Advisors' Service Values Out Of Whack, Fidelity Says

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Fidelity is suggesting financial advisors might have their value proposition standing on its head.

Financial advisors are focusing on the wrong priorities and must rewrite their value proposition to clients in order to be successful, according to “New Advice Value Drivers,” a report form Boston-based Fidelity Clearing & Custody Solutions.

Fidelity found that its clearing and custody clients were suffering from declining organic growth, but that they weren’t necessarily feeling pressured by the decline because of the remarkable run of equities in recent years.

“Cost pressure, regulatory pressure and shifting demographics are coming together to make [advisors] have to think about how they will reinforce the value that they drive and how to make sure that they are properly paid for it,” says Matt Chisholm, head of Fidelity’s practice management and consultant group.

When the growth of assets from the bull market is discounted, advisors experienced a net 2.8 percent decrease in client assets in 2016, Fidelity found.

The paper was released in response to a survey of 118 financial firm executives at the 2017 Fidelity Executive Forum in May that found 81 percent of financial firm leaders believed that they need to deliver value differently in the future in order to survive.

“These firms are motivated by the need to provide a better outcome for their clients,” says Chisholm.

The Fidelity report leaned heavily on the "hierarchy of needs," a theory by the late American psycholgist Abraham Maslow that was the focus of a recent Bain & Co. report.

Maslow ordered human needs as a pyramid, with basic physiological needs like air, water, food and shelter at the bottom, personal safety and financial security at a higher level and social belonging, esteem and self-actualization at the top. Maslow's theory says all the needs must be met, in order, from bottom to top: People without enough food to eat, for example, will not be in a position to worry about their financial security.

Bain’s pyramid of the elements of value begins with functional value at the base: things that save time, simplify, make money, reduce risk or cost, provide quality or inform people.

According to Fidelity’s “New Advice Value Stack,” at the functional level, services like money management, asset allocation, income generation, tax strategy and cash-flow analysis are elements of fundamental value.

The next level on Bain's value pyramid is emotional value: Things that reduce anxiety, reward the client, instill nostalgia, encourage wellness, create fun or entertainment or provide access.

In Fidelity's model, advisors provide emotional value through elements like retirement planning, healthcare funding, educational funding, estate planning and philanthropic planning.

The third level of value, according to Bain, is composed of life-changing offerings: Things like heirlooms, objects or services that engender a sense of belonging, that motivate clients, that provide hope to people.

According to Fidelity, advisors provide clients life-changing value through peace of mind, services that help them take care of loved ones, organize their lives and live free of financial worries.

The highest level of value, according to Bain, is social impact: things that allow the individual client to transcend themselves.

At the highest level of value, Fidelity says that advisors offer their clients fulfillment, via the feeling of having accomplished their life's purpose, and the ability to leave a legacy.

According to Chisholm, advisors already providing clients with higher-value services are already more successful with their counterparts. Advisors competent on four or more of Fidelity's elements tripled the revenue growth and net promoter scores of their peers, on average, according to the report.

The problem, as Fidelity sees it, is that advisors spend too much time at the bottom of their value stack and too little on providing clients with fulfillment. According to Fidelity's analysis, only 6 percent of advisory firms are focused on client fulfillment, while 33 percent are focusing their time on money management.

In the future, only five percent of an advisor's time will be spent on work that provides the fundamental level of value to clients, the report says. In fact, when Fidelity asked firm executives where they would like to spend their time moving forward, 36 percent said they would like to spend more time focusing on client fulfillment, and 28 percent said they would like to be more focused on their clients' peace of mind.

"In essence, these executives are acknowledging whether their firms are acting as asset managers or as advisors to their clients, and they're finding that they'd rather move up the pyramid," says Chisholm. "That helps explain why the industry is trying to marginalize some of these fundamental parts of the pyramid towards technology, which in the end creates extra capacity for production within their firm, which helps them move up the value stack."

To move up Fidelity's value stack, advisors will have to harness several value drivers. First, they must drive better outcomes for their clients and make those outcomes the center of their conversations. Fidelity argues that this can be achieved by adopting a fiduciary mindset.

Advisors could also shift their thinking on portfolio construction from being sellers of products or investment solutions to buying agents that find investors fee-based investing vehicles, risk management opportunities and opportunities to reduce costs, says Chisholm.

Another key to driving more value for clients is segmentation to deliver clients the value that they need, says Chisholm. Clients should be thought of on a spectrum of investible assets, where mass market clients might receive automated services, mass affluent clients might receive some episodic advice triggered by financial needs or life events, while higher-net-worth clients receive more involved services like a personal CFO or financial life coach, and the ultra-high-net-worth are served with the bespoke solutions of a family office.

“We think that firms need to understand segmentation in a more robust and diverse way, whether it be segmentation in production, or according to the basic needs of the investors,” says Chisholm. “Smaller clients can be backed into what advisors can provide along with a self-directed or technological approach to investing, while larger clients get higher value adds. This is all in line with, and in part being driven by, the fiduciary mindset.”

Advisors must also become more fluent with technology, said Fidelity, and the firm leaders at their conference agreed, with 32 percent of them saying they would use digital enhancements within their business to create more value for their clients. Chisholm said that the most powerful technological drivers are automation, which expands productivity, and data, which can deepen client relationships.

Finally, advisors should endeavor to build sustainable, diverse and enduring multigenerational firms in order to give their clients more peace of mind, according to Fidelity.

“Not every firm will want this kind of longevity. Some advisors will want to be lifestyle practices that will decline as their clients need to draw down their accounts,” says Chisholm. “We believe there’s no right or wrong ways here, but if you want to create more value for your clients, extend the longevity of your business.”
