Deloitte.

Retooling wealth management for the digital age

A look at consumers' digital propensity

Summary

Much has been written about a new generation of investors and their needs and preferences. We are told that these investors are digitally savvy, and want to consume advice and interact with wealth management firms in new, often digital ways. But few studies have analyzed the digital interactions investors want, and their propensity to adopt digital offerings and use digital channels. This is precisely what we address in this paper.

To address this gap in the wealth management literature, we surveyed 2,700 retail investors across various wealth tiers and age groups. We asked them about their digital preferences and measured their responses along various psychographic attributes. We found that:

- Both Mass Market and Mass Affluent investors have **relatively high, and similar, digital propensities** relative to more affluent segments.
- The key difference between Mass Market and Mass Affluent investors is in the **types of digital interactions** they prefer, and take part in.
- Within Mass Market and Mass Affluent segments, digital propensity **varies more substantially** across behavioral sub-segments.
- Based on four psychographic attributes, we segmented the Mass Market and Mass Affluent investor base into **six segments with varying digital propensity.**
- Wealth Management firms who **tailor their digital strategies** to these six segments will likely be more successful.

What is Digital Propensity and why does it matter?

As noted in the introduction, we asked respondents across segments, age groups, genders, and geographies about their desire for digital interaction (via app, mobile, and web) with their wealth manager (current or prospective). We did so with a set of 12 questions (Figure 1) and used responses to arrive at a "Digital Propensity" score.

The Digital Propensity score is a composite measure of how much, and how often, an individual or segment would prefer to engage with a wealth manager via digital channels rather than via traditional face-to-face or phone channels.

The survey results strongly suggest that the Mass Market and Mass Affluent segments were far more open to the use of digital tools being applied by their wealth manager or advisor than more affluent investors (Figure 2). Readiness for digital does have nuance and variation across the Mass Market and Mass Affluent; however, by and large they are open to the technologies that will allow advisors to serve them effectively.

Figure 1 – Measures of digital propensity

Survey of investor digital propensity

We measured the degree to which 2,700 consumers prefer to use web and mobile tools to manage their wealth ... use web and mobile tools to manage their wealth...

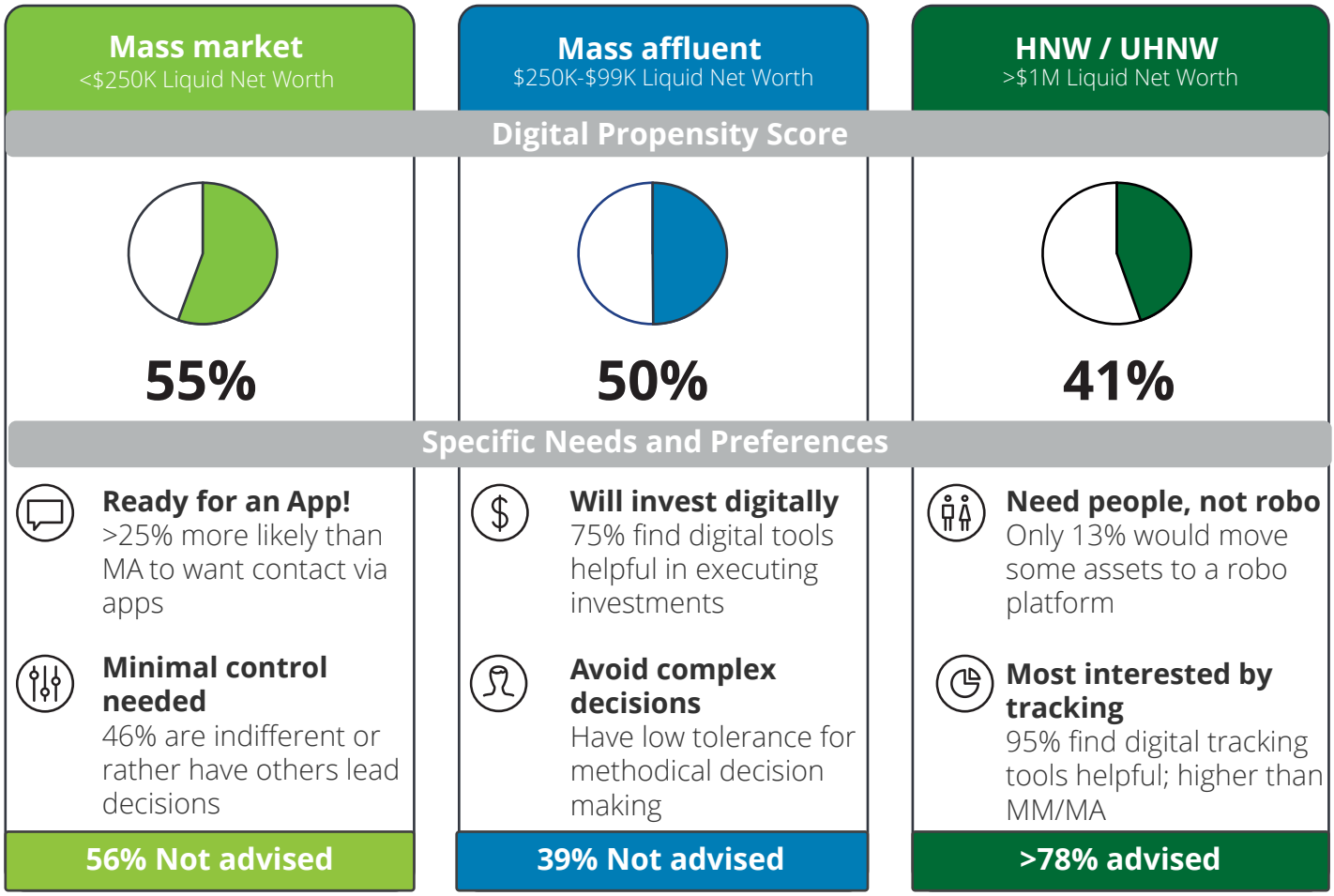
Would they use a 100% digital advisor or "robo-advisor"?	Does their current advisor use web and mobile tools?	Did they pick an advisor because of web/ mobile tools?
Do they want to work via web or mobile with an advisor?	Do they want to enroll in new products via web and mobile?	Do they want to adjust products via web and mobile?
Do they want to monitor progress via web and mobile?	Do they want service via web and mobile?	How do they want to handle urgent matters?
Is web interface a key satisfaction driver?	Is a mobile app a key satisfaction driver?	How often do they want to meet with an advisor?

... to get a holistic view of propensity to use digital tools and channels across the customer lifecycle

Source: Deloitte Consulting LLP

Figure 2 – Digital propensity and key preferences across wealth tiers

Digital needs and preferences by wealth tiers



Source: Deloitte Consulting LLP

We believe that wealth managers should take stock of the main differences between MM and MA. For instance, the Mass Market, as a whole, can be characterized as the most ready for digital engagement. They are ready to be contacted by an advisor via mobile app and have the lowest need for control and lowest tolerance for complex decision making of all segments.

The Mass Affluent are also excited by digital engagement opportunities, with their highest priority placed on digital enrollment in new products, digital trade execution, and routine performance tracking. Similarly to the Mass Market, they have a low tolerance for thinking through and methodically addressing complex decisions, such as retirement planning.

The High Net Worth and Ultra High Net Worth segment is the least ready for the shift to digital. Much of their hesitance is rooted in their desire to have a high-touch engagement model with their advisor, as well as their desire to have face-to-face meetings regularly. Scalability can be achieved in this segment most easily via performance tracking and reporting.

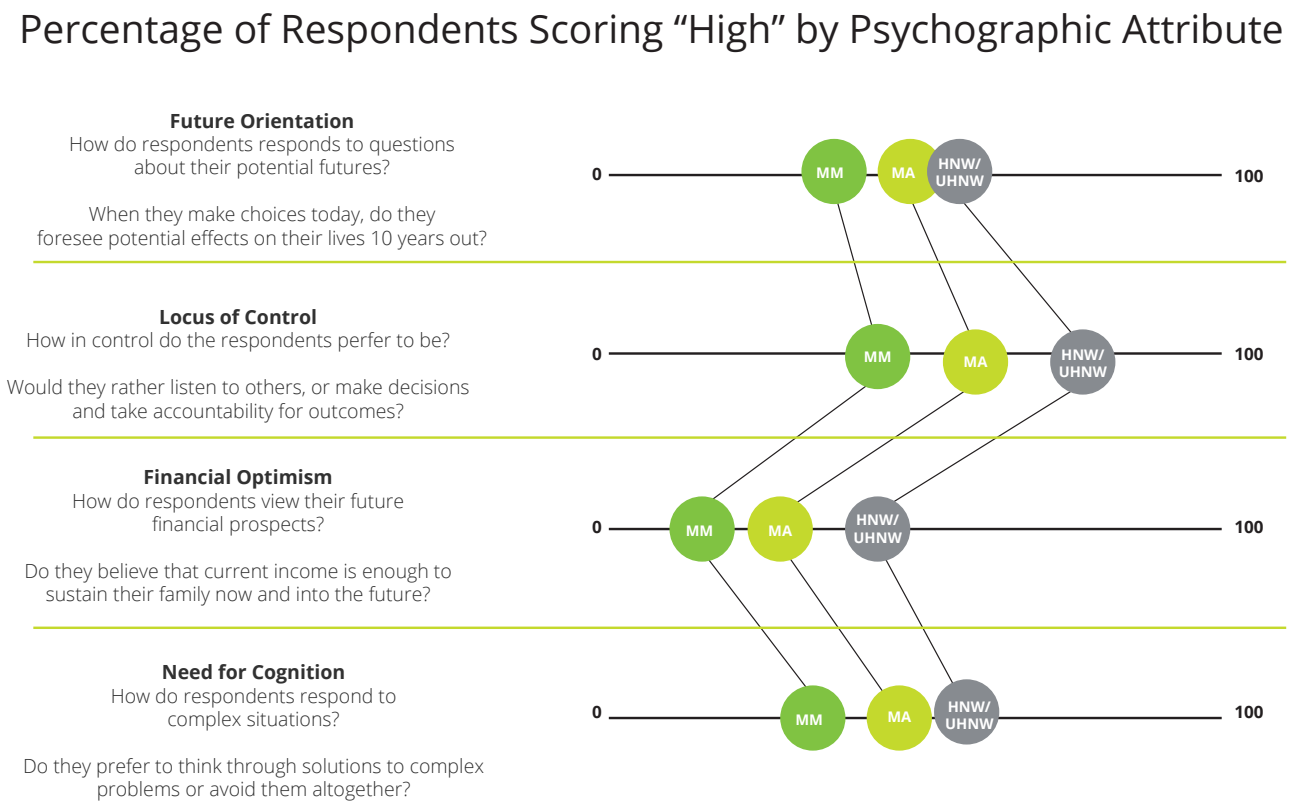
Based on digital propensity scores, along with availability of investible assets, we focused our remaining analysis on how to better approach and serve the Mass Market and Mass Affluent segments.

Understanding how segments think: 4 psychographic attributes

We wanted to also understand the motives and thought processes behind each segment. To do this, we asked a series of questions about Future Orientation, Locus of Control, Financial Optimism, and Need for Cognition. We focused on these four attributes because of their relevance to how and why investors think financially.

1. Future Orientation is the degree to which an individual has and uses long-term-vision. High Future Orientation indicates a tendency to consider and prioritize the long-term implications of a decision.
2. Locus of Control is the degree to which an individual prefers to be in control of situations. High Locus of Control indicates a desire to be the decision maker.
3. Financial Optimism is the overall satisfaction and confidence an individual has in his or her current financial standing. High Financial Optimism indicates a feeling of readiness for the financial future.
4. Need for Cognition is the degree to which an individual wants to undertake complex problem solving. High Need for Cognition indicates that someone can and does take a long series of methodical, thoughtful steps to solve a highly complex issue, versus feeling too busy to do so.

Figure 3 – Psychographic breakdown by wealth tier



Source: Deloitte Consulting LLP

The survey results (Figure 3), while not surprising, can help explain Digital Propensity calculation outcomes. We can conclude that long-term vision, desire for control, financial satisfaction, and desire to think and act methodically are all positively correlated with net worth.

However, while Digital Propensity and psychographic analysis were healthy indicators of how digital channels could be applied, we realized that generational differences were fairly pronounced across both Digital Propensity and psychographic traits. Because of this, we decided to move forward with a deeper sub segmentation of the Mass Market and Mass Affluent populations.

Six Segments (across MM and MA)
In our analysis, we confirmed that traditional market segmentation triggers, such as age and income, can be used to understand a true set of behavioral needs and cross-channel preferences.

Extending beyond traditional customer measurements, we analyzed how Digital Propensity and psychographic variables drive desired engagement with wealth managers. It is our perspective that this is a necessary step to take -- digital technologies requires engagement approaches that can supplement an in-person or on-the-phone experience and ultimately meet a customer's most personal needs.

We defined six sub-segments (Figure 4) to the Mass Market and Mass Affluent segments. Each can be identified using data points that all wealth managers have access to.

Figure 4 – Size, needs, preferences, and digital propensity of wealth tier sub-segments

Digital propensity by generations and wealth tiers

	Millennials		Generation X		Baby Boomers & Older	
2015 investable assets*	$1.4 trillion		$4.5 trillion		$29 trillion	
	Newcomers	*Up-and-Comers*	*Modest Plateauing*	*Top-of-Their Game*	*Continued Accumulators*	*Wealth Transferers*
Trigger info.	**Millennial (Age 18-34)** **HHI < $75K**	**Millennial (Age 18-34)** **HHI > $75K**	**Gen X (Age 35-50)** **NW < $250K**	**Gen X (Age 35-50)** **NW $250-999K**	**Boomers + (Age 51-69)** **NW < $250K**	**Boomers + (Age 51-69)** **NW $250K-999K**
Psychographic attributes	- Future orientation - Locus of control - Financial optimism - Need for cognition	- Future orientation - Locus of control + Financial optimism - Need for cognition	- Future orientation - Locus of control - Financial optimism - Need for cognition	+ Future orientation + Locus of control + Financial optimism + Need for cognition	+ Future orientation + Locus of control - Financial optimism + Need for cognition	+ Future orientation + Locus of control + Financial optimism + Need for cognition
Propensity For Digital						
Rationale for Digital Propensity	Highly technically capable generation who do not feel optimistic, or entitled, enough to warrant white-glove service	Highly technically capable generation who have succeeded early and want to have choice in their FA and debate that individual's decisions	Lower long-term financial success requires a human to drive confidence in ability to "turn the ship around." Online status is desired	Higher long-term financial success yields optimism and likely understanding of how digital can enrich planning and investement execution	Sustained lower levels of financial success has bred self-service desires; hi-tech is still not at a high level of familarity, though	High priority preserving wealth for family creates high level of emotion and necessitates human intervention and long term report
# of HH (000's)	**~18.5 Million**	**~8 Million**	**~36 Million**	**~11 Million**	**~18.5 Million**	**~11.5 Million**

+ and – denote if a segment is higher or lower than the average for an attribute

Source: Deloitte Consulting LLP

None Low Moderate High Exclusive

1. Newcomers
Newcomers are highly digitally capable, but tend to be financially insecure due to lack of experience with personal finances. Many have just entered the workforce and are earning less than several of their peers. Newcomers seek the comfort of an advisor, but do not feel entitled to white-glove and in-person service. In fact, almost half of Newcomers sealed the deal with their wealth manager entirely online. They can be served in a nearly-entirely digital manner – highly interactive mobile applications and digital platforms are a must and over 65% want the ability to review/adjust their portfolios themselves, digitally, and 24/7.

2. Up-and-comers
Up-and-Comers want to take ownership of their financial lives. They value themselves as a client and believe they should receive the same financial opportunities that High Net Worth (HNW) or Ultra High Net Worth (UHNW) clients receive, which can make them slower to commit. Up-and-Comers will spend time researching online and meeting with multiple potential wealth managers. Once committed, Up-and-Comers continue to demand a combination approach between high-touch interactions and digital. These clients are savvy and confident; up to

75% desire the ability to contact their wealth managers digitally for urgent matters, while over 60% want to review and adjust their portfolios digitally.

3. Modestly plateauing

Modestly Plateauing clients tend to feel less confident in their own financial ability, and subsequently are more emotional about their financial happenings. Our research shows that highly-emotional investors tend to rely on high-touch interactions more. Still, 66% of Modestly Plateauing clients want some digital interaction, and only 28% want their primary method of contact to be digital. These preferences are echoed in the client groups' desire for digital capabilities. While 60% want to view and adjust their products digitally, they still desire high-touch interactions to aid in their decision making. They want to feel enabled to access their account themselves, but secure that someone will keep them from making the wrong decision.

4. Top-of-their-game

Top-of-Their-Gamers are confident in their financial success. They want personalized service paired with digital self-service, as they are highly confident in their own abilities. In fact, over half of this client segment would consider using a fully automated robo-advisor for their Wealth Management needs. Over 72% of Top-of-Their-Gamers desire digital interaction with their wealth managers as well as the ability to adjust their portfolios themselves via 24/7 digital access.

5. Continued accumulators

These clients have sustained lower levels of financial success, which have bred self-service desires. They do not trust the system because they have not experienced success within it. However, they are unfamiliar with hi-tech – this group had the lowest relative demand for digital. Only 35% of Continued Accumulators want to adjust their own portfolios online and receive a digital service channel.

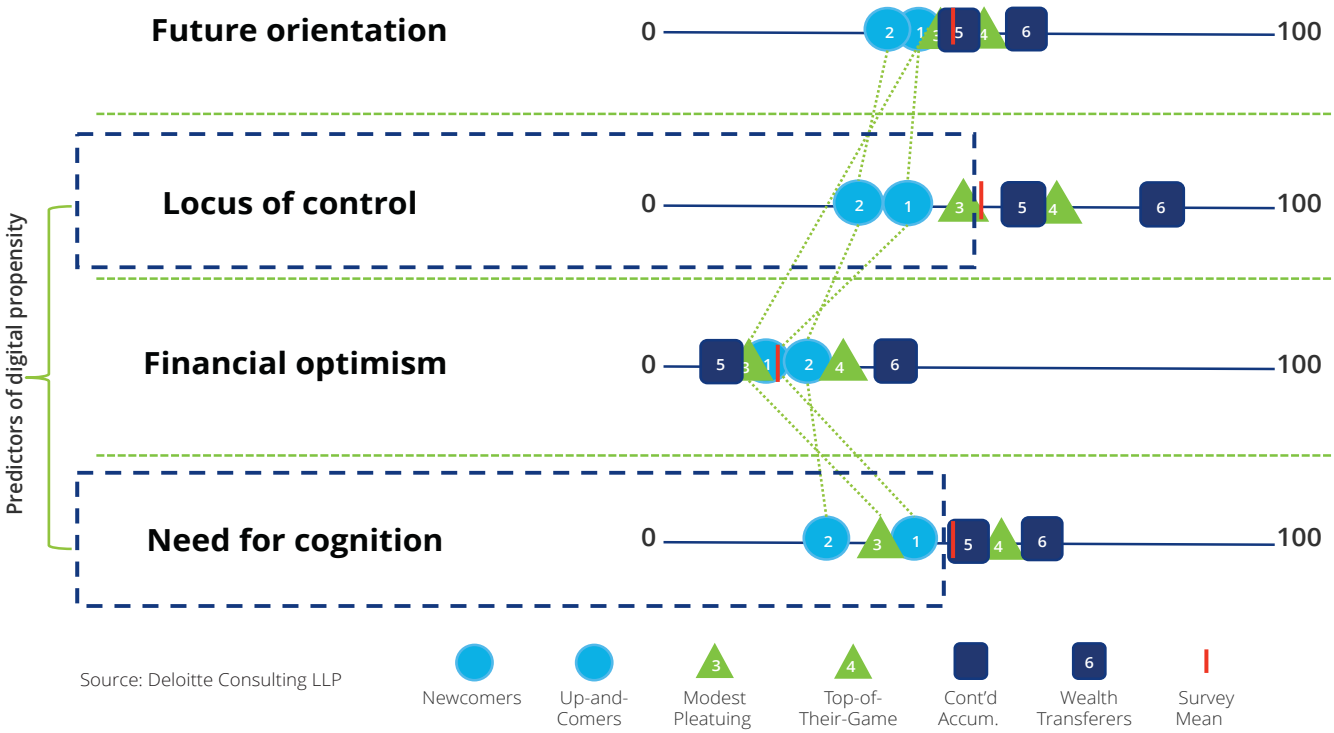
6. Wealth transferers

Wealth Transferers have shifted their portfolio priorities and now place a high priority on preserving wealth for their family and heirs. They are emotional investors. The high level of emotion surrounding their wealth necessitates a certain level of human intervention. Even though this client group is focused on the highly emotional goal of leaving wealth to posterity, the most commonly requested capability by 58% of clients is to interact digitally with their wealth managers.

Figure 5 – Psychographic breakdown by sub-segments

Psychographic attributes by segments

Sub-Segment breakdown of respondents scoring "High" by psychographic attribute



Source: Deloitte Consulting LLP

Psychographic breakdown of the sub-segments (Figure 5) substantiates our Digital Propensity calculations, with emphasis on the key attributes of Locus of Control and Need for Cognition. In short, these sub-segments do not have a need to control decision making and do not have the patience to make the methodical decisions required to overcome complex problems. Additionally, low financial optimism yields them good targets for differentiated advice delivery.

Broadly speaking, clients are more likely to seek less in-person financial advisor engagement throughout the early stages of their life. They can be effectively served, in majority, by digital channels, with in-person interactions as needed, to aid more emotional investment needs. It is only in the long-term, highly-emotional investments they make that the majority of clients request personal, hands on advice from a financial advisor. Such emotional life instances include planning for retirement, tax and estate planning and securing health care for elderly parents.

Despite the "clear winner" sub-segments, and among the varying nuances between the 6 client sub-segments, one thing is abundantly clear: all clients, regardless of age or net wealth/income, want enhanced digital capabilities. When and where those capabilities are deployed and emphasized within the journey is the true "secret sauce" that we sought to uncover as many interesting little findings about segments and psychographic attributes as possible.

What WM firms can do: tailored client experiences and journeys

We believe that WM firms can use Digital Propensity and psychographic attributes to develop tailored experiences and journeys for specific segments.

For instance, we developed a client persona and a client journey for Jen, an individual in the "Up-and-Comers" sub-segment (Figure 6).

Jen, like 58% of her newly-successful peers, is currently without an advisor. She is under the impression that reputable financial advice is too pricey for her right now; however, she is curious and begins to do research online – 64% of Up-and-Comers conduct their research primarily on web or mobile.

Jen takes her time in the decision-making process, which lasts a month, as she wants to ensure her advisor is both reputable and trustworthy. She is not alone – 40% of Up-and-Comers take between one week and one month to pick an advisor. In comparison, 40% of Newcomers take one week or less.

In the process, Jen notes some aggressive financial goals. This is because she is not very financially optimistic. In fact, only 27% of Up-and-Comers rank highly in financial optimism. The remainder feel that they still have to earn a lot more before sitting back to enjoy it all.

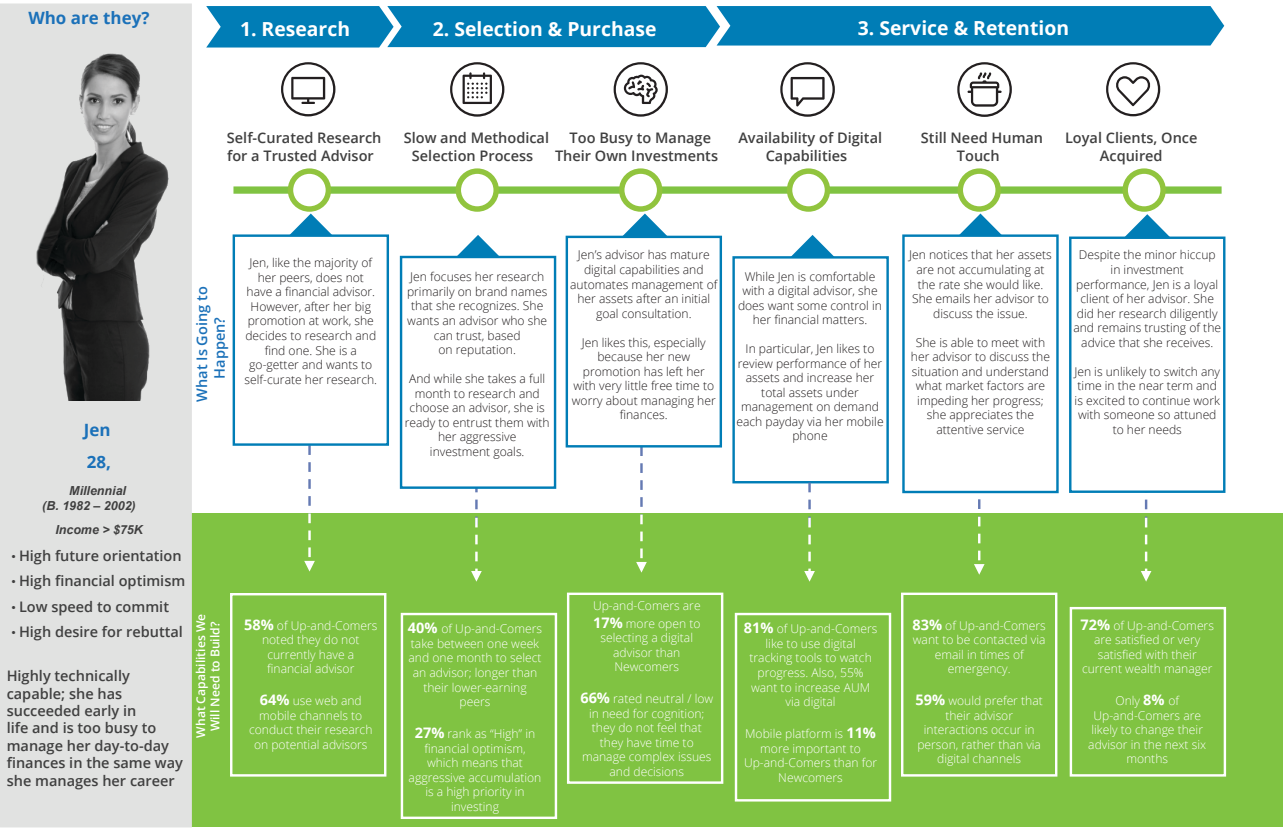
Jen prioritizes affordable and reputable advice and decides to use a well-known digital advisor with some human touch. She does so because the fees are low and reviews are favorable. Jen and her Up-and-Comer peers are 17% more likely to select a digital advisor than their similarly-aged Newcomer counterparts. Much of this is due to the fact that only 34% have a high need for cognition – they are too busy in their careers to manage their finances with the tact they desire.

A couple of the features that stuck out most to Jen were the digital tracking and account management capabilities. She, like 81% of her peers, likes to watch her assets closely and wants to increase investment on a recurring basis. She especially likes doing so via the mobile platform.

However, as a high-earning young professional, Jen wants human attention around strategic decisions and discussions. She appreciates it when her advisor emails her regarding account balance shifts and further trusts the advice after speaking through why assets might not be accumulating at the rate she would like. Jen's diligent research and the multi-channel approach her advisor has delivered all contribute to Jen being a loyal client. This is a characteristic of most Up-and-Comers, 72% of whom are satisfied or very satisfied with their current advisor, and only 8% of whom plan to switch over the next six months.

Figure 6 – Sub-segment ideal client journey

Potential Client Journey: Up-and-Comers



Source: Deloitte Consulting LLP

Jen's journey is a case-and-point illustration of how firms can use psychographic attributes and digital preferences to effectively penetrate an underserved segment and drive client loyalty and share-of-wallet within it.

Conclusion

Our research substantiates the fact that all ages and wealth strata are ready for digital capabilities in some way, shape, and form. It also shows that traditional attributes can help identify where, when, and how to grow digital tool sets for advisors.

As digital channels mature and new digital-first and digital-only entrants make their names in the marketplace, traditional advisors with strong brand names run the risk of being left behind in the dust. This is an easy trap to fall into, but an easier one to avoid.

By accounting for the thought processes, needs, and preferences of clients and prospects with scalable solutions like digital advice and reporting, large traditional advisors can modernize intelligently and equip their businesses to continue to grow AuM and share of wallet in largely untapped and highly sought after marketplaces, like the Mass Market and Mass Affluent.

Contacts

Gauthier Vincent
Principal and Wealth Management practice leader
Deloitte Consulting LLP
gvincent@deloitte.com
+1 203 905 2830

Rob Dicks
Principal
Deloitte Consulting LLP
rdicks@deloitte.com
+1 917 721 2843

Chin Ma
Manager
Deloitte Consulting LLP
cma@deloitte.com
+1 757 286 2616

Max Roosevelt
Senior Consultant
Deloitte Consulting LLP
mroosevelt@deloitte.com
+1 914 844 7334

Alexandra Langlee
Business Analyst
Deloitte Consulting LLP
alanglee@deloitte.com
+1 917 270 7342

Deloitte.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see www.deloitte.com/about for a detailed description of DTTL and its member firms. Please see www.deloitte.com/us/about for a detailed description of the legal structure of Deloitte LLP and its subsidiaries. Certain services may not be available to attest clients under the rules and regulations of public accounting.

Copyright © 2016 Deloitte Development LLC. All rights reserved.