Changing distribution models for the New Affluent Wealth Management client

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Wealth Managers are currently facing significant uncertainty in servicing their clients, and change is needed now to meet this challenge. Whilst, upper end Private Banking has maintained personal relationship based advice between clients and banker as the primary distribution method, there has been a changing dynamic in affluent clients using Wealth Management services, both in what they expect from their providers, and how they use them.

For large banks looking to provide distribution and product manufacturer services, the opportunity presented by new clients is compelling; the assets of the world's wealthy households are expected to double between now and 2020, with this growth anticipated across all wealth management segments (Deloitte and Oxford Economics Research).

Connecting with clients

The last five years have strained clients' trust in their banks, and ongoing research suggests little has changed (Deloitte SentsCheck). Many global banks have worked hard to change their clients' perceptions of them from product-oriented to service-driven organisations.

Regulatory initiatives such as the Retail Distribution Review in the UK have contributed to the gradual change towards advisory distribution models with a holistic view of client requirements. MiFID II will lead to similar trends across Europe.

More regulation on the way

With regulation almost certain to be stepped up, banks are making significant investments in their infrastructure. With regulatory breaches being a major risk for firms, executives are committing sizeable resources to regulatory-compliant change and processes that ensure compliance on an ongoing basis.

Unlocking data

As greater restrictions are now being placed on wealth managers' business and the products they sell, banks are increasingly looking for ways to better use customer data to analyse the profitability of the client base and unlock future value.

New demographics, new ways of talking to clients

Recognising changing behaviours and demographics is vital for wealth managers, as profiles move from traditional, old money clients to a new, younger clientele, and responding to the changing preferences of these clients also means embracing new distribution technologies.

Changing client profiles require a multi-channel approach, including digital channels and social media, moving away from the traditional face-to-face model. Meanwhile, higher expectations of quality and expertise have made banks more conscious of the need to address service quality and understand where key 'moments of truth' are found in the value chain, throughout the client lifecycle.

A time for change…

Banks are therefore increasingly finding that they need to spend more on infrastructure if they are to maintain their market position, to take into account regulation as well as new distribution channels and higher service expectations, with greater expertise required of client-facing staff.

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The challenges of increasing investment requirements and the rising cost of doing business have to be met at a time of growing market competition. In parallel, there is intense pressure on revenues, with cash remaining a significant asset class for a largely risk-averse client base.

...in the mass affluent market

The traditional distribution model which focused on upfront advice as the sole form of interaction with clients is unlikely to survive. While this is true across all segments, higher net worth clients are typically more relationship-driven and multi-banked in approach. The need for change will therefore be most significant in the mass affluent market, which is generally defined as individuals with US$100,000 to US$500,000 in investable assets, who normally bank within their domiciled country.

How can wealth managers reconnect with their affluent client base and service their needs in an efficient manner, while taking into account the new regulatory environment and changing distribution models?

1. **Introducing optimised client propositions**
   Wealth managers need to use regulation to work for them, forming propositions that build on regulations, instead of purely aiming to comply

   Current regulatory themes are directing wealth managers towards holistic advice and away from product-focused recommendations, to better align bank's and customer's interests.

   As an example of this thinking, the United Kingdom's regulator (FSA) oversaw the implementation of the Retail Distribution Review (RDR) at the end of 2012. The aim was to ensure that distributors deliver investment products, typically traditional funds and associated products, as part of a fee-based advisory approach, thereby eliminating external commission as the primary remunerator. The retail-to-mass affluent marketplaces have been the major areas targeted by this type of reform. A curious by-product of this change, however, is the growing realisation that consumers would be reluctant to pay fees, perceiving they had received free advice before the reforms, and believing that services offered by banks, in particular, do not necessarily warrant a fee. In response to these anticipated changes, and given that the ongoing cost of regulation is a concern, many large UK banks have marginalised their advisory divisions for retail customers, focusing advisory services on clients willing to pay for the service.

A clear correlation exists: the greater the amount of assets a client holds, the more complex the need and therefore the more likely the client will be willing to pay for advice. As an example, clients in the UK with US$80,000 or more in investable assets are four times more likely than the average client to pay for advice (Deloitte research 'Bridging the advice gap, post RDR').

Understanding the need to offer a high quality advisory experience, wealth managers are moving their affluent propositions towards a risk-controlled, transparent, fee-based pricing model. They are also adopting a more centralised investment offering, taking decision-making away from the individual advisor, by proving core fund-based investment portfolios aligned to risk profiles and client objectives.

If you are not looking after your client, someone else is, so understanding clients has always been the key to wealth managers' success

As a reverse of the old product-driven advice model, innovative, one-off products should complement this core fund-based approach.

It also helps mitigate risk in the event of advisor attrition, by keeping expertise in-house, and provides flexibility through a range of tax efficient wrappers, most notably pensions. This process can also be used to manage a firm's risk, especially in the event of a client complaint, by understanding not only what has been advised (using a transparent client menu) but by placing clear emphasis on risk profiling and appropriate portfolio re-balancing. Client service is also improved, with a more client-centric proposition for a pre-agreed fee.

A distributor trend is developing where smaller boutique firms have started to target higher net worth clients to keep a hand in the advisory market and distributor banks and product manufacturers are well placed to use their data to help understand their clients better.

2. **Improving profitability by unlocking client data**
   Wealth managers need to create efficient customer service models, leveraging data analytics for idea generation and recommending the next-best-action approach

   If you are not looking after your client, someone else is, so understanding clients has always been the key to wealth managers' success. Granular data insights go much further than the traditional front office 'know your client' (KYC) process, which is based solely on the advisor perspective.

   This can help build a segmented business model, more accurately targeted at client and product profitability. Data insights can also deliver superior client service by informing next-best-action recommendations to predict the client's future preferences, thereby unlocking value profitability potential and improving 'wallet share.'

We have seen this with telecommunications companies, where focused product recommendations, using past purchases and data on future product/service preference, have proved highly successful. Retail banking has also started to look at unlocking this potential.

Next-best-action is a pioneering approach aimed at helping banks understand how to use their data to unlock customer value and boost sales, including retaining, servicing and educating clients. It also looks to implement data insights into the everyday practices of marketing departments, effective conversations with clients, significantly improving client experience. Measurable benefits were obtained on a recent client assignment in retail banking, with a 30% increase in sales, along with noticeable improvements in the client experience (Deloitte client case study).

The use of data can be of particular benefit to wealth managers in the mass affluent sectors, which are often single-banked and quick to respond to change, especially the younger demographic.

The 3 themes driving Next Best Action (NBA)

Predicting client behaviour to drive valus	Managing multi-channel interactions	Operating as an insight driven business
Cross sell/up-sell Predicting each client's likelihood to respond to certain products	**Multi-channel approach** Using existing behaviour to influence on-going multi-channel interactions	**Operational insight** Providing key divisions the information they need to facilitate high quality service
Retaining clients Understanding the root cause of client churn, predicting which clients to retain and at what cost	**Real time decisioning technology** Considering the entire context of the interaction, the clients' segment, and journey	**Ongoing insights for value** Interactions between analytics and the client strategy produce insights that are both actionable and measureable
Client centricity Developing a clear measure to evaluate client experience enables a client centric approach	**Strategic approach to client management** Prioritising interactions which add value to the organisation	

Data analytics also provides targeted analysis to support the advisor in understanding their customer without the need for labour-intensive, personal interaction. Using contemporary CRM interfaces to display next-best-action results in engaging form factors—such as tablet technology—clients are being introduced to a new level of service that places them at the centre. Ideally, this is combined with the ability to generate rule-based, automated investment advice that is built on customised investment strategies, taking into account client risk appetite and capacity and other personal preferences such as sectors, industries or niche investment themes. Such an engine with multi-channel distribution capability will allow the bank to create much more frequent high-value interactions with the client.

Data analytics may also effectively be used for wealth customers looking to self-manage, bridging the gap for those unwilling to pay for advice. In particular, it provides the asset management industry with a highly effective platform to offer alpha and beta products in an interactive online platform. Product offerings such as ETFs can benefit enormously from this, as they can satisfy a number of suitability functions at a competitive price point for wealth management platforms.

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3. Embracing new distribution models

Wealth managers need to connect with their customer base via social media and digitise their product offering in order to manage cost and cover the new generation's channel preference

It is commonly expected that up to 30% of consumers' banking relationships will be exclusively mobile within the next ten years. Embracing this medium is key to engaging with clients and is also vital to maintaining market competitiveness.

To implement a cohesive digital strategy, an agile operating model should be created that is scalable to different clients and transaction volumes, while product offerings should be flexible. Wealth managers should also be looking to enhance their client service through a mobile offering. This can be viewed in two ways:

- Enhancing the relationship advice model—helping front office advisors provide a seamless service, with digital offerings giving clients extra functionality, or out-of-hours service
- Primary direct model—by providing best-of-breed mobile solutions tailored to 'on the move clients' short on time, but receptive to leading-edge suggestions delivered in an engaging, user-friendly format. Recent market innovations include an app that allows investors to customise options trading or a password-free dashboard that provides account holders with information in an easy-to-read visual display

In delivering a digital solution, it is likely that the tablet will form the primary interaction point. While mobile phones offer similar interfaces, they may lack the proportions suitable for managing investments and so may be positioned as complement to a core tablet proposition. Tablets also provide a superlative form factor adept at displaying financial information clearly and succinctly and in a manner that encourages clients to explore investment scenarios further and ultimately execute on investment decisions.

Wealth managers can also expect a much greater share of wallet, especially with self-managed clients, by offering a broad range of products within one direct offering with superior analytics and next-best-action interfaces driving the service. A high-quality direct offering based on a strong platform and transparent pricing also minimises the need for clients to seek multiple providers, giving them little reason to shop around.

To the **point**:

To gain market advantage, wealth managers that transform the way they interact with their clients are best placed to unlock future value by:

- Delivering a service proposition that benefits from regulatory change by offering transparent pricing and advice, and placing client experience at the core of the offering
- Using insights to drive growth, combining service expertise with client data, thereby unlocking value for both the provider and client at every touch point
- Establishing the multi-channel interaction process, providing the 21st century client with the opportunity to receive advice, and even transact through digital channels

Wealth managers looking to stay ahead in this market should embrace these changes at the earliest opportunity.