Survey Report

Reinventing Wealth Management with Technology-Enabled Video Services

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Cisco Internet Business Solutions Group (IBSG)

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The wealth management industry continues to face many challenges as it recovers from the financial crises of the past few years. While financial markets have recovered most of their losses since 2008, investor confidence has not yet returned and volatility remains high.[1] In addition, private financial wealth in the United States and Europe has stagnated since 2010 as bond and equity losses have erased modest gains in GDP growth and savings, adding to investors' frustration.[2] Finally, the economic recovery has been slow, especially in Europe, which is in the throes of an economic crisis that has threatened to break apart the eurozone.[3,4]

Against this backdrop, investors now have access to a wide variety of investment information online, including analyst research, detailed company and sector financial reports, and data visualization tools previously available only to financial advisers. These information resources are increasingly offered through low-cost, direct investment services that enable individual investors to make their own trades. The combination of poor market performance, availability of information, and low-cost business models that put the investor in control are calling into question the fundamental value proposition of wealth management firms and their financial advisers.[5]

Cisco's Internet Business Solutions Group (IBSG), the company's global executive consulting organization, has shown a number of leading wealth management firms how technology solutions such as video and collaboration can add value and increase efficiency as they interact with investors. These solutions can help financial services firms respond to challenges with compelling new services and business models. To better understand the nature and full scope of this opportunity, Cisco® IBSG conducts ongoing research into the attitudes and interests of wealthy investors, defined as individuals with at least $500,000 in investable assets.

In January 2011, Cisco IBSG released its inaugural survey of wealthy U.S. investors. In the wake of the financial crisis and subsequent economic downturn, we sought to understand the mind-set of wealthy investors. Did they feel the financial markets were fair? What was the impact of the financial crisis on their investment and retirement plans? How satisfied were they with their financial advisers? How interested were they in innovative, technology-enabled services that wealth management firms could introduce to retain current clients and win new business?

During this research, Cisco IBSG uncovered a segment of relatively young investors we called "Wealthy Under-50s," which appeared to be critical for the future of wealth management firms. Wealthy Under-50s wanted more tailored advice and higher-value interactions than they were getting from their financial advisers. They wanted to interact with financial advisers using a variety of technologies, including video. And, most important, they were willing to move assets and switch firms to get these services.

As we shared this initial research with our clients and the market, we felt the need to address a new set of questions—especially as firms begin to grapple with how to implement innovative technologies in their environments:

- Is the desire for technology-enabled interactions among younger wealthy investors unique to the United States, or do young investors in other countries want similar services?
- Many clients value face-to-face meetings with their advisers. If a high-quality video option were available, how often would clients use it?
- Is there a "right way" to deploy technology-enabled services and capabilities, especially those that include video meetings? If so, which devices and types of interactions do wealthy investors want?
- Given the large number of wealthy investors who currently do not have a financial adviser, what would convince these investors to hire one?
- What are the main barriers preventing adoption of technology-enabled services by investors? Do these barriers differ from those indicated by financial advisers?

To answer these questions, in the spring of 2012, Cisco IBSG interviewed more than 1,200 wealthy investors (defined as individuals with at least $500,000 or equivalent in investable assets) in three countries—the United States, the United Kingdom, and Germany.[6] The main findings covered in this report pertain to this group of wealthy investors.

We also included a segment of mass-affluent investors, whom we call the "Emerging Wealthy," from the same three countries.[7] These investors have lower assets than the wealthy (averaging about $250,000), but are younger (average age of 49). The Emerging Wealthy have an average household income of more than $150,000, and 55 percent of them expect to increase their investable assets by at least 50 percent through a gift or inheritance in the next 10 years.

Finally, as part of our ongoing work with clients, we conducted in-depth interviews with wealth managers from several of the world's top global banks and wealth management firms to get their perspective on how clients want to interact with advisers, and on the current and ideal role of technology in delivering financial advice.[8]

Key Findings

Wealthy Investors Continue To 'Spread the Wealth" Among Multiple Firms and Advisers

Wealthy U.S. investors spread their assets across an average of three firms, while German investors use an average of 2.6 firms. In the United Kingdom, the wealthy spread their wealth even more widely, using an average of 4.3 firms to hold their assets. Among wealthy U.S. investors who have a financial adviser, 35 percent have more than one adviser managing their portfolios. The percentage is similar in the United Kingdom (34 percent), but considerably higher (53 percent) in Germany. While investors have many reasons for spreading their investments, including reducing risk, seeking specific expertise, and insuring their deposits (especially in the United Kingdom), there is a tremendous opportunity for financial services firms to gain a greater share of their clients' assets.

Wealthy Investors (Still) Question the Fairness of Financial Markets

Thirty-five percent of wealthy U.S. investors said they believe financial markets don't provide a level playing field that gives individual investors a fair chance to succeed (this result was nearly identical to that of our 2011 survey). The numbers are even higher for Germany and the United Kingdom, at 39 percent and 40 percent, respectively. The fact that even the wealthy feel the deck is stacked against them is troubling for financial services firms, which need their clients to feel that investing is the most prudent means of securing their financial futures.

Wealthy Investors Doubt the Quality and Objectivity of Financial Advisers' Advice

Wealthy investors in our study expressed doubt about the fundamental value proposition of financial advisers—the ability to provide expertise in selecting investments and advice clients can trust. This was especially true for the Wealthy Under-55s, who, like the Wealthy Under-50s in our previous study, represent the most attractive market segment for financial services firms, as we will see below. For example, only 29 percent of this group in the United States and 26 percent in the United Kingdom trust the investment advice they receive from financial advisers more than that of their fellow investors. And among wealthy investors who do not have a financial adviser—another important market segment—29 percent in the United States, 32 percent in the United Kingdom, and a whopping 43 percent in Germany say that a major reason they "go it alone" is because they feel financial advisers do not have their best interests at heart.

Wealthy Investors Are Already Using Technology in their Financial and Non-Financial Lives

Wealthy investors have integrated technology into how they manage their money and their lives. Seventy-one percent use a PC to check or manage their investments at least once per month (36 percent do so daily), while 28 percent use smartphones and 24 percent use tablets. But investing is only a part of this behavioral shift. Forty-nine percent of wealthy investors consider themselves to be "early adopters" of technology or in the "early majority" of those who use new devices and services. In addition, about 50 percent of all wealthy investors have used some type of video to meet with friends, family, or colleagues in the past year. The idea that wealthy investors are not attuned to the latest technologies is outmoded.

Reluctance of Financial Advisers and Investment Firms Impedes Technology-Enabled Advisory Services

In our interviews with financial advisers, it became clear that the attitudes of financial advisers, rather than investors, constitute a significant barrier to using technologies such as video to enable more efficient interactions. For example, financial advisers acknowledge that their younger clients demand far more time and attention than older ones, and that financial advisers are too busy (especially with administrative and compliance tasks) to meet with them in-person often enough.

Our survey found that Wealthy Under-55s were keenly interested in technology-enabled solutions. Financial advisers also acknowledge that they could earn a larger share of each client's investments if they were available to meet more often, a capability technology could enable. Yet many financial advisers are reluctant to use technologies such as video because they prefer the close relationships that face-to-face meetings engender, and because they feel in-person meetings give them more control over the client relationship. This idea is supported by a Fidelity report that showed a growing imbalance between clients and advisers in the use of technology-enabled media for communications purposes. In fact, 85 percent of clients were willing to use technology-enabled media, while the number for advisers was just 43 percent.[9]

Equally important, financial services firms have been slow to recognize the demand for technology-based interactions and business models from investors. Financial advisers who want to use technology to interact with their clients have been stymied by the lack of video-based solutions provided by their firms, the inability to access corporate networks with mobile devices, and the fact that social media—while popular with investors—is not a regulated channel for dispensing financial advice. Therefore, there is a mismatch between the demand and supply for technology-based interactions. This leaves large global wealth management firms vulnerable to client defection as other firms (especially direct investment services) fill the void.

Top Opportunities

Wealthy Under-55s Are the New 'Wealthy Under-50s'

In our 2011 survey, there was a sharp difference between Wealthy Under-50s and older investors in several key respects. Most important, Wealthy Under-50s were much more tech-savvy, more demanding of their advisers' time, and much more willing to switch advisers than older investors. Sixty-three percent of these investors said they were willing to move at least some of their assets to firms offering video-enabled access to financial advice.

In a mere 18 months since the release of our last study, we now see that individuals who are *five years older* (Wealthy Under-55s) are exhibiting the same traits. Although Wealthy Under-55s meet more often with their financial advisers, they are less satisfied with those interactions than older investors.[10] They want more personalized investment recommendations, access to more diverse opinions and expertise, and more frequent access to their financial advisers than they currently receive. Wealthy Under-55s believe that technology-enabled services that feature video-enabled access to financial advisers would provide them with better advice and more satisfying interactions than they receive right now.[11]

Most important for financial services firms looking to capture a share of this market, Wealthy Under-55s are willing to move assets to firms that provide these services (57 percent in the United States, 54 percent in Germany, and 41 percent in the United Kingdom). Given that investors under the age of 55 represent 37 percent of investable U.S. assets, and about 45 percent in the United Kingdom and Germany, winning these investors and fending off the competition is vital.[12]

Investors of all Ages Want Technology-Enabled Meetings as Part of Their Interaction Mix

Many wealthy investors of all ages are interested in having technology-enabled interactions—specifically, video meetings—as part of their communications with financial advisers and firms. While most investors do not consider these types of interactions a substitute for face-to-face meetings, they unquestionably have a role to play. Overall, wealthy investors wanted technology-based meetings to constitute 15 percent of overall interactions with their financial advisers.

Technology-Enabled Business Models Can Convert 'Gettable' Wealthy Investors Who Currently Lack an Adviser

Twenty-seven percent of wealthy U.S. investors do not have a financial adviser to help them manage their money, a finding consistent with that of last year's study (30 percent). In the United Kingdom, a staggering 52 percent of wealthy investors manage their own finances, while 40 of wealthy investors do so in Germany. Globally, however, 63 percent of wealthy investors who do not have a financial adviser are willing to work with one. We refer to this group as "Wealthy Gettables."

Financial services firms can attract Wealthy Gettables with technology-enabled business models that deliver quality financial advice at a lower cost than traditional adviser-led services. In fact, 49 percent of all Wealthy Gettables said they would move at least some of their assets to a firm that provided technology-enabled business models, a finding that was consistent across all three countries. In addition, Wealthy Gettables use social networks for investing, and more than 20 percent of these investors use social networks to contact financial advisers about becoming a client. Business models that incorporate video, social networking, and self-service can help bring these wealthy investors into the fold, where some may eventually move into more traditional—and profitable—client-adviser relationships.

Technology-Enabled Business Models Can Also Help Firms Fill the Pipeline with Emerging Wealthy Investors

The Emerging Wealthy represent an important growth opportunity for wealth management firms. More than 40 percent of this group expects its investable assets to grow substantially though inheritance. Moreover, only 45 percent of Emerging Wealthy investors across the United States, United Kingdom, and Germany currently have a financial adviser, and about 75 percent of these individuals are willing to work with one.

Emerging Wealthy investors can be moved into higher-margin advisory services as their portfolios grow. Nearly 50 percent say they would move assets to a firm that provided technology-enabled services, a figure that rises to 54 percent when we omit Emerging Wealthy investors who say they will never work with a financial adviser.[13] In fact, the same lower-cost business models that Cisco IBSG recommends for Wealthy Gettables can be used to attract the Emerging Wealthy.

Retaining Clients Through Technology-Enabled Services

Cisco IBSG found that technology-enabled advisory services can help retain clients who may be at risk of leaving the firm. For example, technology-enabled interactions can help financial advisers be proactive in retaining clients who live far away, and with whom they rarely meet face to face. This is especially important in the United States and United Kingdom, where 22 percent and 24 percent of clients, respectively, live at least 50 miles from their financial advisers and meet with them less frequently as a result. Technology-enabled meetings also have the potential to help firms retain assets when they pass to a client's heirs. Wealthy investors indicated that video meetings between their financial adviser and family members could help form a tighter bond with these important stakeholders.[14]

Overall Opportunity Represents as Much as 19 Percent of Revenue for a Typical U.S. Wealth Management Firm

Based on the survey results, Cisco IBSG estimates that for a firm with $200 billion in assets under management and approximately $1.8 billion in revenue, the overall opportunity could be as much as $341 million. This benefit comes from:

- **Attracting investors with a financial adviser (especially Wealthy Under-55s).** Investors were asked if they would move any of their assets to be able to access video capabilities, and if so, how much. Their responses imply that 11 percent to 12 percent of assets may be "in play" from firms that are slower to adopt these capabilities. For the industry as a whole in North America, as much as $31 billion of revenue could therefore be "in play" from the Under-55s.[15]
- **Attracting the Gettables.** Investors without a financial adviser were asked about their interest in a lower-cost model that provided some access to a financial adviser. Their responses indicate that firms could grow 6 percent by offering this new model.[16]
- **Reducing client attrition by forging stronger connections between the investor and the *firm,* not just the adviser.** While most clients will continue to leave with their adviser when he or she moves to another firm, there are opportunities to reduce this attrition through use of video and collaboration tools, which could save 1 percent to 2 percent of a firm's revenue.[17]

Use Cases: Enhancing Connectivity Between Investors and Advisers

The following illustrative use cases show how wealth management firms can take advantage of investors' preferences.

1. **Serving the "traditional" client (especially those under age 55).** This client meets at least occasionally with an adviser and is "somewhat" to "very" involved in managing his or her own investments. To offer enhanced convenience, the firm should allow clients to meet with advisers via video as well as provide a range of self-service portfolio management tools. The client should be able to participate in the meetings and collaborate with his/her adviser from home, work, or other locations. In addition, the adviser should involve specialists and experts where possible throughout the client relationship. This includes arranging high-quality video meetings with appropriate specialists when the client comes into the branch office, and enabling ongoing dialogue between the client and the expert remotely.
2. **Serving the non-local client.** This client may not have seen his or her financial adviser in years due to a change in the client's primary residence (such as job relocation or retirement). This often leads to weaker client relationships and client attrition. If an in-person meeting is not possible, the adviser should make video meetings a priority and offer the same type of service and dialogue provided for in-person meetings. In addition, the adviser needs to be proactive in creating additional meaningful "touchpoints" with the client, such as collaborating on strategy and performance documents, reviewing relevant investment materials, and providing updates on market issues.
3. **Attracting the "Gettables."** This investor, despite being wealthy, has rejected the traditional value proposition provided by financial advisers. Given this, the firm likely

needs to demonstrate a new “model” to attract the investor. This should include more convenient access to an adviser (perhaps through remote video or collaboration tools), the ability to use self-service tools to manage and monitor investments, and social networking capabilities to find and connect with an adviser. Some firms may also be able to offer a lower-cost model (“FA-lite”) that enables investors to pay just for the level of advice they think they require. This type of model is also ideal for capturing a greater share of Emerging Wealthy investors whose investable assets do not make them eligible for a traditional adviser-client relationship at many firms.

Leading-Edge Wealth Management Firms

Driven partly by demand from clients and advisers, many wealth management firms have launched pilots or are currently deploying new technology-enabled video and collaboration solutions to better connect with their clients. Clients have also become more accustomed to using these new technologies in their everyday lives, and want to use similar tools to manage their financial matters. The following examples illustrate this approach.

Using Video To Enhance Client Interactions and Internal Productivity

Bank of Montreal has deployed high-quality video for internal and client-facing meetings across Canada.[18] By connecting clients and their advisers to centrally located specialists and experts at the firm, the bank has been able to respond more quickly to client needs, improve collaboration, boost revenue and adviser productivity, as well as reduce the cost and time inefficiencies associated with travel.

ANZ and ATB Financial have announced similar efforts.[19,20] ATB reported that 88 percent of clients who used video to meet with specialists rated it higher than their previous in-person meeting. In addition, Cisco IBSG is working with a number of leading U.S. and European firms to enhance client interactions and increase productivity with video collaboration solutions.

Launching New Value Propositions

BNP Paribas Fortis is directly targeting Wealthy Gettables in Belgium by offering “James,” a service that combines elements of self-service and video-based access to financial advisers.[21] The James service is available after hours, has access to the client’s investment profile and objectives, provides real-time information, and can proactively contact the client about appropriate opportunities. The service is available to clients with greater than €85,000 in investable assets and is free of charge.

Offering Social Networking Capabilities

In addition to low-cost trading and research tools, **TradeKing** offers an online trading network where investors can connect with each other and share experiences, ideas, and strategies.[22] Among full-service firms, **Morgan Stanley Smith Barney** ran a pilot enabling a group of advisers to have partial access to Twitter and LinkedIn. The firm now plans to expand that pilot to its full network of roughly 17,000 advisers.[23]

Top Opportunities: A Closer Look

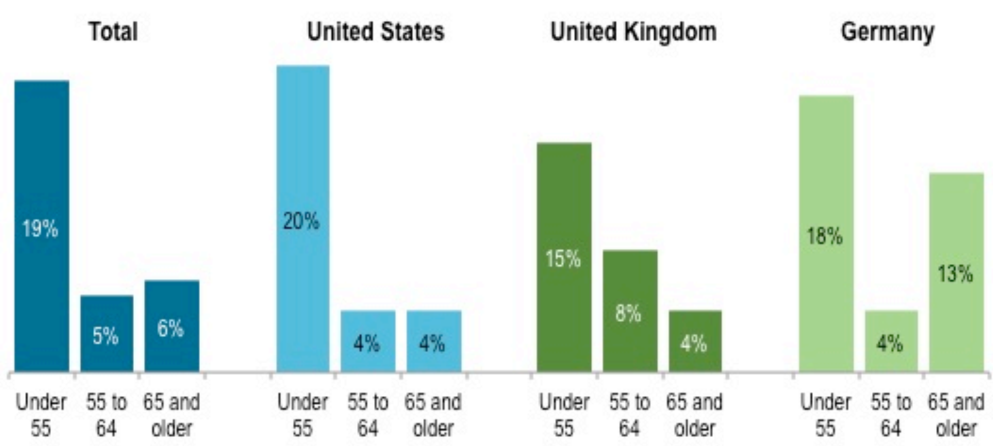
Wealthy Under-55s

Attracting and retaining Wealthy Under-55s is imperative for financial services firms. Investors under the age of 55 hold an estimated 37 percent of investable assets in the United States, 43 percent in the United Kingdom, and 42 percent in Germany.[24] And Wealthy Under-55s expect that their assets will increase significantly (by 83 percent in the United States, 97 percent in the United Kingdom, and 105 percent in Germany) through gifts or inheritance within the next 10 years.

But, while their current and future assets make them an important segment to attract and retain, Wealthy Under-55s are a hard group to win over. Those who have a financial adviser meet with him or her more frequently (45 percent meet in-person at least monthly, versus only 17 percent of older investors). And yet, like Under-50s in 2011, Wealthy Under-55s are more willing than older investors to switch financial advisers, particularly in the United States (see Figure 1). In 2011, 32 percent of Wealthy Under-50s said they planned to switch financial advisers in the next 12 months. Nearly one-fifth of Wealthy Under-55s now plan to move their investments in the next year. When we consider that many Wealthy Under-50s who planned to switch financial advisers have likely done so, client turnover among young wealthy investors appears to be a continuing trend.

In the United Kingdom and Germany, Wealthy Under-55s are a greater threat than older investors to leave their current advisers, but to a lesser degree than in the United States. Older British and German investors, however, are a much greater "flight risk" than their counterparts in the United States. This is especially true in Germany, where 13 percent of investors aged 65 and older are planning to move their assets to new financial advisers within the next year. Older German investors have faced significant volatility in European markets during the past five years, along with low interest rates on fixed-income securities and the continued threat of the euro's demise.[25] Unable to "ride out" these fluctuations, older wealthy investors in Germany are more willing to give new financial advisers a try.

Figure 1. Age Distribution of Wealthy Investors Who Are "Somewhat" or "Very Likely" to Switch Advisers Within 12 Months.

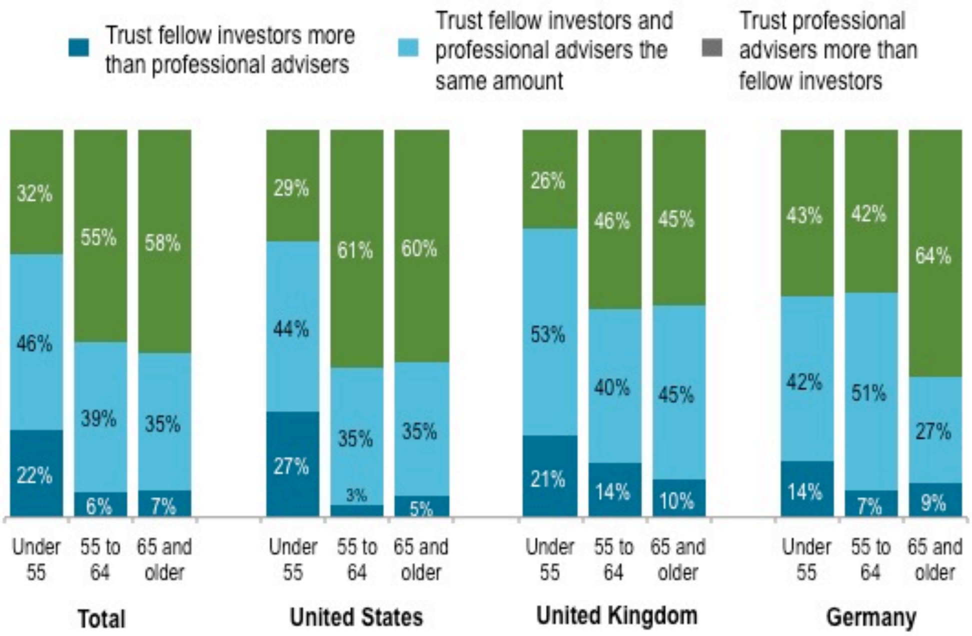


Source: Cisco IBSG, 2012

N=807

While the threat of client defection is frightening enough for financial services firms, Cisco IBSG found evidence that younger wealthy investors doubt the fundamental value proposition that financial advisers provide. In the United States, only 29 percent of Wealthy Under-55s said they trust investment advice from professional financial advisers more than the advice they receive from fellow investors (see Figure 2). A nearly equal slice of investors (27 percent) say they trust the advice of fellow investors *more* than that of financial advisers.

Figure 2. Trust in the Advice of Fellow Investors Versus Professional Advisers (by Age).



Source: Cisco IBSG, 2012 N=1,243

Compared with their U.K. and German counterparts, U.S. investors age 55 and older have much more respect for the capabilities of financial advisers, with nearly two-thirds expressing greater trust in advisers than in their fellow investors. By contrast, fewer than 50 percent of U.K. investors over the age of 55—and only a quarter of Under-55s—place more trust in financial advisers than in their fellow investors. In Germany, while Wealthy Under-55s place more faith in professional financial advice, 55- to 64-year-old investors are less trusting than investors in the United States and United Kingdom.

Overall, lack of trust in the quality and objectivity of financial advice was a major theme in our research findings, and an issue that financial services firms and advisers must address. This is especially true since investors now have easy—and often free—access to investor research and sophisticated analytics that were once the exclusive domain of financial advisers. In addition, access to advice from fellow investors, investor blogs that feature analysis from both "ordinary" and expert investors, and investor social networks is increasing. Unsurprisingly, 46 percent of Wealthy Under-55s have used a social network for investment purposes, whereas only 17 percent of older investors have done so.

Part of the problem is that Wealthy Under-55s who have a financial adviser say their interactions are not valuable enough. In order of importance, Wealthy Under-55s said they want:

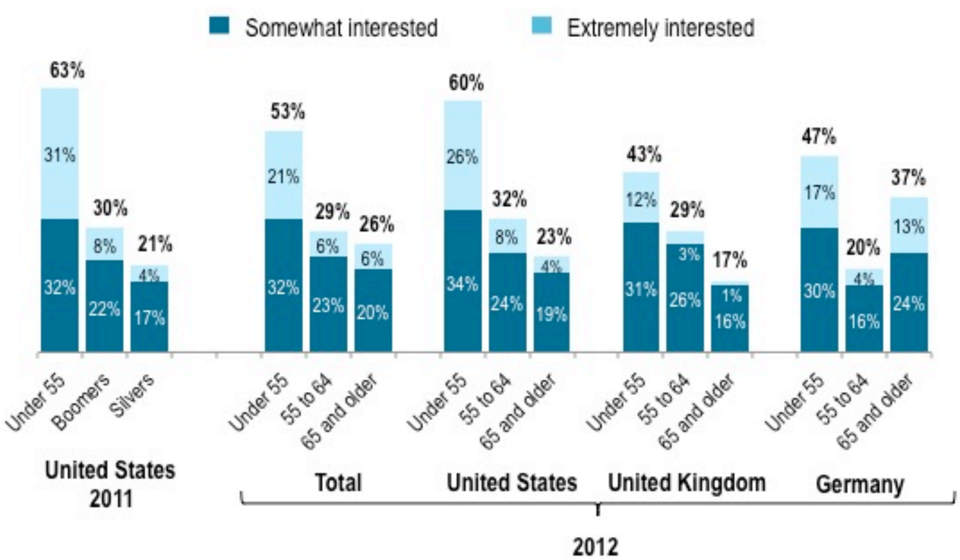
- More personalized recommendations and advice
- A broader range of investment options (such as derivative and foreign markets)
- More discussion of overall investment strategies, rather than individual investments
- More frequent interactions with financial advisers
- More information (such as charts and graphs) prior to and during meetings

Cisco IBSG research shows that technology-enabled services, especially those that feature video-based access to financial advisers, can play a major role in attracting and retaining Wealthy Under-55 clients by addressing all five of these areas.

Because Wealthy Under-55s use technologies designed to deliver better service in their daily lives (such as video and screen sharing), they want to use these same kinds of technologies to manage their investments. In fact, a dwindling number of older investors are indifferent toward these technologies, as both large and small innovative firms are now implementing them. In our 2011 study, the "cut-off point" for expressing interest in using technology to manage investments and interact with financial advisers was 49 years of age; the most recent research shows that this age has leapt to 54 as mobile and video-based technologies have moved robustly into the mainstream.

The extent of the shift in attitudes toward technology can be seen when we compare the results of the 2011 survey to those of 2012. In 2011, we asked wealthy investors about their interest in using two-way, high-definition video in the financial adviser's office to access the expertise of multiple advisers and other professionals (such as accountants or lawyers) for holistic advice on how various investment choices might impact overall financial goals. As we can see from Figure 3, Wealthy Under-55s in 2012 were as interested in the concept as Wealthy Under-50s were in 2011. And although the drop-off is steep from Under-55s to older investors, more than a quarter of older investors are interested in the concept as well.

Figure 3. Interest in Meeting with Multiple Financial Experts via HD Video in Financial Adviser's Office.



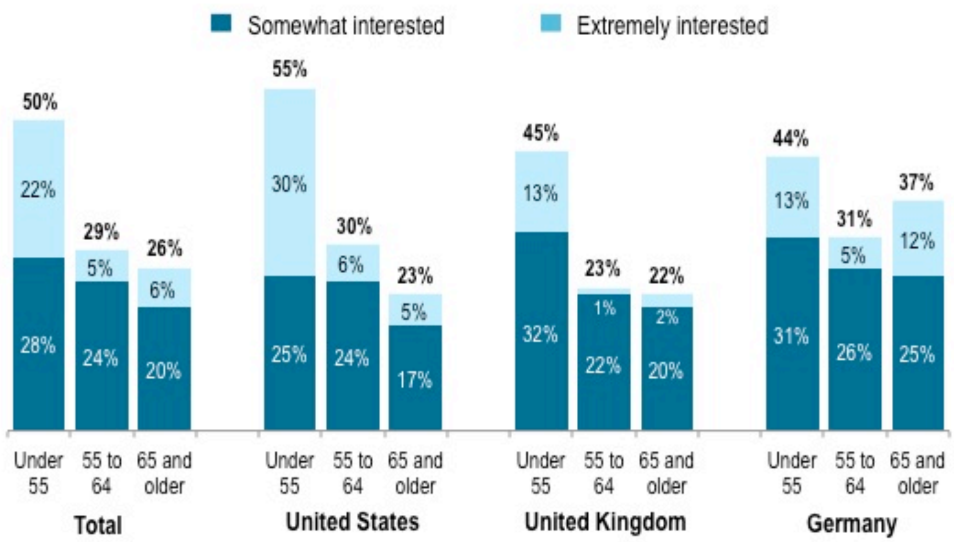
Source: Cisco IBSG, 2012

2011: N=1,000; 2012: N=1,243

The ability to meet with multiple financial experts helps address the top three problems facing Wealthy Under-55s in their current interactions with financial advisers: 1) narrow range of communications options, 2) too few personalized interactions, and 3) lack of an overall investment strategy. The investor and adviser can collaborate with specialists—from other offices or even in other countries—who take multiple factors such as tax implications under consideration. By bringing in other experts from the firm, financial advisers can deliver a tailored approach to individuals' needs that includes specialized investments and knowledge of local markets that the primary investor may not possess. For firms, this presents a great opportunity to showcase capabilities beyond those of the primary adviser, making the company—rather than the personal relationship—the focal point.

Cisco IBSG also asked wealthy investors about their interest in meeting with a financial adviser wherever they are (such as at home, in the office, on the go) via high-quality video and from any Internet-enabled device (computer with high-definition screen, webcam, smartphone, or tablet), a concept we call "Advice from Anywhere." Once again, we found strong interest among U.S. Wealthy Under-55s, with 30 percent "extremely interested" and another 25 percent "somewhat interested" (see Figure 4).[26] In addition, about one-third of wealthy investors aged 55 to 64 were interested in the concept.

Figure 4. Interest in Meeting with a Financial Adviser from Anywhere via High-Quality Video Using an Internet-Enabled Device.



Source: Cisco IBSG, 2012 N=1,243

In the United Kingdom, 45 percent of Wealthy Under-55s are interested in the Advice from Anywhere service. While we see virtually the same level of interest among German Wealthy Under-55s, the ability to meet with a financial adviser via high-quality video from anywhere had much broader appeal among all age groups in Germany than in any other country. In fact, 37 percent of German investors aged 65 and older were interested in the Advice from Anywhere service.

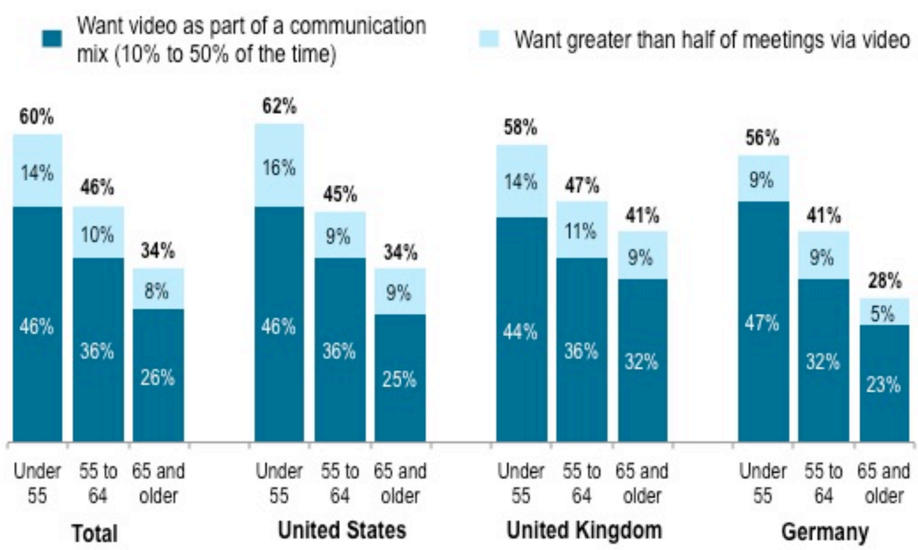
When we asked wealthy investors about the value of various capabilities that Advice from Anywhere could enable, the top benefit (42 percent) was the ability to save time with faster, more convenient meetings. It is also clear that meetings with a video component could help resolve issues around relevance and trust noted above. A nearly equal percentage said that the ability to see the financial adviser, and make sure he or she was listening to them, was valuable to investors of all ages. By ensuring that financial advisers are engaged and understand their needs, investors will be better able to trust the advice they are given and maintain a stronger relationship with their advisers.

We also asked which device investors would prefer to use for the Advice from Anywhere service: a desktop or laptop computer with a webcam; a high-definition, two-way video screen located in the investor's home or office; a tablet; or a smartphone. Wealthy Under-55s in all three countries were excited about the prospect of using all four device types to meet with financial advisers. Older investors, however, strongly favored computers with webcams. This finding is not surprising, given the higher adoption rate of mobile devices, especially tablets, among younger investors.

Advice from Anywhere can solve two other problems Wealthy Under-55s identified in their current interactions with financial advisers: 1) the desire for more frequent meetings, and 2) the need for more information when they meet. Fifty-six percent of Wealthy Under-55s said it would be valuable to view charts, graphs, and other information during a video meeting—a capability that can be delivered by video-based collaboration solutions. In the United States, this was considered especially valuable.

While Wealthy Under-55s are most interested in technology-enabled interactions, wealthy investors of all ages want to meet with their advisers via video to augment their regular modes of communication. When we asked investors ideally how they would like to interact with their financial advisers (or financial services firms if they did not have an adviser), a significant percentage wanted to use video as part of the "mix." While video is not a replacement for all meetings and interactions, investors clearly see the value of using video for investing, even though only a tiny percentage of these investors have already done so. And while Wealthy Under-55s are the most enthusiastic about video, many older investors want it, too (see Figure 5).

Figure 5. Percentage of Meetings with Financial Advisers that Investors Want Through Video.

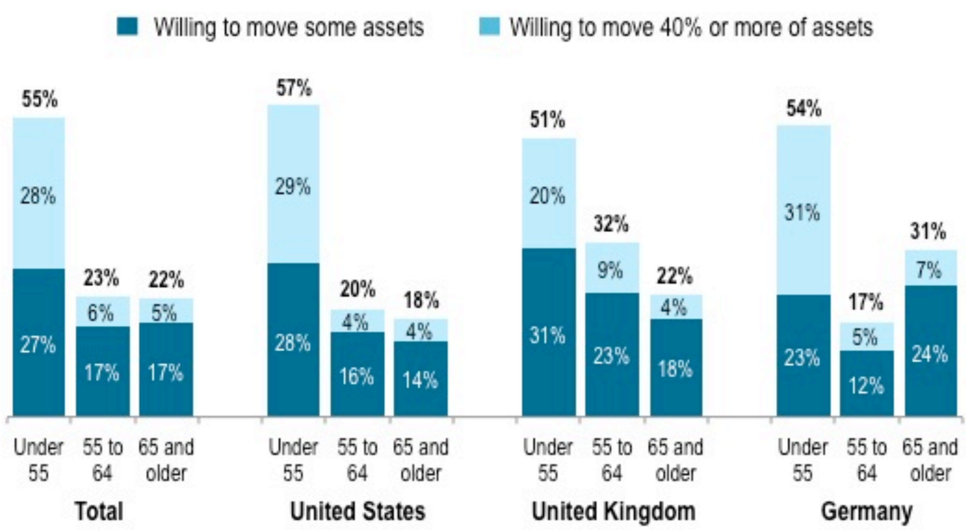


Source: Cisco IBSG, 2012 N=1,243

Video-based meetings would not be considered a replacement for many of the meetings investors have with their financial advisers or firms. Given this, we asked wealthy investors what their ideal mix of interactions with financial advisers or firms would be (the percentage of interactions that would be held in-person, via email or text, on the phone, and over video). A significant percentage of wealthy investors of all ages—not just Wealthy Under-55s—want at least some of these meetings to be held via video. This is a remarkable finding since only 6 percent of all wealthy investors in our survey have used video to interact with their financial advisers or firms in the past. Yet, they can envision the value of video meetings when added to the ways they already meet and interact with their advisers (for example, face-to-face, by phone, and via email). Again, this finding highlights a striking gap between the supply and demand for innovation in delivering financial advice.

When it comes to attracting and retaining investors, video clearly has a role to play—especially for Wealthy Under-55s. We asked wealthy investors whether they would be willing to consider moving some or all of their investments to another financial adviser or firms that offered video-based access to financial advice. As Figure 6 shows, the value proposition of video-based advice resonates with Wealthy Under-55s in all three countries. Fifty-seven percent of U.S. Wealthy Under-55s would be willing to move at least some of their assets to a financial services firm that provided technology-enabled advice, with 29 percent saying they would move 40 percent or more of their investable assets.

Figure 6. Percentage of Wealthy Investors Willing To Move Assets to a Firm that Provides Technology-Enabled Interactions Featuring Video.



Source: Cisco IBSG, 2012 N=1,243

Interest among Wealthy Under-55s is similar in the United Kingdom and Germany. Seniors in Germany stand out, however, with one-third of them eager to use video to interact with advisers. Clearly, the decision to move assets from one firm to another depends on multiple factors, including the performance of the investor's portfolio, the personal relationship with the financial adviser, and the ease (or difficulty) of opening new accounts.

But the results of Cisco IBSG's research have consistently shown there is a strong opportunity to capture market share among younger wealthy investors by offering video. The fact that we are now talking about investors under the age of 55 rather than 50 indicates older investors are quickly growing to appreciate the value of video. And in some countries, such as Germany, older investors are willing to move their considerable portfolios to access video-based services, perhaps because they want more frequent contact with their advisers in today's volatile markets.

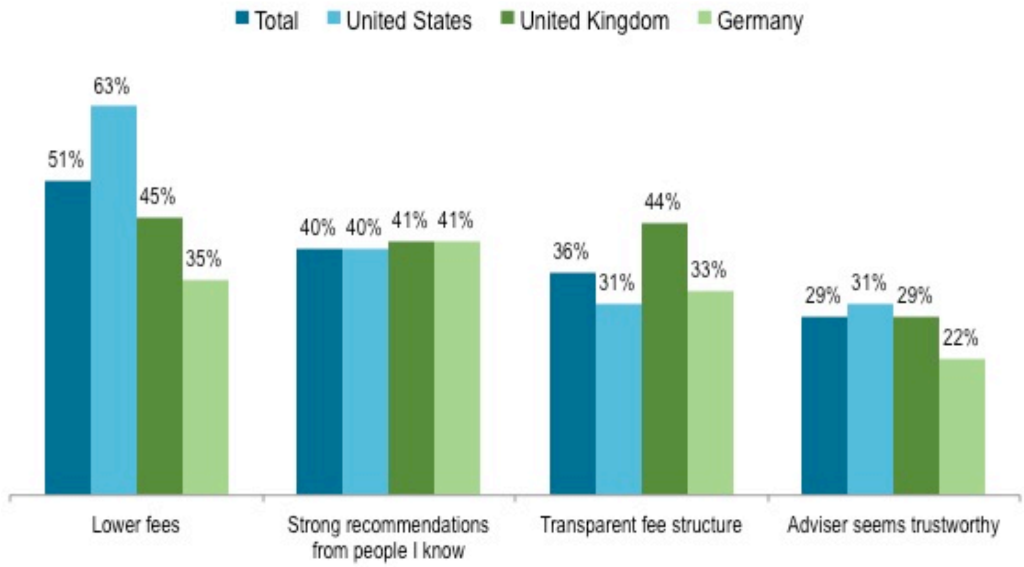
Technology-Enabled Services Bring 'Wealthy Gettables' into the Fold

Cisco IBSG's study found that a high percentage of wealthy investors (27 percent in the United States, 52 percent in the United Kingdom, and 39 percent in Germany) have no financial adviser. Even so, many of them are willing to work with one under the right conditions. These "Wealthy Gettables" represent 18 percent of all wealthy investors in the United States, 34 percent in the United Kingdom (where some wealth management firms have "fired" investors with assets under $2.5 million), and 19 percent in Germany. Like wealthy investors who have an adviser, Wealthy Gettables are interested in video and other technology-enabled investment services. About 50 percent of these investors in the United States, United Kingdom, and Germany are willing to move at least some assets to gain technology-enabled access to financial advisers. As a percentage of the overall market, 8 percent of wealthy investors in the United States, 18 percent in the United Kingdom, and 10 percent in Germany could be convinced to switch firms for a better investment experience.

When Wealthy Gettables were asked why they did not have a financial adviser, the top three reasons were high fees (43 percent), the belief that they can achieve better results on their own (39 percent), and the suspicion that financial advisers do not have investors' best interests at heart (31 percent). While these are significant objections for financial services firms to overcome, they are not insurmountable. Wealthy Gettables are willing to engage a financial adviser under the right circumstances—namely, if fees are low enough and if they feel the financial adviser is trustworthy. High fees are especially problematic for U.S. Wealthy Gettables, 63 percent of whom would be willing to work with an adviser if the fees were lower. In the United Kingdom, high fees are also an issue, but transparency (what investors are charged for, and why) is of nearly equal importance (see Figure 7).

On the issue of trust, Wealthy Gettables want recommendations from investors they know and from whom they can receive a firsthand account of the financial adviser's expertise and performance. They also want to assess the financial adviser's trustworthiness for themselves. To do this, 27 percent of Wealthy Gettables are turning to social networks like Facebook, Google+, and LinkedIn. One of the top reasons Wealthy Gettables use social networks is to ask their fellow investors to recommend a financial adviser. Some of these investors also contact financial advisers directly to inquire about becoming a client.

Figure 7. Conditions Under Which Wealthy Gettables Will Use a Financial Adviser.



Source: Cisco IBSG, 2012 N=273

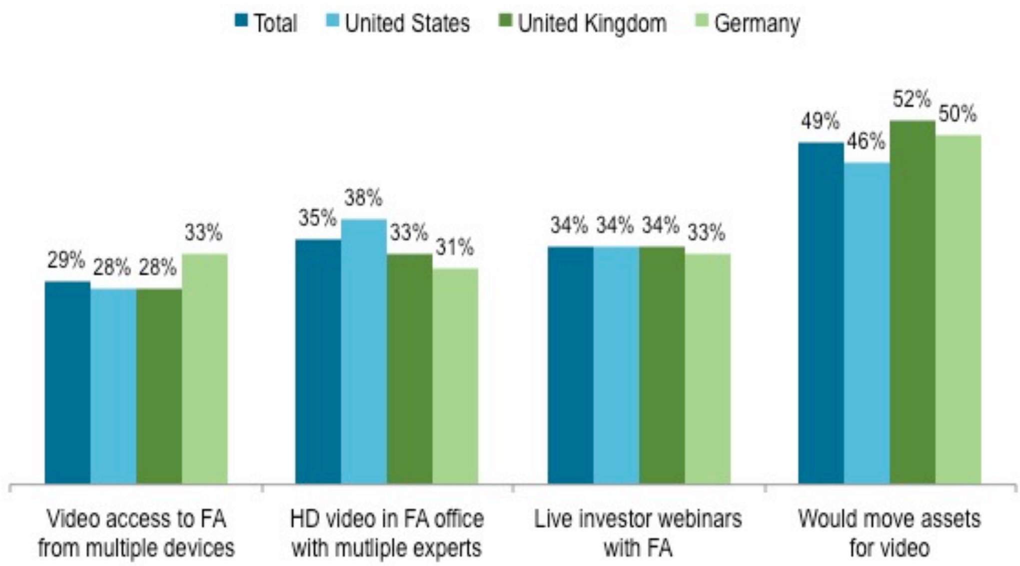
In addition to "general" social sites, we asked Wealthy Gettables about their interest in using investment-based social networks to interact with other investors. Twenty-four percent—roughly the same share of Wealthy Gettables that is currently using a social network for investment purposes—were interested. In fact, some investment-related social networks are already attracting the attention of wealth management firms.[27]

Cisco IBSG tested a "freemium" model that combines an automated portfolio analysis service at no cost, with the option to receive fee-based access to financial advisers. This model was attractive to Wealthy Gettables, especially in the United States and United Kingdom. The free service would allow investors to enter all of their current investments and have them automatically analyzed based on investors' goals and preferred level of risk. It would then recommend specific changes to the portfolio (such as investing in a particular fund or stock). Fifty-nine percent of Wealthy Gettables in the United States, 63 percent in the United Kingdom, and 35 percent in Germany were interested in this service. We then asked how their interest level would change if the service enabled them to access financial advisers via video to review their portfolios and make recommendations for a fixed fee.[28] Twenty-eight percent of Wealthy Gettables in the United States, 33 percent in the United Kingdom, and 30 percent in Germany said their interest in the free service would increase.

The interest of Wealthy Gettables in this type of service makes sense. Many of them believe they can generate good returns on their own without turning over their portfolios to a financial adviser. They are also price-sensitive and want transparent fees. For Wealthy Gettables, the ability to check in with a financial adviser when they feel they need to do so—for a fixed fee rather than a percentage of their investments—is a potential solution. As with Wealthy Under-55s, Wealthy Gettables also find video-based financial advice compelling: between 29 percent and 40 percent of Wealthy Gettables are interested in the video-based concepts we tested (see Figure 8).

Some video-based services, such as "one-to-many" live webinars in which investors could participate, enable financial advisers to provide their perspectives and advice to all of their clients at once. For investors, these types of webinars provide valuable, informative interactions that require less time on the part of the financial adviser. The ability to scale financial advice in this and other ways makes video an important tool for financial services firms that want to design technology-enabled services for Wealthy Gettables. These services would also attract Wealthy Gettables, as nearly half would be willing to move at least some of their assets to a firm that offers video-based financial advice.

Figure 8. Percentage of Wealthy Gettables Interested in Video-Based Access to Advisers; Percentage Willing To Move Assets To Access Video-Based Financial Advice.



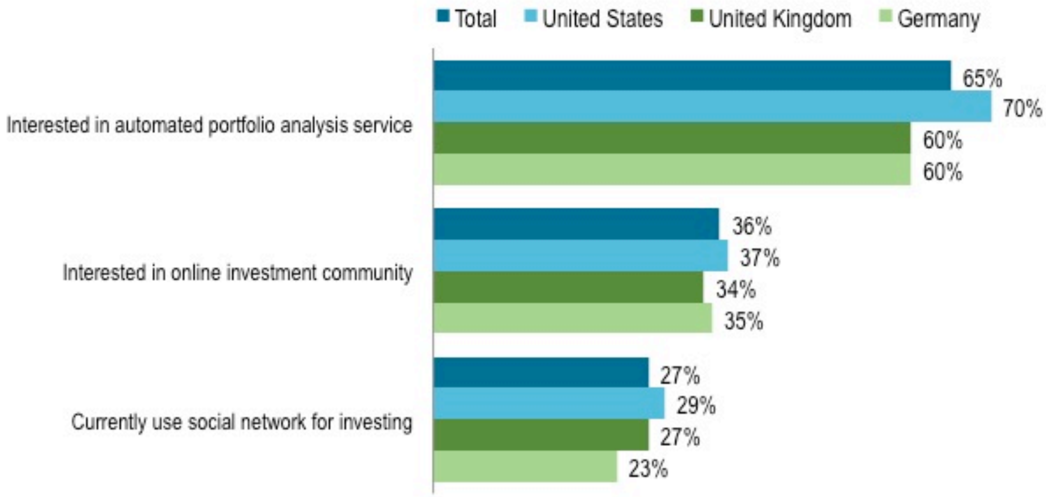
Source: Cisco IBSG, 2012 N=273

Benefits of Technology-Enabled Services

The same lower-cost, technology-enabled services that can attract Wealthy Gettables are even more compelling for the Emerging Wealthy. While these investors are not profitable enough for many global financial services firms to provide personalized advice from a dedicated financial adviser, they have the potential to enter the wealthy-investor echelon. Additionally, these investors are building their wealth rather than trying to preserve it. As such, they have greater need for financial advice and also have the potential to generate more revenue from transactions and cross-selling opportunities.

Only 45 percent of Emerging Wealthy investors have a financial adviser. Of those who don't, a full 73 percent are willing to engage with one under the right conditions. The Emerging Wealthy are even more enthusiastic about technology-enabled advisory services than are Wealthy Gettables, in part because they are younger and more tech-savvy. It is also likely that many of these investors lack access to financial advice that meets their needs and would find even lower-touch financial advice an upgrade from the service they currently receive. As we can see from Figure 9, between 34 percent and 37 percent of Emerging Wealthy investors were interested in joining an online investment community, reflecting their high use of social networks for investing. Note that our analysis excludes the 15 percent of Emerging Wealthy investors who do not have and are not willing to work with a financial adviser.[29]

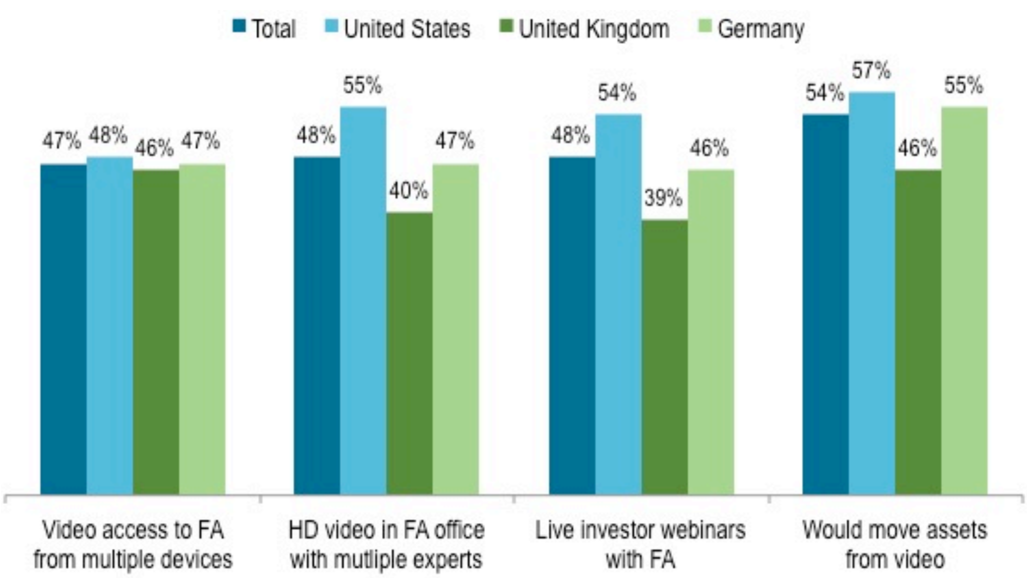
Figure 9. Emerging Wealthy Participation and Interest in Investor Social Networks and Portfolio Analysis Tools.



Source: Cisco IBSG, 2012 N=396

These investors are also willing to use video-based advisers as part of the portfolio analysis service, with 47 percent saying they would be “moderately” or “much more” interested in the service if they could access fee-based advice via video.

Figure 10. Percentage of Emerging Wealthy Interested in Video-Based Access to Advisers, and Percentage Willing To Move Assets for This Service.



Source: Cisco IBSG, 2012 N=396

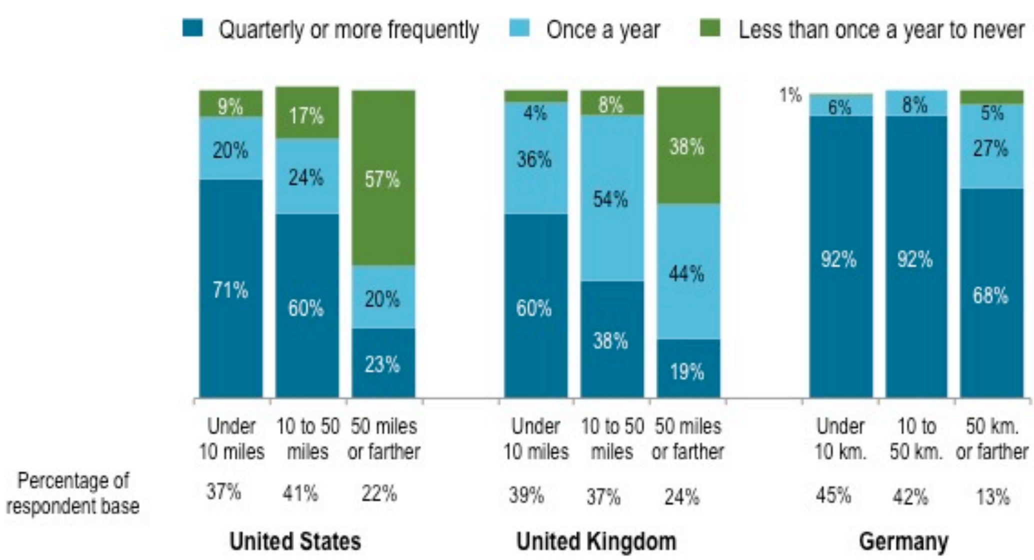
The percentage of Emerging Wealthy investors interested in using technology-enabled advisory services is very high, especially in Germany and the United States. In all three countries, many of these investors are willing to move assets to a financial services firm that provides these services: 57 percent in the United States, 46 percent in the United Kingdom, and 55 percent in Germany (see Figure 10).

For financial services firms, technology-enabled business models can be more profitable than traditional, cost-intensive service arrangements for mass-affluent investors. Because Emerging Wealthy investors are open to innovative models for obtaining their advice, financial services firms can increase their profit margins. And although their assets are somewhat lower than those of wealthy investors, the costs to serve them would also be lower. Technology-enabled services have the potential to turn mass-affluent investors from a problem to a profit center. They can also capture this important customer base before they move into the ranks of the wealthy, when competition for their assets becomes more intense.

Retaining Clients Through Video-Based Financial Advice

Cisco IBSG found that video-based advisory services could help retain clients who may be at risk of leaving the firm. For example, video-based interactions can help financial advisers be proactive in retaining clients who rarely have face-to-face meetings because they live far away. This is especially important in the United States and United Kingdom, where 22 percent and 24 percent of investors, respectively, live at least 50 miles from their financial advisers and meet less frequently as a result (see Figure 11).

Figure 11. Frequency of Meetings Based on Distance of Investor Residence from Financial Adviser's Office.



Source: Cisco IBSG, 2012 N=807

In the United States, 57 percent of wealthy investors who live at least 50 miles from their financial advisers either never meet with them or do so less than once per year (or never). In a business built on relationships and trust, many financial advisers are uneasy with the infrequency of personal contact with their wealthy clients. According to U.S. census data, 3.9 percent of Americans moved outside their county in 2011. It is not surprising that over a five-year period, perhaps 15 percent to 20 percent of a financial adviser's clients will no longer live within reasonable driving distance of the adviser's office (if they even retain that adviser when they move). For these investors, face-to-face meetings are simply not feasible, and technology-enabled interactions must fill the void. Our discussions with financial advisers and managers at a variety of firms confirmed this opportunity, with nearly every adviser stating he or she would like to see clients who live far away more regularly (with video being the only practical solution).

Finally, we examined the role video could play in reducing the attrition that occurs when assets are passed to the next generation. According to industry estimates, more than 95 percent of a client's assets leave the adviser when the second spouse dies.[30] We noted in our survey that more than half of wealthy investors include family members (at least occasionally) when they meet with their financial advisers, and among these investors, 42 percent are interested in using video-based meetings with their advisers and family members. In fact, 73 percent said it would help create a stronger bond between family members and the adviser. While a stronger bond alone is not a guarantee of retaining these assets, it certainly gives the financial adviser and the firm a greater chance by establishing trust and demonstrating an understanding of the investment goals and risk profile of individual family members before they receive their gift or inheritance.

Reinventing Wealth Management

Our research on wealthy investors in both 2011 and 2012 reveals that the traditional advisory model must be reinvented if financial services firms are going to remain relevant, much less gain market share, in a world where technology has changed the behavior and expectations of wealthy investors. This model was developed before online resources and services put investors firmly in control of their portfolios. In addition, the old model allowed advisers only to access data, analyst research, and market analysis tools; fundamental tasks such as portfolio risk analysis and rebalancing were beyond the reach of all but the most sophisticated investors.

In this environment, face-to-face meetings were the only way financial advisers could establish and maintain the trust of their clients. In addition, investors usually spoke only to others in their families and social circles about their investments. This model has not changed, despite rapid and constant advances in the technologies investors now use to manage their investments, and in the variety of services and business models introduced by competitors from direct investment firms.

Reinvention begins with an acknowledgement of necessity. An outmoded conception of who their clients are—and what they want—has prevented most wealth management firms from keeping up with the pace of technological change. Wealthy Under-55s are a stark example: they use technology in their daily lives as investors, and they want to use it to interact with their financial advisers and firms.

These investors are “young” only in comparison to the image financial advisers have of their typical clients. And as we have seen, the technologies desired by investors under the age of 50 only 18 months ago are now of interest to investors who are five years older—a trend we expect to continue. Our studies have consistently shown that these investors are willing to move their assets to firms that provide the technology-enabled services they want. No firm can afford to become irrelevant to a group of investors that holds roughly 40 percent of total investable assets,[31] with the promise of more to come through intergenerational wealth transfer.

Wealth management firms must also broaden their conception of who is an “attractive” client. For far too long, firms have conceived of their business, almost by definition, as providing services to an elite customer base. Because of the outsized profits in play, this will clearly remain the focus for the future. But this mentality has also kept wealth managers from taking advantage of the enormous potential from a broader client base. This growth can come from rethinking how they can acquire wealthy investors who do not currently have an adviser and are deeply cynical about the value advisers deliver. It can also come from how they build a sustainable franchise for the long haul by exploring lower-cost, scalable models to serve soon-to-be-wealthy consumers set to inherit significant sums in the coming decade.

Direct investment services such as E*Trade are already offering access to financial advisers, either on an ad-hoc or a subscription basis. These companies will win the battle for Wealthy Gettables and the Emerging Wealthy unless more traditional wealth management firms act quickly. A few leaders are already offering technology-enabled services aimed at these investors. More firms need to follow the lead of BNP Paribas, as described earlier, and find ways to attract and serve these clients profitably through technological innovation.

Even with these early deployments, the majority of current and prospective clients are still waiting for technology-enabled services to become part of how they manage their investments. They will not wait for long.

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Endnotes

1. For example, the S&P 500 reached 1,562 on October 12, 2007 before plunging to 683 on March 6, 2009. The index recovered to 1,465 in September 2012. European stock indices such as the FTSE 100 in the United Kingdom and the DAX in Germany have experienced similar moves and volatility.
2. Source: "Global Wealth 2012: The Battle To Regain Strength," Boston Consulting Group, March 2012.
3. In the United Kingdom, for example, GDP fell by 0.7 percent in the second quarter of 2012 compared with the first quarter of the year. Source: Office of National Statistics, 2012. Eurozone unemployment reached a record high of 11.3 percent in July 2012. Source: Thompson Reuters Datastream, Eurostat, 2012. Even the German economy has been weak in the wake of the financial crisis, with unemployment increasing for a fifth straight month in August 2012 as the euro crisis depressed demand for exports. Source: Reuters, 2012.
4. In September 2012, several events occurred that make it more likely that the euro will survive, including Germany's constitutional court backing the European Stability Mechanism (ESM), and the European Central Bank announcing that it will purchase

"unlimited amounts" of bonds from troubled countries under specified conditions. Source: "The Euro Crisis: Game Change?" *The Economist,* September 15, 2012. Nevertheless, the euro crisis has weighed heavily on investors and financial services institutions alike. Sources: "The Eurozone Crisis: Five Ways It Affects You," *The Guardian,* May 18, 2012; "Investors Prepare for Euro Collapse" Speigel Online International, August 13, 2012.

5. For this study, we use the terms "wealth management firms," "financial advisory firms," and "financial services firms" to describe financial institutions that provide financial advice to investors through financial advisers.

6. We interviewed a total of 1,243 wealthy investors in the United States, United Kingdom, and Germany. These countries make up three of the top five countries in terms of number of households with at least $1 million in assets. Source: Boston Consulting Group.

7. We interviewed a total of 465 Emerging Wealthy investors in the United States, United Kingdom, and Germany. We do not include the results from Emerging Wealthy investors in our discussion of wealthy investors. They are treated as a separate group.

8. We conducted qualitative interviews with 11 financial advisers (seven in global wealth management banks and four independent financial advisers) across eight countries in North America, Europe, and Asia. These were conducted in April and May 2012.

9. Source: "Dial In to Millionaire and Advisory Differences to Find Opportunities," Fidelity, May 2011.

10. Only 25 percent of Wealthy Under-55s say they are completely satisfied with their interactions with financial advisers. This compares to 56 percent for older investors.

11. We use the terms "technology-enabled services," "technology-enabled business interactions," and "technology-enabled business models" to describe the ability of investors to use high-quality video to meet with financial advisers or financial services firms. These interactions can take place through a variety of devices, including laptops, tablets, smartphones, or video rooms in an adviser's office. These terms also include related technologies such as screen sharing during meetings and informational webinars led by financial advisers. We asked respondents to consider all of these video-related technologies when indicating whether they would move their assets to a firm that offered this type of service from a firm that did not.

12. Source: U.S. Census Bureau, 2012.

13. In our analysis of Emerging Wealthy investors, we focused our analysis on the 85 percent of these investors who either have a financial adviser or are willing to work with one.

14. Wealthy investors that met at least occasionally with their financial adviser and family members.

15. Weighted average of survey responses to the percentage of assets investors would move. BCG World Wealth 2012 estimates that total assets in North America are $38 trillion.

16. Based on interest among surveyed investors in a “freemium” model. Calculated as (percentage of investors without an adviser) x (percentage of investors interested in a self-service model) x (percentage of investors interested in receiving limited access to an adviser for a fee).

17. Based on lower client attrition associated with an adviser’s departure. Calculated as (overall adviser attrition rate of 10 percent per year) x (percentage of investors who indicated they would leave the firm if their adviser left) x (percentage of investors who see the opportunity to connect with other experts as an important aspect of video) x 50 percent (assumption that half of investors would switch despite access to experts).

18. Source: *American Banker,* November 8, 2012, http://www.americanbanker.com/issues/177_4/bank-of-montreal-videoconferencing-financial-planning-1045468-1.html

19. Source: Cisco, March 21, 2012, http://newsroom.cisco.com/press-release-content?type=webcontent&articleId=736280

20. Source: *Edmonton Journal,* May 2010, http://www2.canada.com/edmontonjournal/news/business/story.html?id=aeb1a721-585e-43e0-a458-faed806a31e7

21. Source: BNP Paribas Fortis, 2012, https://www.bnpparibasfortis.be/portal/Start.asp

22. Source: TradeKing, 2012.

23. Source: Morgan Stanley Smith Barney, 2012.

24. Sources: U.S. Census, 2010; HM Revenue & Customs; Wirtschaft, Politik, Wissenschaft, DIW Berlin, 2009.

25. For example, the DAX remains well below its 2007 high and has suffered several significant plunges. While the index is recovering its value, these types of volatile moves are more difficult for older investors than younger investors to survive.

26. We posed this question differently in the 2011 survey. At that time, we asked about interest in using various devices to interact with or receive messages from financial advisers. While the results in 2011 were similar to the ones we received from the 2012 survey of Wealthy Under-55s, they are not directly comparable.

    Even though social networking alone holds some appeal for Wealthy Gettables, 59 percent who were interested in joining an online social community said the addition of portfolio management tools and access to investment research and analytics would make them more likely to use the service. Direct investment services such as E*Trade and TradeKing feature their social networking communities to attract customers to their trading platforms.

Other companies are using money management and portfolio analysis tools, often at no cost, as a means of attracting paid clients. For example, a company called Personal Capital (founded by Bill Harris, former CEO of PayPal and Intuit) allows investors to manage all of their bank accounts, bills, and investments in one place. It provides personalized, fee-based financial advice for investors, charging them less than 1 percent of assets under management. Mint.com offers a similar service.

27. Investment-related social networking sites for wealthy individuals such as Family Bhive in the United Kingdom and Tile Financial's spendgrowgive.com in the United States allow corporate members and sponsors into the site. Exclusive networking sites like these may prove to be more successful sources of new clientele than pluralistic sites such as LinkedIn.
28. From a pool, rather than an adviser dedicated to their account.
29. As we did with the Wealthy Gettables, our analysis of the Emerging Wealthy focused on investors who either have a financial adviser or are willing to work with one.
30. Source: Merrill Lynch, December 2010.
31. Sources: U.S. Census, 2010; HM Revenue & Customs; Wirtschaft, Politik, Wissenschaft, DIW Berlin, 2009.

More Information

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