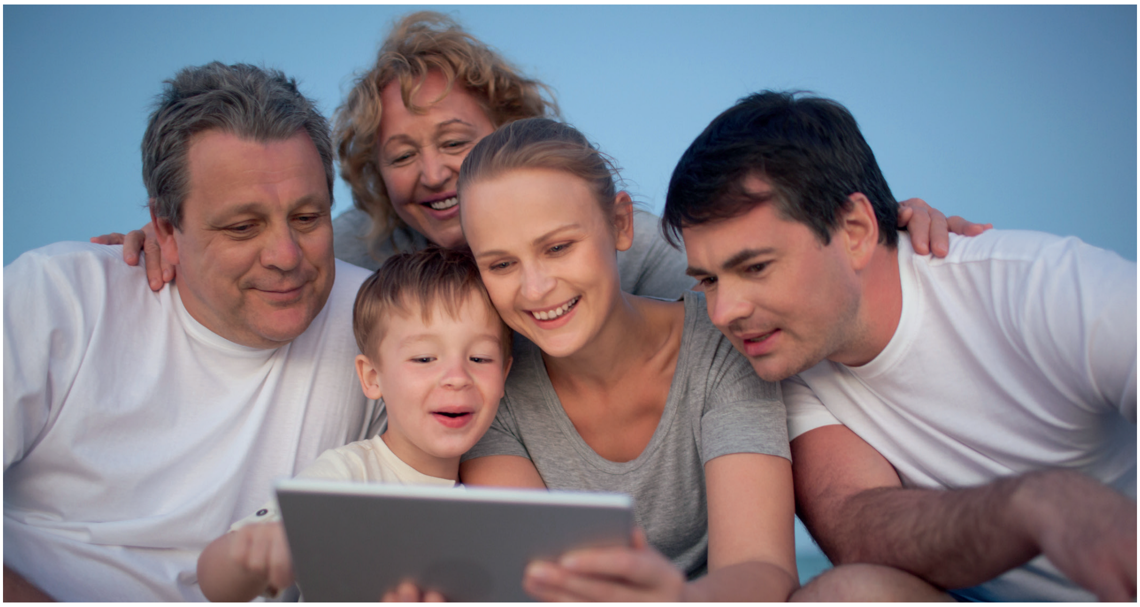
How technology will make intergenerational wealth transfer more efficient



The traditionally male-dominated wealth management industry carries a legacy image of long-term relationships established and reinforced during business lunches and meetings on the golf course. But times change, and we at Ness are now seeing the emergence of digitally-savvy, female and male millennials on the investment scene. These younger investors tend to have less faith in those who act on their financial behalf. They also tend to question fees closely and want a solid understanding of the value they're receiving from the seller. This generation expects personalized and instant, real-time access to information about their money, as well as predictive, forward-looking features and recommendations that nudge them towards incremental adjustments. This level of control is what they seek to maintain both savings and lifestyle goals.

Most major investment and asset management firms recognize that change is needed to effectively reach this new generation of investors. The truth is that they're not acting as fast as they should. That is often because they don't know how and is part of the reason why we're seeing a boom in fintech companies, sprinting towards the digital future with new technology offerings focused on a data-centered investment culture that relies much less on personal relationships. In fact, access to personal datasets is now the competitive catalyst for a new set of innovative service offerings, tailored to recent widows or young families who will need digital tools to manage accumulated wealth.

This Point of View is a collaboration between Ness Digital Engineering, a company that designs and develops modern digital platforms for clients, and Moola, a fintech startup company focused on the future of wealth management that is making strides with propositions "tuned to the digital investment and lifestyle needs of the modern investor."

Change or shrink

Wealth Management service firms must adapt now or risk extinction given the biggest challenges they are facing: attracting new business and not losing existing client portfolios under management.

The next generation of customers wants to manage money in a completely different way, and most firms are just not structured to handle new and emerging customer engagement expectations. The speed with which traditional firms are able to pivot towards this new reality will become a commercial differentiator.

Existing business is definitely at risk if change does not manifest itself quickly. With an aging client population, large, long-standing customers are transferring huge amounts of money to family members who don't have an allegiance to the firm. A 2015 article, *The future of wealth in the United States* by Deloitte University Press highlights that between now and 2030, nearly $24 trillion in the U.S. will be transferred in bequests as part of the intergenerational wealth transfers.[1]

Firms won't be able to survive this shift and the huge outflow of assets, if they don't figure out how to better engage the spouse and extended family members who are the beneficiaries of these "primary clients."

Assessing the situation

Large established firms must closely examine how well positioned they are to deal with the anticipated epic asset flow. How strong is the relationship with the spouse (first and most importantly) and thereafter, the children and wider families of their traditionally, older male clientele? How will

1. https://dupress.deloitte.com/dup-us-en/industry/investment-management/us-generational-wealth-trends.html

their firm be judged by a technology-savvy group expecting much more personalized, real-time, digital services than the previous generation? If the firm is not involved in the post death estate execution process, will it get the opportunity to engage with the family at all? According to an *Investment News survey of 544 advisers*...

> ***"...66 percent of children fire their parents' financial adviser after they receive their inheritance".*** [2]

To turn that tide, wealth management firms need to experiment with business models and practices where they instigate a move to become the **family** adviser, while continuing to serve the primary client. That presents an entirely new way of working for most. It is a hard transition to successfully manage, when compared with how easy it is for a new firm establishing business directly with the children from the outset.

Creating an atmosphere of trust and common purpose among all family members is a significant challenge. Anecdotally, most primary account holders agree that careful and collaborative planning - which results in their wealth having a lasting beneficial effect on the lives of their spouse and then their family – is better than seeing the wealth dissipate on spur of the moment decisions in the aftermath of the inheritance taking place. But it is also worth noting that there are others who don't want their spouse or adult children involved at all in the "before-planning," especially if they think family members might be upset with the planned allocation of financial assets. Research also suggests that financial advisers who are themselves baby boomers (and reaching the final phases of their own careers) often don't feel that getting to know the children of their clients is worth the effort.

It's up to a newly-empowered generation of financial advisers (at these established firms) to win over the children of the primary account holders. It seems logical that these children are also more likely to be open to accept advice from someone of their own age.

Dealing with the legacy technology issue

It sounds straightforward, but many financial firms are saddled with their own legacy technology estate accreted over many decades. Whether it was consolidation, merger or acquisition, there will frequently be a 30-year tale of technology woes meaning one data set and customer journey does not easily mesh with the other.

New approaches are required to "dig the old data out" of an obsolete black box and set it free to perform gymnastics in the cloud. Money managers often need help from a technology partner to get that done quickly and securely. Speed is of the essence because competitors who started in the cloud only have spritely, clean new data to manage. (This appeals to millennials who haven't yet created a long tail of financial data.)

Core to this spring clean of technology is a need for consistency in communication across channels and accounts to provide reassurance and establish trust with investors. This is essential for turning a new customer (or a family member of a pre-existing customer) into a loyal customer. It is loyal customers who pay the fees that keep these financial institutions in business. Losing loyal customers to technology-focused competitors is akin to running out of financial oxygen.

2. http://www.investmentnews.com/article/20150713/FEATURE/150719999/the-great-wealth-transfer-is-coming-putting-advisers-at-risk

Preparing for the next generation of investors

Engaging families of existing clients

1. To improve engagement and communication with the spouse and then the whole family, wealth management firms can enlist industry and representative bodies such as the Institute for Preparing Heirs (www.preparingheirs.com) who offer training and advice in this area. There is existing knowledge and expertise out there for free for those institutions willing to improve themselves.

Moola

UK-based Moola (www.moo.la), Founder and CEO, Gemma Godfrey says: "To capture the next generation of wealth and retain existing family assets, these clients need to be engaged earlier than they have been traditionally. This is a sizeable opportunity. According to PwC, £2 trillion of assets are missed because the services on offer do not meet their needs. These clients want to achieve their financial goals with guidance and flexibility. The good news is cutting edge technology such as ours can offer an intuitive investing journey, with the jargon and hassle removed, which can be completed in minutes. Moreover, richer data captured builds a clearer picture of what they want and how they'd like it delivered. Of course, in time as their needs evolve, this offers a strong pipeline of clients for full advisory services."

2. Engaging the next generations via a targeted, familial investment strategy is one way to build allegiance. A frequently cited example is when advisers help grandparents set up a **529 college saving plan** for their grandchildren, so that their life insurance can pay into a lifetime gifting arrangement. This sets a template for the type of whole life investment journey that accepts that aging and dying are normal trajectories. Individuals can take comfort from many unknown but similar strangers who have made these same decisions successfully before them.

3. Make it straightforward to adjust statements and passwords after the death of the primary customer. Family members aren't necessarily looking for their asset managers to express their condolences, but they do expect good manners and respect. This must extend to the overall technology offering, being aware of changing circumstances, making sure statements are updated accordingly, and that access and password rights have been carefully revised. Companies need to develop these competencies ahead of something happening – because

3. Moola company survey conducted in partnership with Freemavens

competence generates confidence that they have done this before and that it is part of standard operating procedure.

Engaging upcoming generations

Ness works with companies preparing for the new investor landscape. We have established a useful playbook for embedding the best chance of success. This is our recommendation for making a start. It details business-focused must-haves first and technology-related imperatives thereafter.

1. **Understand current and emerging customer needs.** Companies should consider dedicating some internal resources to research and capture the needs and interests of current and future customers - to demonstrate a commitment to understanding them. Talk to recently widowed spouses to hear the unvarnished truth about their experiences. What can you learn from them?

2. **Encourage innovation within the firm.** Sponsor “Shark Tank” style innovation hubs and mentor the participants to think differently. This is becoming common practice for fostering internal innovation and represents a welcome change. Innovation is not something that has come naturally to most large asset management firms.

3. **Envision a next-generation platform.** Firms should ask themselves, clients, and outside experts: what does a winning, modern engagement platform and proposition look and feel like? How different is it from the one they have?

4. **Make a tactical acquisition.** Companies can look at purchasing a smaller player with a better digital offering, approach or platform. Not only can this accelerate their ability to bring new capabilities to market, but it can also help infuse modern techniques and technologies into the culture of the parent organization.

5. **Engage investors with the right message.** The overarching focus is the success of a firm’s performance in managing money, but finding a voice to promote your differences (attitude to risk, choice of ethical investments, belief in Artificial Intelligence technologies, etc.) and personalized approach to customer service is also essential. Younger investors are unlikely to visit brochure-ware websites, so it’s important to connect with them on their digital territory (perhaps via contextually-relevant social media activity) and stimulate a dialogue, rather than pushing a generic message to everyone. They may find common interests and engage with one another based on your messaging (ethical investing, for example). Even if your fund performance is similar to others, “Don’t lose my money” has become more of a touchpoint than “You must outperform everyone else.” Messaging and customer service will help ensure your offering stands out.

6. **Invest in digital solutions.** This involves design, technology and data working in harmony to deliver a user-centric, cross-channel, unified view of the customer’s financial position when engaging digitally. The solution must promote a seamless experience when engaged online,

complemented offline by human or physical representations of the institution. The customer wants to be at the center of the engagement. They no longer want to receive general information about the bank or the fund; instead they want personalized slices of that content, shaped to help them understand how changes apply to their own individual circumstances.

7. **Provide dashboards for optimal user experience.** Digital solutions need to include interactive dashboards that highlight change and suggest next best actions (which can be discussed further with experts when required). Fields should be pre-populated with known information, and previous searches and areas of interest should be utilized to build intelligence into the experience, so that the platform learns to help guide users around their wealth. Popular content, which is being viewed by other customers, provides the comfort of the crowd as another avenue to promote.

8. **Deliver segmented offerings to different demographics.** Younger generations expect access to online data, but older investors might prefer a file binder. Institutions must segment their content and offerings with different demographics and wealth groups in mind. They also need a robust plan to develop new sources of specially-directed content to serve those segments. (This may be a challenge if they have never considered “content” in this way before.) Firms should look at opportunities to employ machine learning techniques, which analyze previous behaviors and behaviors within a segment (those with similar investment goals, personal situations or a number of dependents, for example) to offer valuable guidance and present relevant content from the wider world. Personalized notifications of changes in the market and in the regulatory regime should also help end customers make sure they’re efficient in how they encounter transaction fees, while alerting them to an approaching tax threshold.

9. **Offer lower-touch services.** For customers with over $20 million invested, the personal touch to complement a digital relationship will become essential. But what should the approach be towards customers with investments under $5 million? Firms need to develop lower-touch offerings and choices that acknowledge a growing confidence among investors in making investment choices, provided they have enough relevant information and guidance that appears trustworthy and transparent.

Conclusion

Across the world, the way people buy is being re-shaped by digital technology. Asset management is not unique in the challenge it faces, but it does have some interesting historic quirks. In the previous pages, Ness has shared our experience and insights into the avenues that must be explored to at least keep up with investor expectations. These represent the foundations for success in capturing “the great wealth transfer,” but real commercial differentiation will come from those companies who truly believe in and adopt the customer-centric future, where technology harnesses data to personalize relevant content, deliver value and create brand loyalty.

About the Author

Mark Lister is the Chief Digital Officer at Ness and spends much of his time working with clients to map out the digital future, where experience is facilitated by technology and generates data that surfaces insights to improve the experience. A focus on this process helps companies bring innovation to market, excite customers, and deliver business value.

About Ness Digital Engineering

Ness Digital Engineering designs and builds digital platforms and software that help organizations engage customers, differentiate their brands, and drive revenue growth. Our customer experience designers, software engineers and data experts partner with clients to develop roadmaps that identify ongoing opportunities to increase the value of their digital products and services. Through agile development of minimum viable products (MVPs), our clients can test new ideas in the market and continually adapt to changing business conditions—giving our clients the leverage to lead market disruption in their industries and compete more effectively to drive revenue growth.

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