The Disappearing Digital Divide

Keys to connecting with tech-savvy investors

THOUGHT LEADERSHIP FROM A TECHNOLOGY LEADER

This paper explores the trend toward increasing technological sophistication on the part of mainstream investors, and the steps financial advisors should be considering to avoid falling behind.

77%

Percentage of U.S. adults that say they own a smartphone.

The term "tech-savvy" previously applied to a select group of early adopters or to people that everyone else looked to for help in coping with the onslaught of new technology.

Today, the term applies to a much larger swath of the population, if not to virtually everyone. That doesn't mean that everyone has the skills to become a computer programmer. It simply means that, in a world where grade-schoolers use tablets or laptops for daily classwork, technology has become increasingly second nature to the majority of people.

Consider how much technology has already influenced human behavior. Today, more people access the internet on mobile devices than on desktop or laptop computers. According to the Pew Research Center, 77% of U.S. adults say they own a smartphone, up from 35% in 2011, making the smartphone one of the most quickly adopted consumer technologies in recent history[1]. Smartphone ownership is more common among those who are younger or more affluent.

Consumers developed technology skills almost unconsciously in order to take advantage of emerging online business models—travel agents being replaced by Kayak, taxis giving way to ride-hailing apps like Lyft, brick-and-mortar retailers ceding market share to Amazon. Companies with digital business models, in turn, have continually adapted to consumer demand for greater convenience and simplicity, thus creating a kind of virtuous circle in which users keep getting more tech-savvy while commercial apps keep getting simpler and more intuitive.

75% of investors have never exchanged text messages with their financial advisors.

This confluence has a dramatic impact on consumer expectations, giving rise to an on-demand economy in which the time gap between desire and "done" has shrunk to seconds—book a flight, buy concert tickets, order dinner, summon a driver, share a photo, watch your favorite show on-demand. People expect technology to make life easier. They quickly become accustomed to things they never knew they needed until technology made them possible. Meanwhile, more companies are using predictive analytics to anticipate customer purchasing intentions based on their digital behavior—with increasingly remarkable (or frightening) precision.

The changing face of investors

How is this mutually beneficial alignment between consumers and providers of goods and services playing out in the realm of investment advice? In a word, slowly. For a variety of reasons—regulatory uncertainty, institutional resistance, legacy technology, aging clients—the advisory business, for the most part, has been slower to adapt than others to the growing technological sophistication of the marketplace.

A look at the changing demographics of investors underscores the challenges advisors face. Baby boomer clients are aging, but they are also living longer than their parents' generation. They still have family and financial obligations, while trying to plan for the impending transfer of their wealth to their heirs. Generation X—roughly those born between 1965 and 1981—is in the thick of trying to balance saving for retirement, supporting aging parents, and putting kids through college. Millennials, born between 1981 and 1996, will surpass baby boomers as the largest living adult generation and account for half of the US workforce by 2020.

Two constants cut across all these demographic groups. One, all have some degree of technological sophistication. And two, more people need help managing their financial lives. While the number of millionaires has increased sharply in recent years, ThinkAdvisor reports that some 70% of current millionaires are carrying debt. Gen Xers are struggling to save. Almost half of millennials are saddled with student debt. According to a 2017 Cerulli report, 64% of advisors agree that client demand for financial planning is increasing.

Financial advisors find themselves at the juncture of two converging trends: an increasing number of people who need financial planning, and an increasing number of people who expect technology to serve in every aspect of their lives. This raises necessary questions as to how the service of financial planning is best delivered. Financial planning is what differentiates an advisory business and defines the advisor's value in the eyes of clients. Advisors who wish to sustain their businesses for succeeding generations need to redefine their value propositions for the growing market of tech-savvy investors.

Rethinking wealth technology strategies

It's clear that advisors need to develop or expand upon their digital strategies and practices. The changing market requires a fundamental shift from thinking of technology purely in operational terms to thinking of it strategically as a business differentiator.

For example, consider client communications. Think back to the cornerstone consumer technology that started this discussion: the smartphone. Smartphones are ubiquitous. As a result, so is text messaging. Customers have become accustomed to receiving text messages from all sorts of service providers. It's an efficient way for airlines to tell them a flight is delayed, or for a restaurant to confirm a reservation. Yet according to WealthManagement.com Affluent Investor research, 75% of investors have never exchanged text messages with their financial advisors.

One reason for this lag is that advisors have been waiting for regulation to catch up with technology. In 2017, FINRA clarified some of its rules around text messaging, noting specifically that if a firm "intends to communicate, or permits its associated persons, to communicate, with regard to its business" via text messaging, "it must first ensure that it can retain records of those communications as required by SEA Rules 17-a3 and 17a-4 and FINRA Rule 4511." In other words, text messages are governed by the same record retention

Today, more people access the internet on mobile devices than on desktop or laptop computers. The smartphone is, arguably, the "great technology leveler."

rules as written correspondence, and firms must have a retention plan in place before they start texting clients.

Another area where advisors can strategically deploy technology is in financial planning. Clients value expert advice, but most want to understand how that advice is derived. They want to be involved in the process. Technology affords advisors the opportunity to work in a more collaborative manner with clients. Modern financial planning software allows advisors to engage their clients in the process, walk them through various scenarios, and develop an easily understood graphical "language" for communicating strategies, scenarios, decisions and results.

According to InvestmentNews, 78% of advisors today have client portals for account access. There is a difference, however, between information access and a truly personalized client experience. Advisors have the opportunity to differentiate themselves and engage clients more effectively based on the type, quality and timeliness of information, from portfolio performance data to financial plans to customizable market commentary tailored to each client's interests. The client portal should also make it easier for a client to communicate with their advisor, whether it be submitting forms, asking a question, or scheduling a meeting.

What advisors can do

Now is the time to start cultivating the emerging wave of tech-savvy, non-boomer investors.

- Explain to prospects and newer clients how financial planning works.
- Use technology tools that engage them in the process.
- Help them understand how you arrive at your recommendations.
- Approach investors with a goal-focused philosophy. Show them you can do more than simply manage their money.
- Anticipate changes. Run scenarios or hypothetical "what-ifs" to illustrate the trade-offs of various decisions.
- Think about how you can simplify clients' lives with digital tools.
- Invest the time and resources into making client communications an exceptional experience. Leverage content and choice of delivery channels, as a competitive advantage.
- Focus on finding ways to make yourself accessible to clients—which doesn't mean always having to be present.

Building the digital environment

Technology is no longer something that belongs hidden in the back office. With today's tech-savvy investor, it belongs front and center, demonstrating that your firm is equally tech-savvy and employing state-of-the-art tools. Components of an integrated client-centric platform include:

- **Online client experience:** The ability to allow 24/7, interactive information access has nearly become standard for an advisory business. Tech-savvy investors probably do not need, expect or value the amount of personal handholding that previous generations expected. What they will expect is a high-quality, personalized experience on a par with their favorite sites. Advisors should not overlook the opportunity to leverage their online presence as one of the key benefits they deliver.
- **CRM:** Leverage a system that gives you the flexibility to create a truly personalized experience for each client. Build profiles that accurately capture their personalities. Use alerts and reminders to set the appropriate cadence of contact for each client individually.

- **Portfolio management and reporting:** Your core system should give you the capability to create customized, on-demand reports that enable you to clearly communicate your story and demonstrate the value of your advice. It should allow you to find information quickly and respond to client inquiries on the first call. And it should have mobile capabilities, enabling you to meet clients anywhere with all their portfolio information at your fingertips.
- **Financial planning:** Select software that enables you to create a collaborative experience for your clients, engage them in the planning process, walk them through scenarios, and demonstrate that your recommendations are well founded. Tech-savvy clients will likely have greater confidence in decisions in which they have taken part.

The price of falling behind

The need to adapt to an increasingly tech-savvy clientele grows more urgent as technology advances and choices proliferate. The last five years saw the rapid growth of algorithm-powered investment management platforms, and while "robo-advisors" grabbed the headlines, many traditional advisors decided to join rather than fight the movement. Tech-savvy investors with a need for advice may well gravitate to hybrid business models combining some level of personal advice with algorithmic asset allocation.

Advisors should not assume that increased automation is all about servicing smaller accounts. Much of the wealth in the market today was created by entrepreneurs who are instinctively inclined to be early adopters of new technology. To ignore them is to potentially overlook a substantial pool of assets.

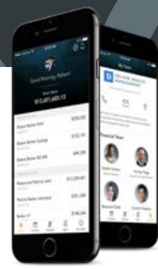
Advisors also risk missing out on the impending intergenerational wealth transfer. The heirs to your current clients' assets may be inclined to shop around if they perceive that their parents' advisor has not kept up with the times.

That said, the tech-savvy investor is not strictly a generational phenomenon. Many baby boomers are sufficiently comfortable with technology to conduct much of their daily business online and on their mobile devices. Sooner rather than later, they will expect their advisors to accommodate their desire for convenience. In a recent Salesforce survey, 67% of investors cited access to modern investment tools as a reason for choosing their investment advisor, and 76% wanted the ability to review their accounts holistically and in real-time.

Elevating a firm's technology posture is about more than attracting and retaining clients. Wealth management today faces a genuine talent shortage. Competition to attract the top talent will only intensify. Up-and-coming advisors will likely follow the money and seek out tech-savvy firms that provide them with the tools to be productive, engaging and efficient.

The future belongs to tech-savvy advisors

Tech-savvy investors are no longer outliers. They are mainstream wealth builders, with a self-reliant streak and a high threshold of skepticism. The key to winning their confidence, and their business, is to be equally tech-savvy if not more so.



The time to think about and act upon a forward-looking technology strategy is now. Tech-savvy advisors will win the future. And when you look at the impact of technology in everyday life, it appears the future has already arrived.

About the Black Diamond® Wealth Platform

With the Black Diamond Wealth Platform as the hub of your advisory business, you'll be able to leverage technology better to drive profitability, scale, and growth. In addition to performance reporting, rebalancing and client billing functionality, the platform encompasses daily reconciliation services, an award-winning client portal with mobile access, and integrations to several complementary solutions, including but not limited to financial planning, portfolio analytics, and CRM software, as well as access to traditional and alternative managed account strategies.

For more information

If you have questions about this paper, or would like to learn how the Black Diamond Wealth Platform can support your business, call **1-800-727-0605** or email **info@advent.com**. You can also visit **blackdiamond.advent.com**.

1 http://www.pewresearch.org/fact-tank/2017/06/28/10-facts-about-smartphones/