

Future of Digital Financial Advice

December 2016



This paper serves as a summary and record of the work of the CFP Board Digital Advice Working Group, a team of senior business executives and thought leaders in the financial advising, wealth management, and technology sectors who came together to better understand the potential future evolution of digital financial advice.¹



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¹ This paper was generated based on working group discussion and debate aimed at generating multiple alternative viewpoints and is not meant to be representative of the views of any one firm or individual that participated in the working group.

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Introduction

The world of financial advice is undergoing rapid change. Advances in analytics and machine learning have contributed to the rise of digital financial advisors (or “robo advisors”), with assets estimated by one observer to grow to nearly \$500 billion by 2020 – an increase of 2500% from 2015.¹ Meanwhile, with the Department of Labor’s fiduciary rule putting nearly \$17 billion of advisory fees in the crosshairs, economic and regulatory uncertainty persist. Amid this backdrop is also an expected wealth transfer of nearly \$30 trillion from baby boomers to millennials over the next several decades which will exacerbate the need for financial advice that caters to a tech-savvy generation. These variables, along with other external factors, combine to cast a fog of uncertainty over how the landscape of digital financial advice might evolve over the next five years.

As industry shocks and volatility continue, having an adaptive plan that acknowledges future uncertainty is increasingly valuable. The CFP Board, in response to the aforementioned ambiguity in the market, engaged Heidrick & Struggles in July 2016 to conduct a scenario planning project which would examine the five-year outlook for the future of digital financial advice. This multi-phase process

began with the development of four scenarios for the future which consider the alternative ways in which key variables affecting digital financial advice (e.g. a fiduciary standard for digital advisors, the commoditization of investment management) might evolve. These scenarios, detailed in subsequent pages, were developed during a facilitated workshop on August 8th, 2017 with the CFP Board’s Digital Advice Working Group, a group of leaders from the financial advising, wealth management, and technology industries. The scenarios created are not meant to form an exhaustive view of all possible industry outcomes in 2021, but rather to stretch our thinking as to the extremes we may encounter and to serve as a springboard for understanding how a range of future environments may impact key stakeholders and customers of the industry.

With the scenarios and their respective insights as a backdrop, the CFP Board reconvened the Digital Advice Working Group in Washington, DC on September 9th to identify threats and opportunities as well as the key takeaways for firms to adapt, and hopefully succeed in this rapidly changing environment over the next five years. Following that meeting, Heidrick & Struggles has integrated and synthesized the strategic insights generated throughout the multi-month process and now shares this report to help the CFP Board, the industry, and the financial planning profession better prepare for the future of digital financial advice.

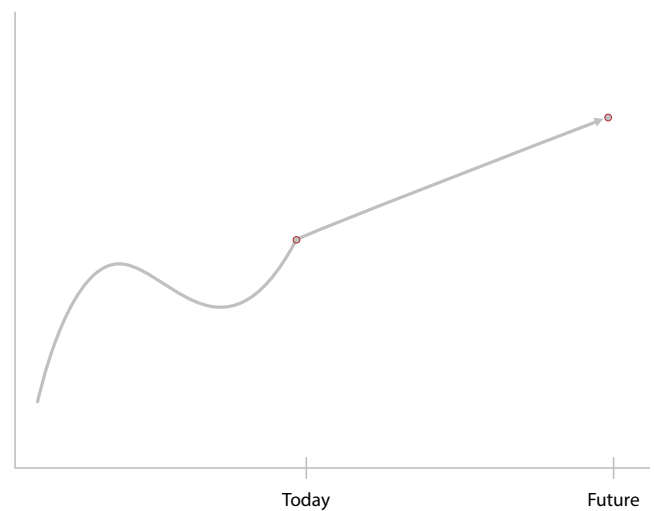
¹ For purposes of this paper, Digital Advice is defined as any digital (online) wealth management platform that provides automated financial advice directly to consumers or aids financial advisors in the analysis and recommendations for consumer clients by automating many financial planning functions, formerly done solely by human advisors.

Scenarios for the Future of Digital Financial Advice

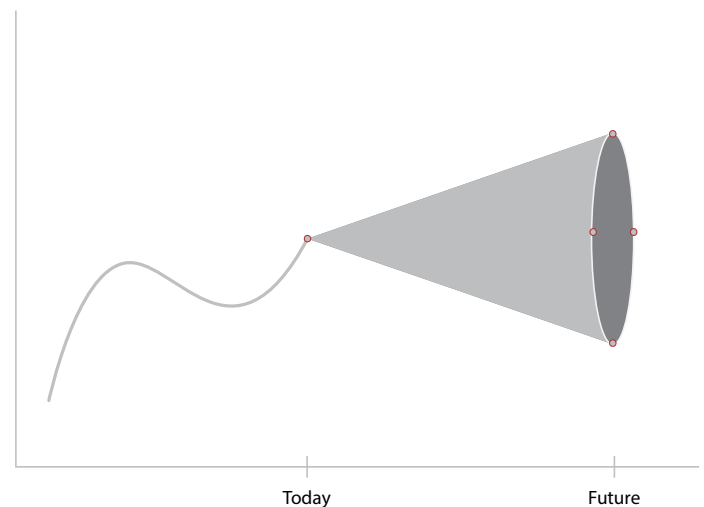
Scenario planning is a strategic planning methodology that has been applied in both business and military settings for decades. The process, meant to develop flexible long-term plans that can succeed regardless of how the future unfolds, is in stark contrast to standard planning procedures that rely on point forecasts and a single “view” of how the world might look.

Scenarios, which represent distinct stories of the future for a given industry or macro environment, are created by combining the most impactful variables into cohesive narratives that tell a story. This often begins by identifying two key variables that, when taken to extremes, intersect to create a 2x2 matrix or four potential futures. Additional variables are then layered beneath each cell of the matrix to build a much deeper and nuanced view into what the world might look like. Together, these four scenarios are not meant to be precise predictions of the future, but rather to bound the realm of possibilities and widen the cone of uncertainty we consider so as to sufficiently stretch thinking in the planning process.

For this exercise, those two major variables were the nature of *consumer financial services demand* (whether consumers would demand holistically integrated advice covering a range of financial disciplines) and *consumer comfort with the digital experience* (the level of trust and utilization of fully digital channels). By combining these axes, the working group created the following 2x2 matrix to structure subsequent scenario development:



Traditional Planning



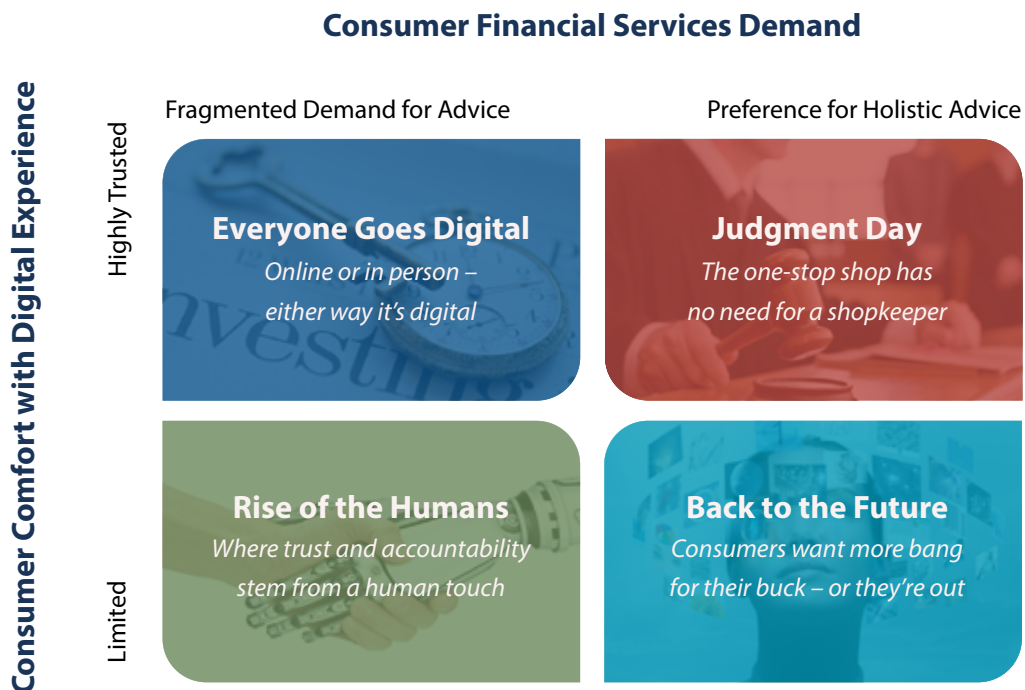
Scenario Planning

The four emerging scenarios are:

- **Everyone Goes Digital:** Automation and digital tools reign supreme, while regulation keeps advice fragmented amongst specialized providers
- **Judgment Day:** Machine learning advances lead to a rise in one-stop-shop digital advice platforms
- **Rise of the Humans:** Digital transforms the back office, but customers still value the human advisor to interpret and deliver advice
- **Back to the Future:** Scrutiny on fees and cybersecurity challenges lead to a demand for holistic advice from human advisors

For each of the four scenarios, the following pages provide a narrative overview as well as a sequence of news headlines to create a view of how that scenario may emerge over time.

In addition, the implications of each scenario for the human financial advisor, the financial institution, and the consumer are outlined, along with key opportunities and threats for the financial advice industry.



Everyone Goes Digital

Online or in person – either way it's digital

In 2021, digital financial advice has taken hold of large swaths of the investment management industry. New tools and platforms have enabled high-quality investment advice that is automated, continuously updated, and extremely cost effective. Consumers, increasingly comfortable with an all-digital experience, perceive the performance gains from automated systems as on par with those of a human advisor and fully embrace the much lower fees offered by the digital solutions on the market. The same underlying technology, however, is available both through direct-to-consumer web-based platforms, as well as back-office tools that supplement the work done by a firm's human advisors.

While technology has advanced across different areas of consumer financial services (improving the fields of investment management, estate planning, tax optimization, etc.), regulatory barriers have prevented any one institution from providing holistically integrated advice across all disciplines. With limited integration in digital advisory services, consumers tend to engage a suite of specialized providers to meet their broad set of financial needs. Within investment management, however, the lower fees available through digital platforms have forced advisors to reduce prices and seek out new ways to deliver additional value. One successful approach has been to reduce costs through a tiered service model in which an online-only client can opt for periodic portfolio reviews and face-to-face meetings for an additional annual fee. A second approach: firms have found success in leveraging human advisors as a supplementary service for their clients, where dedicated advisors are assigned to each account and available on-demand when needed. In both of these low-touch hybrid models, each human advisor is able to engage with a much greater number of clients. A third model has emerged for advisors who have found a niche in providing high-touch service to high-net-worth clients, centered around a face-to-face experience.

Across the board, the integration of technology into a firm's business model has become a table stake for firms

*The Financial Planner –
Your Guide in a World of
Digital Advice*

2021

*Regulatory Silos Impede
Ability to Provide
Holistic Approach*

2020

*Institutions
Aggressively Pursue
Digital Platforms
through M&A*

2019

*New Business
Models Emerge for
Financial Planning*

2018

*Wall Street Works for Main
Street: Costs Shrink for
Consumers*

2017

**News
Headlines
On the Way
to "Everyone
Goes Digital"**

and independent advisors hoping to compete with online platforms. Ever more sophisticated cloud-based software runs analytics on data from consumers' bank accounts, credit cards, and accounts at multiple financial institutions to generate automated advice and a much more seamless customer experience. From the advisors' perspective, they are able to provide the same digital solutions available to the investing public, but with the added benefit of their expertise. Less time needs to be dedicated to portfolio management, and as a result, advisor time is freed up to take on more clients and focus the conversation more on long-term goals, investing behavior, and the emotional factors that help clients make the right decisions through peaks and troughs in the market. While seen by some as a shift to the "softer side" of investing, an increasing amount of data evidences greater long-term returns when clients supplement digital platforms with human advice.

While a challenge for industry incumbents, the decrease in price point from the growth in automation has brought with it a modest expansion in the population seeking and receiving advice – those with assets above \$50,000 are increasingly in the market for financial guidance. Firms that have been able to shift their business model to capitalize on this increased demand through technology and scale are able to thrive in this environment. There is also a segment of successful advisors serving the price-elastic, high-net-worth segment. Meanwhile, direct providers of financial products and traditional wealth management institutions have sought to move up the value chain by developing their own proprietary models and platforms, but differentiation has not been easy. Small, digital players entering in recent years have struggled to achieve scale; and without it, most have either remained as niche players in a limited market or have been acquired by larger firms.

Implications

The Human Advisor

The role of the human advisor in an "Everyone Goes Digital" world has changed significantly. While once a destination for investment management advice, lower margins driven by available digital tools have forced the advisor of 2021 to function more under the model of a family doctor than a specialist – adding value as a general practitioner through the coordination of experts with deeper knowledge in specific areas (e.g. estate planning, tax planning, or life insurance) and providing quality advice that fits with the consumer's larger financial picture. In this role as a "primary care" advisor, more time is spent managing the consumer's expectations and behaviors so as to maximize returns in volatile market conditions while automated tools generate much of the quantitative financial advice.

The Financial Institution

Established firms in this future will be challenged to re-establish their brand – how will consumers perceive what they stand for compared with new competitors and new delivery models? With low-cost, direct-to-consumer platforms and digital tools for advisors, the nature of the value a firm brings must shift. To make that shift, many firms in this future will bring in younger, tech-savvy talent with high interpersonal skills to better compete. However, it is likely that established players will struggle to make the mind-set, cultural, and process shifts needed to fully integrate new technology and a more diverse workforce.

New digital competitors are poised to do well in this future, but while the digital channel has grown, decreased costs mean that many will struggle to achieve scale in the low-margin market for investment management. Building a brand name that is both recognizable and highly trusted is critical, and those who can't may find their way into acquisitions by their larger institutional counterparts.

The Consumer

The landscape in 2021 presents consumers with more options for receiving advice than ever before. Efficiencies and lower costs make financial advice accessible to a greater number of consumers; however, the plethora of choices at their fingertips can bring confusion. What accounts for the difference in fees between various digital platforms? How does one know which platforms to trust or whether the underlying algorithms are truly unique?

For some consumers, clarity will be sought from a human advisor who can make sense of their available options (digital or otherwise) – but for the mass market, brand becomes a proxy for trust. Large players that can reshape their brand for the mass market, and new entrants who can establish one, reap the benefit of this expanded marketplace for advice.

While many human advisors will do well serving the mass market through new, digital channels, they will continue to dominate the high end of the market where differentiation is based on concierge service.

consumers who had not previously sought financial advice, sophistication will be limited. As more competitors (both on the traditional and digital front) attempt to capture this segment, unsophisticated consumers will likely rely heavily on brand association and convenience to decide which firms to trust with their money.

The high end of the market also brings its unique challenges. With greater transparency and visibility into the shrinking costs for services available to the mass market, wealthy investors will demand more value from advisors if they are to continue to maintain their fees. While the same technology and automation will allow high-net-worth advisors to lower their costs as well, minor pricing adjustments will likely do less to attract wealthy consumers. Opportunities exist for those who can leverage technology not only for automation, but as one piece of a business model focused on customer intimacy. With more advisor activities performed by technology, greater time is available to focus on providing a more labor-intensive concierge service experience for upper-end clientele.

Challenges and Opportunities

One of the greatest opportunities presented by this view of the future is a greatly expanded market for financial advice – digital or otherwise. As new digital tools and automation push marginal costs down, competitive firms are able to offer lower fees and demonstrate new business models that can profitably provide financial advice and financial planning services to the mass market.

At the same time, competing in this new segment will require three things. First, investments in technology to enable automation. Without automation to better leverage the time of human advisors, firms will be unable to sufficiently lower their cost structure to support a price point that expands the market for advice. Secondly, firms will need to quickly scale the number of clients served to amortize the costs of technology investments and realize profitability despite lower fees. Lastly, competing in the mass market will require a consumer brand and delivery channels that appeal to the new consumer. With a market of

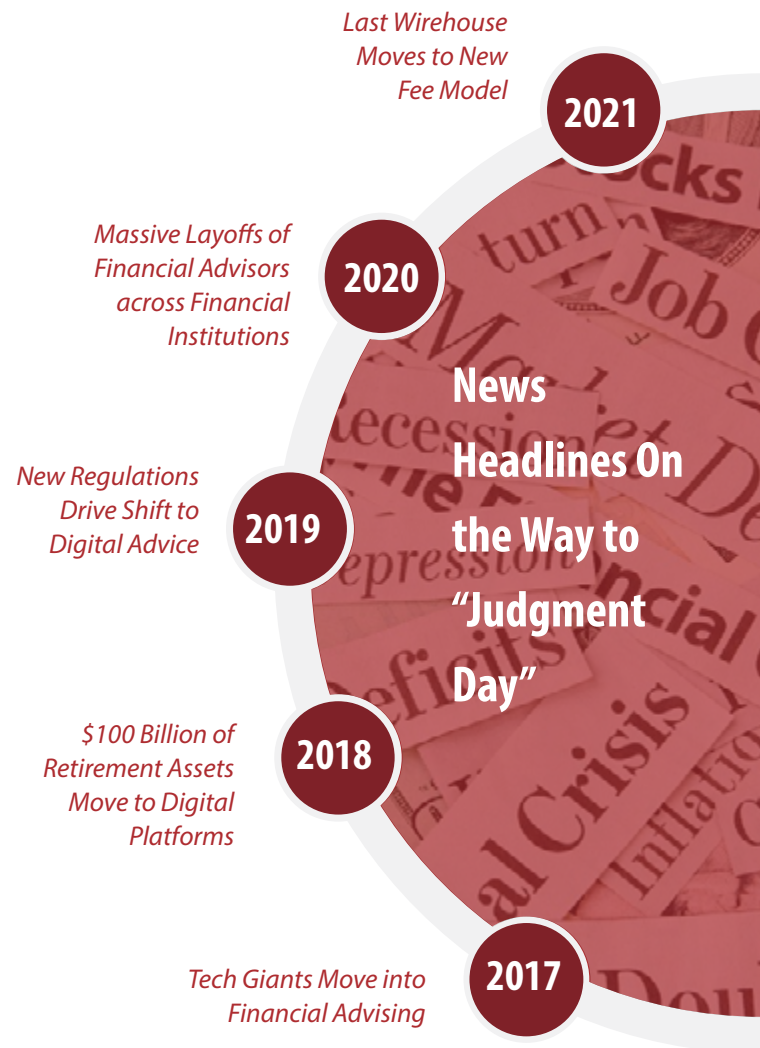
Judgment Day

The one-stop shop has no need for a shopkeeper

In 2021, digital is king. Consumers are accustomed to the convenient, always-on, and on-demand nature of their favorite services (Uber, Amazon, Netflix, etc.), and they have brought these expectations to each new customer interaction. Financial services are no exception. Consumers increasingly demand user-friendly platforms and resources for the self-led acquisition of advisory services. With increased transparency there is a greater awareness of the true costs vs. likely returns of actively managed investments, and consumers have flocked to lower-cost, digital platforms that simplify their interaction with an increasingly complex set of products. Investment products were only the first to move in this direction, as insurance and lending platforms have followed suit toward simplicity and transparency.

To serve a high volume of clients at consistently low rates, most platforms, by default, offer little to no human interaction. Automated systems marshal and analyze data from a wide range of sources (e.g. consumers' mobile devices, wearables, credit cards, and even social media accounts) to provide a holistic financial picture of the consumer. Sophisticated machine-learning algorithms then sort through these troves of data, using consumers' habits, preferences, health, and purchasing patterns to generate – and then implement – recommendations across a range of financial disciplines. With capabilities going well beyond portfolio construction and rebalancing, the technology of 2021 has enabled automated systems to think like financial planners and put data-driven recommendations into the context of a consumer's larger financial picture.

When digital systems do recognize a unique customer situation outside the scope of their capabilities, many prompt for an additional fee to engage in live video chat with an instantly assigned "digital advisor." These call center advisors act primarily as behavioral coaches and financial strategists, supporting a massive base of online clients and ensuring that their one-size-fits-all algorithms can account for what is unique about each consumer's financial goals. Outside of these advisor interventions, the guidance



provided by sophisticated algorithms is, by and large, highly consistent across competing providers – an effect of uniform fiduciary standards that have generated trust and accelerated the shift toward digital advice.

The availability of consumer technology that can simplify and guide consumers through complex financial situations allows individuals to realize the benefits of sound financial planning with little to no financial acumen, and has further increased demand for holistic advice to reduce complexity across a range of financial disciplines. In the mass market, this takes the form of complex data analytics provided by large Internet companies who create a one-stop shopping experience through partnership and integration with large financial institutions. Human advisors represent a smaller segment of the market and provide fee-based platinum-level service for those who are able to afford it. At both ends of the spectrum, however, firms find it difficult to rely on an AUM revenue model and are forced to differentiate through the integration and simplification of multiple financial disciplines.

As we approach 2021, retail banks, card issuers, and firms from adjacent industries have begun incorporating financial advice into their basic offerings and accounts at no additional charge; the advice is merely one of many sets of recommendations provided by their predictive analytics engines. The low cost and ubiquitous nature of highly capable advice platforms has allowed the scaling of these technologies – to the extent that some level of financial advice is put in front of every consumer with a bank account or credit card. When close to 90% of the advice-receiving public receives advice through a digital-first experience, only limited human support is required. As a result, human advisors suffer a steep reduction in head count, and those who remain further specialize and deepen their focus rather than rely on broad financial knowledge. Only the largest firms – those with strong consumer brands and the ability to deploy new technology at scale – are able to leverage human advisors to compete with their advancing digital counterparts.

Implications

The Human Advisor

Within the mass-market and mass-affluent segments, the role of the human advisor has bifurcated. On the one end, generalist advisors with greater technological and behavioral coaching skill sets fill national call centers and support consumers through an increasingly qualitative (rather than quantitative) value-add. On the other end, some independent advisors find their niche through deep specialization and build expertise in areas not yet served by digital platforms.

Advisors working with high-net-worth clients focus on rationalizing complex business, financial, and family issues and are pressed to provide platinum-level service to justify their fees.

The Financial Institution

In 2021, a greater understanding of data analytics and comfort with the latest back-office technology have become table stakes. Advisors and RIAs must not only advance their skill set in these areas but, due to declining margins, either join forces with larger firms or seek out continuing education to specialize and remain independent.

To compete at the scale required in “Judgment Day” requires significant investments in both technology and brand. With the ubiquity of advice and the availability of easy-to-use, transparent products, a strong consumer brand and well-articulated value proposition are needed to differentiate what can be perceived as a commodity service.

Product manufacturers will also need to drastically rethink their approach to distribution. Algorithms and the financial technologists who create them have the potential to replace much of their traditional wholesale workforce.

The Consumer

For any consumer with a bank account or credit card, financial advice is everywhere. While some firms offer financial advice directly, the impromptu advice and recommendations provided by consumers' banks, credit cards, mobile payment platforms, and e-commerce websites continues to grow in sophistication.

While more consumers are comfortable with the idea of having a financial plan, figuring out which platforms are credible or which offer the best advice is a significant challenge. Lacking deep financial knowledge, most turn to the brands they trust, and seek a one-stop shopping experience to optimize all aspects of their financial lives. A small number of consumers also turn to human advisors for guidance on which platforms may be best for their financial needs.

The most affluent consumers seek out human advisors for specialized needs, but have developed sticker shock at the new cost of advice. In the now-prevalent fee-for-service model, high-net-worth consumers expect all of the benefits of the technology and analytics that underlie mass-market platforms, but with a hands-off concierge experience.

Challenges and Opportunities

One of the greatest opportunities posed by a "Judgment Day" future is one that is taken as a given in this scenario: the integrated experience for consumers of financial advice. While this future scenario is defined by a one-stop shopping experience, the technology, business models, and regulatory frameworks needed to realize it have yet to be fully developed. Firms will not only need deep expertise in each of the financial disciplines they seek to integrate, but also the technology infrastructure to access, aggregate, manage, and analyze the troves of data required to enable automation.

Firms able to bring this approach to market at scale will succeed in shifting the industry toward a future that looks like more "Judgment Day." While this path would significantly stress the traditional AUM model, low-cost holistic advice brings with it the potential to dramatically

expand the market for financial advice. As advice becomes ubiquitous, those with a brand consumers trust will be able to leverage this low-cost service to deepen customer relationships and grow sales of related products and accounts.

For those without the scale and technology backbone to drive the industry toward this future, competing within it will require greater specialization. As new platforms integrate a growing number of financial disciplines, there will continue to be areas of financial advice that are yet too complex or unique to be automated by the technology available. Those areas will require the assistance of a human advisor and will provide opportunities to those firms or advisors with deep expertise.

Rise of the Humans

Where trust and accountability stem from a human touch

In 2021, seeking and receiving financial advice is an increasingly arduous process. Driven in large part by regulation, human advisors are leery of providing advice that strays too far from their core expertise. As a result, consumers are left to engage multiple specialists to address their financial needs.

The promise of digital advice, meanwhile, has not been fully realized, in part due to new regulatory standards and the growing complexity of financial products. Digital tools are only permitted to generate advice, requiring the intervention of a licensed human advisor for interpretation, delivery, and implementation. Over the course of their development, digital platforms have encountered a handful of high-profile technical failures; in one example, cutting-edge portfolio rebalancing and tax optimization algorithms led to substantial client losses during a market “flash crash,” a phenomenon which has been occurring with greater frequency over time. The perceived security and personal touch of a local advisor relationship (particularly in times of distress) means more to consumers than ever, and so far digital platforms have been unable to regain the implicit level of trust garnered by their human counterparts. While consumers recognize that lower costs and more disciplined investing can lead to superior returns, they perceive faceless digital platforms as lacking accountability and being incapable of handling out-of-the-ordinary or unforeseen market events – something for which the human advisor is valued. Even if they don’t articulate this desire explicitly, consumers have shown they are willing to pay a premium for the comfort and reassurance of an advisor who can shake their hand.

Digital advice platforms, struggling with the cost of customer acquisition and consumer preference for human advisors, have shifted their focus to the B2B market. Through new tools and systems, digital advice providers take on investment management behind the scenes. By taking on the burden of advice generation, these digital tools

Lack of Innovation Attracts Tech Mogul to Financial Planning Space

2021

Year-over-Year Advisor Growth Slows

2020

The New Robo Goes B2B: Institutions Build a Bionic Back Office

2019

Financial Firms on Hiring Spree to Emphasize “Human Touch”

2018

More Consumers Migrate to Firms with “Bionic Advisors”

2017

News Headlines On the Way to “Rise of the Humans”

have shifted the role of the human advisor to one focused primarily on relationship management and behavioral coaching to ensure financial discipline. The platform provides data, insights, and recommendations to human advisors, but stops short of implementing or automating decisions – a role that regulatory mandates have reserved for humans. This tech-enabled human model saves advisors time and allows them to scale their operations to more clients while maintaining margins in the face of continued fee pressure.

In order to tap into this new technology, solo practitioners increasingly rely on service providers, but many are forced to team with others or join local offices to share the operational cost burden. Meanwhile, many small firms merge to gain the requisite scale for technology investments. Without scale, the cost of implementing new technologies and meeting the increasing regulatory and compliance burden leave small firms and individual practitioners at a distinct disadvantage. Those that remain transition into niche specializations where they can stave off fee compression or migrate into large firms and their remote-call-center models over time.

With a focus on the back office, digital advice platforms have failed to expand the market for financial advice in a major way. The majority of Americans still lack the financial literacy to proactively seek out advisory services, and those that do largely prefer a face-to-face interaction. Advisors at large financial services firms, however, prize the new tools and technologies on the market, leading large incumbents to enter into a series of technology acquisitions over recent years. By swallowing up new technology as it's developed, these big firms further limit the ability of new entrants to gain a foothold in the B2C space.

Advisor call centers have grown as a delivery mechanism for smaller clients, assisted by digital tools to provide human advisors at a low cost. While the demand for a human-centered client experience continues to grow, greater efficiencies brought by technology in advice generation as well as marketing, relationship management, and compliance allow advisors to serve more clients and have reduced the need for large numbers of new advisors to enter the profession.

Implications

The Human Advisor

With the majority of advice generation taken care of by automated back-office functions, the role of the human advisor is to deliver, explain, and implement advice. This requires firms to invest in technical training so that advisors can keep pace with the increasing sophistication of digital advice that is generated which will need to be explained to their clients. At the same time, these advisors will spend much more time focusing on the behavioral side of the financial interaction. In addition, the human advisor is needed for activities that have not yet been automated, such as sales and relationship management. In the case of call centers, advisors can also act as an educational resource, helping self-led investors to understand and feel comfortable with the technology their firm provides while serving as a generalist to guide clients to the solutions recommended by their firm's algorithms.

Ultimately, human advisors differentiate themselves with a personal touch, communicating advice in an empathetic way that shows an understanding of their clients' larger financial goals and utilizes the right tools and algorithms for their needs. Overall, the time savings from back-office automation allows for an increase in clients served by each advisor, and more time for developing deeper advisory relationships.

The Financial Institution

In 2021, advisory firms have managed to maintain their profitability in the face of continued fee compression and aggressive competition. Technological innovation has slashed back-office expenses and helped to drive economies of scale, bending the cost curve downward for those who achieve it.

Larger firms are best able to manage the costs related to fiduciary compliance, spreading the expense across a broad base of customers. Despite the tech-enabled capabilities to serve a greater number of clients, customer acquisition remains a costly endeavor, further hampering the success of small players with limited resources.

Small firms struggle to absorb the rising costs of technology and compliance, and see significant benefit in consolidation and the infrastructure that comes with a larger practice. Niche specialization, however, is also an avenue for solo practitioners to combat fee compression.

The Consumer

In “Rise of the Humans”, consumers are still largely passive when it comes to financial advice, lacking the financial literacy or initiative to seek out an advisor. A concerted effort, either by a firm, trade association, or certifying body, to raise the collective financial IQ and awareness of the general population would help to stimulate demand for financial advice in this world.

As consumers explore the bevy of options available to them, both digital and human, there will be a valuable role for resources that can help to explain the differences between the various solutions on the market. Such a resource, whether human or digital, could have a disproportionate impact on steering consumers toward a particular offering, à la Yelp or Google.

While a subset of consumers in “Rise of the Humans” is content to rely solely on digital platforms, most still prefer to engage with a human advisor, either through traditional face-to-face meetings, or via phone, live chat, or video calls. Regardless of the channel, the human advisor offers a personal connection that helps maintain investor confidence and disciplined behavior in the market.

Challenges and Opportunities

This mistrust of digital advice platforms in “Rise of the Humans” presents an opportunity for firms that employ human advisors. Aggressive adoption of back-office technology will enable firms to lower costs and maintain margins while still offering the face-to-face advisor experience that customers prefer. With greater supportive technology, advisors will have more time to focus on the human and behavioral aspects of investing, and establish deeper, long-term relationships with their clients that can insulate them from future tech-based competitors that may emerge.

At the same time, elevated fiduciary standards pose a significant challenge for advisors and online platforms seeking to provide advice across a range of financial disciplines. There is opportunity for individual firms who have the requisite scale to employ a range of specialist advisors working in collaboration to create integrated recommendations and financial plans for sophisticated consumers.

Brand recognition will also be an important element of competition in this future. With the high costs of customer acquisition, a recognizable and trusted brand can serve as a passive means of attracting new clients. Likewise, financial institutions with a large base of captive customers (e.g. through checking or brokerage accounts or complementary services) are well positioned to gain competitive advantage in this environment.

Back to the Future

Consumers want more bang for their buck—or they're out

In 2021, financial advice is a “one-stop” shopping experience for consumers. The vast majority are served by a single human advisor who, supported by the latest back-office technology, is able to serve their full spectrum of financial needs.

The versatility of advisory services seen in 2021 has grown out of necessity – increased media scrutiny on the fees charged by investment managers (compared to the performance gains they offer) has led to the commoditization of pure, automated investment advice. While high-net-worth customers are willing to pay, they are demanding more for their money and are taking their substantial portfolios to advisors who can offer a holistic approach to their personal financial needs.

As Americans live and work longer, wealth transfer from senior generations and baby boomers to their millennial children has been slower than anticipated. These less tech-savvy generations remain the primary consumers of financial advice, but low financial literacy means few engage in planning. In 2018, a high-profile cyberattack made the news when hackers broke into one of the largest direct-to-consumer online platforms and maxed out the adjustable “risk tolerance score” for each investor. In the market swings that followed, millions of dollars in value were lost as portfolios were automatically reallocated to the most risky of investments. Although no assets were stolen, the hack served to redirect much of the DIY market toward the (perhaps perceived) security of a human advisor. This preference, coupled with millennials’ meager resources and disinterest in paying for an “overpriced” financial advisor, mean that new digital platforms struggle to scale their direct-to-consumer presence.

Instead, the primary users of new digital tools and platforms are the financial advisors themselves. The demands of consumers are increasingly complex; they expect estate planning, tax optimization, and concierge banking services to be coupled with investment management. While once



impossible for a single advisor, new advances in machine learning have allowed digital tools to handle these new disciplines, with advisors relying on them for both the aggregation of data and the generation of insights. With these new resources (provided by a small set of technology companies), the advisors' primary role has become one of interpretation and delivery of advice rather than generation, saving time and enabling each advisor to scale their client portfolios. Partnerships between financial services companies and the tech giants that provide these services have also become more commonplace as a means to drive cost down and further innovation.

With a more complex set of assets and financial challenges under the purview of the financial advisor, the once diminishing cost-benefit trade-off has been redefined, allowing advisors who provide cross-disciplinary advice to command premium fees. While advisors maintain face-to-face as the primary means of interacting with their clients, in 2021 this often comes in the form of videoconferencing tools and virtual (rather than in-person) meetings.

Greater scalability in a market of low demand has meant fierce competition amongst advisors. High-end, specialist advisors and firms leveraging high-scale call center models have the resources to invest in the latest back-office technology, and are better able to compete based on price and offerings. Small firms and solo practitioners that did not specialize have partnered with large service providers, or created unique, customizable offerings for their clients as they are increasingly unable to compete in this new world.

In 2021, technology has not replaced the human advisor (just as tax software did not displace all tax specialists in 2016) and the human advisor remains critical to the interpretation and delivery of financial advice; the increased scale enabled by technology, however, has reduced the necessary head count across the industry.

Implications

The Human Advisor

In this world of digital distrust, both mass-market and high-net-worth segments highly value human advisors. Though much of the behind-the-scenes work is performed by digital tools and platforms, the human's ability to interpret and deliver advice is a critical asset.

The burden on the advisor, however, is heavier than it once was, as consumers demand a perspective on financial advice that encompasses all elements of their financial well-being. Advisors must up-skill to manage a suite of advice generation tools to aggregate and make sense of data that informs planning decisions. Given the difficulty in combining these disciplines, advisors who are able to leverage technology to provide this holistic advice are able to maintain healthy fees.

In the mass market, many large firms deliver "good enough" advice at low cost through call centers, to those interested in seeking advice. This on-demand, remote service leads to a significant increase in clients supported by each advisor.

The Financial Institution

Mass-market competition will be fierce, with extreme pricing pressure and several tech giants entering the space through partnerships with financial institutions. Only those able to achieve scale (either through technology that increases the number of clients served per advisor, or continued customer acquisition) will be able to survive. Even with scale, a low-cost delivery model will be needed to maintain their thin margins.

Within the high-net-worth segment, there is a higher barrier to entry as these customers are the first to demand more holistic advice. Firms and individual practitioners serving this segment must possess a greater degree of sophistication in technology and a range of financial disciplines to meet increasingly complex consumer needs. Education and training in soft skills become critical to connecting with these largely non-digital customers.

As this paper was being written, Amazon and UBS announced a new partnership to enable clients to receive AI-generated answers to financial and economic questions. See Andrew Welsch, "UBS-Amazon partnership: A glimpse of wealth management's future," *OnWallStreet*, October 25, 2016, onwallstreet.com.

The Consumer

Mass-market consumers have a finite set of options, as very few low-cost advisory firms have survived in a market of razor-thin margins. Employer-sponsored advisory services emerge as an increasingly prevalent employee benefit, which can assist advisors in acquiring customers at scale. The winning firms are those that combine technology with a human-to-human communication channel to create the best client experience.

Moving toward the higher end of the market, consumers have greater choice and gravitate toward firms with an ideal combination of technology and a human interface. The firms that excel in serving these customers have not only mastered the human vs. technology balance, but clearly articulate the performance improvements they bring to each financial discipline within their integrated service approach.

Challenges and Opportunities

In this world, the mass-market players who are able to develop the technology (either independently or through partnerships) to achieve operational efficiency while maintaining a human-centered experience will capture significant market share. Investments in remote advisory delivery systems, such as call centers, will provide the human touch consumers demand in a model that is profitable despite thin margins. With the challenge of customer acquisition, there is opportunity to expand the market of advice seekers by targeting employers with a sponsored advisory service offering. Low costs and a workforce with greater financial stability makes for an attractive employee benefit.

Advisors will have a number of new tools to leverage, allowing them to produce more sophisticated, integrated advice than previously possible. By taking on a more complex set of variables, advisors in the high-net-worth space have the opportunity to charge premium fees as they differentiate not based on the tools they use to generate advice, but on their ability to discern a client's true goals and emotions amid a complex business and family environment, and to integrate them into a holistic financial plan.

Takeaways from Scenarios

As we look across these four scenarios, it is clear that the evolution of digital financial advice remains uncertain. After generating these alternative future scenarios, the members of the Digital Advice Working Group were asked (individually) to rate the relative likelihood of each future scenario occurring by distributing 100 percentage points amongst the four. The results placed “Everyone Goes Digital” as slightly more likely than the other four futures. However, the fact that no future was given an extremely high or extremely low score by this group of experts suggests that all scenarios are plausible enough to be taken seriously.

At the same time, each future requires a different set of capabilities for success. Advisory firms preparing for a “Judgment Day” future in 2021 would invest in automation to minimize the need for human advisors, while those preparing for a “Rise of the Humans” future would invest in technology and tools to bring the advisor closer to the client. A “Back to the Future” world would necessitate cross-trained advisors able to plan for a consumer’s needs across a range of financial disciplines while providing the same integrated experience in “Everyone Goes Digital” would require a

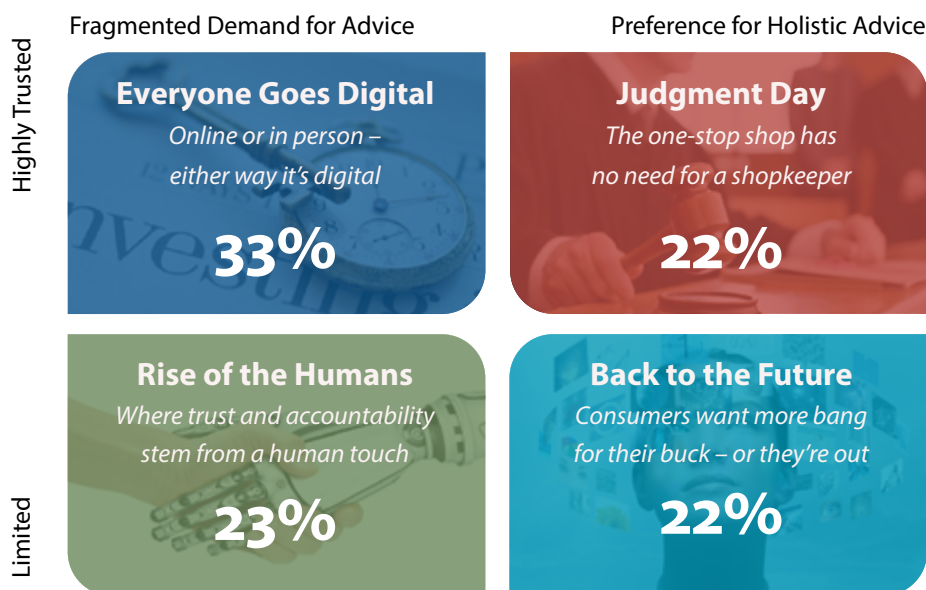
network of specialist advisors.

The differing talent and firm capability requirements suggested by each scenario raise the question – how can firms plan for success across a range of possible futures? Looking across the set of scenarios created by the Digital Advice Working Group, five key success factors made the top of the list:

1. **Investing in Digital** – Whether operating primarily in the back office to augment advisor capabilities or growing strongly in the B2C realm, the working group saw the new tools, technologies, and analytics being introduced by today’s digital advisory platforms maintaining a key role in any version of 2021. In the future, these cutting-edge technological capabilities may likely become the new table stakes, increasing the costs of staying in the game.
2. **Scale** – As margins are squeezed in investment management – whether from lower-cost digital alternatives, regulation, or greater transparency – the use of technology to scale the impact of each financial advisor will become a focus for many firms. Less obvious, however, is the growing need for scale

Consumer Financial Services Demand

Consumer Comfort with Digital Experience



to realize the full value of consumer data. While intermediaries may be able to supply much of the data and analytics required by small advisory firms, those with greater access to data and a stronger breadth of information on their customers (e.g. through complementary product offerings or existing deposit accounts) will be better positioned to offer the cutting-edge financial insights and advice valued by consumers.

- 3. Training for a Targeted Human Value-Add** – In all future scenarios envisioned by the working group, the role of human advisors has evolved. In some scenarios, technology provides the tools to scale their practices and reach more consumers. In others, low-cost, direct-to-consumer models for digital advice force greater specialization or movement toward the higher end of the market. Across the board, advisors (and the firms who employ them) will need to more deeply understand the areas where human advisors truly add unique value (such as the behavioral and emotional coaching of clients for financial discipline, providing concierge service, or sharing expertise in areas not yet automated by digital platforms), and work to systematize or automate the rest. Acquiring the new and more focused skillsets needed for success will, in most cases, likely require continued education and upskilling of advisors.
- 4. Strategic Clarity** – Despite the constraints of margin pressure, increasing technology requirements, and intensifying competition, the working group foresees the potential for multiple viable business models for providers of financial advice in 2021. The high-net-worth segment, for one, is predicted to maintain a similar profile across future scenarios – seeking a more hands-on, face-to-face, and concierge-style experience. Firms that find a niche in this space will continue to compete largely on traditional dimensions of competition. Within the mid to mass market, however, no-touch (online-only), low-touch (call center or on-demand advisors), and tiered service models could all have a place.

Outside of these segments, advisors may also find success by specializing in the needs of a highly focused group of customers (e.g. family-owned businesses). The strategic clarity to choose and focus on one of these approaches, however, will distinguish the most successful firms in any future scenario.

- 5. Strategic Agility** – With so much uncertainty as to the future of digital financial advice, firms must build the organizational capability to anticipate and respond to market shifts faster than their competitors. Tools like scenario planning can help managers to better understand the future opportunities and risks that exist, and to implement systems to monitor competitive and market events, placing them into a larger context that informs decision-making.

Concluding Remarks

On behalf of Heidrick & Struggles and the CFP Board, it is our hope that the provocative issues and themes within these scenarios for the future of digital financial advice can provide food for thought for your organization and serve as a conversation starter to begin a strategic dialog about the future.

With scenarios fully developed, there are multiple ways to leverage this resource in your strategic planning efforts. We conclude by offering some potential next steps below and simple templates in the Appendix of this report to help you begin implementing scenario thinking within your team or organization.

Ways to Leverage Scenarios

Stress Testing: Scenarios can be used to stress-test strategic plans. Use this report and ask yourself how well your strategic plan or initiatives perform under each of the four scenarios. Where are there risks and where are there new opportunities to capture?

Identifying Future Capabilities: Use scenarios to identify factors needed to succeed in each future as well as in all potential futures. Create flexible commitments that secure big payoffs in the best-case scenarios while minimizing losses in the worst-case scenarios.

Driving Innovation: Scenario analysis can be used to expand the scope of innovation beyond the current domain or market by considering a wide range of forces that will influence the future and thus present new opportunities.

Build Customer Intimacy: Co-create scenarios with your customers or suppliers to develop a shared view of the future and an aligned understanding of what it will take to succeed.

Develop Your Talent Strategy: Identify and highlight critical talent requirements to support a robust future organizational vision. Scenario planning provides a context for aligning strategy with talent management efforts.

Monitor Key Uncertainties: A living strategy and dynamic decision-making process based on scenarios can link weak market signals to their potential impact on strategic priorities. Using scenarios as a tool for monitoring can help an organization to discern where the future is headed before their competition does. ■

APPENDIX

Scenario Toolkit

Template 1: Eliminate / Reduce / Raise / Create

A simple exercise to operationalize some of the insights from these scenarios is to consider what your firm would do differently if you knew with 100% certainty that a particular scenario was going to be the future in 2021. First, re-read each scenario and consider the unique challenges and opportunities posed – not only for the industry, but specifically for your firm. Given those challenges and opportunities in 2021, what would your firm stop doing (eliminate), do less of (reduce), do more of (raise), or start doing (create) today?

| | Everyone Goes Digital | Judgment Day | Rise of the Humans | Back to the Future |
|-----------|-----------------------|--------------|--------------------|--------------------|
| Eliminate | | | | |
| Reduce | | | | |
| Raise | | | | |
| Create | | | | |

Template 2: Monitoring Scenario Signals

Scenarios are an excellent tool to monitor changes in the industry environment and help to interpret weak signals to see the future sooner than your competitors. To get started, it is important to understand what to monitor and where to seek out the right information. Use the template below to capture your thoughts.

Step 1: For each scenario, what are the major trigger events that would drive the world of today toward that version of 2021? Examples could include specific regulatory initiatives, a cyberattack, significant shifts in consumer preferences, etc.

Step 2: For each trigger event, identify what early warning signs might evidence or predict the occurrence of that trigger? For example, pessimistic statements or press releases from key industry influencers could be early warning signs of the direction of new regulation.

Step 3: Identify the data sources where the early warning signs might be observed. Consider not only those data sources you have access to today, but those which would provide the most objective and unbiased view of the signals you wish to track.

With this template, you can begin the best practice of creating a monitoring team in your organization that can leverage a scenario framework to better inform future strategic planning processes.

| | Everyone Goes Digital | Judgment Day | Rise of the Humans | Back to the Future |
|---------------------|------------------------------|---------------------|---------------------------|---------------------------|
| Triggers | | | | |
| Early Warning Signs | | | | |
| Data Sources | | | | |

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ONE LEADERSHIP TEAM
AT A TIME

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