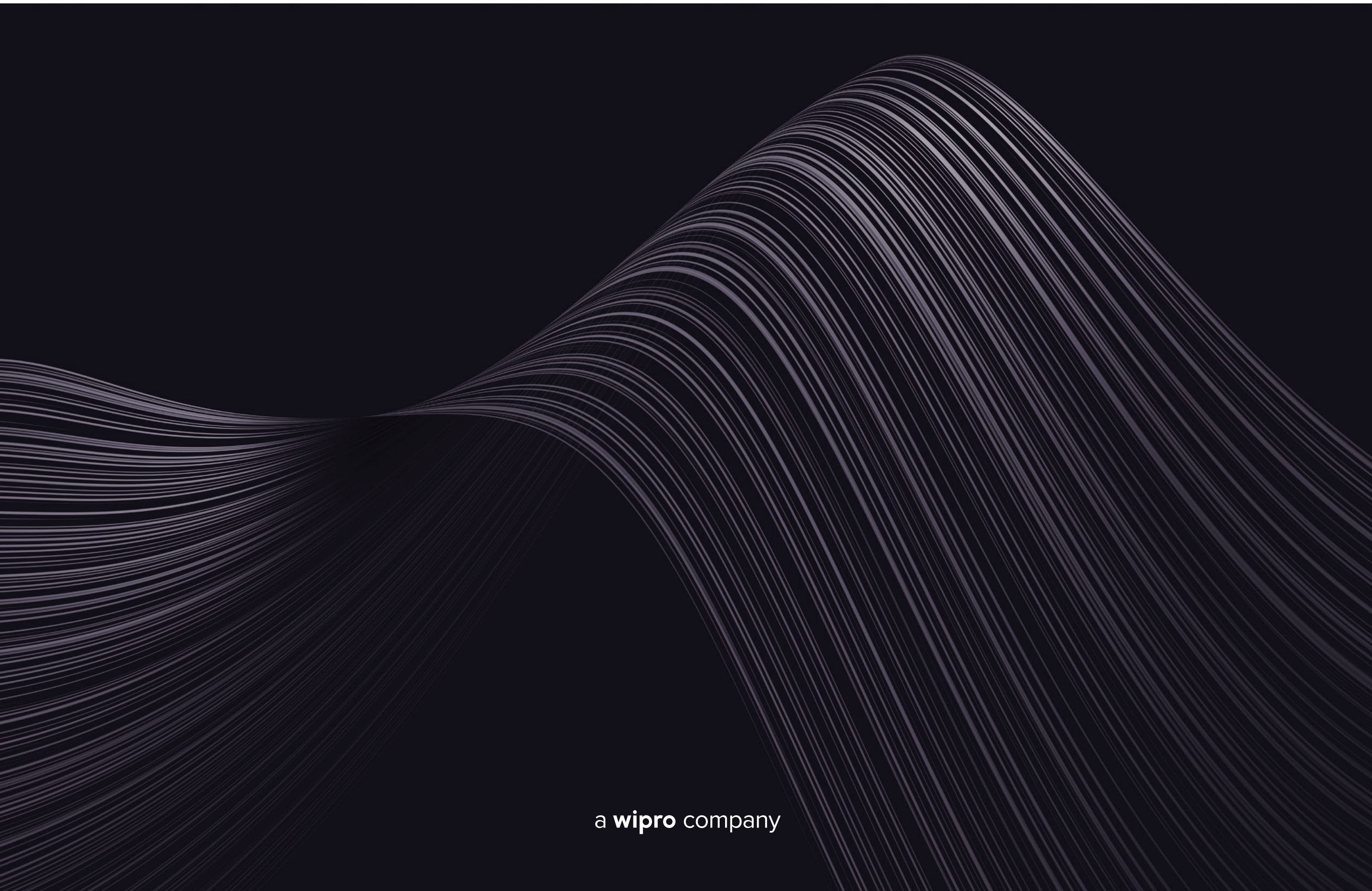
CAPCO

THE MODERNIZATION OF ESTATE PLANNING

HOW TECHNOLOGY CAN CREATE POSITIVE DISRUPTIONS



INTRODUCTION

The wealth management industry is in the midst of a technological transformation as firms look toward technology to address challenges with profit growth, changing demographics, and operational efficiency.[1] In an effort to have an immediate effect on their tech stack, wealth managers have focused their technology investments on improvements, such as account aggregation, e-signature capabilities, and financial planning tools.[2] However, many are neglecting to innovate within the more complex areas of wealth management, which may cost them in the long run.

This phenomenon is particularly noticeable in estate planning, an area long overdue for disruption that currently requires wealth managers to spend resources educating financial advisors, hiring in-house estate planning specialists, and manually converting dense documents into client presentations. Requiring this level of investment has caused many firms to reserve estate planning advice for their wealthiest clients, who can benefit from a wider range of estate planning strategies and whose AUM justifies the costs. This creates a perception that estate planning is only for the rich, despite the multitude of benefits it can provide to clients of any wealth level.

WealthTech firms are flipping the narrative by developing solutions that democratize estate planning through artificial intelligence, design thinking, and automation. Wealth managers who leverage this disruptive technology will make estate planning more accessible to a wider client base, improve the ability of financial advisors to differentiate themselves, and drive future growth.

THE CURRENT STATE OF ESTATE PLANNING

Estate planning plays an important role within wealth management by providing an additional tool financial advisors can use to add value and build stickier client relationships. For clients, having a thoughtful estate plan in place provides many benefits including peace of mind, asset protection, and preparing future generations to inherit wealth.[3] However, the process of providing estate planning advice is cumbersome and time-consuming.

A financial advisor must work with a client's estate planning attorney to develop an estate plan, review the details with the client, and implement the agreed upon strategies.[4] Once this is complete, ongoing monitoring and reporting are required to ensure that the plan continues to align with a client's circumstances.[5] Over time, these plans may be challenged by difficult family dynamics, a shifting regulatory environment, or increased wealth. Financial advisors are required to stay ahead of these changes and understand their potential effects on the plan. This process requires a significant upfront and continuous investment of time by financial advisors.

For more complex estate plans, the cost of providing estate planning advice may extend beyond the opportunity cost incurred by advisors. Wealth managers will frequently hire estate planning specialists to support financial advisors when documents are outdated, incomplete, or difficult to interpret. These specialists also assist with advanced estate planning strategies appropriate for a smaller subset of clients.

Due to the costs associated with hiring these specialists and the investment of time required by financial advisors, wealth management firms typically reserve estate planning services for their high-net-worth clients. This has created a misconception that estate planning is only for the rich, when in reality almost everyone can benefit from having an estate plan in place.[6,7] The resulting conundrum is that the majority of Americans are underserved in estate planning while the high costs of providing this advice precludes wealth managers from doing so.[8] Leveraging new technology to automate the creation and monitoring of estate plans will allow wealth managers to advise these underserved clients.

ESTATE PLANNING DISRUPTION

As much as $68 trillion in wealth will be passed down to Millennial and Gen X inheritors in the U.S. over the next 25 years.[9] Disruptive estate planning technology will make it easier for financial advisors to prepare clients for this upcoming wealth transfer. Vanilla, a WealthTech startup disrupting the estate planning space, is leading the charge by creating a platform with automated estate reports, intuitive visualizations, and attorney support for financial advisors.[10] Their technology saves financial advisors time, automates the monitoring of a client's estate plan, and provides an accessible digital representation of the plan.

FP Alpha, another technology company focused on enabling financial advisors, has developed artificial intelligence that can interpret estate planning documents and generate plan analysis instantly.[11] Advisors and clients can upload existing estate planning documents to generate key insights and quickly identify areas for improvement within the plan. Depending on the complexity of the estate plan, this technology could save financial advisors hours of parsing through trust and estate documents to piece together an understanding of their clients' plans. Wealth managers who leverage this technology will increase the capacity of their financial advisors to serve more clients, while also enabling them to provide better advice.

This innovation opens the door for the democratization of estate planning. Wealth managers who previously reserved estate planning for their wealthiest clients can use artificial intelligence and automation to begin engaging the mass affluent client segment to capture the millionaires of tomorrow. For example, a wealth manager might add an estate planning page to their client portal that allows clients to upload estate planning documents and receive automated analysis. A client that uploads their estate planning documents would consent to sharing this data with the wealth manager to enhance the level of advice they can receive. The client can then opt to meet with a financial advisor to discuss their plan or a financial advisor can proactively reach out to set up a meeting. This service would add value for clients while also providing data wealth managers can use better understand their client base.

Estate planning technology can also improve goals-based advice by allowing advisors to provide visualizations that illustrate the alignment of an estate plan with a client's goals. For example, a client may have a goal of gifting $1 million to their child at the end of their lifetime. Traditional goals-based wealth management technology may estimate that $500,000 invested in an equity portfolio today will allow the client to achieve this goal given their life expectancy. While the result of this analysis is financially intuitive, it fails to account for the structure of a client's estate plan. Today, financial advisors are required to revisit the estate planning documents to ensure the plan aligns with this financial goal. Alternatively, overlaying estate planning technology would allow the financial advisor to automatically see that the estate plan needs to be updated. This would improve their initial recommendation by suggesting that the client opens a trust to more effectively increase the probability and magnitude of wealth that can be transferred in a tax-efficient manner. By leveraging estate planning technology, financial advisors will be able to provide more holistic advice to their clients in real time.

Estate planning technology also creates opportunities to engage future generations. Estate planning attorneys recommend that clients open communication about their estate plan to prepare heirs to receive an inheritance.[12] However, many clients may be hesitant to share the full extent of their estate plan with their children and grandchildren. Digital estate planning platforms can enable customized views of an estate plan with options to limit the information shared with heirs. This will allow financial advisors to engage future generations in estate planning discussions in a way that aligns with their clients' wishes. These discussions provide a setting for financial advisors to build rapport with future generations and improve the ability of wealth managers to retain assets during wealth transfer events.

INNOVATION IS CRITICAL

A 2021 survey of more than 2,000 investors and 500 financial services providers showed that investors around the world expect digital tools, technology-based services, and a seamless customer experience.[13] To adapt to this structural change, many wealth managers have invested in areas including account aggregation, financial planning, CRM tools, e-signature capabilities, and improving the client portal.[2] Technology investments, such as these, have allowed wealth managers to extend their services to the mass affluent segment, where 64% of wealth management executives view the future of the industry.[14] However, wealth managers have failed to understand that estate planning technology can have similar implications for their ability to serve clients downstream. Serving this client base becomes less expensive when leveraging artificial intelligence and digital estate planning platforms to do the heavy lifting. As this technology is still in its infancy, wealth managers have a unique opportunity to differentiate themselves competitively by becoming early adopters. In doing so, they can build deeper client relationships and penetrate an increasingly important and untapped client segment within the wealth management landscape.

Investing in estate planning technology can also have a meaningful effect on client retention. Studies suggest that approximately 80% of heirs will look for a new financial advisor after a wealth transfer event.[15] Estate planning reflects the transition of wealth, making it one of the most important preventative tools to combat future client turnover. By incorporating digital estate planning solutions into their strategies, wealth managers can partner with their clients to engage the next generation ahead of wealth transfer events.

Many of these heirs belong to the Millennial or Gen X generations, which are even more likely to switch providers than older generations.[16] These generations expect wealth management information to be immediately accessible, which is currently the case for investment and lending information, but not for estate planning information.[17] Intuitive estate planning platforms, like the one created by Vanilla, can digitize estate planning visualizations to make estate plans more accessible. Wealth management firms can add this technology to their client portals to create a more holistic digital experience that aligns with the preferences of their current and future clients.

CONCLUSION

As wealth managers prepare for an immense transition of wealth to Millennial and Gen X inheritors, effective digital strategy has become increasingly important. Currently, the estate planning practice within wealth management is a highly manual and time-intensive service offering where digitization has lagged. New technologies are disrupting estate planning through artificial intelligence, enhanced visualization of estate plans, and automated reporting.[10] This technology will make estate planning services more accessible to the mass affluent client segment, which provides a unique opportunity for wealth managers to engage previously underserved clients who are the future of their industry.

Engaging these clients digitally enables financial advisors to establish more robust client pipelines and strengthen relationships with next generation inheritors, who expect digital access to wealth management information. Estate planning technology also saves advisors time, allows them to differentiate themselves, and provides access to a broader pool of data for wealth managers. Firms that adapt their business model to reflect this structural change will be better suited to serve clients and chart new paths to growth.

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