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The art of personalizing financial advice in an outsourced and automated world

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Introduction

Personalization has become the norm in most consumer-facing industries in recent years, from e-commerce to video streaming. As the worlds of wealth management, technology, and outsourcing continue to evolve and more investors seek individualized investment strategies, financial advisors and wealth managers are facing the reality that more clients expect personalization, which will disrupt the industry in ways we can only imagine.

Consumers want to feel like their favorite brands know them, understand them, and care about them as people. More than 70% of consumers expect companies to deliver personalized interactions, and 76% percent get frustrated when this doesn't happen.[1]

A recent Capgemini survey of wealth management trends found that 55% of firm relationship managers saw demand for personalized services and engagement increase in 2022.[2] EY found that 53% of wealth management clients were willing to pay more for personalized products and services.[3] EY's latest 2023 research shows that personalized engagement plays the most important role in client satisfaction.[4]

Wealth management is not one-size-fits-all. Every investor has different needs, goals, preferences, risk profiles, beliefs, and expectations, and more individuals seek advice tailored to their own tax considerations, thematic investing preferences, and concerns about market volatility and uncertainty. Personalization can also drive performance and better customer outcomes, and companies that excel at personalization typically generate 40% more revenue from those activities than average players.[1]

Here, we look at what's driving the growing demand for personalization—and how hyper-segmentation, technology, and outsourcing can help firms get to the next level of growth and competitiveness.

55%

of firms' relationship managers say demand for personalized services and engagement is increasing.

Source: Capgemini[2]

53%

of wealth management clients were willing to pay more for personalized products and services.

Source: EY[3]

Four key trends driving personalization in wealth management

In wealth management and finance advice, several major forces are helping drive substantial opportunities for advisors to grow and differentiate their practices.

1. Market volatility

Market volatility and complexity are significantly affecting investors' requirements and behaviors, leading 40% of clients to think that managing their wealth has become more complex over the last two years.[4] While high-growth sectors have provided investors with lucrative opportunities in the past few years, the new environment of higher inflation and interest rates, and geopolitical uncertainty means some clients remain uncomfortable taking on more investment risk.

In times of volatility and uncertainty, there tends to be increased demand for total portfolio offerings such as model portfolios and outsourced CIO-like services.[5] New demands of portfolio construction—including integrating illiquid private-markets strategies at a significant scale and incorporating environmental, social, and governance (ESG) criteria—have created new areas of client need.[5]

With volatility expected to continue, the demand for personalized client experiences has increased as investors not only seek guidance on navigating complex financial impacts but also want more control over their portfolios. As a result, clients across the demographic spectrum are searching for more guidance and investment tactics from their advisors and are more open to working with new providers.

40%

of clients think that managing their wealth has become more complex over the last two years

Source: EY[4]

2. New, underserved client segments

Advisors' efforts to gain the trust of different client segments are driving more emphasis on personalization. The winners in the wealth industry will hone their strategies and offerings to effectively serve the needs of a more diverse range of clients—from women and mass-affluent to high net-worth (HNW) and younger investors—simultaneously.

Increasingly, women are becoming part of the HNW segment. Today, women represent more than 40% of HNW individuals globally, and the share is expected to grow strongly over the next decade.[6] Their total wealth in the U.S. and Canada grew at a pace that was 180% faster than men's between 2016 and 2021, yet invested 22% less of their wealth in financial instruments compared to their male counterparts—leaving up to $14 billion in additional fee revenues on the table.[7]

Advisors shouldn't ignore other opportunities to serve other potentially underserved client segments. For example, a new report by Merrill Lynch Wealth Management said the Asia American and Pacific Islanders (AAPI) community is 25% more likely than the general affluent population to consider inheritance and passing down wealth as part of a financial plan.[8]

While first-time investors with low assets is set for continued growth over the next decade, the affluent and low HNW client segments with between $300,000 and $5 million in wealth represent the largest revenue growth opportunity in the industry.[6] This segment could create roughly $45 billion in new revenue and account for about 60% of the total wealth management revenue pool by 2026.[6] Historically, this particular group has not received adequate attention from both wealth management firms and retail banks, primarily because of financial difficulties or a lack of necessary capabilities.

$14B

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Source: Simon-Kucher & Partners[7]

$45B

in new revenue can be won from the affluent and low HNW client segments, and account for about 60% of the total wealth management revenue pool by 2026.

Source: Oliver Wyman[6]

3. Generational wealth transfer

Advisors reluctant to target next-gen investors could leave huge sums of money on the table. With total bequeaths projected to exceed $84 trillion among U.S. residents by 2045, only 26% of future bequestors believe they have provided enough information to their heirs for them to be deemed "very well informed," with an additional 41% rising to the level of "somewhat informed."[9]

Establishing relationships with heirs now could produce greater returns—since individuals under 40 are investing earlier than their elders, seeking advice for the long haul, and are willing to pay for it.[8] They're also three times more likely to give referrals, prefer to consolidate their business with a single firm, and expect more personalization, services, investment options, and more technology.[10]

In addition, 37% of millennials hold value-aligned investments and 34% have thematic investments, compared to 7% and 4% for baby boomers and older generations, respectively.[11]

$540B+

is inherited each year by investors under 40—about 30% of the total wealth transferred annually today.

Source: Fidelity[10]

$84T

of inherited wealth will be controlled by investors under the age of 40 by 2045.

Source: Cerulli[9]

9 in 10

investors said tax efficiency is essential in the transfer of their wealth.

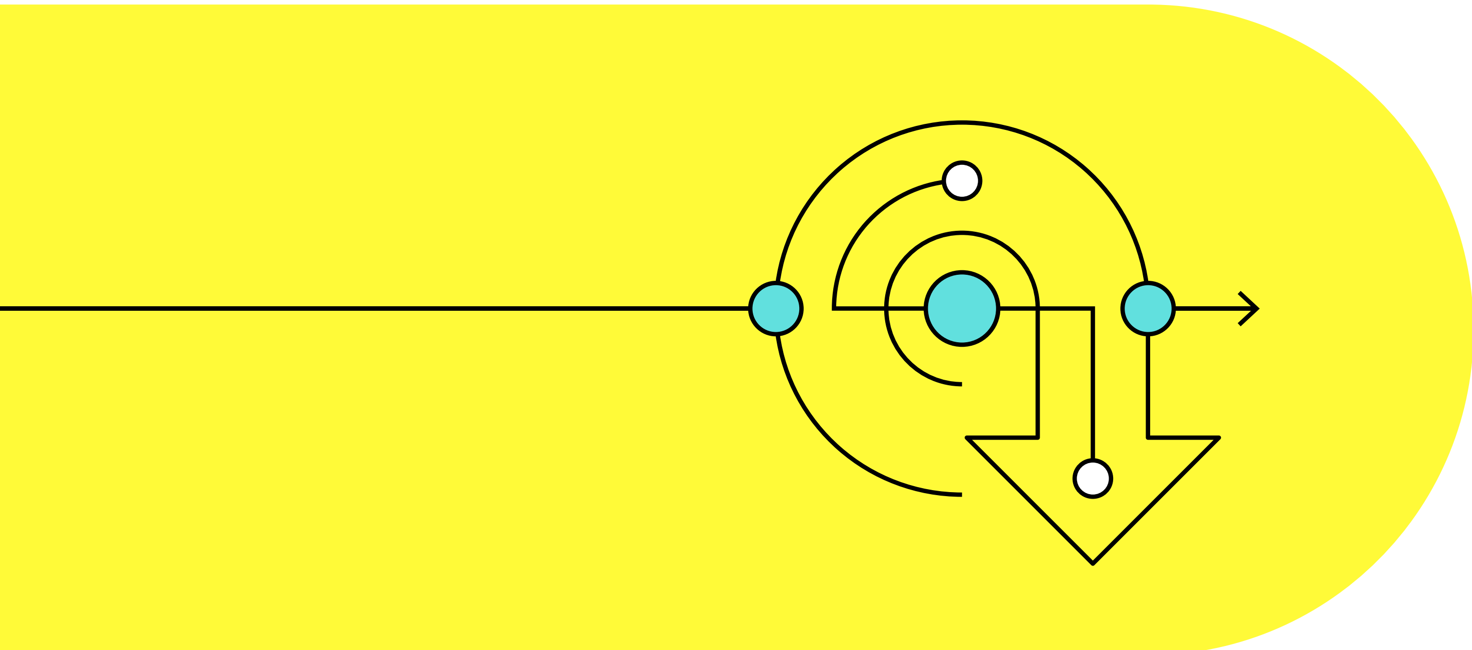
Source: InvestmentNews[12]

4. The desire for tax savings

A recent Raymond James study revealed that more than 9 in 10 investors said tax efficiency is essential in the transfer of their wealth, but 37% do not have a plan to do this.[12] However, those working with an advisor are more likely to have a documented wealth transfer plan (84% vs. 66%) and to have tax-efficient strategies included in their plan (68% vs. 50%).[12]

Among the most significant ways advisors can provide value to their clients' portfolios is by creating tax alpha and reducing their tax bills at the end of the year through tax-loss harvesting and capital gains budgeting. The potential benefits of tax-loss harvesting can be further prolonged by enabling clients to add cash to their accounts, gift appreciated securities to a donor-advised fund, and regularly rebalance their portfolios to create fresh tax lots.

In addition, advisors can help their clients navigate the tax and estate implications of The SECURE 2.0 Act of 2022. By rebalancing at least quarterly, advisors can harvest their clients' material losses during the year, avoid material capital gains distributions, and adjust the location of assets in retirement accounts for maximum tax benefit.



Three significant threats facing advisors

Financial advisors and wealth managers face several key threats from competitors as the industry grows and evolves, placing pressure on their need to differentiate and find their niche. These include:

1. More competition

RIA firms represent the fastest-growing category in the U.S. wealth management market since 2016, with more than 1,600 advisors joining the RIA channel annually and bringing with them roughly $180 billion in client assets.[13] According to McKinsey, many advisors are moving from larger broker-dealers, and more than 700 independent RIA firms are started annually.[13]

2. Consumer-driven consolidation

More clients will be looking for banking and wealth management under one roof. Nearly half of consumers surveyed (49%) want to consolidate all their financial relationships in one place—across private banking, wealth, insurance, and investment services—but 78% of those who would like to consolidate have yet to choose a sole provider.[3] Even among investors who prefer multiple financial providers, 25% say they would pay more to access a consolidated view of their investment portfolios, pointing to a greater need to deliver an ecosystem of financial services.[3]

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3. Banks expand into financial advice

49%

of consumers want to consolidate all their financial relationships in one place.

Source: EY[3]

69%

of U.S. retail bank customers classified as financially unhealthy.

Source: J.D. Power[14]

Banks are looking to take advantage of the consolidation trend by offering personalized financial advice. Inflation, market volatility, and rising interest rates have contributed to increased prices for goods and services, leaving 69% of U.S. retail bank customers classified as financially unhealthy.[14] Banks that address this challenge head-on with personalized financial advice are earning high customer satisfaction and building strong customer engagement.

Overall satisfaction with the advice and guidance provided by retail banks rises 37 points year over year to 638 (on a 1,000-point scale).[14] The increase is evident across all attributes of satisfaction and across all levels of financial health: strong advice is delivered frequently; includes high-quality content; is relevant and personalized to the customer; clearly provides a call to action; and conveys concern for customers' needs.[14]

From personalization to hyper-specialization

Personalized investing is a crucial driver of client satisfaction and a top factor for clients selecting financial advisors. That's why 80% of investors believe that personalized advice is important, and 70% would be willing to pay more for it.[3] In addition, many advisors are expanding into specialized client segments or niches to differentiate themselves.

In response to the need for personalized investment management, wealth managers are catering to this demand by offering tailored, tax-efficient managed accounts. Historically, these products were primarily available to high-net-worth and ultra-high-net-worth clients due to their intricate operational nature.

Apart from the potential for improved investment results, customized wealth management solutions can also offer investors an enhanced experience. Through personalized strategies, investors can become more engaged in the investment journey, potentially increasing their likelihood of staying committed and reaching their long-term financial objectives. Personalized solutions also give investors a heightened sense of command, enabling them to gain a deeper understanding of their investments while fostering greater confidence in their decision-making.

80%

of investors believe that personalized advice is important.

Source: EY[3]

70%

of investors would be willing to pay more for personalized advice.

Source: EY[3]

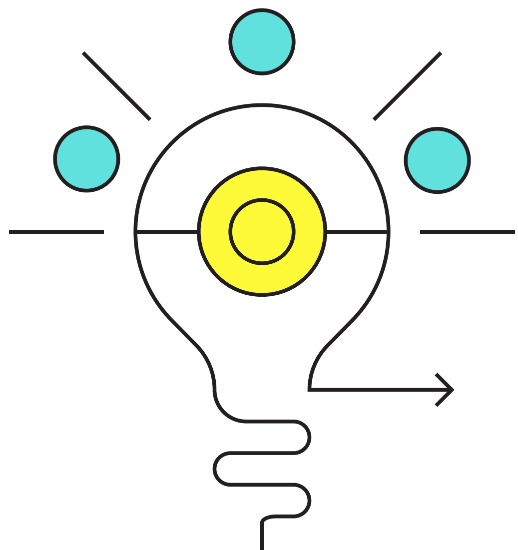
Financial advisors and wealth managers now have several ways to provide more value through tailored products, digital advice services, and human advisors:

- Target-date funds which offer a form of personalized investing plan based on age
- Direct indexing to provide products that can be closely tied to a particular investor's preferences and circumstances
- Digital services to offer engaging investors experiences to help define goals and objectives, and monitor their portfolio performance
- Human advisors listen and uncover needs that clients may have trouble expressing, offer emotional support when needed, and pursue courses of action that are in the client's best interest

Personalized wealth management solutions can also be beneficial for financial advisors and wealth managers since they help to build stronger relationships with their clients, which can lead to increased client retention, more referrals, and stronger differentiate themselves from competitors—making it easier to attract new clients and distinguish themselves in a growing and competitive market. Personalization can improve customer satisfaction by up to 30% and increase revenue by up to 15%.[1]

Hyper-specialization allows firms to focus on a niche set of clients who share a set of common needs. Financial advisors who hyper-specialize can target smaller populations seeking more nuanced service, such as families with members who have special needs, military families, veterans, or divorced or widowed people.

However, in trying to keep up with the nuances of each client—and often already juggling a full portfolio—these advisors are constrained by time and other resources. Offering advice targeted to a specific area of a client's needs versus to the overall financial picture—that is, scaling advice—is already a challenge for wealth managers; hyper-personalization at scale seems impossible.



Democratizing personalization

Today's consumers anticipate extremely tailored, customized interactions that are both accessible and cost-effective. Through the strategic use of technology to enhance efficiency, advisors can standardize such specialized experiences, which can allow them to serve clients more comprehensively, expand their client base, and cater to smaller clients in previously unattainable ways.

Two growing trends—the demand for holistic financial advice among mass-market investors and the adoption of mobile wallet platforms—are converging, spurring hope for a true democratization of financial advice. Net financial wealth held by the mass retail population segment globally is expected to almost double to $22 trillion US dollars by 2030.[15]

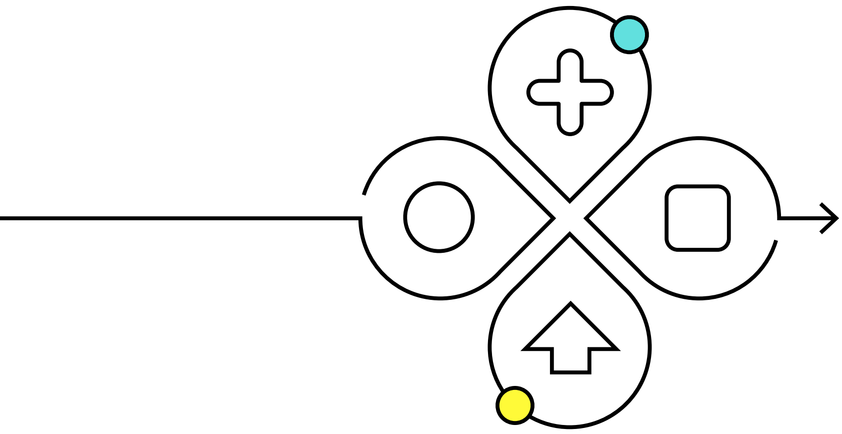
The paradigm is changing with the introduction of direct indexing, trading fractional shares, and zero-dollar online commissions, allowing for personalized portfolios of securities with reduced minimum requirements. However, investors are craving additional services as they increasingly seek institutions capable of offering them omnichannel access, seamless integration of banking and wealth management services, and personalized solutions, considering these services as essential rather than excessive.

Robo-advisors can go only so far

The emergence of robo-advisors has transformed the financial advisory industry by introducing automated, algorithm-based financial planning services that require minimal human involvement. Although this tech-driven approach is attractive for its cost-efficiency, convenience, and building a foundation for growth, it may not suit everyone's needs.

Attracting more clients or specific client segments will require aligning a personalized experience with tailored content and solutions. While robo-advisors excel in streamlining investment procedures, they might not offer the same advantages to individuals in search of extensive, tailor-made financial guidance.

Among investors who are uncomfortable with robo-advisor models, the main reasons they give are a perceived lack of personalization, privacy concerns, and a lack of motivation to explore the offering.[16] Therefore, a human-led financial advisory approach supported by the right mix of automation and outsourcing might make more sense to meet clients' evolving and increasingly complex needs.



Consumer concerns about AI

A major benefit of AI is its capacity to rapidly and precisely analyze extensive data sets. In the context of personal finance, this means AI can review a user's income, expenses, savings, investments and financial goals to provide options available to that user. This can help advisors make more informed financial decisions, whether it's choosing the right investment product, planning for retirement, or saving for a large purchase.

But as helpful as AI can be, it can't (and shouldn't) replace the financial adviser. Using AI in finance may also present some risks and negatives, and businesses need to evaluate the pros and cons of the technology's use—which also emphasizes how vital the adviser's role s.

- AI systems are potential targets for hacking and cyberattacks, and AI-based fraud-detection systems are not foolproof.
- Teaching AI to learn for itself and develop a deep understanding of problems and innovative solutions is challenging.
- AI can have difficulty replicating the human connections and interactions that result in personalized advice.
- AI systems can perpetuate bias and discrimination because their algorithms are only as impartial as the data on which they are trained.

Unlocking the power and freedom of outsourcing

Achieving personalization and expanding the range of services is a complex endeavor for advisors and wealth managers. It demands the right combination of technology, data analysis, and human interaction.

Perhaps this is why there's been a growing trend toward using external investment solutions. Nearly one-third of registered investment advisors (RIAs) increased their usage of third-party providers in 2022, compared with 27% of RIAs who increased usage in 2020, and the trend is likely to continue.[17]

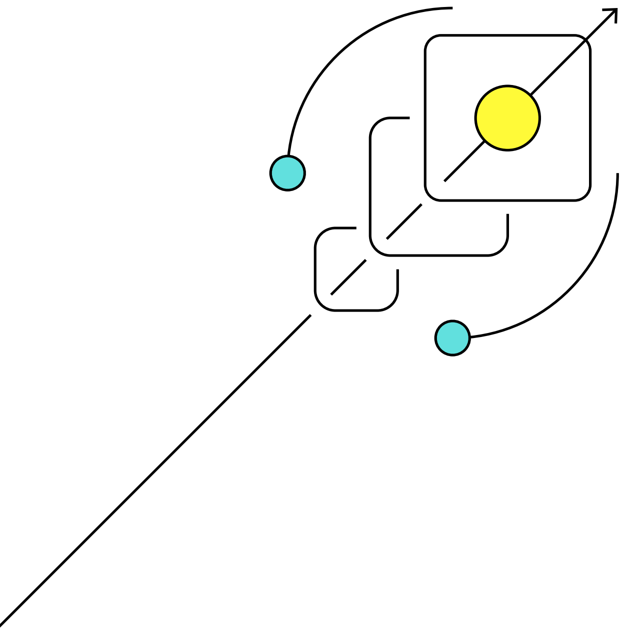
Advisers who opt for outsourcing often do it to allocate additional time for client interactions and concentrate on delivering more individualized financial planning services. This approach also serves as a stabilizing factor during periods of market volatility.

Greater efficiency, personalization, and scale

Outsourcing can give you more time in your day if you're looking to grow and scale faster. 52% of advisors agree that the primary driver in their decision to outsource investment management is enhanced efficiency and productivity, which allows them to spend more time with clients.[18]

More time for clients

When you delegate the time-consuming middle and back-office processes accompanying investment management, you can concentrate more on client-facing activities and business development. That means less time spent on investment research, manager due diligence, portfolio construction, reconciliation, performance reporting, tax optimization, statement preparation, and invoices—and more time gathering assets, acquiring new clients, and servicing existing accounts.



Relief from the fight for talent

The turnover rate in the finance and insurance industries has risen steadily over the last half-decade, from 25.1% in 2016 to 26.3% in 2021.[19] Today's investors have new expectations, so the technical knowledge and financial experience of a firm's workforce must also change.

The demand for skills and the way tasks are carried out are evolving due to new technologies and recent expansions into different product areas. Advisors need employees with specific skill sets and profiles to operate in this environment. They'll also need to figure out how to incorporate and manage this new workforce.

Scalable portfolio personalization

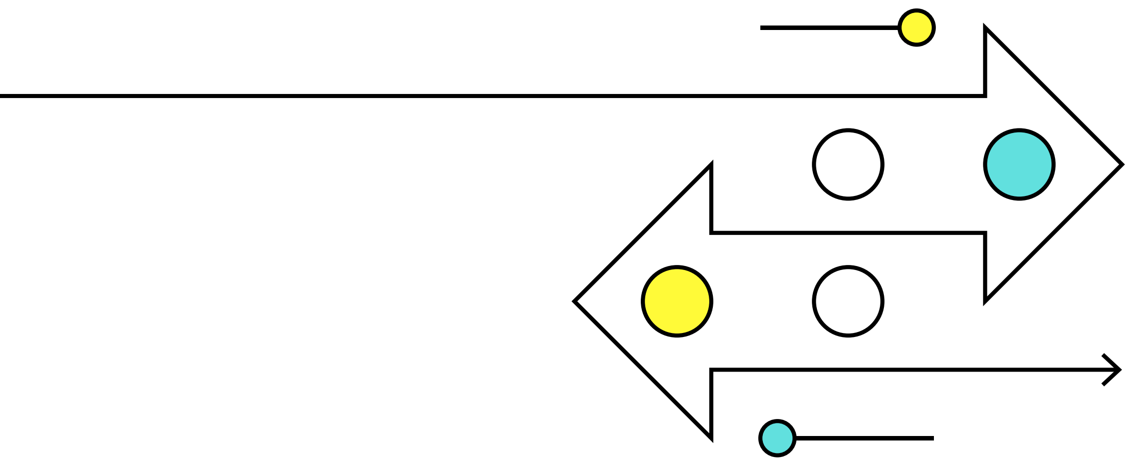
Risk-averse times demand more personalization; today, advisors are held to a higher standard. With time and resource constraints, scaling advice is already a challenge for wealth managers; hyper-personalization at scale could seem unattainable to many. But investment management, rebalancing, and trading that are personalized, precise, and scalable can help change the game for advisors looking to reach new client segments and grow their businesses.

Smart rebalancing and trading

To compete and grow, advisors must demonstrate the ability to deliver levels of customization that fully address each client's unique financial circumstances and personal preferences. Technologies that allow portfolio customization at scale can extend the ability of asset managers to offer advanced portfolio solutions to smaller clients, including retail investors.[5]

With growing interest in alternative investments and the need for personalization, advanced rebalancing solutions can streamline processes and free up time for client interactions. Digitizing tasks like rebalancing and trading can save time and reduce errors, allowing advisors to focus on higher-value activities. This shift to digital rebalancing helps enable quicker responses to client needs.

Firms can choose to handle some functions internally and outsource others—including advanced rebalancing and trading—to personalize at scale while meeting diverse client needs. In comparison, basic rebalancing and trading applications may not keep up with increasing demands for customization, complexity, and scale. Advanced and flexible rebalancing technology can empower advisors to offer customizable portfolios to a broader range of clients and expand their service capabilities, whether the platform is deployed within the firm or outsourced to an experienced managed services team.



Configurability helps empower personalization

As technology makes financial advice more accessible, client expectations for a hyper-personalized service are increasing. Configurability empowers the personalization advisory clients are craving today. And because they can be easier to adopt, scale, and use firmwide, they can provide the time-savings advisors need to devote more energy and attention toward meaningful client work.

But what makes a configurable platform especially useful for advisors? They can create personalization in a meaningful way. For example, some platforms might allow each advisor to create their own dashboard, or system admins to adjust viewer settings based on user profile.

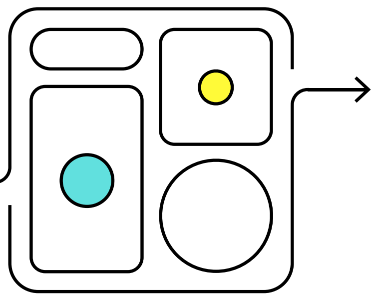
Customized and configurable managed services

Advisors who want to avoid becoming engaged in portfolio manufacturing and maintenance have been interested in turnkey asset management platforms (TAMPs) as a part of investment management outsourcing.

A TAMP allows an advisor outside their own firm to offload time-consuming back-office functions such as research, manager due diligence, portfolio construction, rebalancing, reconciliation, performance attribution, tax optimization, and reporting.

However, there are differences in service and support, flexibility, and investment management approaches from TAMPs. Some of the critical capabilities that firms find to be game-changers include:

- Firm-level settings to help deliver the best of an advisor's portfolios as they intend for the clients to receive advice
    - Configurable minimum trade sizes, share rounding, and wash sale avoidance
    - Firm models with tolerance bands for the investment philosophy
- Blended model accounts that allow for the mixing and matching of offered models and firm models
- Account-level settings that can be used as needed to facilitate client goals involving:
    - Specific blends
    - Security restrictions
    - Security equivalents
    - Cash needs



Charting a path to personalization, technology, and outsourcing

Harnessing the transformative power of personalization and outsourcing in the ever-evolving landscape of wealth management can be within every RIA's reach. As the financial advisory industry undergoes significant changes, it's essential for wealth managers and advisors to adapt and thrive in this dynamic environment.

The demand for personalization in financial advice is no longer a luxury but a necessity, driven by market volatility, evolving client segments, generational wealth transfer, and the desire for tax-efficient strategies. Clients generally seek tailored solutions aligned with their unique financial goals. Wealth managers adept at personalization may have potential to improve customer satisfaction and revenue growth.

Hyper-specialization within niche client segments is a strategic move that allows advisors to stand out and cater to specific needs. However, scaling hyper-personalization has been a challenge, prompting the exploration of technology-driven solutions and outsourcing options.

While robo-advisors have gained traction, they may not fully meet the needs of clients seeking extensive, tailor-made financial guidance. The role of human advisors remains vital in delivering personalized advice, addressing privacy concerns, and fostering human connections that AI struggles to replicate.

Outsourcing investment management and operational tasks can enhance efficiency, allowing advisors to allocate more time to client interactions and business development. It also offers relief from the challenges of talent retention in a changing industry.

The wealth management industry is at a crossroads, where personalization and outsourcing are key drivers of success. Wealth managers must carefully navigate these trends, leveraging technology and specialized services can help meet the evolving demands of clients, differentiate themselves, and thrive in a competitive marketplace.

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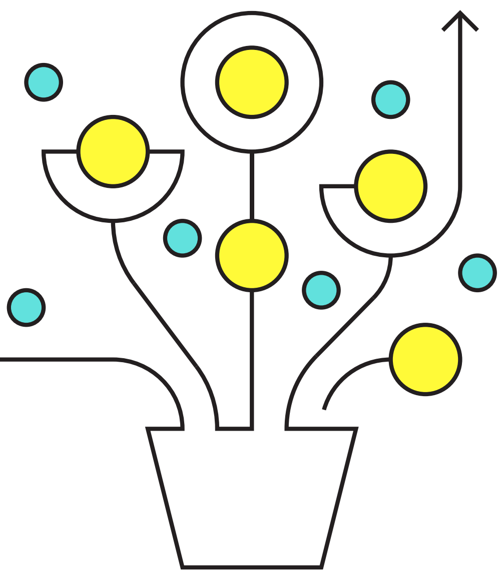
intelliflo widens access to financial advice through leading technology powering the financial advisory experience. We use open software architectures combined with unmatched industry experience to simplify a complex digital landscape to help advisors compete and grow.

Our solutions support over 30,000 financial advisors worldwide, representing over three million end-investors.



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