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Digital wealth management: Driving engagement through data-driven insights

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How can you use data and technology to drive your digital strategy and engage with your clients?

The heart of the matter

In an era of increased competition and shrinking fees, financial advisors need digital tools to survive. By leveraging technology and data-driven insights, advisors can sustain profitable growth. But achieving this vision requires a digital transformation, and the industry has been slow to adapt. A thoughtful technology and data strategy, user-friendly tools, early wins, and key stakeholder commitment are the main ingredients for success. Are you up to the challenge?

Wealth management firms face a list of familiar pressures: the workforce is aging, growth has stalled, disruption is increasing, and fees are declining. These pressures are stretching firms, especially traditional players, to the breaking point. “Wealth management firms can’t scale under the current model. They’re capacity-constrained,” says Evan Siegal, a director in PwC’s Digital Advisory group. “And with the cost pressures they’re facing, they won’t be expanding the workforce. So they’ll have to digitally enable their advisors if they’re going to grow.”

It’s important for financial advisors to maintain close relationships with their clients. Among other things, most clients still want to speak with their advisors from time to time. But to thrive in an environment of shrinking fees and a smaller workforce, wealth management firms should harness data and technology, including advanced technology such as artificial intelligence (AI) and machine learning to augment their advisor-client relationships. Leveraging technology is essential to increase the reach of services while improving client engagement.

For traditional wealth management firms, the challenge is to better equip advisors with the information needed to have relevant, high-impact conversations with clients. Historically, interactions with clients have been largely about market news and product recommendations. But today clients expect their advisors to understand their unique needs, wants, and financial goals, and to provide personalized advice. Yet only 33% of respondents to a PwC wealth management survey said they were highly confident that their financial advisor/wealth manager used their information and data to provide tailored advice.[1]

This presents a challenge and an opportunity for wealth management firms. Meaningful conversations should happen at the right time, in the right channel, with the personalized information needed to have an effect. Given the fee pressures facing wealth management firms, this is difficult for even the best financial advisors to deliver at scale.

This is where digital enablement can help. By leveraging technology, firms can funnel data-driven insights to advisors at the time and place of interaction to engage clients and strengthen relationships.

There’s a systematic approach to digital enablement that addresses the complete client life cycle. Obtaining a mandate and providing implementation aren’t easy and will require a significant commitment from key stakeholders throughout the organization, but there are ways to overcome roadblocks to adoption.

[1] “PwC, “Sink or Swim: Why wealth management can’t afford to miss the digital wave,” June 2016, accessed January 24, 2018, www.pwc.com.

An in-depth discussion

The current financial advisor engagement model is unsustainable. Without digital enablement, advisors can't scale their work to serve a larger customer base. There are only so many hours in the day and so many calls that can be made.

The pressure on advisors is greater than ever. Growing competition from digital competitors is suppressing fees, with robo-advisors typically charging 25% to 50% of what traditional advisors bill for similar services.[2, 3] At the same time, the financial services industry's workforce is aging, with an army of advisors poised to retire. With fees declining and cost pressures rising, many of them won't be replaced.

Wealth management firms should determine how to grow with a lower fee structure and smaller workforce. To thrive in this environment, they should enable their advisors to scale their marketing and sales efforts to reach multiple clients simultaneously while providing each client with a personalized experience.

That will require new digital tools and a new model for engaging with customers.

The need for digital enablement

The financial services industry has been slow to embrace digital solutions, in part due to legacy technology constraints and, in some cases, usability issues that make the adoption rate low. But more wealth management firms are shifting resources toward digital enablement. They're attracting tech-savvy talent to implement digital solutions on accessible, interconnected platforms to help acquire and service clients and to extend and retain client relationships.

To grow in the midst of intense cost pressure, firms should digitally enable their advisors and support staffs so they can reach more people—and reach them more effectively. A digital transformation of the industry will likely improve client engagement and enable more personalized experiences.

In our view, the key is to apply insights mined from client data to engage clients in more meaningful ways. Advisors should know which clients to contact, and when. To create more personalized experiences, advisors should better understand their customers' behavior and identify their individual preferences for the types of communications they wish to receive, when best to contact them, and which channels they prefer to use.

Rather than relying on manually-driven communications to achieve these goals, advisors will leverage machine- and rules-driven interactions. Data and technology will be used to determine the type, frequency, and content of communications. Advisors may still call the plays, but there will be a playbook to guide them.

The transition to digital enablement brings a new set of challenges for wealth management firms. They should determine which communications are required, for instance, and which are at the discretion of advisors. With new digital capabilities to reach clients, firms will have to plan and monitor their interactions carefully to avoid overwhelming clients with too many messages delivered too often.

[2] Din, Suleman. "How risk management can give digital firms an edge," Financial Planning, August 9, 2017, accessed on Factiva on December 8, 2017.
[3] Israelsen, Craig. "Destructive Impact of Fund Fees; A retiree living off her portfolio may lose hundreds of dollars a year in income for each added basis point of fund expense ratio - or adviser fee," Financial Planning, July 1, 2017, accessed on Factiva on December 8, 2017.

Other industries such as retail and some financial services industry competitors, including FinTech startups, already leverage data and insights to create personalized experiences. Consumers expect that, and their interactions with online retailers have raised the bar for customer expectations. Wealth management firms should be poised to meet those rising expectations.

Common challenges

Wealth management firms understand that they should leverage technology to engage more efficiently and effectively with clients and prospects, but many struggle with how. Some firms don't know what client data they have, much less how to build a digital enablement solution. Others have tried to implement solutions and fallen short of their goals. Here are five common challenges we see:

- ***Fragmented internal data:*** Wealth management firms have a vast trove of data on their clients but we find it's often fragmented and dispersed across the organization. This makes it difficult to mine the data to generate insights that can drive more effective client engagement—and ultimately help achieve growth and profitability objectives.
- ***Lack of third-party data:*** Primary client data is useful, but it has limitations. To develop more customized insights and determine which services may be most relevant, wealth management firms should supplement their client information with third-party data on client spending habits, values, lifestyles, interests, and the like. Retail firms and credit card companies have been using psychographic data for years. Financial services firms are only now starting to do so.

  In addition to psychographic data, firms should gather transactional data to gain a more complete picture of their clients' finances. For instance, a client may be paying off a mortgage from one firm with a brokerage account at another. Having such information can help firms provide more personalized advice.
- ***Lack of automated marketing tools:*** Many wealth management firms have data lakes and generate data-driven insights. But often the data and insights are not connected to automated marketing tools that could be used to deliver personalized messages that engage clients. Without the ability to connect insights to automation, firms miss the opportunity to scale their messages and deliver them strategically through whatever channels clients prefer.
- ***Low adoption rate:*** Some firms have developed digital engagement solutions, but the rate of adoption is low. One reason is that advisors may not be convinced of the value of leveraging data-driven insights across channels, not just in outbound calls (which many firms still emphasize). In some cases, the reason for lack of adoption is that the technology is not user-friendly, so advisors avoid it. Involving advisors at the design stage could help win their support for leveraging data-driven insights to the fullest.
- ***Inadequate training of support staff:*** Some firms may not do a good job of ensuring that the client service and support teams beyond advisors are prepared to handle inbound calls that result from data-driven campaigns. If a firm creates a marketing message based on data-driven insights and it's emailed to 1,000 clients or prospects, are support employees, including call center staff, trained to handle the volume of inbound calls that could result? Will they know why the client is calling? Do they understand the data-driven insights they should use during the calls to ensure they will be effective? Based on our experience, in many cases the answer is no.

Our recommendations

Developing a sound digital enablement approach requires systematically working through a series of steps (see Figure 1). First, identify the customer segment you wish to target. Then formulate your business objectives and determine your desired outcomes. With your objectives and desired outcomes clarified, identify who (for example, advisors and support staff) will be using the data-driven insights you'll generate, and determine which channels will be used to reach the targeted segment. Finally, implement a pilot and refine and expand your approach based on the pilot results.

Getting started

In formulating your business objectives (step 2), consider which stage of the client life cycle you are addressing. Each stage is associated with a key objective and activities or next steps that firms can take to achieve the objective, as shown in the table on the next page. By narrowing objectives to focus on a particular life-cycle stage, firms can focus on the most immediate, relevant, high-impact steps it can take to engage clients.

Figure 1: Formulating a digital approach.

Lifecycle stage	Business objective	Potential next steps
Acquire	Drive prospect conversion and asset acquisition.	• Analyze past campaigns to identify what is already working—and what isn't. • Identify existing and prospective microsegments to better match clients and prospects with appropriate marketing campaigns. • Explore the application of machine learning as a tool for strengthening advisor-client relationships.
Service	Improve advisor preparedness, efficiency, and focus.	• Define a minimum standard of care to identify at-risk populations and re-engage with dormant client base. • Utilize demographic and geographic data to help identify and deliver general financial education to clients (for example, about ways to save for their children) and react to research and market events, providing insights into their impact on the client's portfolio. • Integrate analytic insights into servicing architecture (for example, interactive voice response), prioritizing high-value opportunities.
Extend	Identify opportunities to extend existing relationships.	• Assess customer lifetime value and risk, and determine product strategies for different segments. • Analyze client purchasing journeys to identify unmet product needs and other opportunities (for example, for fee reduction via service bundling) to increase share of wallet.
Retain	Manage client attrition risk and asset outflows.	• Assess clients' held-away assets and alert advisors to high-value, high-risk clients and accounts, recommending targeted actions. • Help advisors identify opportunities to reduce fees through consolidating accounts across all their relationships.

If your goal is to extend the client relationship, for example, you might focus on generating data-driven insights into how to increase share of wallet. For a diversified wealth management firm, that might mean identifying and targeting bank customers who could benefit from investment and lending products. If your priority is to retain clients, you might focus on generating insights into which clients are at risk of leaving, and why, and devote more time and attention to those clients.

Regardless of which lifecycle stage is prioritized, we recommend you focus first on insights and actions that can produce quick wins. This can help build momentum for success and help you gain the support of key stakeholders.

The choice of channels (step 4) will depend on your business objectives. If your objective is to acquire new customers, you might email information to prospects about the wealth management services you offer. If your goal is to improve service and boost retention, you might consider phone calls as a way to revive dormant relationships. In conducting this exercise, it's important to keep in mind that certain channels will generate higher returns and are more scalable than others.

Implementing a pilot

We recommend developing a small-scale pilot (step 5) based on top priority use cases across the client life cycle. PwC maintains a library of use cases and accelerators that clients can access. A pilot will enable you to test and learn while demonstrating the value of ideas to senior leaders before they make a major investment in a digital enablement approach.

The pilot should focus on a small subset of potential client engagement channels (for example email, texting, and phone) that will generate repeatable results and accurate measurement of outcomes (see Figure 2). In designing the pilot, choose a theme and related actions that are linked to the life-cycle stage you're targeting (acquire, service, extend, retain), and determine which channels and actions/communications to test.

It's important to solicit input from user groups as you design and roll out the pilot. Doing so may benefit you later, when you ask employees to use the new technology solutions you've developed.

Figure 2: Illustrative example of actions to consider for your pilot.

Digital enablement: Next best actions *(illustrative examples)*

Action themes	Actions communications	Channels			Business objectives			
		Email	Texting	Phone	Acquire	Service	Extend	Retain
Product Share information, offers, and referrals on new and relevant products.	WM product information	✓			✓		✓	
	Banking product information	✓			✓		✓	
	Specialist referral		✓	✓	✓		✓	
Relationship Messaging, reminders, and alerts to spur conversations and relationship building.	Annual review reminder	✓	✓	✓		✓		✓
	Quarterly check-up	✓	✓	✓		✓		✓
	Birthday message	✓	✓	✓	✓	✓	✓	✓
	Dormant relationship	✓		✓		✓		✓
Financial education Educational content to increase knowledge and confidence in addressing financial matters with advisor.	Creating a financial plan	✓		✓	✓	✓	✓	
	Preparing for retirement	✓			✓	✓	✓	
	Saving for education	✓			✓	✓	✓	
	Saving for healthcare	✓			✓	✓		
	Elder care	✓			✓	✓		
Markets and accounts Market performance and client-specific content to drive client engagement, education, and transacting.	Market event	✓	✓	✓		✓		✓
	Market update	✓	✓			✓		✓
	Retirement contribution reminder	✓	✓	✓		✓		✓

Pilot programs

Here are a few examples of potential pilots that certain types of wealth management firms might implement. The first three types of firms have one thing in a common: a high ratio of clients to advisors, and thus a large store of data to mine.

- Wealth management firms with banking operations. By having access to a larger consumer base, these firms have additional data available, which can be mined for insights that can span business lines (for example, banking, wealth management, financial planning).
- Firms with branches in geographic locations such as New York City or Silicon Valley that have a large proportion of digitally-savvy consumers and advisors for example.
- High-net-worth wealth management firms that have complementary centralized call centers or national advisor-based models. These firms can minimize their risk exposure by experimenting with a large number of clients in the secondary segment of their business. In addition, firms with centralized call centers have extremely high client-loading ratios, providing a good opportunity to capture client preferences, identify needs, and generate leads that would otherwise be too time consuming to do manually.
- Firms that have large benefit business such 401(k) recordkeeping or stock plan administration serving companies with large numbers of employees. For such firms, developing personalized financial education and financial wellness programs for those employees can be a good starting point.

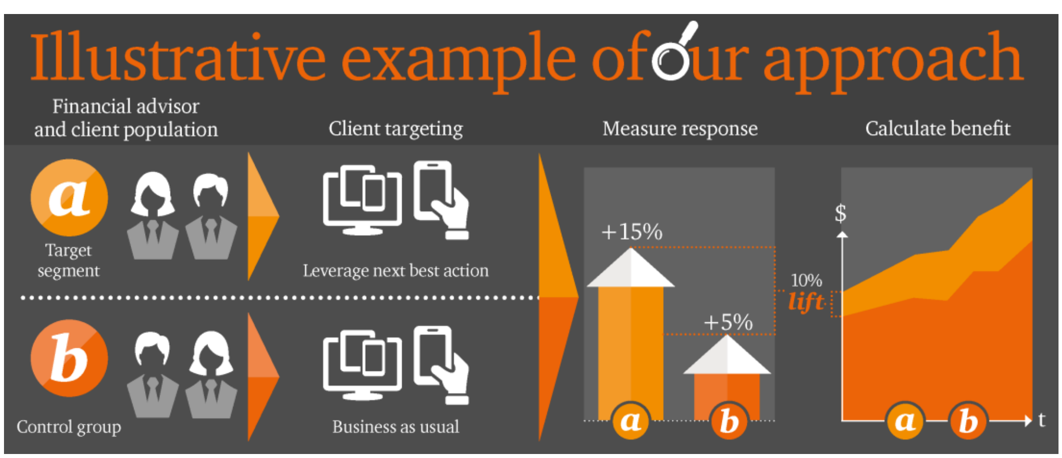
These are illustrative examples and every pilot will be different based on your individual needs, but getting started is key (see Figure 3).

Measuring outcomes

Comparing the outcomes of the pilot for the targeted segment to a control group will help you quantify the impact on key metrics as a result of the approach being tested. Successful pilots can then be expanded.

Because of the long sales cycle for wealth management products and services, it's a good idea to overweight the initial focus on input metrics rather than outcome metrics in gauging the success of your pilot. If, as part of your pilot, you send wealth management product information to spur conversations and relationship building, track the number of product discussions and prospect meetings (input metrics) this generates rather than the number of new accounts or level of assets it generates (outcome metrics). The ultimate outcomes of your approach won't be known in the short term but, in our experience, the right input metrics are typically leading indicators of successful outcomes.

Figure 3: How outcomes should be measured.



Refining and expanding your approach

Once a successful pilot is completed, you can refine and expand your approach. We recommend performing a capabilities assessment and building a roadmap for deploying the digital enablement solution (step 6). It's also important to ensure that you have the right technology infrastructure (ideally, with artificial intelligence and machine learning capabilities) and resources in place to support further strategy development.

What this means for your business

The role of the financial advisor is changing. Many parts of the financial services value chain are being commoditized (for example, robo-advisors are commoditizing asset allocation). In this environment, it's more important than ever to anticipate the needs of your clients and address them proactively. Having an engine that enables you to generate data-driven insights will help you identify and meet client needs. It's a blueprint for serving clients more effectively.

Moving toward digital enablement is challenging, especially in an industry that's been slow to adopt digital solutions. There could be a clash of cultures as the manual practices of the past give way to digital approaches that empower advisors. But the status quo is not an option. Wealth management firms that embrace digital enablement are far more likely than less tech-savvy competitors to grow and thrive, even in the midst of disruption.

Digital enablement: Five keys to success

Gain buy-in. Socialize the concept of digital enablement across the organization. The support of senior management and key stakeholders, including functional groups, will be critical to success. To win the support of senior managers, align key objectives and key performance indicators with issues and metrics that are most important to them (for example, attrition, new households, net new assets, customer loyalty).

Focus on the achievable. Begin with a small number of high-value, low-complexity use cases to generate quick wins and build momentum for success. Don't let the perfect be the enemy of the good.

Keep it simple. Leverage technology to deliver intuitive solutions to advisors; allow them to focus on relationships, not navigating systems. To help ensure that technology is user-friendly, include users at the design stage and in pilots.

Build a sustainable foundation. Create a technology and data infrastructure with the long term in mind while enabling opportunistic, short-term uses that can generate quick wins. As additional data sources, analytics, and engagement channels are integrated into your solution, incremental opportunities for growth, efficiency, and retention can be realized.

Track input (vs. output) metrics. Control for the long sales cycles common to wealth management by tracking input metrics as a proxy for future outcomes measures. In our experience, the right input metrics (leads referred by clients, goal discussions) are leading indicators of successful outcomes (new accounts opened, share of wallet). Emphasize the link between input metrics and outcomes to help secure an ongoing funding commitment from senior management, and make sure that advisor incentives are aligned with input metrics.

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