

EXECUTIVE SUMMARY

“In order to deliver a seamless and integrated client experience, financial firms must continue to find ways to use the latest technologies to enhance relationships. It’s about enabling our financial advisors to reach clients where they’re at – which is in the digital space.”

—John Taft, CEO of RBC Wealth Management U.S.

Technology disrupts and it enhances, and digital is changing the name of the game. At a time of unprecedented change amidst post-financial crisis recovery, the financial services industry faces a new set of challenges, marked by emerging digital technologies and evolving customer expectations and behaviors.

From online banking and mobile payments, to live chat and email, the ways in which consumers interact with people and with service providers have changed for good. These changes will provide opportunities for advisors in the coming age, and customers will expect companies to meet them where they are, with the right information, at the right time, and through the right channels. The future landscape for advisors will thereby create a more customer-driven, scalable, and accessible opportunity for the digitally-enabled advisor in the years ahead.

INTRODUCTION: AN INDUSTRY IN FLUX



"All aspects of human life are being digitized."

—**Geoffrey Moore,**
Organizational Theory

The financial services industry is rapidly changing. New digital technologies—social, mobile, analytics and cloud—are creating fundamental shifts in both client and advisor attitudes, behaviors, and relationships. And as younger investors mature, and wealth passes from one generation to the next, digitally empowered consumers and other "do-it-yourselfers", will seek out financially relevant information and advice through multiple channels.

This includes both Baby Boomers—who make up a third of all Internet users, according to a 2012 Nielsen study, and who often use traditional modes of communication with their advisor—as well as younger generations, such as Gen X/Y investors and Millennials, who will look to online resources and tools for automated investment advice at any given moment, with or without the advice of a financial advisor.

In this new reality, advisors who fail to embrace these challenges—using old techniques, failing to use data-driven insights, and not fully understanding what they should be doing, and what measures will be successful, will risk being left behind. Instead, advisors must adapt and evolve to stay relevant in the digital age. The old way of doing things—such as cold-calling, direct mailings, and yellow page listings—will not work anymore because customers expect something different.

On the whole, financial services firms must adopt a new way of thinking and allow customers and prospects to influence how they want to do business with them, and not the other way around. The "do nothing" approach will only lead to failure, because playing it safe is risky.

The industry has reached a new tipping point, with digital at its core. Today's advisors and the advisors of the future will face fundamental challenges that will usher in a new era of financial planning. These shifts are lasting, and are expected to not only transform the financial services industry, but also provide more trusting client relationships, enhanced client experiences, and committed financial advisors—all of which will reinforce the need for ongoing advice.

PART I: THE CHANGING LANDSCAPE— WHAT TO EXPECT OVER THE NEXT DECADE

The Internet is now more than 20 years old, which means that there is a growing population of the financial industry's customer base (anyone under 40) who will have spent their entire social and working lives immersed in technology. These "digital natives" have been raised with 24/7 access to information that is readily available via a smartphone, tablet or computer. Financial issues and questions that once required the advice of a certified professional can now be answered with a click on any digitally-enabled device. While access alone does not ensure that the information will be accurate, today's customers are armed with more information today than ever before.

As a result, digital experiences are creating a more informed, self-directed consumer—one who relies less and less on traditional sources of advice that once could only take place face-to-face or over-the-phone. The changes to the landscape can be summed up by three realities:

1. Changes in customer expectations and behaviors
2. Demographic shifts and the transfer of wealth
3. New technologies and the robo-advisor threat

1. CHANGES IN CUSTOMER EXPECTATIONS AND BEHAVIORS

Digital technologies are disrupting business models and changing customers' expectations and behaviors. According to Altimeter Group, digital customer experiences are being driven partly by technology and also by the evolution of customer behavior. Today's customers expect more, and will look to companies to deliver customer experiences that are best tailored to their needs.¹

¹ Advice 2.0: Reinventing the broker-dealer advice model, Fidelity Research Study, 2014.

Presumably, customer expectations are being shaped outside of the financial industry where content, interactions and features are richer, delivering a more engaging and rewarding customer experience. And because of the way today’s consumers experience brands like Google and Amazon, their expectations for the way they obtain financial advice or buy financial products have also shifted. Whether buying a new car, a new home, or financial products and services, consumers are making informed choices based largely on information and research they find on the web, or referrals they receive from family and friends.²

Moreover, customer expectation shifts have affected the buyer’s journey. A CEB study of more than 1,400 B2B customers across industries revealed that 57 percent of a typical purchase decision is made before a customer even talks to a service provider. Hence, companies that can effectively engage digital customers at every touch point in the customer experience lifecycle will be the ones that stay ahead of the crowd.

THE DECISION MAKING PROCESS OF TODAY’S CUSTOMER



A recent survey found that more than half of all retail transactions will be influenced on the web by 2016, representing a potential sales opportunity of almost \$2 trillion.³ In addition, customers will soon be able to search for products via additional technologies, including, voice, and gesture commands. How advisors engage customers through these digital channels will present immediate opportunities to inform customers’ experiences along their journey and ultimately influence a final purchase decision.

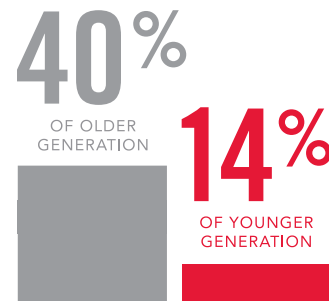
² The Future of Advice: Business models and services for the next generation," *InvestmentNews Research*, in partnership with Cambridge Investment Research, November, 2014. "The Future of Advice".

³ "Digitizing the consumer decision journey", citing Sucharita Mulpuru, *US Cross-Channel Retail Forecast, 2011 to 2016*, Forrester Research, July 2012, forrester.com.

2. DEMOGRAPHIC SHIFTS AND THE TRANSFER OF WEALTH

Over the next several decades, demographic shifts will provide additional growth opportunities for advisors. As changes occur, advisors will need to become more skilled at addressing the needs of multi-generational groups as well as non-traditional families. Baby Boomers, still the largest demographic, will require retirement and decumulation of wealth advice, whereas younger investors, like Millennials, will require lifestyle-based advice, such as saving and investing strategies.⁴ Advisors will also need to better serve additional key market segments, such as Gen X/Y and historically underserved female investors, many of whom are taking the lead role in long-term financial decisions and wealth preservation.⁵

PERCENTAGE OF INVESTORS LIKELY TO SEEK FINANCIAL ADVICE FROM AN ADVISOR



Additionally, the “great wealth transfer” will also provide opportunities for advisors for years to come. For example, the world’s ultra-wealthy—made up of ultra-high net worth individuals whose net worth is at least \$30 million—is expected to transfer an estimated \$59 trillion in cash, property and assets to the younger generation, according to the recently-released Wealth-X and NFP Family Wealth Transfers Report.⁶ Furthermore, women are projected to control half of the US wealth by 2020—driven largely by a dramatic increase in earning power by female investors.⁷

⁴ According to a UBS Investor Watch survey, 40% of non-Millennial respondents said they are likely to seek advice from a financial advisor when making fiscal decisions, whereas only 14% of Millennials said they would do the same.

⁵ Maximizing a Major Opportunity: Engaging Female Clients White Paper, Fidelity Investments, 2014.

⁶ “That \$41 Trillion Wealth Transfer Now Officially \$59 Trillion,” Think Advisor, May 2014.

⁷ 4 in 10, the number of women who will out-earn their husbands. Women, Money and Power, TIME, March 26, 2012.



"In a world of big data automation and direct channels, the human touch and personal relationships have never been more scarce and are therefore more valuable than ever. Advisors must seize the opportunity across social, mobile and web channels to connect and provide a uniquely humanized customer experience coupled with the convenience of technology."

—Clara Shih,
CEO, Hearsay Social

3. NEW TECHNOLOGIES AND THE 'ROBO-ADVISOR' THREAT

New digital entrants, like robo-advisors and direct-to-consumer websites, are disrupting the financial services ecosystem. The interest in robo-advice companies will continue to rise—and the numbers are impressive: the total capital raised for this emerging industry has approached 19 billion dollars.⁸ And as customers look to better manage and grow their wealth at a lower cost than traditional financial services, customer demand for automated tools will increase.⁹

With that comes the threat that robo-advisors will one day make human advisors obsolete. According to a TD Ameritrade publication, 38 percent of RIAs are concerned that their value as advisors may be diminishing. And some industry analysts are making the bet that the Betterments and Wealthfronts of the world are more valuable than traditional brick-and-mortar advisors. They go so far as to argue that these investment portfolio management software tools, based largely on algorithms and automation technologies, will replace human capital (i.e. real people) as early as five years from now.¹⁰

However, the rise in robo-advice firms should be viewed as opportunities that will create more meaningful ways to connect with customers, and create more valuable relationships. In a January 2, 2015 op-ed published in *FA* magazine entitled *Will Financial Advisors Become Obsolete*, Clara Shih, CEO and founder of Hearsay Social, suggests that while the robo-advisor threat is real, automated technology firms still manage a very small percentage of the overall wealth managed by traditional firms. And instead of fearing new technologies, advisors can leverage them in ways that are meaningful and differentiating for their customers.

⁸ Robo-Advisers Now Manage 21% More Money Than They Did 5 Months Ago, Business Insider, December 2014.

⁹ Real-Time Collaborative Financial Planning And The Evolving Role of the Financial Advisor, Kitces, Michael, October 2014.

¹⁰ The Rise of the Robo Advisor, Rasmussen, Eric, Financial Advisor, April 2014.

PART II: THE SOLUTION—HOW TO STAY RELEVANT IN A CHANGING WORLD

49% of wealth managers have acquired new clients through social media; of those, **29%** brought in US \$1 million or more in financial assets.

Source: World Wealth Report 2014

The successful advisor of the future will embrace change and prepare to seize opportunities created by new technologies and shifting customer expectations. Innovative financial services companies will maintain a consistent digital presence, continue to manage regulatory and compliance issues, and create new opportunities for client engagement and interaction using technology. For all others, they risk losing value and trust over time with clients and prospects.

Here are five steps to take to stay relevant in the digital age:

STEP 1: SHIFT YOUR MINDSET

The advisor of the future will fully understand the multiple ways in which customers interact with financial services and products—as a one-size-fits-all approach is not sufficient to meet the range of customer needs. Developing a vision and a digital strategy—with the customer at its core—is a first step towards succeeding on this journey.

Further, a professional website and social media presence will continue to be an important part of the strategy, as digitally-enabled clients will expect to find advisors sharing valuable content across multiple platforms as well as connecting and maintaining their business relationships through the likes of Facebook, LinkedIn, Twitter, and Google+ (and other platforms, such as Snapchat, Instagram, and YouTube.)¹¹



Have a clear vision and strategy that touches all lines of business. And by leveraging enterprise-ready solutions in your business strategy, you can ensure regulatory compliance rules while positioning your advisors as thought leaders in their fields.

¹¹ Putnam Investments: Financial Advisors and Social Media, October 2013.

STEP 2: BE MOBILE, SOCIAL AND WEB READY

Similar to what has happened in the consumer retail industries, financial services firms will adopt the concept of multi-channel marketing, where consumers are presented with a consistent experience across social, mobile and web. In this approach, technology takes center stage as the organization gains a single view of the customer across its channels, as opposed to several siloed views. It recognizes that today’s customers will leverage multiple outlets as they research and buy products and services.

Mobile will also continue to come of age. While the preference of digital can be seen across multiple channels, it is especially important for financial services firms to create mobile-friendly content experiences at the point of the consumer’s decision-making journey. In a 2013 Forrester US Mobile Mind Shift survey, 62 percent of online adults who use a smartphone expect to find companies with a mobile-friendly website in their moment of need. Another 42 percent expect to find companies with a mobile application. To meet these demands, financial services firms must implement digital strategies, including social, mobile and web, into their current business models, which will play a key role in future success.

The image below highlights the percentage of customers looking for a company on their smartphone:*



*Base: 4,404 US online adults (18+) who use a smartphone
Source: Forrester’s US Mobile Mind Shift Online Survey, Q3 2013



Seize opportunities and leverage technologies that will provide end-to-end solutions to produce, optimize, and target content—from rich media to online video to multimedia—and then distribute content across traditional, digital, mobile and social channels.



“For advisors, using technology is not about abandoning what they do so well, which is providing financial advice. It’s about finding that sweet spot that brings together human touch with technology.”
—Ed O’Brien, Fidelity Institutional’s Head of Platform Technology

STEP 3: EMBRACE NEW TECHNOLOGIES

Because of the increased need to deliver products and services in efficient, time- and cost-effective ways, the successful advisor of the future will embrace new technologies that impact clients and prospects, including investing in back office systems that help with productivity and efficiency—such as improved CRM systems, risk analytics, and financial planning software. And to meet the needs of today’s clients, advisors will demand more advanced technology for client acquisition and maintenance. Their interest in smart phones, tablets, and social media will grow, and a large number will require such technology to access information, obtain quotes, gather data and present information to clients and prospects.

In addition, advisors of the future will improve the frequency and style of communications leveraging digital communication channels—like video conferencing, online chat, and text—to create deeper client relationships and more engaging interactions. This enhanced level of collaboration will provide clients with information and services they want, when they want it—which will ultimately free up time spent on traditional modes of client interaction and allow for more time offering strategic advice.



Enable advisors to more fully embrace technology to improve efficiency and engagement with clients and prospects, and build efficiencies into their practice as a way to facilitate communication and outreach to clients.

STEP 4: PLAY TO YOUR STRENGTHS

To meet the challenges of today and of the future, it will be increasingly important for advisors to know their unique value proposition: trustworthiness and empathy. And the solution that’s going to win the day will combine a strong adoption of technology with a human presence. As such, in-touch advisors will focus on the unique traits that

make them human—which simply cannot be replicated by machines. Because after all, the preferred purchase method across generations is still face-to-face.¹² Therefore, successful advisors of the future will learn to provide value in the new ways expected by customers.

Below are five examples of things that human advisors can do better than machines:

- Create personalized investment portfolios, taking into consideration an investor's priorities and unique family structures
- Identify and explain potential portfolio risks – and opportunities—especially in a “bear market”
- Explore alternative investment opportunities, based on individual needs and objectives
- Explain complex investing ideas such as tax-loss harvesting
- Provide the human element of trust that is an essential part of the investment-making decision process



Provide a unique value proposition beyond automation that highlights the value of human advisors—but that also incorporates technology that appeals to customers as they look to place their business.

STEP 5: PREPARE FOR THE NEXT GENERATION OF ADVISORS

Here's a startling fact: In the next decade, the financial services industry will lose almost half of its workforce to retirement; the average age of a financial advisor today is 50, and more than 42 percent of all financial advisors are over 55.¹³ As such, the need for new advisors entering the industry is critical. To remain relevant in the digital age, financial services firms must make concentrated efforts to recruit the next generation of advisors who will serve the next generation of investors.

¹² LIMRA Trends in Life Insurance Ownership Study, 2010.

¹³ Cerulli Quantitative Update, Advisor Metrics 2013.

Further, it is equally important to the future of financial services firms to make work more efficient and attractive to next-gen advisors—while continuing to support existing advisors. One key tactic for development and growth already being used in the field is the recruitment of junior advisors to assist firms not only with technology—something that is second nature to younger advisors—but to provide opportunities for mentoring and training for the purpose of succession planning. Doing so will help financial services firms meet the demands created by demographic changes, while continuing to meet the demands of their existing client base.



Maximize the value of your business by making management succession part of your strategic plan. Start early, identify your business goals, and communicate your intent to avoid fear and uncertainty about the future of the company.


CONCLUSION

As the financial services industry continues to evolve, digital will continue to play an important piece of the puzzle. Strong customer relationships will remain paramount, and companies that create a clear vision and strategy, enable advisors to embrace new technologies, and integrate social, mobile, and digital strategies into standard business practices will be prepared to meet the demands of the new era head-on.

ABOUT HEARSAY SOCIAL

Hearsay Social provides the Predictive Social Suite for financial advisors and insurance agents across the world's largest financial institutions, including 7 of the top 10 global financial services companies and leading firms such as New York Life, Raymond James, Vanguard and Penn Mutual. Hearsay Social powers over 100,000 financial relationship managers worldwide, allowing them to engage today's social, mobile customer through Facebook, LinkedIn, Twitter, Google+, and mobile-first websites. Advisors receive unique client insights through multi-channel signals, and the predictive Content Library makes it easy to share the right content at the right time. Built-in enterprise integration and governance powers compliance and supervision for global firms, seamlessly addressing industry regulations and enforcing policy.

Hearsay Social, a SIFMA strategic partner, LIMRA Elite Strategic partner, GAMA partner, and Efma Associate Partner, has raised \$51M from Sequoia Capital, NEA, and private investors and is headquartered in Silicon Valley with dedicated local presences in New York, Chicago, Atlanta, Austin, Toronto, London, Paris, Munich and Hong Kong.

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