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Listening to the Voice of the Advisor

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The role of the wealth management advisor has changed dramatically in recent years. No longer does the advisor serve as the sole conduit between the individual client and the investment community; instead, the advisor is increasingly just one of several points of influence in the client's world.

With a growing universe of research sources, pricing and transaction data and third-party advice, including discount brokerage firms, peer groups via social media and online platforms, investors have far more options for self-investing or collaborating with advisors than ever before.

The advisor increasingly must be focused not so much on selling products, but on providing advice – helping investors make sense of this expanding world of investment options, particularly around those that help clients achieve their investment goals and those which meet the respective needs for the most important stages of their investing lives.

The shift toward receiving advice and information from multiple sources is most pronounced among younger investors. However, advisors remain critical for helping guide investors through myriad options and choices. But as clients gain access to more sources of information and more analytical tools, as well as options for automated, lower-fee platforms, advisors are under pressure not only to lower their fees, but to provide clients with even more ways to plan and direct their own financial future. Clients recognize the need to work with advisors, but only on the client's terms; the burden is on the advisor to provide value that is recognized by the client, and value for which the client is willing to pay.

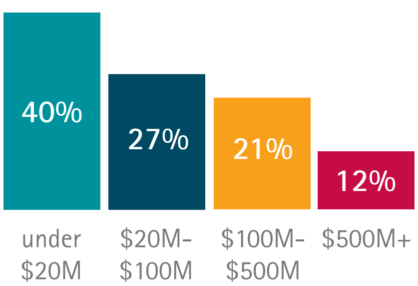
How are advisors equipped to serve this new breed of investor? Are their firms able to support their advisors, and if not, what do they need to succeed? To see how much financial advisors' roles have changed – and how their own views have changed – Accenture conducted a detailed, online survey of 652 financial advisors in the United States and Canada in December 2014 and January 2015.

Survey respondents had all worked in the industry (and at their current firms) for at least one year and represented major banking and brokerage firms in either the US or Canada. Of the respondents, 527 (81 percent) worked in the US and 125 (19 percent) worked in Canada.

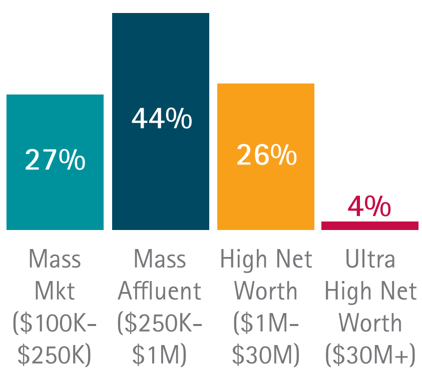
Across many parts of the survey, the results find interesting differences in the replies from "younger" (less than 10 years of experience) and "older" advisors (10+ years of experience). Against the background of a dramatically changing industry, looking at what is top of mind for the advisor workforce will help firms think about how to develop the future of an advice-led model for their institution.

Survey Demographics

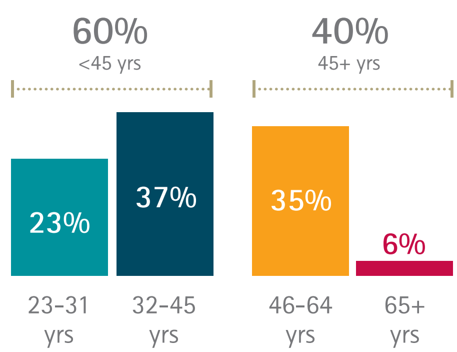
Assets under Management



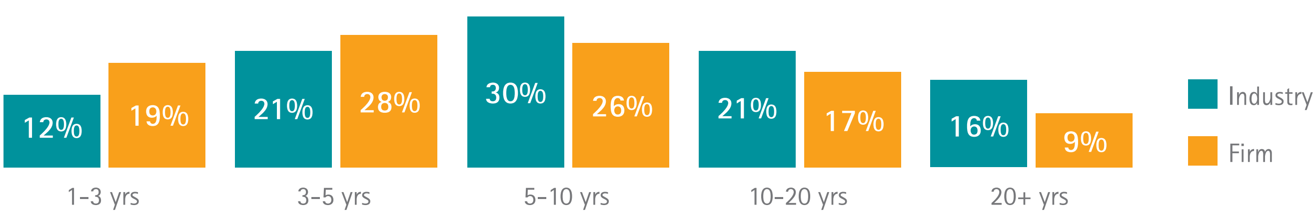
Assets under Management by Household



Advisor Age



Advisor Tenure



Source: Accenture Research; Voice of the Advisor Survey 2015

The Generation Gap

The survey revealed substantive differences in opinions and perceptions between younger and older advisors. Younger advisors – those with less than 10 years' tenure – are more likely than older advisors to:

- Have clients question their fees (40 percent versus 23 percent)
- Be asked for information about investing strategies in use, including ways for clients to invest on their own (57 percent versus 37 percent)
- Be asked to provide advanced digital tools their firm doesn't have (52 percent versus 20 percent)
- Use social media with their clients (74 percent versus 59 percent)
- See online investment managers as a threat to their business (29 percent versus 15 percent)

Firms may need to do more to equalize the experiences of their younger and older financial advisors, or risk eroding the younger advisors' satisfaction and loyalty (and risk losing clients and assets as a result).

Digital Tools and Channels

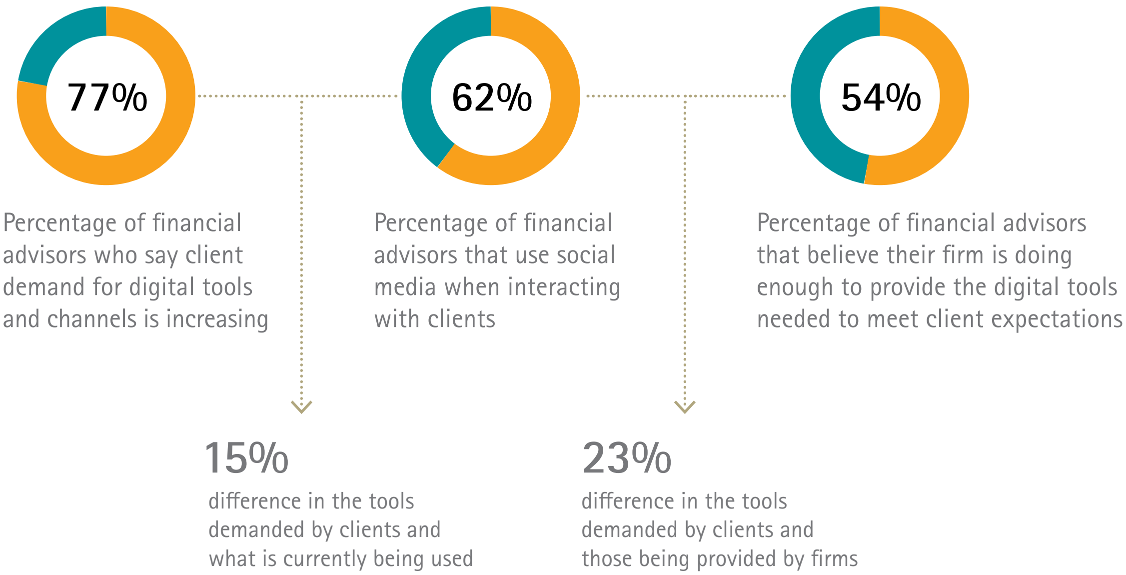
Overall, financial advisors are users and advocates of digital tools and platforms. They also recognize the importance of such tools in supporting greater client engagement and autonomy. In fact, 77 percent of our survey respondents said that investor demand for digital is increasing, and 75 percent say this trend will be stronger in the next five years.

Younger advisors – and those advisors with large assets under management (AUM) responsibilities – are more likely to use digital for activities such as account planning and review, ad-hoc requests and client meetings. But the use of social media has become mainstream, with nearly two-thirds (64 percent) of respondents agreeing that social media has become a significant and/or acceptable way of interacting with clients, and 62 percent saying that they themselves use social media to communicate with clients.

While the use of social media has become widespread, there are big differences in the use of social media among financial advisors depending on tenure (how long they have been with their firms) and age. Among those who have tenure of 10 years or less, 74 percent use social media with clients, with 81 percent of those using Facebook and 61 percent using LinkedIn. However, among those with 10 or more years of tenure, only 59 percent use social media with clients. Interestingly, the older advisors are more likely to use LinkedIn than Facebook (78 percent to 61 percent).

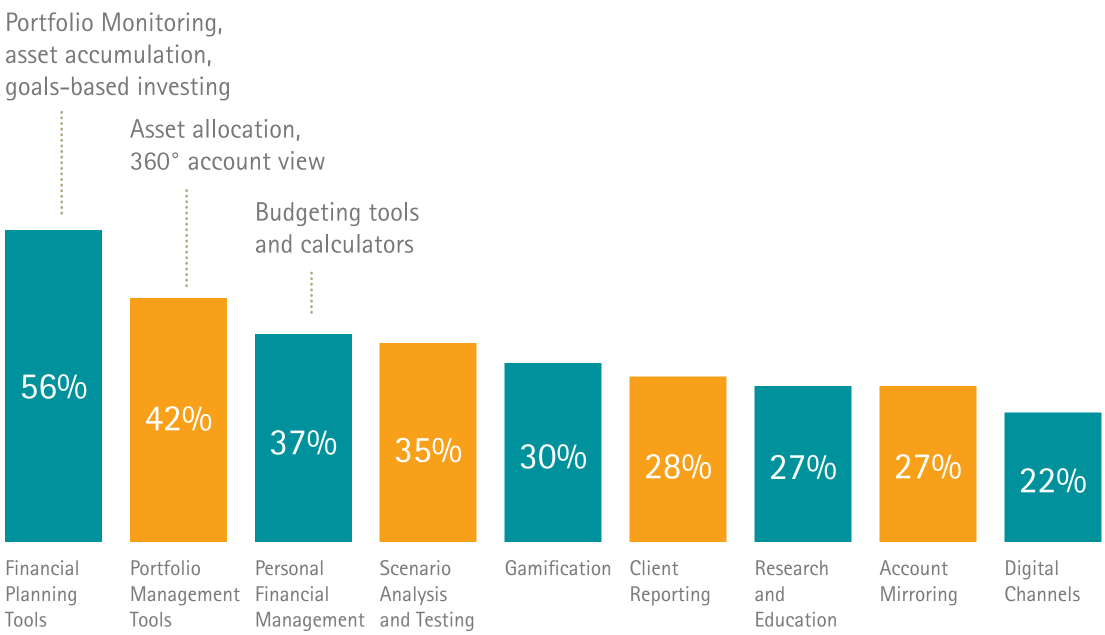
The rapid uptake of social media and its widespread use – particularly among younger advisors – indicates that firms may need to incorporate this channel into their strategic planning (if they have not done so already).

There is a disconnect between strong client and advisor demand for digital, and the tools provided to empower advisors



Source: Accenture Research; Voice of the Advisor Survey 2015

What types of tools are your clients requesting that your firm doesn't offer?



Source: Accenture Research; Voice of the Advisor Survey 2015

The Changing Client Experience

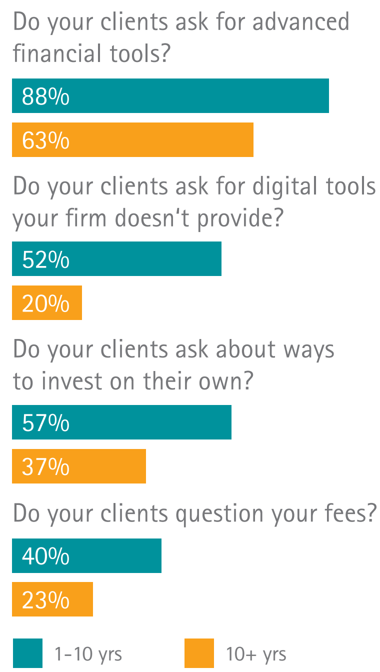
There is broad agreement among advisors surveyed that clients are becoming more knowledgeable and more confident as investors, with 88 percent of advisors saying clients are better informed and 54 percent saying they have become more active in decision-making. Perhaps as a result, 35 percent of advisors say clients are more likely to question advisors' advice, with 43 percent of advisors who entered the field after the "dot-com bubble" of 2000 saying so.

With questions about advice come questions about fees; 32 percent of advisors overall, and 40 percent of those with less than 10 years' tenure, say investors question their fees (only 23 percent of advisors with more than 10 years' tenure receive such questions). Questions about fees also increase with the size of the advisors' book of business, with 37 percent of those in the highest bracket saying they receive such questions, versus 30 percent overall.

Investors are also asking advisors for information and research the advisor or the firm does not routinely provide. Nearly half (49 percent) of advisors receive such requests; among advisors with less than 10 years of tenure, 57 percent report receiving such requests, while the figure was 37 percent for those with more than 10 years' tenure.

We believe this trend toward greater client engagement and requests for more research and information – accompanied by more client questioning of fees – could certainly continue and may accelerate. For example, Morgan Stanley Wealth Management recently announced that it has entered into a licensing agreement with EverFi – an education technology company that develops interactive learning tools focused on teaching valuable financial education and skills – to launch a new web-based financial education program called Morgan Stanley Financially Fit[1]. Similarly, TD Ameritrade, with its 2009 purchase of options broker Thinkorswim, also acquired Investools, an online education platform, to offer trading education to independent investors[2]. As is the case with social media, firms need to recognize the trend and determine how best to address it.

Newer advisors are more likely to see clients as more independent, and more interested in the process



Source: Accenture Research; Voice of the Advisor Survey 2015

An Evolving Value Proposition

Only about one-third of advisors surveyed (34 percent) find themselves serving more clients with lower AUM, but there is a big difference in terms of advisor tenure. Advisors with 10 or fewer years of tenure report a decrease of 19 percent in average AUM per client, while those with 10 years or more report an increase of 18 percent. Overall, 30 percent of advisors have been asked to transfer clients to another advisor. While this could reflect older advisors having had more time to grow their clients' assets, it could indicate that newer advisors may be seeing a higher percentage of mass affluent clients than the older advisors.

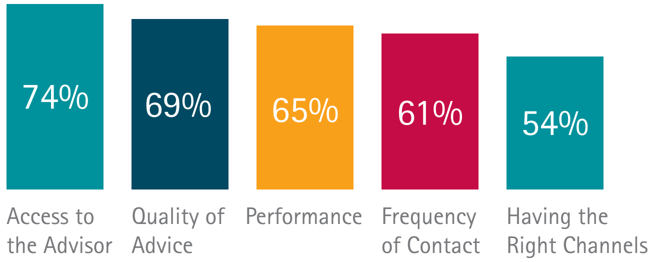
When taken together, these findings – the difference in AUM per client, the number of requests to transfer clients and a trend towards reducing client fees – indicate that there is increased competition in the industry, particularly in attracting and retaining mass affluent investors.

Advisors do sense pressure on client fees, with 40 percent reporting a trend toward reducing client fees to retain clients within the organization. Again, those with less tenure feel more pressure, with 48 percent of the younger advisors reporting such a trend, versus just 26 percent of those with 10 or more years of service. By and large, however, advisors do not link pressure on fees to the concept of "digital disruption," that is, the emergence of new, digitally enabled forms of competition that could lead to the rapid eclipse of the wealth management industry in its current form. Only 19 percent of advisors see digital disruptors as a threat; 42 percent see no threat and 23 percent are not sure. However, as in other areas, there are pronounced differences between younger advisors (with 27 percent seeing a threat) and older (with only 15 percent seeing a threat).

Digital disruption may not yet be a full-blown threat to the wealth management value proposition. However, the emergence of low-cost alternatives to wealth management (including automated or "robo-advisors") is putting pressure on wealth management firms and their advisors to retain clients at lower costs. At the margins – among both high AUM investors and younger investors – there is potential for market share loss.

Access to the advisor as well as the quality or performance are equally important to the value proposition

How important are the following factors to a client advisor relationship?



Source: Accenture Research; Voice of the Advisor Survey 2015

The Importance of Financial Planning

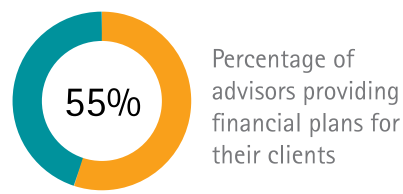
Among wealth management firms, financial planning is a well-advanced discipline and firms have devoted technological resources – particularly analytics – to innovate and improve their offerings. Of the advisors surveyed, 54 percent say they have developed financial plans with their clients, and, of these, 64 percent are monitored for performance to plan. Performance to plan tracking is more common among longer-tenured financial advisors, with 71 percent reporting such monitoring.

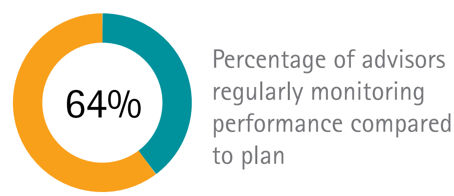
Three-quarters (75 percent) of advisors said they have access to tools to help them track performance. Of those who do not have such tools, 34 percent say they want them and only 9 percent say they do not. Among those with high AUM, 56 percent want access to such tools.

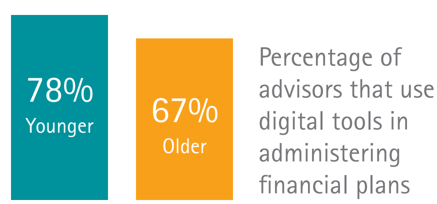
Four out of five (80 percent) advisors said they get support for client advice via analytics, with numbers higher in the US (82 percent) than in Canada (73 percent). Providing financial planning has become a mainstream wealth management practice and firms not providing financial planning may find themselves at a competitive disadvantage.

Importantly, clients are beginning to ask advisors for digital tools. In many cases, their firms do not provide these tools. The most successful advisors, that is those with the highest AUM, also identify themselves as being most in need of these tools, particularly financial planning tools. Top performers, as well as younger advisors, recognize that digital is here and that it is changing the dynamics of the industry. Firms are moving to adjust to this change, despite their concerns about financial disintermediation. They are developing the digital and mobile tools sought by their clients to guide investment decisions and help with financial planning.

A majority of advisors provide financial plans to their clients, and of these, most track to plan performance







Source: Accenture Research; Voice of the Advisor Survey 2015

[1] http://www.morganstanley.com/about-us-articles/cc110877-37e2-445d-8890-14246bb84b4e.html
[2] http://www.bloomberg.com/apps/news?pid=newsarchive&sid=a1AOXRsTzOkw

The Great Wealth Transfer

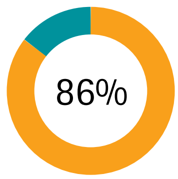
A large quantity of money is about to move from one generation to the next – an opportunity representing approximately $30 trillion[3] over the next 20 years – but most firms are not prepared to attract or retain these assets. The intergenerational transfer of assets – from older investors to their boomer offspring and from boomers to their own heirs – represents a tremendous opportunity for wealth management firms, but less than half (42 percent) of firms offer training to advisors on how to manage intergenerational wealth transfer. Significantly, less than half of heirs (47 percent) or assets (46 percent) stay with a firm after an inheritance, and advisors provide services to only one-third of the children of their clients.

Despite these shortfalls, 86 percent of advisors surveyed say they understand the investment needs of their clients, although 83 percent acknowledged that they will need to improve their digital proficiency to service their clients' heirs. This is another area where the firm itself can make a tremendous difference. Firms reporting higher rates of service to heirs report higher retention rates. Firms can create structured programs for training and guidance and can evaluate those programs by measuring the higher proportion of assets retained.

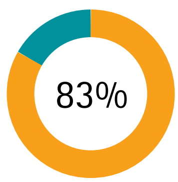
A greater focus on heirs leads to stronger heir and asset retention.

Advisors strongly believe they understand the needs of heirs, but will need improved capabilities to service them

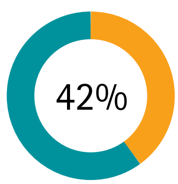
Percentage who feel they understand the needs of their clients' heirs



Percentage who feel they need to improve their digital proficiency to serve their clients' heirs



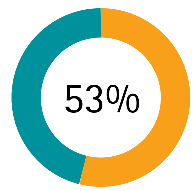
Percentage who feel their firm is better than the competition in retaining heirs and assigns



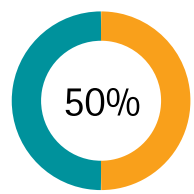
Source: Accenture Research; Voice of the Advisor Survey 2015

Advisors believe that firm support and a common age bracket with the heir are only part of a successful wealth transfer

Percentage who feel that a successful wealth transfer requires the support of an advisor in the heir's age bracket



Percentage who feel their firm provides sufficient support via additional resources (e.g. extra admin, concierge services, client seminars, regular planning support) to manage wealth transfer



Source: Accenture Research; Voice of the Advisor Survey 2015

[3] http://www.bankinvestmentconsultant.com/news/limra-loma-gen-x-gen-yretirement-2672706-1.html

Grading Advisor Performance

Financial advisors' performance is measured primarily on AUM or net new assets, but some new criteria for performance measurement may be introduced. Overall, AUM and net new assets are top measures of performance for 57 percent of advisors surveyed, and this increases in importance with the age of the advisor. When the client is asked how they grade advisors' performance, more of those under 45 cite portfolio performance (44 percent) than those over 45 (27 percent).

Fully 60 percent of financial advisors – and 70 percent at large firms – consider themselves to be top performers, but only 56 percent feel that their firms measure their performance effectively. Similarly, 57 percent feel their firm provides appropriate incentives for performance.

Accumulating assets is still the name of the game in wealth management. Firms as a whole do not appear to be particularly interested in metrics that indicate a positive client experience, such as the use of digital tools, the number of clients provided with a financial plan or the frequency of client contacts.

However, since portfolio performance is becoming a more important metric among clients, it may become a more important metric for advisors as well.

How Wealth Management Firms Can Respond

Large-scale demographic and technological trends are in progress and wealth management firms must adapt quickly or may risk becoming irrelevant to their clients.

These clients would become increasingly engaged in their own wealth management decisions, increasingly independent, and will continue to question the value of the advisory and transaction services provided by wealth managers.

At the same time, however, wealth management firms have the opportunity to attract extensive new assets through intergenerational wealth transfer and the shifts of funds that follow inheritances. To retain and grow existing assets while gaining a larger share of assets that are "up for grabs," firms should consider five possible key principles:

- Recognize that not all clients are alike. The financial advisor survey reveals significant differences between older and younger advisors. Similarly, there are major differences between older and younger clients. Firms need to provide their younger advisors (and hence their younger clients) with access to digital tools designed to improve and monitor performance. Providing tiered service models – with more self-service and self-directed options for younger clients and/or those with smaller portfolios – is another option.
- Equip advisors with the full digital toolkit. In addition to portfolio tracking and management tools, firms should ensure that advisors have access to the digital tools that clients have come to expect, including communication via social media. Younger advisors recognize that, if they do not provide their clients with requested tools for self-directed portfolio management, their clients can readily go elsewhere, taking their assets with them.
- Advisors and clients should plan together. Financial planning is a powerful tool and advisors should be equipped with the latest innovations in performance monitoring and analytics for performance improvement. Advisors working with their clients to develop and track the progress of plans increase the number of contacts with the client and the overall "stickiness" of the client relationship.
- Provide proactive, structured succession and inheritance training programs. Advisor succession and client inheritance are too important to be left to the individual advisors' initiative. All wealth management firms should provide mandatory training and guidance in how to transfer accounts when an advisor retires or leaves the firm, and in how to work both with clients and their prospective heirs to increase the likelihood that the heir will remain a client after the assets transfer from one generation to the next

- Evaluate the skills, talent and training needed to be a good financial advisor. As we noted earlier, the role of the financial advisor is changing rapidly. Firms should be investing in analytics and other tools needed to determine the characteristics of successful financial advisors in this new environment, and then undertake the recruiting, training and performance management initiatives to create this new model.

While digital tools and solutions will continue to grow in importance as part of the wealth management equation, the "people element" of the business will remain vital. The question for wealth management firms going forward will be how to find, train and motivate the right people to meet rapidly changing customer expectations.

Providing financial advisors with the right technology – as well as the right structure, compensation and products – will be another essential element for success.

About Accenture

Accenture is a global management consulting, technology services and outsourcing company, with more than 336,000 people serving clients in more than 120 countries. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world's most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. The company generated net revenues of US$30.0 billion for the fiscal year ended Aug. 31, 2014. Its home page is www.accenture.com.

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