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The “Spotifying” of wealth advice

How to start tapping into the potential of data-driven personalization

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Contents

The what and why of data-driven advice.....	2
Tailored, automated engagement and insights.....	3
Spotifying wealth management.....	5
Four wealth management use cases	8
How to get started.....	12

High-net-worth clients are used to the traditional wealth management model of customer engagement and advice. It works well for them. Advisors focus on their needs and build relationships to best serve them.

Using this old model, the wealth industry simply cannot offer its valuable, custom services to a broader subset of clients. Advisors are busy serving existing clients and are challenged in their ability to scale their services to reach more people. Leveraging a new, hybrid model of doing business, however, could open the door to possibilities that traditional firms could only dream of, with attractive economics, greater scale, and data-driven advice. In Deloitte experience with data-driven personalization implementations, we have seen that personalization can increase the insights accessed by clients by tenfold or more. Data-driven advice means using data, advisor heuristics, algorithms, and models to automate personalized engagement insights and advice for every client in a timely manner.

In other sectors, leading firms such as Spotify, Amazon, and Netflix are already using data-driven advice and engagement approaches to create customized

experiences at scale for their clients. The wealth industry can learn from their successes and start “Spotifying” its own processes to streamline user experiences and to create and deliver more engaging, tailored insights at the ideal times to a larger clientele.

Expert advisors will remain crucial to the process—and they’ll have a game-changing edge. Using data-driven advice to provide tailored wealth management to more consumers, they’ll have more time to use their significant industry knowledge, experience, and ability to establish and deepen client relationships.

The future of wealth management lies in harnessing hybrid business models, not only for the attractive economics and scalable personalization, but also for the potential reach of firms offering high-quality, custom advice and a seamless customer experience.

In this paper, we will:

- Examine the specifics of data-driven advice and the impetus for adopting the capabilities to deliver it
- Explore a Spotify case study and draw parallels to the wealth industry
- Share modern advice and engagement use cases and strategies
- Propose a practical approach for wealth management firms to accelerate their data-driven advice plan and capability buildout

The what and why of data-driven advice



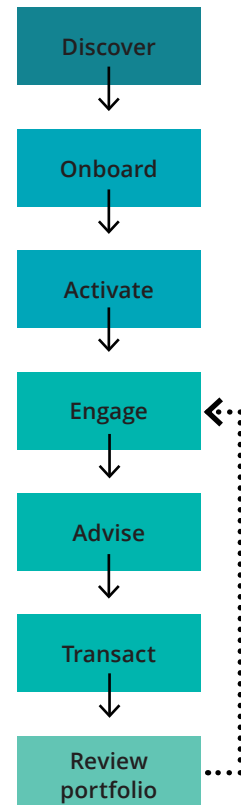
The traditional wealth management customer journey suits the needs of high-net-worth clients, but it doesn't scale well to effectively reach the mass-affluent and mass-market segments.

Key features of the traditional model

- Proven method for predominantly advisor-based engagement
- Personalized advice and service to high-net-worth clients
- Relatively expensive approach that therefore does not scale, meaning:
 - Only a limited number of consumers get customized advice
 - Frequency of engagement is dependent on inconsistent factors
 - Digital experience needs of new investors are unmet

Wealth management firms should be moving away from the manual processes underpinning the traditional model, but not from its benefits. Managers can adapt these lessons as they begin “Spotifying” their own processes by adopting engagement approaches and practices with highly data-driven technology layers to increase their earnings and capture a greater share of the market. Beyond improving economics and scale, embracing a new model will also allow Canada’s wealth management firms to offer their clients more engaging and relevant advice.

Customer journey



Tailored, automated engagement and insights

Data-driven advice uses data, heuristics, and models to automate timely insights and advice for each client. The advice can be tailored based on a range of attributes, including the client’s preferences, past trades, and behavioural profile, and delivered using digital-first online and mobile channels as well as through advisors. We have seen that this tailored service can drive up to two to three times more digital transactions in some cases.

How it works today:

- **Advisors need to tailor advice for each client in their book by processing a large amount of ever-changing information** (product recommendations, CIO views, market data, etc.)
- **It usually takes over an hour to tailor advice for each client**
- Advisors typically do not have ready, 24/7 access to all the data they need to effectively tailor advice



Which means:

- **Advice is only truly personalized for top clients**
- **Advice is not personalized or timely for many clients** due to time constraints
- **Advice is inconsistent** due to
 - Advisor attrition
 - Varying advisor tenure and experience
- Any firm’s wealth offerings are **relatively undifferentiated** versus peer wealth managers



With data-driven advice:

- **Personalization is automated**
- The advisor is able to **engage and advise more clients** (15% to 20% productivity increase)
- All clients get **tailored, high-quality advice**
- **Personalized insights and advice can be delivered via the advisor and digitally** for an omnichannel experience
- **Competitive advantage is created over time with data and insights**



Industry example

Morgan Stanley deploys a next-best-action engine

The global investment bank wanted to enhance its wealth advisory services by further humanizing its processes and providing highly contextual client insights. As Morgan Stanley's chief analytics and data officer noted, "There is one clear way not to be successful—not engaging with your clients. Whatever else you do, you have to do that well and you have to do it at scale." That meant elevating the organization's technology and analytics capabilities.

The solution was to build a next-best-action (NBA) system that would enable advisors to provide customized and engaging recommendations across Morgan Stanley's entire portfolio.

This next-generation advisor engine also improves advisor-client communications and helps advisors create more meaningful interactions. It generates recommendations for routine communications—birthdays, holidays, the passing of relevant legislation, etc.—and can target specific US zip codes for geographic messages such as storm warnings. It also provides ideas for sparking a client's interest, so advisors are equipped with advice that can improve engagement. For example, it might recommend that an advisor connect with a client about a bond that's being downgraded to offer an alternative.

The system was rolled out in 2018, allowing Morgan Stanley to offer more engaging, differentiated wealth services. Since the implementation of the NBA engine, the organization has seen a significant increase in the number of inbound client calls. Personalized investment ideas for clients are produced instantly—something that took the firm's advisors about 45 minutes per client using traditional methods. And with an average of 200 clients each, most advisors are happy to take advantage of the opportunity to combine better engagement with greater efficiency.

Source: Tom Davenport, "The Future of Work Now: Morgan Stanley's Financial Advisors and the Next Best Action System," Forbes, May 16, 2020.

Spotifying wealth management



Back when Spotify was founded in 2006, the company made a significant impact on the market by offering something that no other music streaming app had: an easy, frictionless, and personalized experience at a reasonable cost.

Spotify evolved its approach by:

- Moving from curation services to recommendation services
- Pivoting to a ship-then-shop mentality
- Making key acquisitions to enable the company's personalization goals (i.e., TuneGo and EchoNest)

Spotify highlights **the importance of recognizing your niche**. The company's leaders understood the criticality of engaging and personalized services, and that's what they set out to deliver. They were determined to create a fantastic music experience that could not be found anywhere else in the market.

Key moves to take from Spotify's experience:

- Building an incredible product before deciding when to scale
- Curating your business model and tech stack to best reach your customers
- Harnessing machine learning (ML) to provide tailored customer experiences

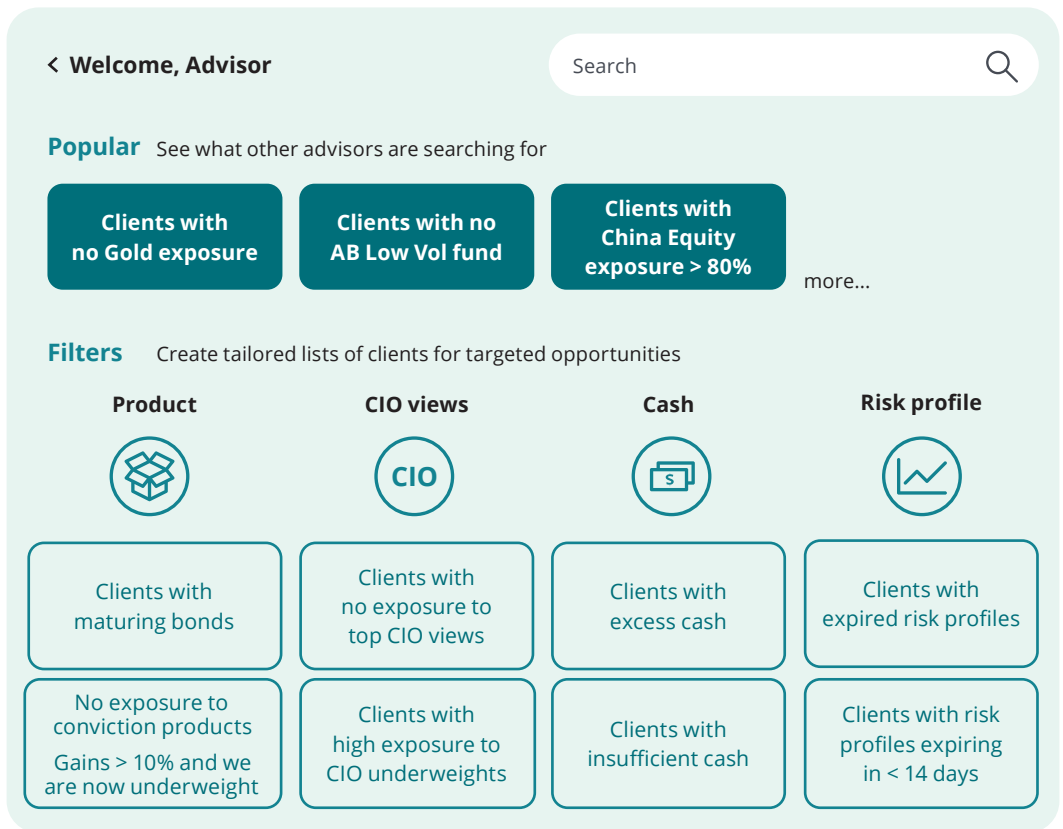
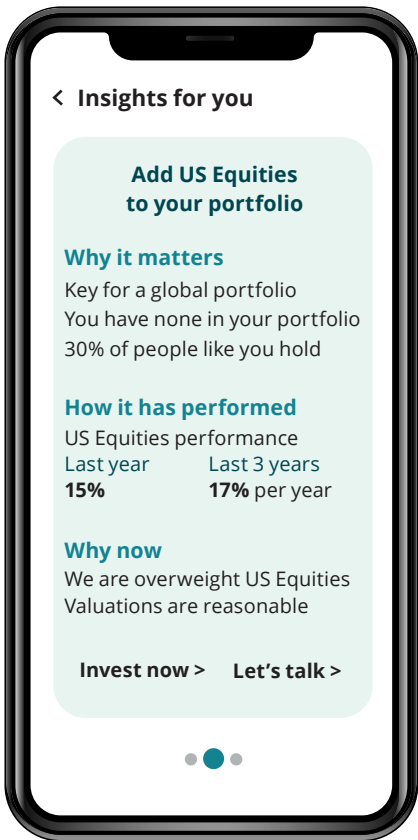
Five takeaways for wealth managers

The techniques and approach used by Spotify can be adapted by wealth management organizations to offer more engaging, personalized, and scalable experiences to current and potential customers.

Five takeaways

- 1 Invest in talent to drive data-driven product development
- 2 Develop new business models linked to data-driven engagement
- 3 Create new digital wealth experiences for clients and advisors by capitalizing on data and algorithms
- 4 Recognize the need to build or buy capabilities as needed
- 5 Design and get the pilot right before scaling

Wealth management examples of client- and advisor-facing data-driven personalization



Send personalized next-best-action and "people like you" insights directly to clients

Automate and customize filters and advisor insights to drive productivity and client engagement



Acquisition.AI is a Deloitte platform that offers end-to-end capabilities to identify, prioritize, and act on extractable, valuable market opportunities to drive top-line growth. The product provides a proven methodology for enabling data-driven acquisition and is highly customizable so firms can identify the best opportunity areas for their products and services.

Four wealth management use cases

Use case 1:

Personalization using sentiment analysis

Challenge

In the whirlwind of their busy days, advisors can miss signs of eroding trust and frustration in some of their clients. Over time, this can lead to the degradation of clients’ relationships with advisors and their perspective of the services they receive. Sustained frustration in clients can drive them to switch advisors or move to a competing incumbent or nascent service (robo-advisors, retail investing, etc.).

Solution

Sentiment analysis capability, with the following features and components:

- Integration with email platforms to parse email exchanges
- Natural language processing to create transcripts of client-advisor meetings and inbound calls to call centre investment representatives
- Ability to identify clients in email exchanges and meeting transcripts
- Tracking of account and transaction activities before and after advisors’ meetings and call centre interactions to understand which recommendations clients are following
- Sentiment analysis model using ML/artificial intelligence (AI)
- Dashboard for advisors to get up-to-date average sentiment analysis scores for clients, with drill-down capabilities to see scores for specific exchanges
- Alerts for advisors to take action when low average sentiment is detected for a given client, or a particular exchange is determined to be low sentiment

Data required

- Client email exchange data
- Client-advisor meeting transcripts
- Inbound client calls to call centre transcripts
- Account and transaction activity before and after client engagement

Potential benefits

- Increased trust between advisors and clients due to enhanced insights into client attitudes
- Reduced churn of clients as unhappy clients are detected and can be engaged before they switch advisors
- Reduction in time required for advisors to prepare for client interactions through using sentiment insights

Use case 2:

Holistic client view across lines of business

Challenge

Multiple points of entry for clients means duplication in data-capture efforts due to overlapping journey flows (account opening, ID verification, etc.) across different business units. They also put an additional burden on clients, create a disjointed experience across lines of business (LOBs), prevent holistic views of clients, and lead to inconsistently applied advice.

Additionally, siloed LOB profit and loss statements, vague referral strategies, ill-defined targets, and a lack of mutual trust and knowledge-sharing among LOBs all reduce advisors’ motivation to pursue collaboration and are detrimental to building cross-LOB relationships centred on clients’ total wealth.

Solution

Holistic client view capability, with the following features and components:

- A unified view of each client across the organization to ensure advisors have sufficient information to answer questions and make proactive recommendations
- Visibility into all other cross-LOB offerings and relationships the client holds
- Information on requests in process (trades, withdrawal requests, etc.) and a log of past communications with each client
- A harmonized talent acquisition strategy throughout the organization that fosters a collaborative advisor network, such as through cross-LOB wealth rotational programs
- A platform that creates a seamless experience for both advisors and clients and can hold the whole range of offerings found across LOBs, including mutual funds, stocks, bonds, ETFs, and other banking solutions

Data required

- Client personal data
- Client-advisor meeting transcripts
- Client account, holding, and transaction data
- Aggregated personal data

Potential benefits

- Increased transparency of cross-LOB products for a greater share of wallet
- Improved client satisfaction through better servicing of their individual needs and goals
- Enhanced client insights and analytics via utilization of holistic client data sets
- Better advisor collaboration and internal networks

Use case 3: Channel-agnostic next-best-action engine

Challenge

The commoditization of advice, increased competition in the wealth space, and heightened wealth service expectations mean advisors must be able to deliver highly customized, nuanced services to their clients to defend their value over alternatives.

Additionally, consumers have been conditioned by the transformative experiences of consumer applications such as Netflix and Spotify and now expect their wealth management firms to offer streamlined digital services.

Solution

Next-best-action (NBA) engine, with the following features and components:

- Consolidation of client data to enable holistic digital profiles
- Acquisition and integration of external data sources (market data, etc.)
- Creation of automated alerting capability for rudimentary use cases (birthday notifications, reminders to update financial plans, etc.)
- Creation of analytics/AI/ML models for personalized NBA suggestions, such as:
 - High-volatility detection in client portfolios
 - Tax-efficient strategy recommendations
 - Portfolio health checks and ratings (ESG performance, diversification rating, etc.)
- Integration of engine output:
 - For advisor-targeted NBA systems, integration into advisor workstations and client profile views
 - For end-user-targeted NBA systems, integration into client-facing applications

Data required

- Market data
- Client wealth profile (goals, financial plans, etc.)
- Client account, holding, and transaction data

Potential benefits

- Increased client satisfaction through advice that is tailored to their context
- Reduction in time required for advisors to generate recommendations and insights per client
- Optimization of advisor time by enabling ability to service more clients per day and overall
- Increased trust between advisors and clients through timely engagement and support

Use case 4: Data- and AI-driven client acquisition

Challenge

Being able to efficiently acquire new clients is critical for wealth management firms to achieve sustained organic growth of their assets under management (AUM), revenue, and market share over competitors. To maximize the effectiveness of acquisition efforts, high-value geographic areas and customer personas can be identified to provide an intimate understanding of clients’ characteristics for direct targeting with tailored messaging and support.

Solution

Data- and AI-driven client acquisition capability, with the following features and components:

- A robust data model that includes third-party data on the overall population
- An AI/ML model that uses first- and third-party data to predict the most likely areas for acquisition of new clients (geographic targeting, persona targeting, etc.)
- A dashboard that provides an intimate understanding of the population targeted for acquisition, with comprehensive profiles of each identified opportunity area, persona, etc.
- An omnichannel campaign based on the identified opportunities, including the creation of digital audiences at a granular geographical level

Data required

- Internal client acquisition performance data
- Third-party data—demographic, behavioural, financial, ethnographic, mobile, etc.

Potential benefits

- Optimized acquisition dollars spent on areas with the highest concentration of high-value potential clients
- Increased likelihood of conversions using tailored acquisition outreach paired with enhanced targeting capabilities
- Better advisor allocation for areas with greater prospect potential and investable assets

How to get started

Common concerns about pursuing a data-driven advice approach

While stakeholders may have valid reasons for caution when it comes to developing a new model of wealth management advice, it’s important to remember that none of them is insurmountable. Getting started will likely include overcoming stakeholder concerns. Here are some of the most common enterprise, adoption, and data concerns that may arise.

Enterprise concerns

- **Lack of clarity around where to start:** “We don’t know which investments to make and are concerned about misallocation of resources.”
- **Lack of enterprise buy-in:** “We don’t feel we have sufficient executive buy-in to achieve successful outcomes.”
- **Regulatory concerns:** “We are concerned about remaining compliant to regulatory limitations for sharing data across our lines of business.”
- **Challenges maintaining data privacy:** “We are concerned that a personalization capability will infringe on the privacy of our clients and cause backlash.”

Adoption concerns

- **Lack of advisor willingness to adopt the capabilities:** “We don’t have confidence that our advisors will be interested in using the capabilities.”
- **Unexplainable AI models:** “We are concerned that the inexplicability of the AI model will render it unusable.”
- **Uninterpretable outputs:** “We are concerned about our advisors’ ability to assess and take action on probabilistic outputs.”

Data concerns

- **Dependency on manual processes:** “Our current processes for client data capture are primarily manual and highly prone to inconsistencies, making it unsuitable for a new model.”
- **Limited data sources available:** “We don’t have the necessary external data sets to build advanced data-driven advice capabilities.”
- **Lack of confidence in data quality:** “We believe the current quality of our data potentially exposes us to erroneous outcomes.”
- **Limitations in client data:** “We don’t believe the data we are currently collecting from clients is comprehensive enough for personalization.”
- **Lack of a single source of truth:** “The current fragmented state of our infrastructure makes it challenging to access all the necessary sources of data.”
- **Data latency discrepancies across systems:** “We are concerned about our ability to get access to timely data for relevant insights and to integrate the real-time versus non-real-time data sources that currently exist.”

With a robust approach, these concerns can all be mitigated and overcome, enabling wealth managers to transform the industry and how its services are delivered.

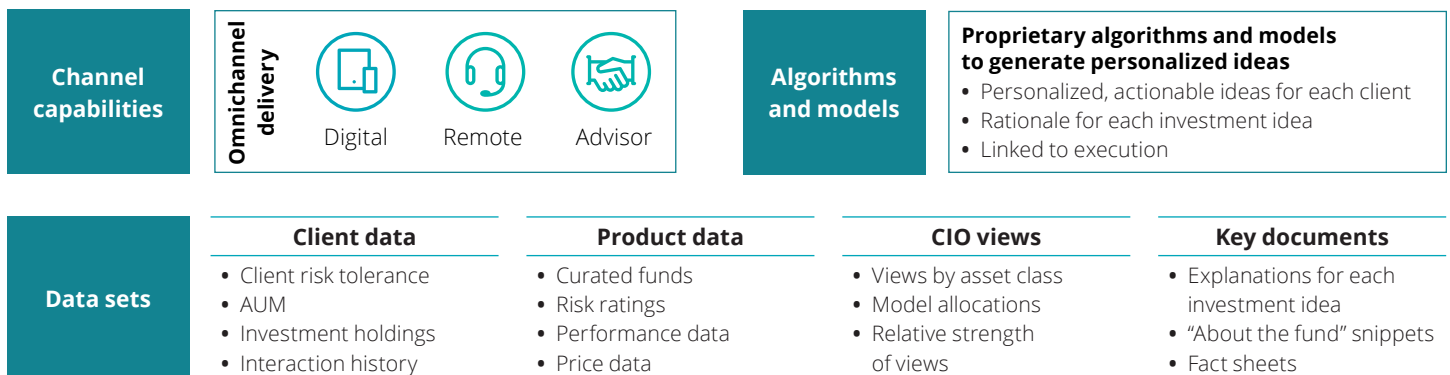
Address the challenges, plan the approach, and adapt as needed

When designing and implementing data-driven advice capabilities, organizations need to ensure the delivered solution is feasible, robust, and comprehensive. An iterative approach offers the flexibility to adapt to evolving business requirements and client needs.

The solution will need to address the critical areas outlined below—exploring possible answers to the questions for each one can help to shape the process and prioritize the next steps.

Data-driven advice approach						
Governance	Pilot	Channels	Technology platform(s)	Algorithms and models	Data sets	Outcomes and use cases
<ul style="list-style-type: none"> How do we validate models and heuristics? What governance is needed on model inputs? What governance fail-safes are required? 	<ul style="list-style-type: none"> How and where to pilot? What is the iterative approach needed to scale up progressively versus large, up-front, risky investments? 	<ul style="list-style-type: none"> What delivery channels should we deliver the insights through—advisors, direct to client, or hybrid? What are the trade-offs? 	<ul style="list-style-type: none"> What is the technology approach (i.e., buy vs. build) and its associated pros and cons? What technology fail-safes are required? What’s the starting and target architecture? Which wealth technology modules are needed? 	<ul style="list-style-type: none"> What heuristics and models do we build around relevant information to generate advice and insights? What feedback models are needed to enable continuous improvement? 	<ul style="list-style-type: none"> What data is available to ensure use case MVPs? Is the data we want to collect available, high-quality, and low-latency? What’s the data road map? 	<ul style="list-style-type: none"> What are the key use cases? Which part of the business should we pilot them for? What are the target outcomes?

Key building blocks for enabling data-driven advice capabilities



Conclusion

While the traditional wealth management model for engagement and advice has served high-net-worth clients well, it limits the ability of advisors to provide high-quality, tailored advice at scale.

The role of an advisor will always be crucial in the wealth management industry as both savvy clients and potential customers expect a human touch and expert guidance. With data-driven advice capabilities, advisors have access to sophisticated, personalized recommendations, empowering them to better serve their existing clients and grow their books.

With the integration of new personalization approaches and practices by Canada’s wealth management firms, their advice services will be much more engaging and relevant. This “Spotifying” can not only increase clients’ access to quality information, but also improve scale and economics as organizations will likely save time, increase earnings, and capture more market share.

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