Digital Advice Working Group 2017

Summary Write-up

Introduction

The growth of digital platforms and advisory services is driving rapid change in the world of financial advice. Digital pioneers such as Wealthfront and Betterment have created a growing market for digital financial advice and have brought so-called robo-advisors to the forefront. Retail direct firms have also brought digital to the mainstream market with offerings like Vanguard’s hybrid human-robo Personal Advisory Services platform. Looking to 2018 and beyond, traditional advisors, brokerage firms and banks are all seeking to integrate digital advice into their portfolio of offerings,¹ and while the overall market space continues to grow, increased competition, regulatory shifts and cybersecurity concerns seem likely to reshape the landscape over the next several years.

In response to this VUCA (volatile, uncertain, complex and ambiguous) landscape in the financial advisory market, the CFP Board Center for Financial Planning, in partnership with Heidrick & Struggles, established a Digital Advice Working Group in 2016 to explore the key issues and uncertainties affecting the future of the industry. The group is comprised of thought leaders, industry executives and pioneers in the financial advisory, wealth management and technology sectors. The Digital Advice Working Group first conducted a scenario planning study in July of 2016 to examine the five-year outlook for the future of digital financial advice. Through this process, the group identified nine key uncertainties that would shape the financial advisory industry and influence the future of digital financial advice. The working group then stretched each other’s thinking as to different ways that each of the uncertainties might play out, and what it would mean for firms and advisors by creating four alternative futures scenarios – four unique narratives for digital financial advice in 2021. These scenarios were developed in August, 2016 and are available in full in the complete report, The Future of Digital Financial Advice.

In 2017, the Digital Advice Working Group reconvened to expand upon the scenario planning work conducted in 2016. The desire was to understand how financial advice has changed, identify the key areas that are still uncertain and understand how to see sooner where the industry might be headed. To that end, the Digital Advice Working

group met in Washington, D.C. on September 25th and 26th, 2017 for a workshop focused on forecasting the future and monitoring for signals of change. The session, designed and facilitated by Heidrick & Struggles, explored recent industry shifts with presentations on the past, present and future of financial advice. Key speakers included Michael Kitces (Pinnacle Advisory), Rob Stanich (IBM), Tobin McDaniel (Schwab Wealth Investment Advisory, Inc.) and Scott Smith (Cerulli Associates). The group also engaged in discussion, debate and a facilitated forecasting exercise to quantify their collective market experience and begin to predict which particular scenario we may be headed toward in the future.

**Forecasting Process and Key Findings**

A year after the working group identified nine key uncertainties for the future of digital financial advice, they leveraged their collective knowledge and experience to re-visit these issues and evaluate whether they truly remain uncertain. For each uncertainty, the working group posited two potential extremes for how that issue might unfold (e.g. for cybersecurity, consumers could remain unfazed by cybersecurity risks or significant cybersecurity concerns could negatively impact consumer behavior across the industry). Heidrick & Struggles facilitated a debate of the working group in which arguments were made in support of each extreme outcome. This allowed participants to fully immerse themselves in what could be before stepping back to ask what will likely be the state of each issue in 2021. A simple forecasting exercise was then conducted to tap the collective knowledge and perspectives of the working group. Participants voted on what they believed to be the most likely outcome for each key issue by 2021, while also self-reporting their level of confidence in that prediction and their level of expertise in each particular area.

After an analysis of the working group’s predictions, confidence levels and expertise, it was found that five of the nine issues the group considered to be the industry’s greatest uncertainties in 2016, in fact had much greater clarity one year later. Collectively, the group believes that by 2021:

1) **Consumer Comfort with a Digital Financial Advisory Experience** will be much higher than it is today.

2) **Profit Margins in Investment Management** will decrease, although the extent of margin erosion is unclear.

3) **Greater Transparency in the Industry** will lead to a modest increase in consumer awareness and drive demand for greater value at lower costs.

4) **A Fiduciary Standard** will be applied equally to both human-led and digital advisory platforms.
5) **The Market for Financial Advice** will expand in the Mass Market segment.

Still, four key issues remain uncertain:

1) **Consumer Financial Services Demand**: Members of the working group were split almost evenly as to whether consumer demand will press for more holistic, integrated advice or allow for a fragmented approach across multiple financial disciplines.

2) **Wealth transfer to Gen X/Millennials**: While the working group did not feel a significant transfer of wealth would occur in the coming four years, participants were split as to the degree of wealth (and thus influence as consumers of financial advice) that this generation would amass.

3) **Capabilities of Digital Advice Platforms**: The working group did not believe digital advice platforms would continue to remain focused on investment management in 2021, but were near evenly split on the degree of growth to expect. Will digital platforms see explosive growth in capabilities across financial disciplines (e.g. by expanding into tax optimization, estate planning, insurance and risk management) or will that expansion of capabilities be more tempered?

4) **Cybersecurity**: Participants were confident that cyber security attacks would continue to occur in the financial sector between now and 2021, but remained uncertain of the likely consumer response. Will cyber attacks and data breaches stoke consumer fears and decrease their willingness to use digital advice platforms, or will consumers grow numb to the ever-increasing number of cyber incidents and generally remain unfazed?

**Monitoring**

Given the uncertainty that remains in digital financial advice, depending on the direction in which these key issues unfold, firms could find themselves in vastly different worlds in 2021 – with vastly different capabilities required to be successful. It is therefore incumbent upon advisors and leaders in the industry to understand the multiple paths the future could take and how it would impact their clients and their businesses. In an effort to help firms better navigate this complexity, the Digital Advice Working Group identified potential “weak signals” of change that – if firms can spot quickly – could help them to piece together the evidence and see the emergence of a particular path forward for financial advice.

To aid financial advisory firms in their own monitoring efforts, the CFP Board Center for Financial Planning, in partnership with Heidrick & Struggles, has developed a Monitoring Roadmap to help prioritize, track and interpret weak signals of change.
coming to financial advice. This visual outlines the critical signals that may be observed in the market through 2021, which will drive the evolution of one of the four scenarios. We would encourage you to print out a copy of the roadmap, and as you see evidence that either directly supports (or appears similar to) one of the signals, shade in or check off bubble next to it. Encourage team members to print out any relevant articles or data they come across and pin it up below the scenario it supports. Over time, the collection of shaded-in signals and pinned-up data can help to illuminate a tipping point in which the critical mass of evidence is pointing toward one or more versions of the future. If your firm has a plan in place to succeed within each future scenario, a roadmap can help you to know when to pivot sooner and deploy those resources and investments that will prepare you for 2021.

In addition to using a monitoring roadmap, many firms are beginning to deploy a disciplined process for monitoring uncertainty and staying ahead of their VUCA environment. Often this entails an ongoing, concerted effort from an interdisciplinary team; individuals that come together to discuss market changes, piece together data and dynamically adjust and communicate the firm’s viewpoint (and strategy) for the future based on real-time learnings. These individuals track market signals (e.g. from customer feedback, regulatory changes, competitive actions) observed in the course of their daily work and periodically convene to interpret those signals and discern what they mean for the future of the industry. Environmental Monitoring, as we call it, is an excellent way to track market developments with speed and agility, and enable your organization to see the future sooner than your competitors.

To kick-off your own monitoring efforts, consider chartering a “monitoring team” at your organization to:

- Identify signals of change that your organization might observe, and put people and data sources behind those signals so you can see them sooner.
- Use the monitoring roadmap or build your own to interpret disparate signals and data points as they occur.
- For those uncertainties that are quantifiable, create a baseline or index for where they are today. As you monitor those metrics, interpret future increases or decreases in light of what it means for the most-likely future scenario for digital advice.
- Set aside additional time to monitor non-traditional data sources that are not typically a part of your day-to-day work (e.g. social media, blog posts) but that might reveal useful data that could inform strategic decisions.
• Think creatively about potential Black Swans (low likelihood events that would be highly impactful) in your marketplace and identify the potential “weak signals” that may precede those events.
• Share learnings, data sources and relevant takeaways with team members via email as high-impact signals are uncovered.
• Create a semi-annual Monitoring Report to regularly communicate important signals in the environment and distil the strategic implications for leaders and decision-makers in your firm.

Conclusion

As we look for those robust actions that will bring success across a range of possible future scenarios, the Future of Digital Financial Advice report emphasizes the need for firms and advisors to invest in digital and to build the capability to scale their offerings. As the financial advisory industry enters what has been called a “third wave of the robo-revolution,” wirehouses, brokerage firms and banks are likely to drive digital advisory assets to an all-time high. In this transition, firms can benefit from preparing human advisors for a digital world through training and upskilling to take full advantage of the technology and tools that are becoming available. Through the foreseeable future of digital advice, there will continue to be areas in which the human advisor excels. Digital platforms are not likely to surpass humans in their ability to build relationships, trust, upsell services to customers, or create client-tailored solutions for highly unique situations. The advent of digital financial advice is certainly expanding the competitive landscape, but it is also expanding the overall market for financial advice and the opportunity for those positioned to take advantage of it. By doubling-down on those areas where humans excel—sharpening soft skills, building deeper relationships, and expanding client networks—firms and advisors can increase their readiness to profit from this tech-enabled third wave.