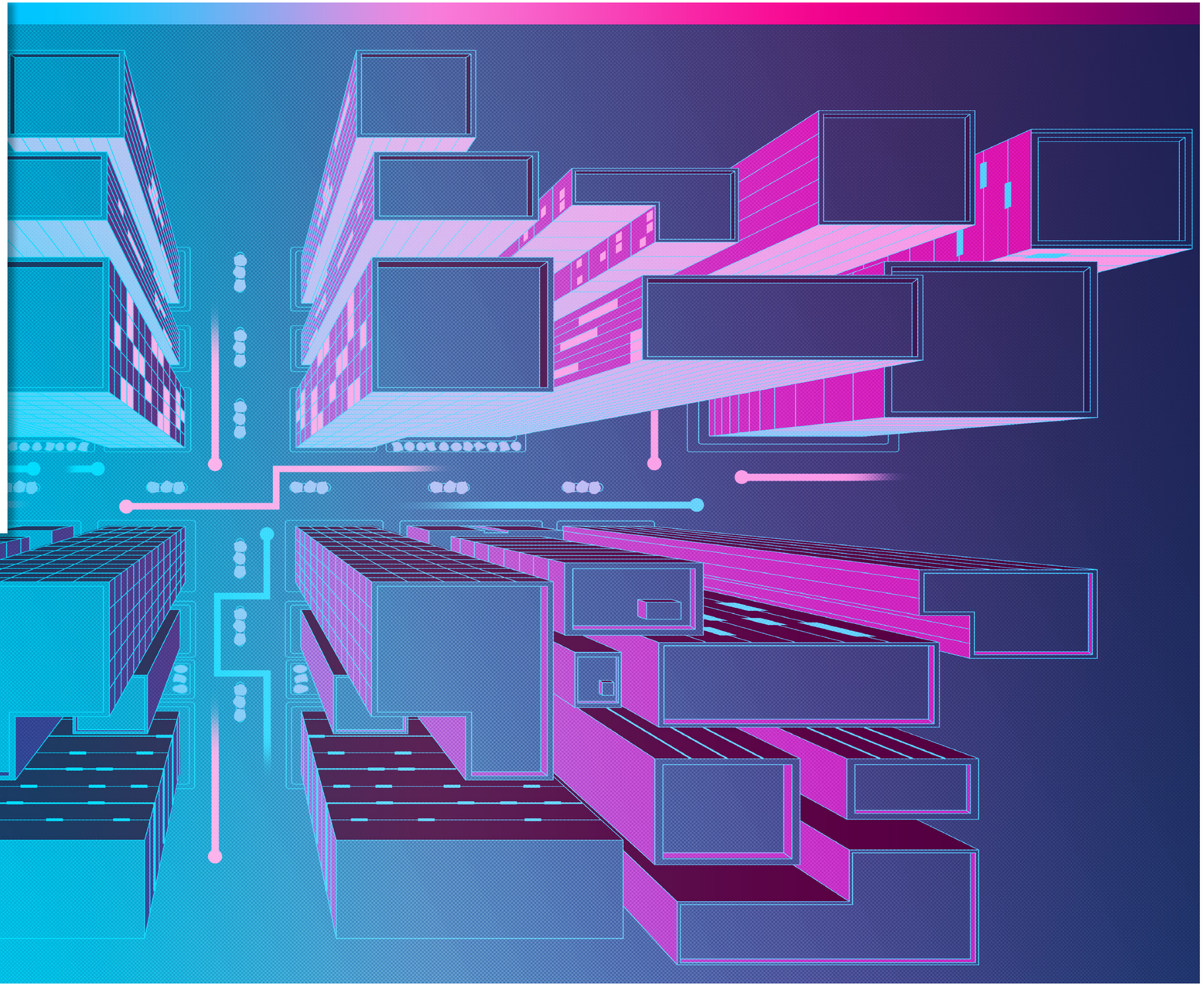
adviser Innovation

netwealth

American AdviceTech

Digital disruption, innovation and what Australian financial advisers can learn from the Netwealth US Study Tour 2018



Netwealth US Study Tour 2018

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Message from Netwealth

At Netwealth, we are very committed to delivering insights to the adviser community. Those insights include our own thoughts relating to consumer and industry trends in Australia but we are also focused on what is happening overseas, particularly in the US. The American market is very progressive in many ways, in terms of financial advice and technology use especially.

Eighteen months ago we spent time in San Francisco, which is a hotbed of innovation where many tech start-ups are born every day. The decision to go to New York this time around was really aimed at investigating how Wall Street is battling these insurgents. What we've found is that the city has fought back by developing its own innovation hub – which they call 'Silicon Alley' rather than 'Silicon Valley'.

For the incumbent firms they have gone through a thought process of deciding whether they want to buy the insurgents, partner with them or attempt to go it alone.

Different organisations have taken very different approaches to this, as you will see in the pages of this report. The report also identifies the incredible progress made on the innovation front over a small period of time.

On our 2017 US tour, there was a lot of talk around emerging technologies such as artificial intelligence and blockchain. The reality just 12 months later is very different. A strategy to make sense of these innovations has moved from being 'nice to have' to being almost essential, particularly in AI and machine learning.

Interestingly, the focus from financial advice innovators in using these technologies has been not just to create back-office efficiencies but, more importantly, to create personalised and meaningful experiences for clients based on rich data and using a range of different sources. The leading businesses we met with were ultimately about putting the client at the centre, and their approach to working with technology providers is to enhance the value of the client relationship.

Netwealth customers and the broader advice market is also focused on this priority of client engagement and experience. We hope that the findings of this report help them with this important work.

Matt Heine
joint managing director, Netwealth

Message from Adviser Innovation

In a climate of 'shock and Orr' emanating from the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, Adviser Innovation is proud to partner with Netwealth on an initiative focused on the positive long-term. But while the conclusions contained in this report are in some ways a world away from headlines and scandal of the royal commission, they are entirely relevant at the same time.

We believe investment in customer-centric technology, business models and service delivery methods can be one of those tools. Innovation can be a process by which advisers more firmly place the customer and their experience at the very centre of your business.

The story of American financial services is also relevant to that process. Whereas Australians, with our tall poppy syndrome and convict cultural roots, are quite naturally sceptical of business, Americans have tended to embrace the market dynamism that led it to become the world's economic superpower.

To some extent all that changed precisely one decade ago, as some of the largest and most trusted Wall Street players came crashing down, were accused of misconduct and ultimately bailed out by the federal government with taxpayer money. Australia is currently undergoing its own 'too big to fail' moment.

Politicians on both sides of the aisle are talking tough in the wake of royal commission evidence, with new criminal penalties introduced and no doubt talk of new regulations forthcoming. A new wave of rules and regulations may make innovation more challenging. But, notwithstanding the challenges and new red tape that may be coming, a culture of client-centric innovation will put the industry in good stead.

More than ever before, advisers need to ask themselves how they can conduct business differently and embrace new ideas. The Australian consumer is savvier, more demanding and more sceptical than ever before.

The example of the United States and findings of this report will help us work out how to engage, connect and drive value for clients well into the future, when the royal commission is nothing more than a bad and distant memory.

Aleks Vickovich
managing editor, Adviser Innovation

2018 Netwealth US Study Tour

Introduction

A query on Google Trends shows that the search terms 'fintech' and 'robo-advice' were not frequently used until early 2015, when suddenly interest spiked and the words were splattered across any media headline that described the demise of the financial adviser role.

But a lot has changed since these doomsday predictions. The industry has learned that not only are financial advisers here to stay, but they are getting better than ever at their jobs.

There is no better example of this narrative than on Wall Street, which for years had sought to fight back against the disruptive technology companies emerging out of Silicon Valley.

With dozens of low-cost robo advice tools at the ready, pushing the cost of financial advice downward, US wealth management firms have sought and found new ways to justify their fees. The end result? A sustainable business model and a heightened standard of advice.

Today, the New York wealth management scene is strongly leveraging digital platforms, artificial intelligence and machine learning to deliver better and more personalised services to clients.

Companies are also learning how to harness the power of big data while staying clear of invading privacy.

$15.7tn

A PwC report estimates that AI will contribute $15.7 trillion to the global economy by 2030

Source: PwC Global Artificial Intelligence Study: Exploiting the AI Revolution

Moreover, the investment landscape has embarked on a new responsible investing era as more advisers start to pave their way towards becoming true wealth managers.

These very themes are what more than 60 delegates on the 2018 Netwealth US Study Tour explored this May.

As part of the four-day tour, which included sessions at the New York Stock Exchange, the Westfield World Trade Center and Rockefeller Center, delegates witnessed first-hand the evolution taking place in the US advice industry, and learned what it will all mean for the Australian market.

Artificial intelligence and technology

The next electricity

Artificial intelligence is everywhere. It is what brought us voice-powered personal assistants like Siri or Alexa and facial recognition on Facebook. The fact is, AI is becoming a bigger part of our everyday lives, whether we realise it or not. But the implications that AI will have on society and financial advisers will depend heavily on how fast the technology evolves.

According to Capital Group economist Jared Franz, who presented to delegates on the first day of the Netwealth US Study Tour, the start of AI actually began in the 1950s when the US attempted to translate Russian texts into English during the Cold War.

This proved to be too difficult to achieve, given the differences in inflection and idioms between the two languages. Today, however, automated and accurate translation services are abundant.

Moore's law states that the processing power of a computer doubles every two years

Jared Franz

This just shows how far AI has come over the years. It has now reached the same intelligence level as a human, Mr Franz said. And considering Moore's law – which states that the processing power of a computer doubles every two years – there is speculation that AI will surpass human intelligence in the next couple of years.

Take the iPad 2 as an example, which in 2010 had a processing power that cost $100. In the 1950s, that processing power would have cost $1 trillion. To put that into perspective, the US economy was worth $2 trillion in the 1950s, Mr Franz said.

This exponential growth of AI is not expected to slow down anytime soon, thanks to the large amount of data available today that is feeding and growing these machines. Mr Franz said we're producing more data today than we ever did in history.

"We're basically printing so much data, and this is not just numerical data like numbers. We're talking about text data, visual data, video data," he said. "The algorithms, now that we have all the data, are getting much more sophisticated."

So, the future holds bigger and better machines. But what will this mean for society and, in particular, for financial advisers? In the first instance, society can expect to lose scores of jobs,

Artificial intelligence and technology

specifically those with routine, high-frequency tasks, Mr Franz said. For example, a teacher might grade 10,000 essays over a four-year career, but there are already machines that can read millions of essays within minutes and produce the same outcome.

"The reason is what machine learning is good at is finding patterns. It will find a patter faster than you will, almost by definition. It is also good at making predictions based on those patterns," he said. "But it needs data to do this."

Data is the key word, because it is the engine that drives these technologies. Without it, AI machines are useless. This is why the types of jobs to survive an AI takeover would be those with non-routine tasks, since an AI cannot handle situations it has not seen many times before. But humans can. We have ability to solve problems we have never seen before. Many believe that as AI begins to automate jobs with high frequency tasks, more people will then slowly move into better, less-routine roles. This predicted outcome, however, is up for debate as it will depend heavily on how fast AI moves in the coming years, Mr Franz said.

The iPad 2 had a processing power that cost $100 in 2010. In the 1950s, that processing power would have cost $1 trillion. To put that into perspective, the US economy was worth $2 trillion in the 1950s

Jared Franz

The reason why society was able to overcome disruption in the past – such as during the Industrial Revolution – is because the transformational era spanned over many years. In other words, what was achieved in 150 years might now be achieved in 10 to 15 years, Mr Franz said. Such a fast pace could result in inequality in the labour market.

"You could be disrupting workers that are middle class. Inequality could be structurally elevated," he said.

"The economist in me says, 'Of course. If you get disrupted, you will re-train and get a better job'. But history shows only a few people retrain … If we don't start paying attention to it, it will have deep social implications."

Still, Mr Franz is optimistic about what the future holds, partly because a too-fast take-up of AI machines is not very likely. It turns out AI is more difficult to implement than most imagine.

"The application of AI is hard. You can automate one task really well, then you get excited and you want to automate everything," he said. "But it turns out the data isn't always there. They're going task by task by task. The speed is not as fast."

With its steady pace and unimaginable possibilities, AI is sure to make us better humans as it will lead to more personalisation, customisation and interaction with consumers.

"I think AI is going to make us better humans generally," Mr Franz said. "It's going to allow us to do things that we really want to do."

Artificial intelligence and technology

Impact on financial advice

When it comes to wealth management, artificial intelligence has already made its debut. Tools like Pefin, which claims to be the world's first AI financial adviser, are here to replicate human knowledge and decision-making to deliver personalised advice services to clients.

Pefin does so with the power of artificial neural networks, which are computing systems that have been inspired by the biological neural networks that exist in the human brain. These systems "learn" from large amounts of data to make decisions .

Pefin founder Ramya Joseph, who presented a live demo for delegates on the study tour, said the AI adviser helps clients set out such goals as having children or buying a house. It then creates a financial plan for achieving those goals, which may include starting a savings account, investing or paying down debt.

Pefin was designed to be personalised and fiduciary, which means regardless of the client's age, gender, income, wealth or race, its advice is unbiased and in the client's best interests. It claims to handle with ease all of life's small details that a human adviser cannot manage.

Still, Pefin cannot do everything, which is why Ms Joseph does not believe artificial intelligence will one day entirely replace human financial advisers. In fact, she predicts AI tools will strengthen the relationship between human advisers and their clients.

16th

Australia's rank by country* for Googling the term 'fintech' (*>5m in population)

Source: trends.google.com as at 24/05/2018

"A lot of our Pefin users have financial advisers. From a user's perspective, having a tool like Pefin enables them to have a much deeper conversation with their financial advisers," she said.

"Pefin is an independent viewpoint that you can take to your adviser. Your adviser might then say, 'That's actually not wrong, but here's a better idea'."

Ms Joseph also predicts that AI will enable financial advisers to focus more on value-add services that cannot be done digitally.

She said, "I don't see an adviser being replaced any more than any other industry that has been subject to automation or subject to AI. But I do see consolidation and I do see a higher standard of advice."

Artificial intelligence and technology

While we can expect more direct-to-consumer machines like Pefin to emerge, others believe there is still a big opportunity for financial advisers to be the expert users of AI tools. At least that is what the creators of IBM Watson believe, who actually define AI as augmented or assisted intelligence, rather than artificial.

Two speakers from IBM Watson – Catrina Boisson, global marketing and customer experience specialist, and Robert Stanich, global banking and financial markets offering manager – walked the study tour delegates through what Watson can do for advisers.

On a basic level, Watson uses AI to help businesses like wealth management firms grow. Among its various products and services, the tool offers to build and train AI models on financial advisers' data to deliver better client insight. For example, Watson can analyse a client's behaviour and determine, with a level of probability, if he or she is about to experience a major life event, such as a divorce.

"We're able predict up to six months in advance when a customer is going to leave you," Mr Stanich said. "That gives you an opportunity to intervene and attempt to preserve those assets."

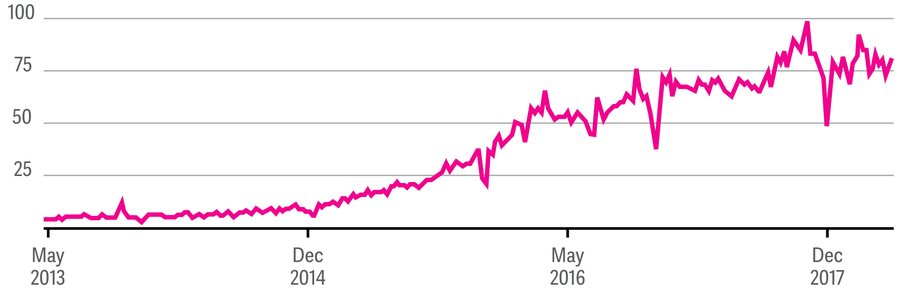
Ms Boisson said that while no one can question the power of human-to-human interaction, the reality is that this is not scalable. Financial advisers looking to grow their businesses require automation. The good news, she said, is that this is also what clients are starting to prefer. Ms Boisson pointed to an example of a person turning to both WebMD and a physician.

"That is exactly what our clients want. They want that same WebMD plus surgeon relationship when they're talking about managing their finances," she said. "They want the combination of high-tech and high-touch."

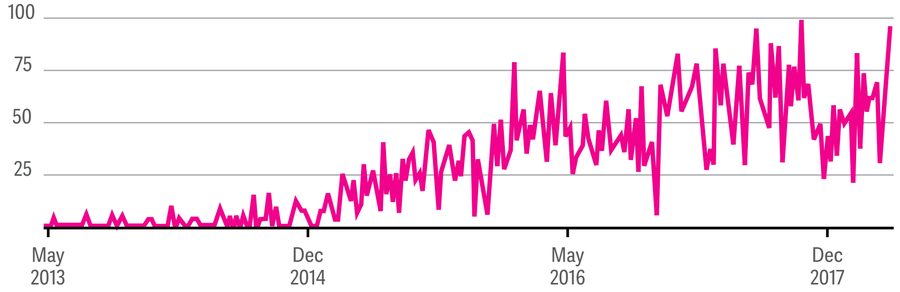
Fintech: interest over time

Numbers represent search interest relative to the highest point on the chart for a given time across the globe and Australia. A value of 100 is the peak popularity for the term. A value of 50 means that the term is half as popular. A score of 0 means there was not enough data for this term.

Global interest of the term 'fintech'



National interest of the term 'fintech'



Source: trends.google.com as at 24/05/2018

Big data

Mounting pressure

The world is currently shifting to become a data-driven economy, where businesses are able to draw on varying types of data from multiple sources to power new technologies, shape products, improve client experiences and provide advisers themselves with deeper insights into their clients' beliefs, attitudes and behaviours.

Financial institutions face mounting pressure to better use data in their businesses, which Neil Bartlett, head of enterprise information management at the Royal Bank of Canada, explained is being driven more so by clients than internal forces.

Clients have become accustomed to the service offerings of tech giants such as Amazon and Google, both of which proactively engage with data on an immense scale.

Mr Bartlett noted that Amazon makes over 160,000 changes to its software algorithms on a daily basis, while Google conducts an average of 43 experiments on users each time they make a search request.

The sheer scale of client information gives these companies a massive competitive edge, enabling them to target their products, services and ads far more accurately than other companies at any point in history.

It's a trend that is unfolding in the e-commerce space more broadly, too. Franklin Templeton portfolio manager Donald Huber explained that online retailers are now able to collect data not just on what clients purchase, but on what they do not buy as well. Websites can track how long is spent viewing individual items, which items a potential buyer's mouse hovers over and how long it sits there. All of this can be used to identify other potential purchases and place them in front of the would-be consumer.

160,000+

The number of changes Amazon makes to its software algorithms on a daily basis

Neil Bartlett

Shifting age demographics and higher penetration of internet access worldwide are also pouring fuel on this fire, making online retailers more popular than brick-and-mortar stores.

It's not just international tech companies and online retailers that can make use of large-scale data collection

Big data

though, and advisers should be looking at how they can incorporate data into their service offerings as well.

The two speakers from IBM Watson, Ms Boisson and Mr Stanich, also explained to study tour delegates some of the ways financial advisers can collect and use data.

Perhaps most interestingly was the fact that AI programs such as IBM Watson have reached a stage where it doesn't matter what format the collected data is in for it to be successfully processed.

Ms Boisson and Mr Stanich explained that Watson can even analyse a client's social media accounts to give advisers an idea of the type of client they are, and the type of financial strategy they should be using to reach their goals.

The IBM team was quick to add that in some countries, such as France, collection of data in this manner is completely illegal, and advisers will need to keep both the legal and ethical implications of data collection in consideration.

Blurred lines

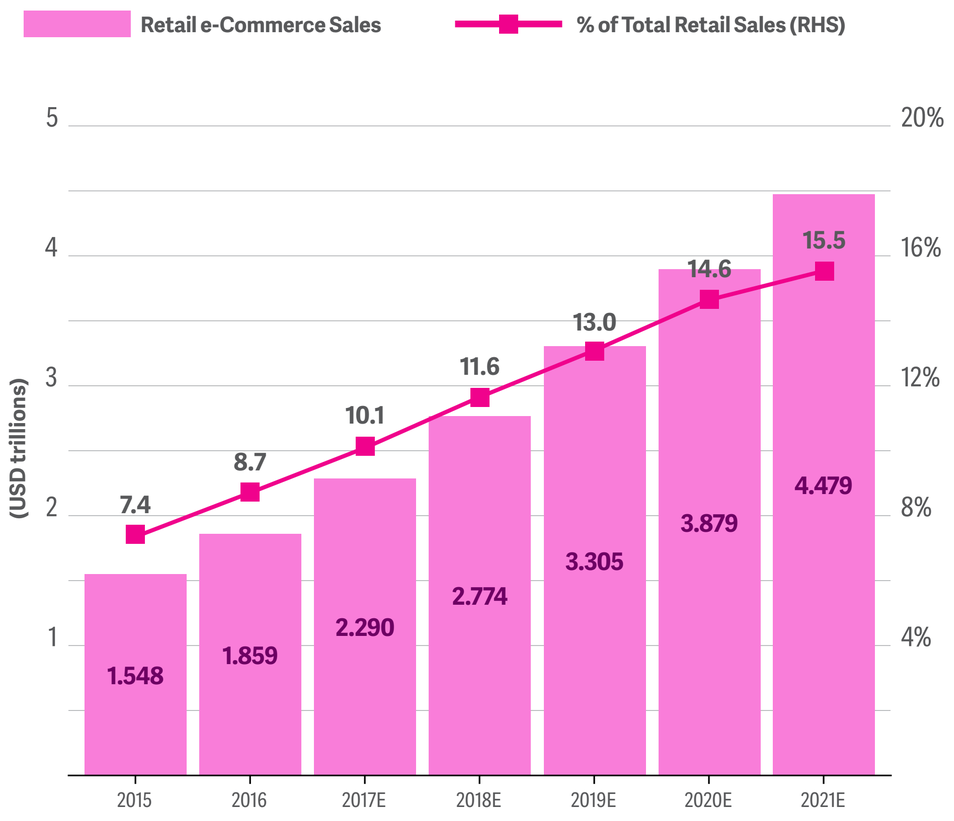
Additionally, Mr Bartlett spoke of a third consideration beyond the legal and ethical that advisers will have to factor in: is your use of client data creepy, or cool?

Mr Bartlett explained to delegates that the insights offered by thorough data collection and analysis might position businesses well to offer tailored solutions but can also go beyond offering something bespoke or personalised to becoming downright invasive. And clients don't respond well to invasiveness.

Advisers will need to balance their use of data so as to make it

e-Commerce is growing rapidly

Global retail e-Commerce sales



Source: CrispIdea Global E-Commerce Industry - 2017

Big data

targeted, useful and 'cool' without veering into 'creepy' territory, where clients feel they are being spied on or manipulated.

There are rewards for 'cool' data users too, Mr Bartlett adds, as clients who feel comfortable with the way their data is being used are likely to share more data in the hopes of getting even better services and products.

Aggregating existing client data (something Netwealth users can do through their existing technology) within an advice practice also has its benefits. This was touched on by a number of the speakers, notably Colony Wealth adviser Jeff Went.

Mr Went endeavours to service whole families in his practice and told delegates that aggregating data from particular families presents him with a more thorough view of each individual client by giving him additional information about their habits and circumstances.

It provides more context for the decisions being made by each individual family member.

Jason Gladowsky, principal and investment adviser with Gladowsky Group, agrees with this sentiment, and took the conversation further by outlining cases where he has had clients die and their spouses have been completely unaware of their own financial situation as it was the deceased who managed their finances. In this situation, an adviser making use of aggregated data would be able to make more informed decisions about how to proceed with the client's advice.

However, while data has immense potential to drive financial advice's future, not enough businesses are investing in their data analytics processes as much as they should be – this was the warning that Boston Consulting Group senior partner and managing director Brent Beardsley gave to delegates.

43

The number of experiments, on average, that Google conducts on users each time they make a search request

Neil Bartlett

Mr Beardsley said data analytics should be considered a core strategic asset, but many businesses do not yet view it this way. Subsequently, these businesses aren't doing enough to advance their data analytics or effectively implement them within their practice.

"A lot of the analytics techniques are far off pace with the availability of data that's out there," he added.

To further complicate the matter, Mr Beardsley noted that in many cases "big data is often small data", and data that often has a lot of problems. Without appropriate investment into proper data collection and analytics, advisers won't be able to realise their data's full potential.

Investment innovation

An unusual landscape

A key discussion to emerge from the first day of the conference centred on investment trends currently shaping the market. This discussion was not just confined to the patterns of investment that advisers and businesses are seeing in the market, but also how advisers should be positioning themselves in relation to them to satisfy client demand and prepare themselves for changing consumer tastes.

The general consensus among speakers and delegates alike was that investment markets worldwide currently look markedly dissimilar to how they've appeared in the past. Evidence of this was supplied by Zenith Investment Partners joint founder David Wright, who explained that allocations to Australian equities is split evenly with global equities within portfolios and multi-asset funds – something that has previously never been the case.

$1.3bn

The size of the LIC raise for L1 Long Short Fund Limited

David Wright

Mr Wright added that this isn't being driven by Australian investors' home bias alone, but rather it's the symptom of multiple complex market pressures and a shifting investment landscape. One of the drivers for this unusual investment landscape is, unsurprisingly, the changing shape of the industry, something with which Australian advisers will be very familiar.

The advice industry is currently in a "fragmentation stage". Essentially, advisers and their practices are breaking (or 'fragmenting') away from the larger financial services institutions, and this shift away from the bigger players is in turn pushing demand for different investment opportunities, notably alternative strategies, capacity constrained products, and new or boutique fund managers.

Mr Wright also pointed out that LIC raisings have been something of a "hot market" recently with managers, which has presented a challenge in that it chews up those managers' capacity.

The $1.3 billion L1 LIC raise was an example of this, Mr Wright said, noting that the company opted to return $400 million of institutional money in order to free up some more capacity.

"You can't really blame the managers for raising the money because it's captured FUM, and so if people want their money back they have to sell it on markets, it's not like they're redeeming units, and it's at retail rates, so it's a hot market," he said.

First State Investments managing director for the Americas Heather Brilliant also

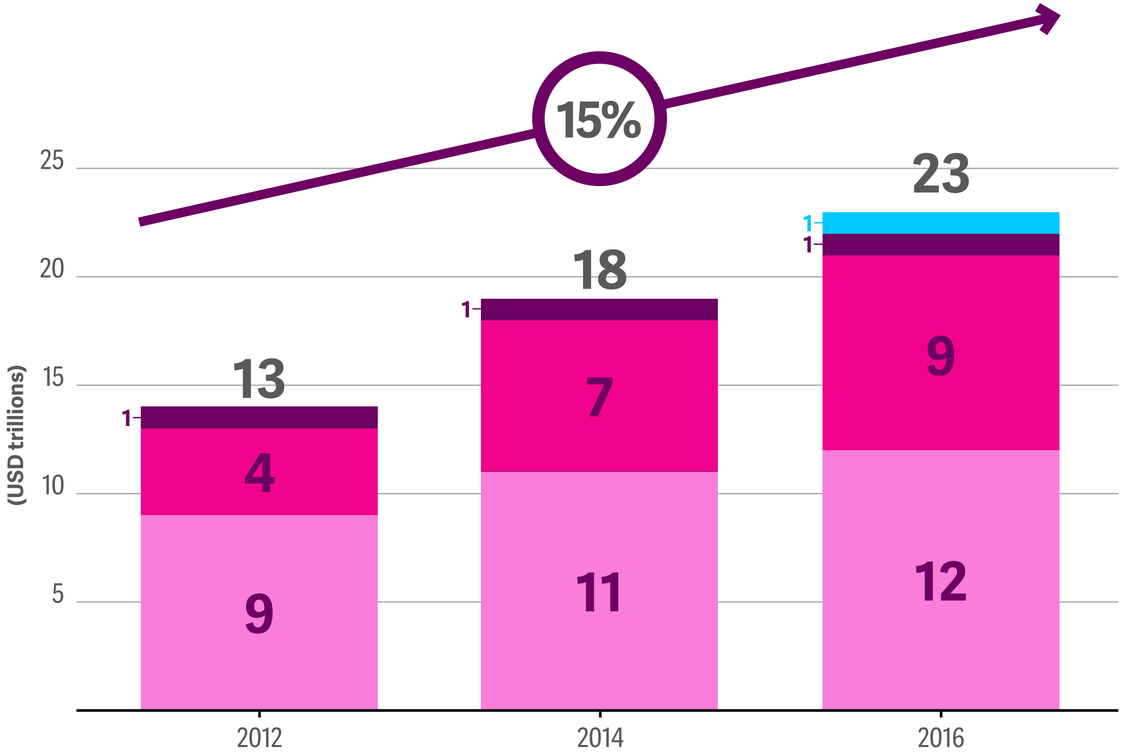
Investment innovation

touched on the rising popularity of alternative investments, but took the conversation further, providing two additional demand drivers for alternatives. The first of these is simply the prevailing market conditions – investors are looking to generate yield given the market's present climate, and alternative strategies are providing this opportunity.

The second driver proposed by Ms Brilliant is slightly more complex. While she hasn't seen any recent research to indicate she's right, Ms Brilliant suspects from what she has seen in the market that other asset classes are becoming increasingly correlated with one another – a concept with which many delegates seemed to agree. This too would fuel interest in alternative assets, and may explain why interest in them has grown in recent years.

SI assets are growing across geographies

Sustainable investing assets (USD trillions)



Source: US SIF 2016 Report on Sustainable and Responsible Investing. Global Sustainable Investment Alliance, 2012, 2014 and 2016 Global Sustainable Investment Review

The compound annual growth rate as a percentage (CAGR%)

Australia
Not applicable

Canada
17%

United States
24%

Europe
8%

Investment innovation

Taking responsibility

Another key theme is the rise of environmental, social and governance (ESG) investing. In the same panel discussion that David Wright made his comments about changing investment allocations, Suni Harford, UBS head of investments, explained in no uncertain terms that ESG concepts will shape all investment decisions in the future, and gave a sombre warning for advisers who do not believe in the value of ESG considerations.

"It does not matter if you believe in social responsibility measures, what matters is whether your market does – and they do," she said.

Business executives who take unpopular stances on social issues like gay marriage or global warming are routinely met with aggressive grassroots campaigns and members of the public choosing to express their discontent through their wallets, and the same is true with investment products.

66%

of high-net-worth investors say they are likely to leave firms that do not allow them to transact digitally

Source: Robert Stanich and Catrina Boisson

The motivation for adhering to ESG considerations when investing is not just rooted in a fear of client rejection, though. According to Ms Harford, sustainable businesses routinely outperform and outcompete their peers as investment options.

Ms Harford used eco-friendly housing as a case study to elaborate on this concept. A property that is designed to be as green as possible will attract a certain type of tenant – people who are interested and invested in their surroundings. Someone who is concerned about what impact their living arrangements will have on the ecosystem is likely to be proactive in looking after the property in which they're living.

Similar stories exist within other ESG investments, Ms Harford said, and ultimately suggest that sustainability factors can be taken as indicators of operating activity and competitive positioning.

"It's just smart investing," she offers as a summary.

This reflects points made earlier on the day by First State Investments' Ms Brilliant, who said sustainability should be seen as being directly related to future profits – after all, investors don't want to be holding Exxon Mobil stock the next time they spring a leak.

The implications of this are enormous, if Ms Harford is right, as it means that ESG factors will be included in every portfolio in the future, and advisers should be getting on board with that idea now to ensure they're leaders, and not stragglers, on this front.

Client engagement and practice management

Lessons from a content king

The times are changing. Companies used to make desperate efforts to get quoted or booked in the mainstream media. Today, it is the media that is knocking on the door of those companies with an established and fully-engaged audience.

This is how Joshua Brown, a widely-read markets commentator and editor of the financial blog *The Reformed Broker*, said he was able to grow his financial advice firm Ritholtz Wealth Management with approximately zero dollars spent on marketing or acquisitions. Speaking to delegates at the study tour, Mr Brown said creating authentic and engaging content enabled him to not only establish a loyal fan base, but also attract and retain financial advice clients.

He believes other financial advisers should be able to achieve the same.

"There is an opportunity for people like us who have a voice, who are authentic, who are in the industry, who have something to say and who are not stage-managed by publicists or PR firms," Mr Brown said. "My people have zero media training. We have no PR firms, no communications consultants, no legacy image we're trying to cling to. We say what we think and the readers appreciate it. They know it's authentic and it results in subscribers, followers, mainstream media attention and then, by extension, in a very indirect way, new clients."

One of the reasons why Mr Brown believes content is the best way to attract clients is because of what it sells: belief. When an adviser stands for something, that resonates with clients. It demonstrates to them that the adviser has done his or her research to arrive at such beliefs. This confidence is what a client is going to hold onto during turbulent times, he said.

"There is an opportunity for people like us who have a voice, who are authentic, who are in the industry, who have something to say and who are not stage-managed by publicists or PR firms"

Joshua Brown

The reality is there is no secret formula to outperforming the index all of the time. Clients need to feel confident that their adviser's long-term strategy is going to work.

"A worst-case scenario is an adviser hopping from one foot to the next, changing around their strategy to keep up with whatever is happening today," Mr Brown said.

Client engagement and practice management

"The best scenario is that you do a great job at explaining why your strategy is going to work over a span of years and decades and you engage in constant communication to reinforce that belief."

This belief factor has also resulted in "better-behaved" clients. Mr Brown said he receives very few phone calls during market volatility because his clients know he will release content that relates to a particular situation, therefore easing any anxiety. Moreover, if an adviser is not releasing content, their client is more likely to stumble upon a doomsday prediction.

But not just any content will do. Mr Brown urges advisers against hiring ghostwriters or other people from outside the industry, as this limits authenticity.

"The people you have producing content should be from within the industry. It should not be a 22-year-old you hired out of college," he said. "It's got to be authentic. "People want to read something from someone that is actually doing the thing."

Still, this does not mean all advisers should be whipping up blog posts. The job should be designated to those who are not always in a client-facing seat. When it comes to the content producing at his firm, Mr Brown said there are three rules to follow: the content must be accurate, it must be compliant with regulation and it must be helpful to investors.

"This isn't just marketing to bring in new clients. Your existing clients are going to be consuming your content. The message has to be consistent with the reality of how you manage their money," Mr Brown said.

"Technology has flattened the advantages that any one advisory firm has over any other advisory firm. The only way to build trust is through wit and having interesting things to say."

"There are 300,000 advisers in the US and based on my research and other research, only about 15 per cent practice true wealth management"

Rick Capozzi

The age of Trump

Given the geographical position of the tour, there was one question that sat front and centre of delegates' minds during investment trend discussions: how will President Donald Trump's tax cuts affect markets?

Ms Harford's take on this was simple: it will be good for retail, but bad for the economy as a whole. She also noted that so far the benefits economists predicted would flow on from President Trump's tax reform efforts haven't lived up to expectation, and his use of executive orders to pass legislation – as opposed to taking his proposals through congress as is normally the case – could mean the Democatic Party, if they win the next election, will repeal the tax changes in the same manner.

Fellow panellist Anthony Hadley, a senior associate with AMP Capital's infrastructure team in New York, added that as with anything there will be winners and losers, and advisers will just need to be mindful of this when making their recommendations.

Client engagement and practice management

The power of client experience

Engaging clients has become more important than ever. Digital disruption like robo-advice has made it more difficult for financial advisers to justify their fees, forcing them to focus on other parts of their businesses to attract and hold onto clients. This is why United Capital chief executive Joe Duran made the decision years ago to rewire his financial advice firm and start offering "financial life management". Because, for Mr Duran, financial advice is about more than just money.

"I like to think of guidance and advice as the point at which money and life intersect. It's the part where they need you the most and where technology is absolutely useless," he said. "Money is nothing more than fuel. It's basically gas, and yet almost every adviser only talks about the money. The job of the adviser is to optimise how money is used to help people live the best life they can."

One of the biggest disruptors for US financial advisers has been Vanguard, which is now considered the "Amazon of the industry" after having launched a super successful wealth management solution that combines both human and robo-advisers, Mr Duran said.

The solution has taken out of the picture what has long been considered a competitive advantage for financial advisers: being located close to clients. Tools like Vanguard's make geography and time obsolete, with clients receiving services via their mobile phones.

50%

of customers would prefer a hybrid of online transactions and human interaction

Source: Robert Stanich and Catrina Boisson

Robo-advice platforms are also competing on price. Mr Duran said most advisers are simply not worth the 1 per cent fee they are charging. So, how do advisers defend their pricing? Mr Duran said they must focus on the client experience.

He pointed to Starbucks as an example. How else could Starbucks charge $5 for a 50-cent cup of coffee? They offer a great customer experience. Tech giants such as Google, Netflix and Uber are doing the same by placing the customer at the helm, Mr Duran said.

"They make the consumer the decision-maker. Almost everyone in the advisory business likes to position themselves as the expert. In every other consumer experience, the consumer is making

Client engagement and practice management

the decision. The adviser is providing the information," Mr Duran said. "In other words, rather than doing a plan in the dark, actually bring your client into the design of the plan. Rather than sitting there and telling them how they need to invest, bring them into the process of deciding how they should invest."

The client experience has become such an important part of wealth management that Mr Duran predicts it will soon solely drive financial advisers' revenue.

"One hundred per cent of your future revenue and growth for the next decade will be driven by one thing and one thing only. And that is your client experience," he said. "From the point at which a client says he'd like an adviser to the point at which his portfolio is being implemented, everything that comes in between is called the client experience. If someone can get their money managed for basically free, what else are you adding that would cause you to be worth three to five times the 20 basis points?"

Client voyage

Tailoring advice to changing life stages

EMERGERS

Age: <35

Financial Literacy

'I need help... getting started and expect results!'

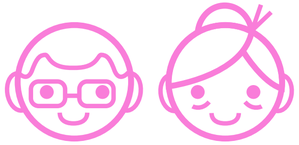
BUILDERS

Age: 35-54

Optimise Life Choices

'I need help... juggling life and making tradeoffs'

SECURERS

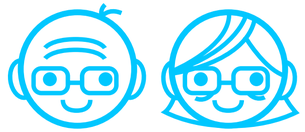


Age: 55-67

Security Maximisation

'I need help... building a big enogh safety net'

PROTECTORS



Age: 68+

Legacy Protection

'I need help... making sure my life and family are OK'

Source: United Capital - Competing in the Age of Digital Disruption

Client engagement and practice management

Back to basics

Good client engagement can only go so far if financial advisers are not also applying good practice management.

For the better part of Rick Capozzi's 35-year-long career, he was on the hunt for the 'holy grail'. The president of consultancy Capozzi Advisory Group said he travelled the world visiting successful wealth management firms and interviewing the best financial advisers to learn the secret to growing assets and revenue on a sustainable basis.

At first, Mr Capozzi thought the holy grail was hiring a bunch of financial advisers with PhDs. But later, he learned it all came back to the basics. The holy grail, as Mr Capozzi told delegates on the study tour, is being brilliant in the fundamentals.

"The reality is that almost 50 per cent of clients still think that we charge too much. You have to double your assets if you want to have a sustainable business model"

Rick Capozzi

"What I discovered is that people from around the world that have this sustainable business model are doing absolutely brilliant at the things that others maybe have a tough time doing, and that I call fundamentals," he said.

The fundamentals are just that: the business basics. This includes hiring the right people and instilling the right culture, no matter the size of the firm. Successful financial advice businesses are also delivering service excellence and boosting efficiency through automation.

Mr Capozzi said there are several challenges facing the industry that are forcing financial advisers to take their businesses to the next level if they want to survive. These challenges include increasing regulation, fee compression and digital disruption, he said.

"The reality is that almost 50 per cent of clients still think that we charge too much. You have to double your assets if you want to have a sustainable business model," he said.

"How do you grow your assets like a machine on a regular basis? Because fee compression is real. None of us will go home and be able to say to our clients that next year, we're going to charge little more."

One of the key ways to grow a business is by hiring 'A' players. Mr Capozzi

Client engagement and practice management

said he made the mistake long ago of valuing loyalty over competency. But once he hired the right people, his company "took off like a rocket", Mr Capozzi said. This also plays a part in attracting new business, since teams are 85 per cent more likely to win a new client than a single person.

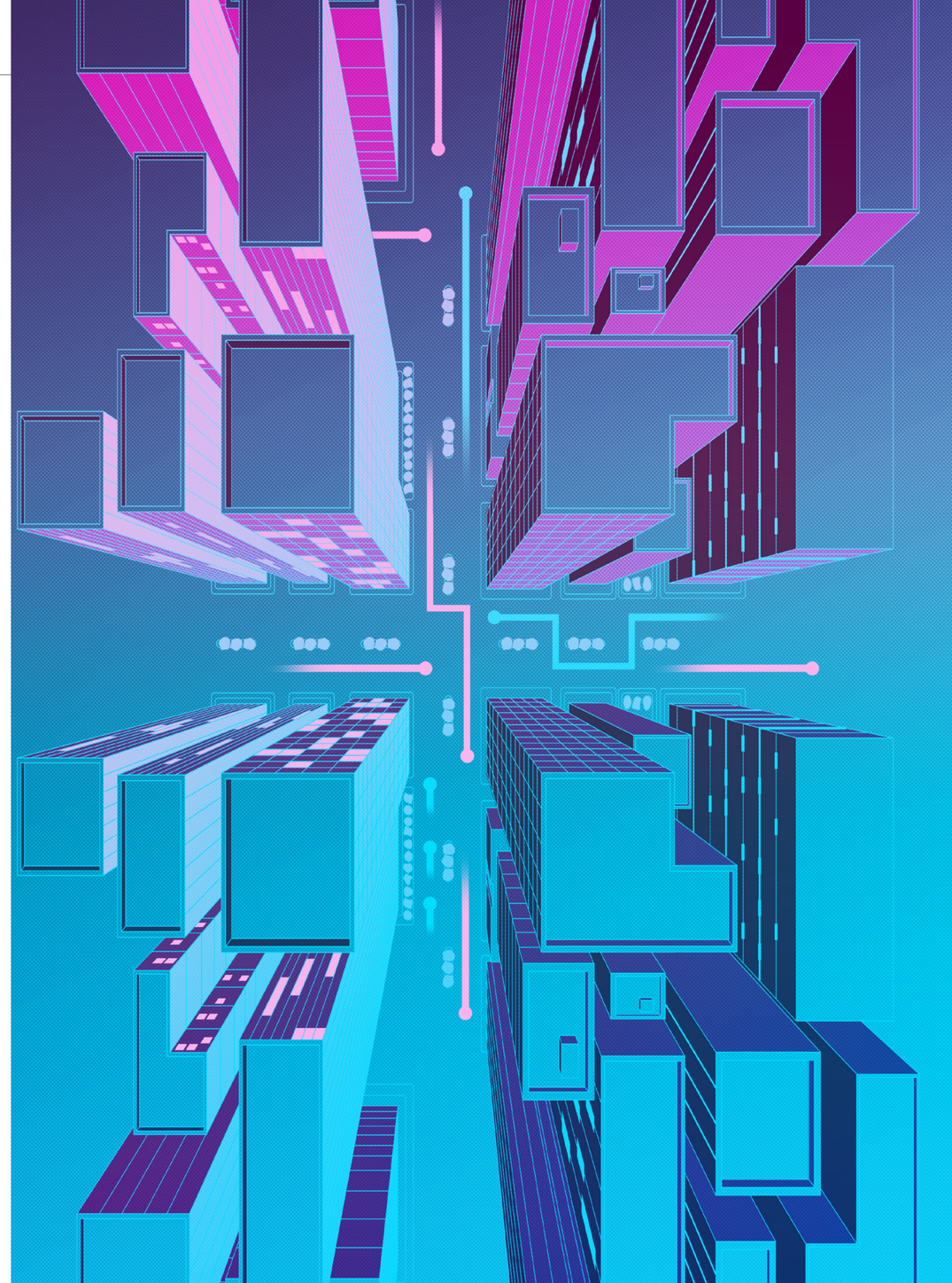
Moreover, culture continues to determine the success of a company. Mr Capozzi said small firms rarely think about culture but it is just as important at all growth stages. Leaders at firms with good culture demonstrate respect and recognise staff members, he said.

Further, financial advice firms must not sway from innovative tools that can boost efficiency. Advisers looking to create big, scalable businesses must focus on automating as much as they can, Mr Capozzi said.

Perhaps most importantly, financial advisers need to separate themselves from financial product vendors in order to justify their fees. This means offering holistic and consultative financial advice that is in the client's best interests, and not just product sales. True wealth management involves three wealth components: growth, preservation and transfer. This, Mr Capozzi said, is where the industry is heading and what clients are preferring.

"Everyone claims to be in the wealth management business, but the reality is that's a myth. There are 300,000 advisers in the US and based on my research and other research, only about 15 per cent practice true wealth management, which is where the growth will be," he said.

"The investment person is losing market share. So, if you want to create a true sustainable business model, you have to position yourself as a true wealth manager."

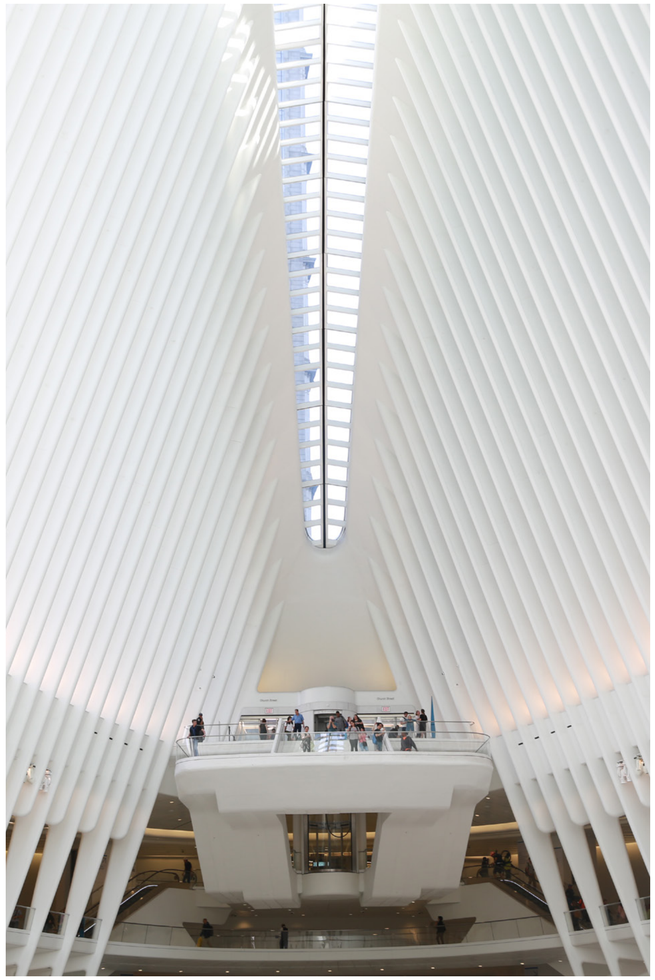


Out and about

In the Frame

Snapshot of delegates exchanging ideas on the Netwealth US Study Tour 2018

Out and about



Out and about

Out and about

About Netwealth

We are a technology company, a superannuation fund, an administration business. Take advantage of Netwealth's robust and fully-featured platform that is both powerful and flexible enough to meet the evolving needs of your business and clients.

Rated Australia's #1 platform

Rated by Investment Trends as number 1 in overall satisfaction by users in 2013, 2014, 2015 and 2016, and rated number 1 by analysts as best overall platform in 2015, 2016 and 2017.

Technology

Access the latest technology and innovations. Our focus is on ease and efficiency, which means we give you and your clients enormous capabilities without the complexity.

Efficient administration

No matter how big or small your business, or what stage it's at, we give you the support you need to take the right steps forward. Our team makes running your business easier by providing support with regulatory changes, efficient direct equities handling and a timely turnaround on applications and liquid redemptions and tax reports.

Choice and flexibility

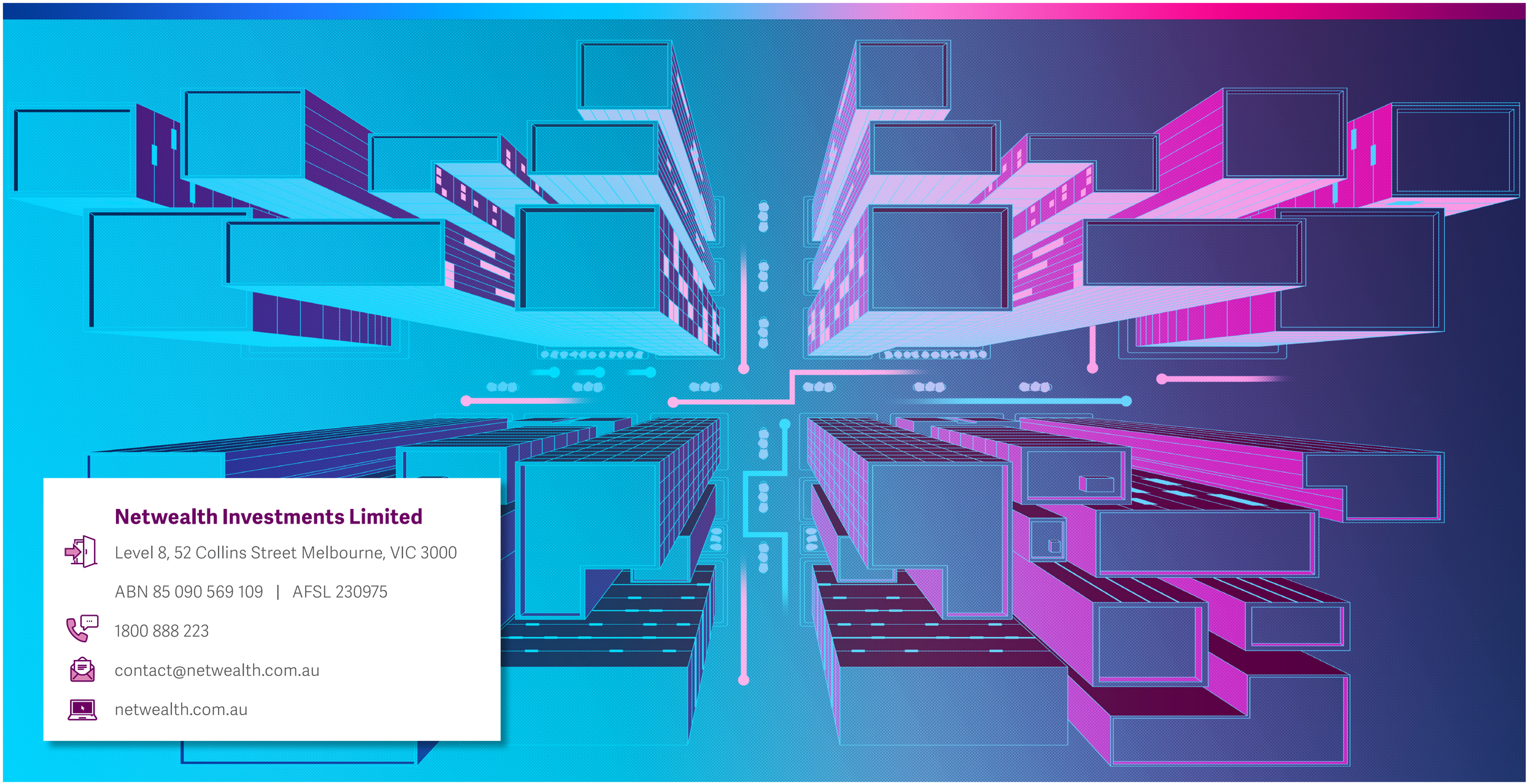
Netwealth has a solution for all the wealth needs of your clients. Whether they are looking for superannuation, SMSF administration, wrap accounts or insurance, we offer you and your clients real choice that can be tailored to match individual circumstances.

Support

Making sure your business runs smoothly and efficiently is as important to us as it is to you. That's why Netwealth offers a four-tier support system, so whenever you need help, training or guidance someone from our dedicated team will be there to help you.

Managed accounts

Not all managed account technology is equal. Enjoy the efficiency and scale benefits Netwealth's Managed Account can provide your business. And it is fully integrated with our super and wealth services.



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