CFP BOARD
CENTER FOR FINANCIAL PLANNING

2018 DIGITAL ADVICE WORKING GROUP

The Digital Financial Advice Ecosystem

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CONSULTING

INTRODUCTION

The world of financial advice continues to undergo change and disruption. Prior to 2015, the market for digital financial advice was made up of small digital pioneers, but as major direct retail firms entered the market we began to see rapid change. In the years since, larger firms have raced to build or acquire their own digital advice capabilities, raising new questions about the impact digital advice would have on consumers, firms, and the financial planning profession. Shortly after these developments began, CFP Board formed the Digital Advice Working Group, a group of senior business executives, industry professionals and thought leaders in financial advice, wealth management, and technology to better study and prepare for this unknown future.

In their first meeting in 2016, the Digital Advice Working Group developed multiple future scenarios to examine the five-year outlook for digital financial advice and to create greater clarity around the changes and implications for the profession. The working group then reconvened in 2017 to compare these predictions with their own experience over the past year, identifying key areas of uncertainty and forecasting where the industry may be headed.

The Digital Advice Working Group assembled on October 25th and 26th, 2018 in Washington, DC in order to better understand the ecosystem of digital financial advice and its evolution. This paper serves as a summary and record of the work of the 2018 Digital Advice Working Group[1].

The authors of this report would like to thank each of the 2018 Digital Advice Working Group members and guests who participated in this year's session for their thoughtful questions, discussion, and debate. It was their insight and dialogue that drove the findings in this report.

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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. The paper is also not intended to represent the views of CFP Board or Heidrick & Struggles who hosted and facilitated the working group.

AN ECOSYSTEM FRAMEWORK

In this year's meeting, with greater clarity on many of the uncertainties that characterized their first discussions, the working group refocused its attention on learning from peers across an ecosystem of digital financial advice (Figure 1 below).

The five segments of the digital advice ecosystem — technology, consumers, regulation, firms, and advisors — were developed through input from working group members, and provided a framework for the group to surface key challenges that their firms were facing as well as key questions they hoped to address with their peers. At the 2018 meeting, Heidrick Consulting (a leading advisor on strategy, talent, and culture) paired their experience in facilitating senior teams through difficult strategic discussions with CFP Board's deep knowledge of the financial planning profession. Heidrick Consulting and CFP Board framed the session in a way that would enable the mutual learning and dialog across all segments of the digital advice ecosystem.

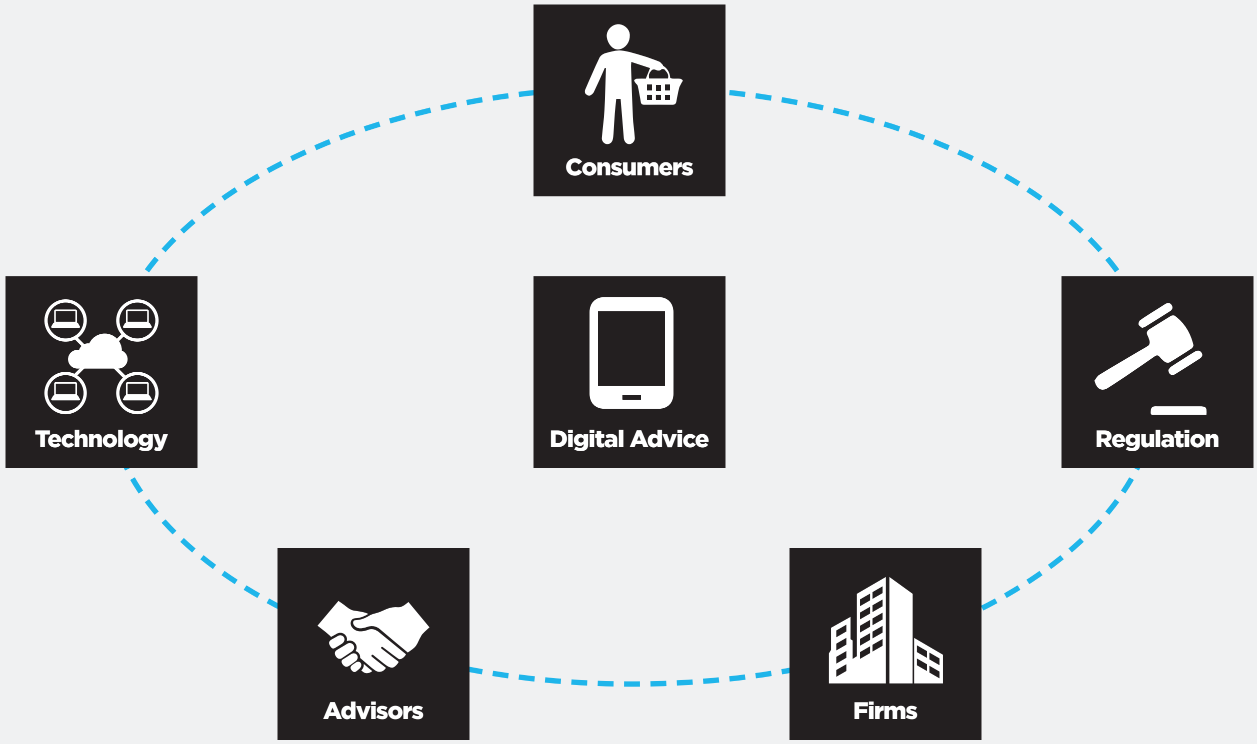

Figure 1: The Digital Financial Advice Ecosystem

KEY FINDINGS AND TAKEAWAYS FROM THE 2018 DIGITAL ADVICE WORKING GROUP MEETING

Questions and challenges that were surfaced from working group members fell under five broad areas that we refer to as the components of the digital advice ecosystem. The following questions prompted the flow of the group's discussion this year and thus serve as a framework for the key insights in this report.

TECHNOLOGY: MOVING TOWARDS PERSONALIZED, SCALABLE, AND MORE INTELLIGENT ADVICE

Technology drives the progression of digital advice given its role in enhancing consumers' experiences and elevating the role of advisors. The technology component of the digital advice ecosystem encompasses enterprise technology, global systems integrators, digital platforms and startups, and advisor software and solutions.

How will innovations that facilitate financial planning evolve?

Discussions in the first Digital Advice Working Group meeting of 2016 largely focused on artificial intelligence as a threat to the human financial advisor. One of the four future scenarios created by the working group was titled "Judgement Day" in reference to the science fiction movie Terminator. In this scenario for 2020, consumers displayed a high level of comfort with digital experiences and received holistic financial advice through one-stop-shop digital advice platforms. Big tech players that owned all the data and customer interaction points entered the space and provided advice in stream with other services. As a result, human advisors represented a much smaller segment of the market.

However, rather than reaching a "Judgement Day" future where AI displaces human employees, the group found that technologies like AI are more likely to serve as an amplifier of human intelligence in support of advisors. It was discussed that with an annual growth in data of 4300%, such technologies will become a necessary complement for humans to utilize the vast amount of data and knowledge available.

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Furthermore, as conversational AI advances from "one-turn" questions (e.g. today's Siri or Alexa), it has the potential to surface consumers' core problems from their questions more quickly and efficiently, potentially automating the time-intensive fact-finding process in financial planning.

As the market for financial advice moves towards greater consumer comfort with digital interactions, AI can also enhance consumers' experiences and elevate the role of advisors in providing more holistic advice. Thus, advisors should consider how their skillsets can complement digital platforms and technologies.

What are the challenges in delivering digital financial advice today?

Several key pressures continue to shape the market for financial advice: preservation of advice quality at scale, client demand for digital solutions, regulatory pressure, fee compression, and the increasing longevity of investors.

In order to alleviate these pressures, major players in the FinTech space are developing digital solutions that drive mass personalization through scalable and intelligent advice platforms. Core to this process is continuous improvement, building in capabilities for A/B testing, and real-time feedback loops to test different strategies for different customers. Both clients and advisors are being tapped to provide valuable and instantaneous feedback on technology as it is deployed, which is helping solutions to reach greater scale and deliver a more seamless user experience.

Overall, these digital solutions aim to provide better quality financial advice to a greater number of consumers.

Where does today's technology leave opportunities for growth in the future?

One opportunity area identified by the working group was decumulation, particularly as an aging population drives the need for more and more effective decumulation services. Research from FINRA's Report on Digital Investment Advice revealed that the majority of digital advice providers do not independently address decumulation today and that virtually all digital advice providers believe that some level of human involvement is a necessary component of decumulation services.

The group did see some digital platforms for advisors and investors beginning to help users work through the complexity of decumulation by providing a more holistic view of financial health (e.g. via account aggregation, investment management, and cash flow analysis).
Yet the group emphasized caution given the large scale of success or failure in decumulation as these solutions are scaled. As one member noted: "If digital advice providers get it wrong, they get it wrong for lots of people. If digital advice providers get it right, they can successfully deliver low-cost advice to a large swath of investors." Before scaling decumulation solutions to the mass market, the working group felt it imperative that these approaches be 'beta tested' and that a common framework and approach for decumulation be developed.

As more stages of the financial planning process are automated, advisors will have greater opportunity to drive deeper conversations with clients and play larger roles in clients' financial lives. In today's environment, all advisors already operate somewhere along a spectrum of digital enablement — that is, all advisors are utilizing some level of technology to deliver advice to their clients. Looking toward the future, however, the working group could see the technology to enable fully automated, direct-to-consumer, holistic financial planning without a human advisor as soon as 2023. Still, despite the availability of the technology, most working group members believe that advisors will remain the primary conduit for providing financial advice to clients even when fully automated solutions exist. How clients will respond to those services is still highly uncertain, as is the effectiveness of digital tools vs. a human advisor in effecting the actual behavioral changes that lead to financial health.

CONSUMERS: AN AGE OF DIGITALLY SAVVY, WELL-INFORMED, “DO-IT-YOURSELF” CONSUMERS

As consumers become more digitally savvy, adoption of digital advice will increase. Digital advice providers will be tasked to ramp up consumer experiences in order to meet rising expectations. The consumer component of the digital advice ecosystem encompasses aging consumers, baby boomers, millennials, and generation Z as well as the spectrum from UHNW to HNW and mass market consumers.

How will the advisor-client relationship evolve in the future?

The working group saw the evolution of the advisor-client relationship of the future featuring many of the same components of financial advice today, but connected through a seamless digital experience. Financial plans will live in the cloud, where they can be accessed anywhere, from any device. Many financial advisors will never meet their clients in person, but will connect frequently through digital channels such as video-conferencing, texting, and social media, greatly increasing accessibility and enabling greater specialization of advisors across geographic boundaries.

Still, human relationships will continue to have a role in financial advice. Compared to human interventions and face-to-face communication, digital approaches are believed to have less impact on human behavior. For instance, studies show that even in the age of FitBits and mobile health apps, the greatest weight-loss tactic is a ‘workout buddy’. In addition, technologies such as AI have displayed limitations in interpreting human aspects of communication such as sarcasm, inflexion points, and non-verbal cues.

Within the financial planning space, recent research also demonstrates technology’s limitations in improving productivity of advisors. In terms of revenue per advisor, from 2013 to 2017, while staff productivity increased 18%, advisor productivity *decreased* by 22%.[2] One theory for this decline is that technology is enabling greater client interaction and thus surfacing more (and more complex) problems that require more advisor time to address with increasingly sophisticated advice. Automation in the back office is enabling advisors to spend more time coaching and counseling clients, but in turn raises the importance of often overlooked and less technical skillsets in areas such as client psychology.[3]

… both digital financial advice and digital healthcare are witnessing the emergence of a more digitally savvy, well-informed, “do-it-yourself” consumer …

What can we learn from other industries about consumer engagement?

Many comparisons can be drawn between digital financial advice and digital health from the lens of consumer engagement. In both industries, technology exists as a channel for consumers to more easily interact with experts, provides greater transparency and more information to consumers, and empowers consumers to take action on their own.

In addition, both digital financial advice and digital healthcare are witnessing the emergence of a more digitally savvy, well-informed, “do-it-yourself” consumer — those consumers who desire to make informed decisions on their own behalf with minimal or no guidance from advisors. In healthcare, these may be consumers

[2] The 2018 InvestmentNews Study of Pricing & Profitability. (2018). *InvestmentNews*.
[3] CFP Board. (2018). *Client Psychology* (C. R. Chaffin, Ed.). John Wiley & Sons, Inc.

who self-diagnose online and seek over-the-counter treatment or home remedies without seeing a doctor. In financial advice, these may be consumers that seek to guide their own investing and rely on point solutions across investment management, tax, cash flow management, etc. to assemble their own financial picture.

While key differences do exist, inviting a health tech CMO to this year's meeting surfaced important learnings that financial advisors can take away — namely, consumers' desire to move quickly between searching for information and the ability to take action, their strong interest in (but unwillingness to pay more for) virtual consultations, and their inclination to value access to information and insights they can use on their own over the opinions of authority figures.

REGULATION: EVOLVING REGULATION TO KEEP PACE WITH INNOVATIONS IN DIGITAL ADVICE

As more advice is delivered digitally, regulatory components of the digital advice ecosystem will define the guidelines in which digital platforms must operate. The regulatory component of the ecosystem includes the Department of Labor, SEC, FINRA, and OCC in addition to other regulatory bodies.

How are regulators thinking about digital financial advice?

During the 2018 meeting, a speaker from a key regulatory body presented current perspectives on digital advice to provide firms with an outside-in view for how regulators are thinking about this evolving sector. Overall, the group saw that regulators are not distinguishing digital advice providers from human advisors in their responsibilities to clients. Rather, both digital advice providers and human advisors are held to the same regulatory standards — a duty of care and duty of loyalty.

Recent guidance on digital platforms shared by bodies like the SEC was meant to clarify and interpret existing standards rather than impose new ones. Regulators continue to review policies and legislation around digital advice as the space evolves with a constant race to ensure regulation keeps pace with the convenience and efficiency offered by emerging technologies and business models while protecting the interest of consumers. Regulators present at the meeting expressed a desire for input and ongoing collaboration with firms and advisors as digital tools take on a greater role in the profession.

... regulators are not distinguishing digital advice providers from human advisors ...

FIRMS: STRONGER TOGETHER: BLENDING THE CAPABILITIES OF DIGITAL ADVICE AND HUMAN ADVISORS

In an effort to keep pace with evolving competitors and technology-savvy consumers, many firms are blending the strengths of both digital advice and human advisors. The firm component of the digital advice ecosystem encompasses large retail banks and financial institutions, brokerage firms, insurance firms, and custody and clearing firms.

How are business models for financial advice (e.g. pure-digital, hybrid) changing?

Many of the large players in financial advice have developed offerings that marry the capabilities of technology and human advisors. Some firms focus more on the advisor, building in-house solutions or offering white-labeled digital platforms that enable advisors to customize the digital tools and services they want to offer. Others have developed their offerings to address demand from retail clients. These B2C models enable advisors to deliver their services at scale to next generation clients and clients who otherwise may not be willing to pay large fees for advice.

However, both approaches have witnessed a consistent desire from clients to interact with human advisors throughout the experience. Technology has enabled advisors to bring geographically dispersed groups of people together (e.g. multiple advisors, family members) to develop financial plans, but the people component is still at the center. Likewise, even under more tech-enabled models, the human advisor is viewed by clients as a critical one-stop-shop for customer service and technical support in addition to the financial guidance they provide.

Accelerated widespread adoption of digital tools by advisors has left the term "hybrid" largely irrelevant.

This marriage of human advisors and a digital client experience was once referred to as a "hybrid model" of digital advice. However, the group recognized that all financial advisors are now using some form of these digital tools. There are no longer advisors who do not leverage technology in some way and pure-digital models now make up the minority of the market. Advisors will differentiate themselves based on how much they dial up or dial down the digital experience to best suit each client's needs. Accelerated widespread adoption of digital tools by advisors has left the term "hybrid" largely irrelevant.

How are firms differentiating themselves and pulling ahead?

The working group also discussed how firms can accelerate their performance by learning from the best practices of "superaccelerating" organizations. Based on research performed by Heidrick & Struggles, superaccelerators are those organizations that consistently, organically, profitably and sustainably outperform and outgrow their peers.

Members of the Digital Advice Working Group completed an abridged version of Heidrick's Organization Accelerator Questionnaire to get an aggregate view of how the financial advising sector stacks up on its ability to mobilize, execute, transform, and operate with agility — the four characteristics of superaccelerators. Data from that survey drove the insights on the following page.

In viewing the 13 component "drive factors" that accelerate growth (see Figure 2 below) and the "drag factors" that inhibit them, working group members felt that the sector's biggest gap was in Simplicity — that is, many working group members felt that their firms experienced additional bureaucracy, inefficient processes, and complex organizational structures. Even financial firms with very different operating models (e.g. tech-driven advisory firms vs. traditional broker-dealers) and a strong focus on the customer experienced similar challenges addressing the complexity of internal processes and legacy systems. On the other hand, the financial firms that scored highest on simplicity shared a common focus on simplifying the financial planning experience for their advisors, not just their clients.

Other areas of focus for attendee firms include Collaboration — the ability to break down silos and operate as one organization with high levels of trust — and Foresight — the ability to look ahead to spot opportunities and threats in the market. Compared to Heidrick & Struggles' broader financial services benchmark, however, financial advisory firms scored much stronger on Winning Capabilities — having the right talent in the critical roles needed for the future.

The ability of the sector to accelerate performance may depend on how well firms can unlock those raw capabilities they have in house, and break through organizational silos and complexity to develop the next generation of digital solutions.

MOBILIZE	EXECUTE	TRANSFORM	AGILITY
Customer First Always responsive to changing customer demands, low customer attrition, consitent service excellence	**Simplicity** No bureaucracy, lean processes, streamlined structure	**Innovation** Culture of disruptive thinking, ideas generation and experimentation, fast adoption	**Foresight** Think ahead to anticipate and plan for changing circumstances **Learning** Learn quickly to avoid repeating the same mistakes and continuously improve
Energizing Leadertship High energy buzz, empowerment at every level, strong role models who inspire others to bring their best performance	**Ownership** Meritocracy, delivery culture, integrity driven processes	**Challenge** Supportive, frank feedback and debate, highest performance expectations	**Adaptability** Quick to adapt to changing circumstances
Clarity Everyone aligned and committed to purpose, ambition and clear priorities	**Winning Capabilities** Talent magnet, great talent develiopment processes, best talent in key roles	**Collaboration** Work as one organization, high level of trust, joined up processes and communication	**Resilience** Recover quickly and emerge stronger from setbacks

Figure 2: Drive Factors that Help Organizations Accelerate

ADVISORS: ADAPTING NEW DIGITAL TOOLS AND SKILLSETS TO THRIVE IN FUTURE MARKETS

As digital advice evolves, advisors must adapt their tools, skillsets, and styles to meet increasing consumer expectations. The advisor component of the digital advice ecosystem encompasses RIAs, asset managers, financial planners and advisors, and employers of financial advisors.

How will the role and skillsets of advisors evolve?

The digital tools and skillsets that advisors need to serve tomorrow's clients are likely to continue to see significant change. When polled during the workshop, 67% of attendees said they could see "significant change" in the role and skillsets of advisors within the next 5 years and 91% could see at least "moderate change." No single member of the working group expected advisor skillsets to remain unchanged going forward.

These new skillsets include social media expertise for attracting and engaging with clients, the ability to utilize new technology in the delivery of advice (e.g. fluidly moving between screen-sharing, FaceTime, texting and other channels), behavioral coaching, and the ability to serve as a one-stop shop for client needs, whether they be financial, personal, or technology-related.

While most of the new skillsets discussed involved technical capabilities, communication and interpersonal skills will also grow in importance. As more activities in financial advice are automated, advisors will have greater capacity to establish deeper and broader relationships covering a wider array of financial topics. Furthermore, as technology increases both the capability and complexity of the financial planning systems, human advisors will be tasked with simplifying and translating that complexity to clients.

As virtual delivery of advice becomes increasingly commonplace, advisors should also be mindful of blending their technical and interpersonal skillsets. In order to more effectively deliver advice digitally, advisors can thoughtfully adjust their virtual presence (i.e. how they look and communicate on screen) as well as when and how they utilize digital tools in the financial planning process to more closely mimic face-to-face interactions. As technology continues to evolve, advisors will need to be agile in learning and adopting best practices of new digital tools to provide a seamless experience for their clients.

No single member of the working group expected advisor skillsets to remain unchanged ...

Lastly, the skillsets needed for advisors to build and grow a practice are also evolving with the times. The group acknowledged that client acquisition in the digital world will require a baseline social media and web presence.
In larger firms, entire teams are dedicated to supporting and driving advisor adoption of social media tools to ensure they remain competitive. In the future, growing a base of clients and personal brand will require not only a solid grounding in the financial planning process, but also the ability to continuously add to an advisor's toolkit by learning and adapting to new technologies and communication channels with clients.

CONCLUSIONS

As the digital financial advice ecosystem continues to take shape, we see many firms and advisors facing similar challenges; each are looking to scale their impact using digital tools and to provide quality advice to more clients at affordable costs. As improving the quality of financial advice and growing the size of the market is ultimately in the best interest of all firms (and their clients), the 2018 Digital Advice Working Group concluded its meeting with several important calls to action:

Embrace New Technology

It is imperative that firms and advisors quickly embrace new technologies rather than work against them, and focus the use of these tools on elevating the role and impact of skilled human advisors.

Improve Advisor Experience

Additional focus is needed on improving the advisor experience in addition to the client experience. As the complexity of financial planning technology grows, advisors serve as a critical translation point for clients and can benefit from well-designed systems that enable them to focus on adding their uniquely human value to client interactions.

Expand Advisor Training

As technology changes the role of advisors, firms must rethink their approach to onboarding and training. Serving the clients of the future will require that advisors be equipped not only with the relevant financial knowledge, but also with the digital skillsets and understanding of client psychology that will enable them to drive clients toward positive behavioral change in a digital world.

Competition in the financial advisory space will no doubt continue to remain fierce, with firms investing in new technologies, client experiences, and advisor capabilities to win in the market. As consumer expectations continue to rise, failure to invest in these crucial areas ultimately risks a firm's reputation with clients, profitability, and market share.

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