

# ON THE FRONT FOOT



**Transform the  
wealth management  
front office through  
workforce innovation**

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# WEALTH MANAGEMENT

## Creating a future-ready front office

Wealth management firms are reinventing themselves for a new era. Increased pressure from new regulations, changing client expectations and increased competition from low-cost and low-minimum automated platforms are prompting established firms to focus on new strategies and operating models.

Leading firms have already redesigned their value proposition, establishing hybrid advice, a model that provides their clients with the best of human and digital advice. Fast followers are doing the same. The current flurry of activity is a positive action in the face of change. But amid the action, the workforce implications of these changes often become an afterthought.

The hybrid model—in addition to technology advancements in artificial intelligence (AI) and machine learning—forces firms to assess how a scaled operating model could offer more efficiency at a lower cost. Simultaneously, they must analyze the impact of those changes on workforce issues, such as talent acquisition and reskilling. Only when the entire picture is addressed, can a true, future-ready front office be created.



# THINKING THROUGH FRONT OFFICE IMPACTS

**Technology has transformed the wealth management industry—enabling the expansion of wealth management firms’ services and offerings.**

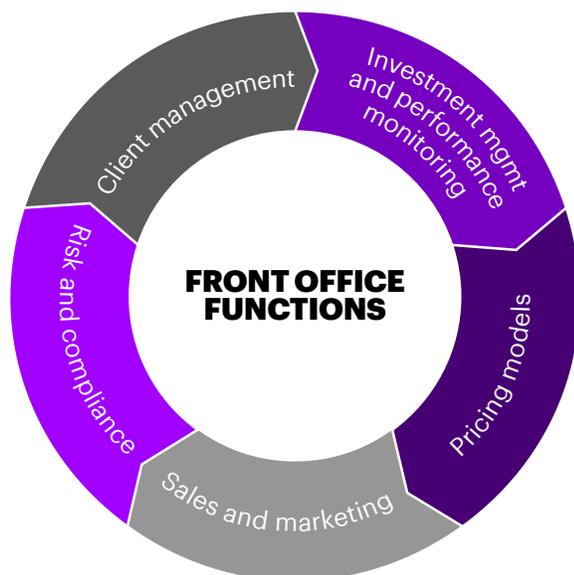
Technologies like AI and automation increase efficiencies exponentially, allowing firms to better address changed customers who demand a more personalized service. Firms should look at these disruptors as an opportunity to improve and refine their operating models, particularly for front office transformation.

## Client management

The hybrid advice model is here to stay. Accenture research shows firms that provide clients with digital tools and access to a human advisor when needed,

are ranked higher than purely traditional or robo-advice advisory models.<sup>1</sup>

In other words, human advisors are not disappearing from the equation. Instead, they remain an important part of fulfilling client demands. As automation eliminates many of the manual tasks currently being performed (e.g., client profiling and proposals, asset allocation modeling), advisors are free to focus on more customized advice for their clients, including goals-based planning, relationship, and brand-building.



Source: Accenture

### Implications:

- Firms will see an increased client to financial advisor ratio.
- Financial advisors will need more advanced qualifications (e.g. certifications) as they move into areas such as tax planning.
- Standardized services will likely yield lower financial advisor fees.
- Commission-based incentives will generally disappear, as annual salaries become the norm for advisors.

## Investment management and performance monitoring

AI and machine learning significantly impact investment management and performance monitoring as the amount of available data feeds both technologies. AI could monitor the markets and generate customized client reports based on real-time data;<sup>2</sup> machine learning could utilize big data to find patterns in a client's investment decisions. Enabled by technology, advisors could more proactively manage a client's account, or clients could better self-direct their investments, based on the customized reports provided.

### Implications:

- Firms will likely have a decreased ratio of support and research staff to financial advisors.
- Support staff, in most cases, will require training in digital research tools.
- Unification between front office platforms and data infrastructure becomes a requirement, not a nice-to-have.<sup>3</sup>

## Pricing models

Pricing models are shifting to provide more transparency and flexibility to clients in new regulatory and competitive environments. Regulation and client preferences are pushing advisor compensation towards a fee-based advisory model, rather than the traditional brokerage model.<sup>4</sup>

Digital advice offerings are targeting clients across the wealth spectrum, with Asset Under Management (AUM) based fees that increase with the added support of an advisor.<sup>5</sup> By separating digital and human fees, the client could choose what kind of advice they need. These different offerings not only provide new opportunities for the client, but they provide new opportunities for advisors to interact with digitally savvy clients.

### Implications:

- Advisors will likely need to offer differentiated services, such as goals-based financial planning, which could add value beyond simple asset management and be priced accordingly.
- By aligning compensation with differentiated services, advisors will be forced to better understand clients' financial goals.
- More salary- and bonus-based financial advisors will join the industry, while grid-based and revenue-sharing advisors will slowly diminish over time.



## Sales and marketing

In this era of increased competition and evolving client dynamics, how can wealth firms differentiate themselves? Recent CFA Institute research reported that clients are seeking “holistic” advice, including “philanthropic strategy, sustainable investing and family resource planning.”<sup>6</sup> Firms could address this demand by requiring advisors to obtain additional certifications (e.g. Chartered Financial Consultant).

Clients also expect their advisors to be on the same digital channels as they are. It is imperative that advisors utilize social media tools to build relationships with existing and prospective clients.

### Implications:

- Financial advisors will seek further certifications so they can offer the enhanced holistic advice that clients want.
- Employees will require guidelines and training for social media.
- New front office employees need to be digitally savvy to succeed.

## Risk and compliance

Mitigating risk and managing compliance will continue to be critical for wealth firms. AI has the potential to leverage an abundance of client data, identifying risks that previously remained hidden. This expanded capability is especially important due to clients’ access to self-directed investment tools. The resulting volume of complex transactions are more difficult for humans to assess for risk, let alone to assess with the speed required.

While access to this increased amount of client data is beneficial, it also increases a firm’s exposure to cyber threats. Firms must continue to ensure customer information is protected when implementing new technologies, as more personal information is shared electronically.

### Implications:

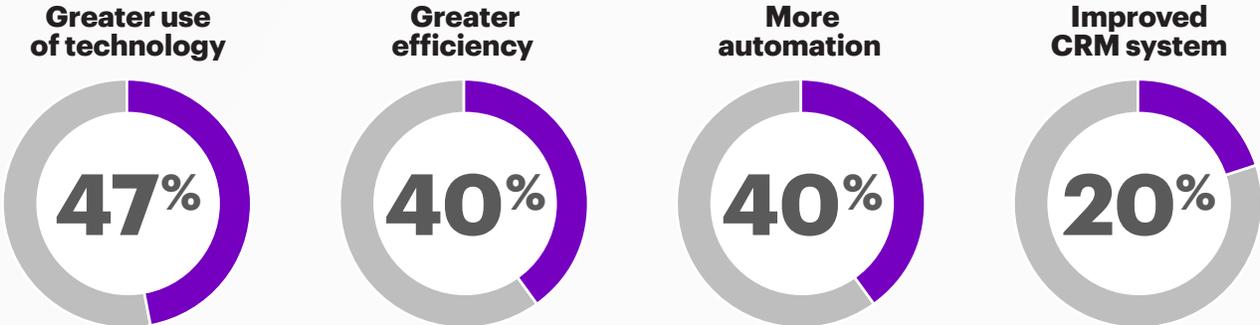
- Less human intervention will be required to analyze risk, reducing human error.
- Expect improvements in speed and accuracy of risk assessment and fraud detection.
- There's a need to expand risk and control frameworks to monitor both people and new technology.

# IS YOUR WORKFORCE FUTURE-READY?

**As operating models change, wealth management firms need to position front office staff for success.**

By providing a clear vision for the future, companies need to let their front office know that they will be supported throughout the transition to a hybrid advice model. The vision should clearly state that technology frees humans to do what they do best. Offering technology as a partner and enabler to better serve clients—rather than a dystopian job stealer—is key. Front office employees need to see the new skills required and know they'll be trained as part of the transition.

## Front office staff want to see:



Source: Iress – Front Office Future Research Report

## Agile and adaptive

Digital automation tools could present a chicken-and-egg scenario. The tools will allow current front office staff to work more efficiently, but they need to be digitally savvy and willing to adapt.

The good news is, the front office already wants and expects improved efficiency through automation. Already, 71 percent of senior front office staff believe elements of the front office will disappear in the next five years, as automation allows certain support tasks to disappear.<sup>7</sup> The same report shows that time currently spent on administrative tasks could be used to serve additional clients, with advisor practices seeing an increase in the average number of clients, from 122 in 2011 to 143 in 2017. Over the same period, the number of advisors with more than 150 clients has increased from 33 percent to 42 percent.<sup>8</sup>

In addition to advisors having to serve more clients, they also need to increase knowledge and expertise in specific areas of client demands. Seven out of 10 CFA charter holders surveyed intend to increase their tax planning expertise in the next five years; six out of 10 believe inheritance planning will be requisite for future advisors.<sup>9</sup>

Beyond subject matter and technical skills, an advisor's EQ (emotional intelligence) will matter more than ever, as client demographics broaden and their needs change.



## Training and reskilling are essential

Firms must consider the next generation of financial planners. Forecasts indicate headcounts are declining, even as the number of investors increase.<sup>10</sup> Also, many experienced financial planners are reaching the end of their careers.

Recent graduates generally have the educational background and board certifications necessary for the job, but many lack the relationship and sales experience required to build and maintain a book of business. Uniquely human skills—creativity, critical thinking and empathy—are more important than ever.

Firms need to help new and existing employees master both the technical and emotional skills required to succeed.<sup>11</sup> Companies could gain these skills through training their current workforce and targeted hiring. Both are required to build the workforce of the future.

In the hybrid advice model, the digital platform is an extension of the advisor. Greater access to these platforms, along with advisor education and training, helps create a symbiotic relationship that should benefit both advisor and client. Digital advice platforms should also be integrated into the advisor training program, helping them learn about different financial plans for different types of clients. Hybrid advice training, combining new technology with a focus on emotional intelligence, allows lead advisors to offer better client experiences.

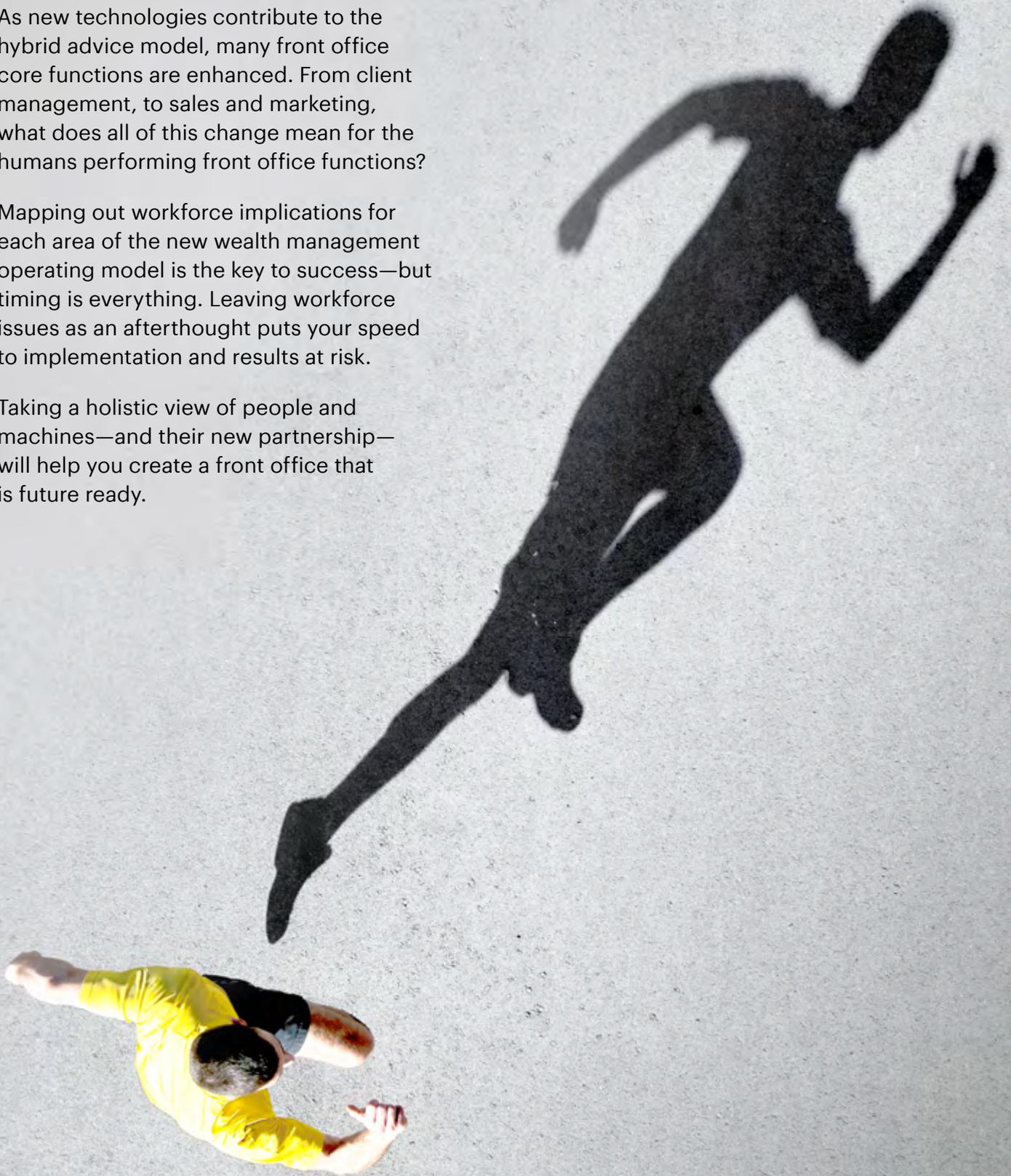
AI will have a seat at the table for investment management and performance monitoring. For investment decisions, AI will only be a contributor—not the lead decision maker. AI could also help advisors offer a more personalized client experience, as it analyzes social media sentiment—often indicating current investor sentiments and trends.

## Meeting the future head-on

As new technologies contribute to the hybrid advice model, many front office core functions are enhanced. From client management, to sales and marketing, what does all of this change mean for the humans performing front office functions?

Mapping out workforce implications for each area of the new wealth management operating model is the key to success—but timing is everything. Leaving workforce issues as an afterthought puts your speed to implementation and results at risk.

Taking a holistic view of people and machines—and their new partnership—will help you create a front office that is future ready.



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