Winning the Battle for the Wealthy Investor:

New Cisco IBSG Study Uncovers Significant Opportunity To Address Needs of Wealthy Under-50 Investors

By Jeff Loucks, Robert Waitman, and Jörgen Ericsson

Summary

After surviving the worst financial crisis since the Great Depression, financial services firms must find a way to thrive amidst market conditions that are making it harder to deliver the returns investors expect—and the profits firms need.

Wealthy investors are the most attractive client segments, as they represent the bulk of assets under management (AUM) and revenues for financial services firms. For example, clients with at least $1 million in investable assets make up 4.1 percent of all households in the United States, but hold 53 percent of the investable assets.[1] Yet, these investors are demanding more value from their financial advisers and financial services firms—especially the kind of tailored advice that leads to better returns.[2]

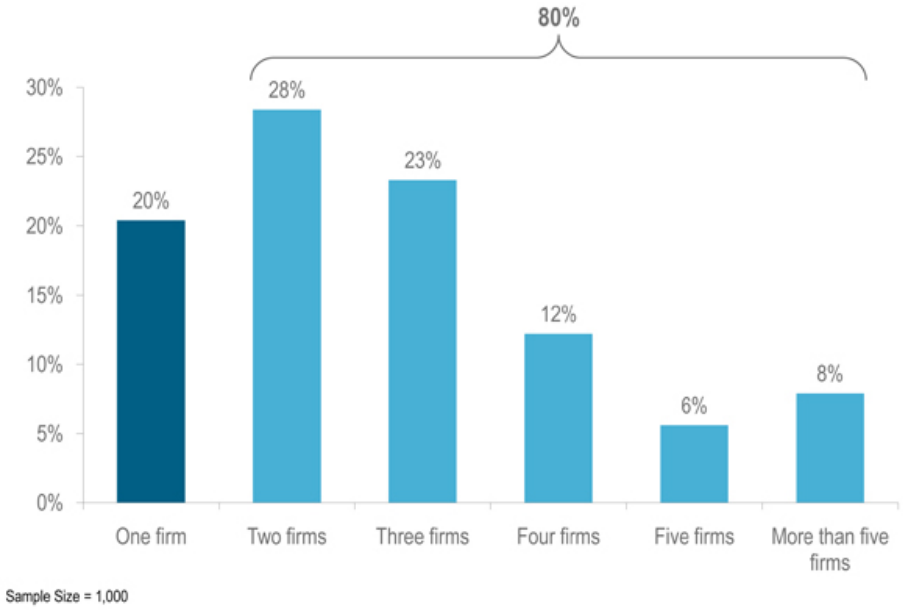
To learn more about this opportunity, the Cisco Internet Business Solutions Group (IBSG) recently conducted a survey of 1,000 wealthy U.S. investors.[3] Nearly half (47 percent) were "affluent investors," with investable assets of between $500,000 and $999,999; 53 percent were high-net-worth individuals (HNWIs) with at least $1 million in investable assets; and 18 percent had at least $2.5 million in investable assets.

Key Findings Present Opportunities—and Challenges

- **Wealthy investors have suffered losses that are affecting both their attitude toward investing and their future prospects:** 37 percent have lost faith in the fairness of the market, and believe that the individual investor does not have a fair chance to succeed; 50 percent of those who have not yet retired expect that their retirement will be delayed, with 18 percent expecting a delay of five years or more.
- **Despite these concerns, most wealthy investors have stayed with their financial advisers through the financial crisis, and remain satisfied.** While 15 percent switched advisers in the past two years, 26 percent have more confidence in their financial adviser now than they did before the crisis.

- **Wealthy investors spread their assets across multiple firms and financial advisers:** 80 percent have their assets at more than one firm, with over a quarter spreading investments to four firms or more (see Figure 1). Among wealthy investors with a financial adviser, 28 percent have more than one financial adviser.
- **30 percent of wealthy investors do not have a financial adviser.** These investors have doubts about the fundamental value proposition of a financial adviser, and have decided to "go it alone": 49 percent said the fees charged by financial advisers are too high; 40 percent said they believe they can get better results on their own; and 37 percent said they do not believe financial advisers have their clients' best interests at heart.

Figure 1. Number of Firms with Which Wealthy Investors Have Invested Assets



Source: Cisco IBSG Research & Economics Practice, 2010

A crucial customer segment emerged from Cisco IBSG's research: *wealthy investors under 50 years of age (Wealthy Under-50s).* IBSG analysis indicates that Wealthy Under-50s constitute an $18.6 billion revenue opportunity for financial services firms in North America.[4] While Wealthy Under-50s can help increase AUM and profits for firms willing to meet their unique needs, they pose a serious challenge to firms that fail to tailor their approach to these critical investors.

Wealthy Under-50 Investors: What They Want, How To Deliver It

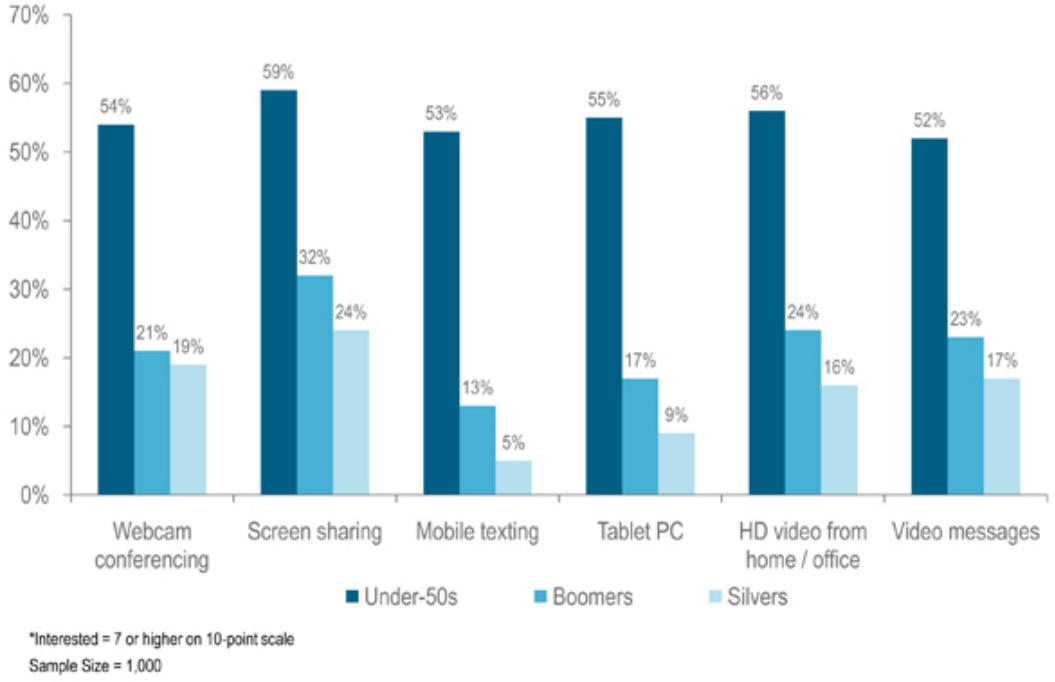
Wealthy Under-50s are looking for a "custom fit," including services tailored to their investment needs, and a wider range of options for interacting with their financial advisers. They want their advisers to provide greater value in terms of results, expertise, and accessibility. *Most important, Cisco IBSG research shows that Wealthy Under-50s are poised to move to firms that provide a new approach to financial advice—and to leave those that don't.*

Wealthy Under-50s are underserved in the current environment because financial services firms have typically remained focused on older clients (baby boomers and silvers), who make up the bulk of the wealthy client base. (Note: For this survey, "baby boomers" are defined as those born between 1946 and 1960, while "silvers" are those born before 1946.)

Cisco IBSG's research shows, however, that financial services firms are making a mistake if they overlook the Wealthy Under-50 market. Wealthy Under-50s constituted 29 percent of the survey's respondents, yet they held 37 percent of assets. Across all asset classes, Wealthy Under-50s hold 28 percent of total wealth in the United States.[5] Wealthy Under-50s are much more likely to own their own business, and they have a higher average income than older investors.[6] In addition, their importance to financial services firms will only increase as wealth is transferred from older to younger generations: 67 percent of Wealthy Under-50s in our survey expect to receive a substantial gift or inheritance in the next 10 years.

Wealthy Under-50s have different needs and interaction preferences due to their higher use of—and comfort with—technology. And among all customer segments, they are the most interested in the kinds of new services that will drive the next generation of wealth management (see Figure 2). Financial services firms that move quickly have the opportunity to win the lion's share of a segment that will become the backbone of their future wealth management business. Late movers could find themselves "locked out," attempting to win wealthy customers who grow less likely to switch firms as they age.

Figure 2. Percentage of Wealthy U.S. Investors Interested in Using Different Technologies To Interact with Their Financial Adviser or Investment Firm, by Age

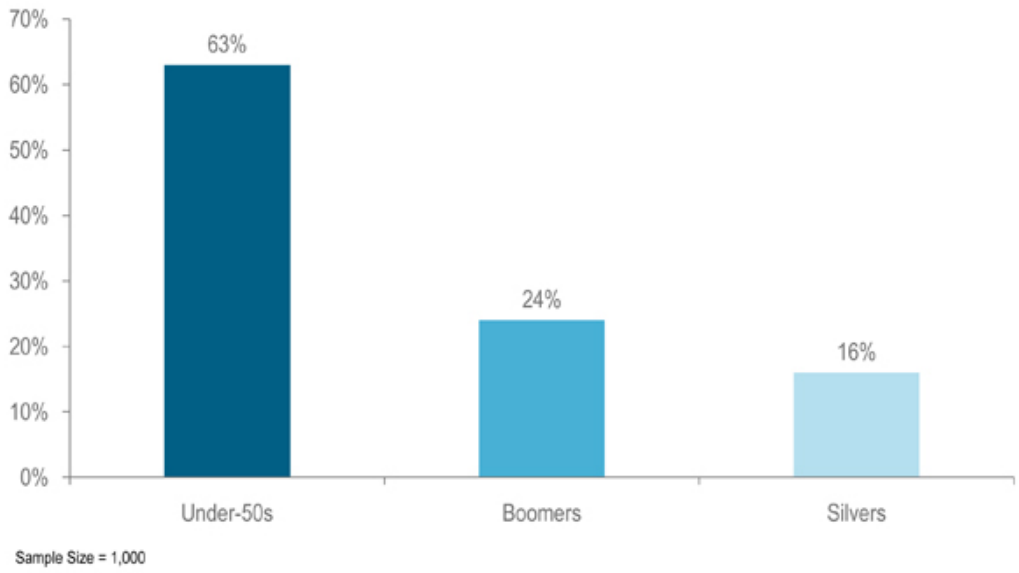


Source: Cisco IBSG Research & Economics Practice, 2010

Several findings from Cisco IBSG's study support these perspectives:

- **Wealthy Under-50s spend more time managing their investments and interact more frequently with their advisers**: 39 percent of Wealthy Under-50s spend at least eight hours a month managing investments (versus 27 percent of older investors), and 38 percent interact with their advisers at least weekly (versus only 7 percent of older clients).
- **Despite being in frequent contact with their financial advisers, Wealthy Under-50s are much more likely than older investors to switch advisers**: 27 percent of Wealthy Under-50s switched advisers in the past two years, versus 7 percent of older wealthy investors; 32 percent of Wealthy Under-50s say they will switch advisers in the next year, compared to 8 percent of wealthy boomers and 5 percent of wealthy silvers.
- **Wealthy Under-50s are restless in part because financial services firms do not deliver the appropriate mix of interactions.** They want faster, more convenient options for interacting with their advisers and firms—beyond in-person meetings, phone conversations, and email.
- **The interactions and services desired by Wealthy Under-50s can be enabled by a range of technologies:**
  - Wealthy Under-50s are much more likely than older investors to consult other professionals such as accountants or lawyers when making investment decisions. Thus, they are far more interested in using *high-definition video meetings* to meet with *multiple* financial experts at the same time: 63 percent of Wealthy Under-50s were interested, versus 30 percent of boomers and 21 percent of silvers.
  - Wealthy Under-50s were about twice as likely as wealthy boomers and silvers to be interested in using the six technologies Cisco IBSG tested (see Figure 2). The difference in interest was greatest in the area of mobility.
  - Using *social networking* for investment advice is also becoming more common, especially with Wealthy Under-50s: 55 percent of these clients have used social networking for investment advice, and 34 percent have contributed to an investment blog or message board concerning financial investments. Given their current use of social networking for investing, it is not surprising that 66 percent of Wealthy Under-50s are interested in joining an online investor community (social network) to discuss strategies, ideas, and stock picks with other investors, versus 23 percent of boomers and 14 percent of silvers.
  - Especially for Wealthy Under-50s, these capabilities can serve as incentives for clients to stay with their current firm or shift assets to a new firm: 63 percent of Wealthy Under-50s said they would shift some of their assets to a firm that offered high-definition video meetings to meet with multiple financial experts (see Figure 3). IBSG estimates that the willingness of Wealthy Under-50s to move assets to access technology-enabled capabilities translates into an $18.6 billion revenue opportunity for North American financial services firms. When older investors are included, the figure jumps to $28.6 billion.[7]

Figure 3. Percentage of Wealthy Investors Interested in Moving Assets to Another Firm To Gain Two-Way High-Definition Video Access to Multiple Experts, by Age



Source: Cisco IBSG Research & Economics Practice, 2010

Financial services firms have the opportunity to design and deliver "high-touch" services in ways that improve productivity and scale scarce (and often expensive) expertise. But the biggest opportunity is the ability to attract and retain the most desirable segment of wealthy investors: young clients who are still accumulating wealth and have a higher customer-lifetime value.

Implications and Strategies for Financial Services Firms

As the survey indicates, there are several kinds of opportunities for financial services firms to pursue as part of their client growth and retention strategies for wealth management:

- **Grow "Share of Wallet":** We noted that 80 percent of wealthy investors have their assets spread across many firms (many use multiple financial advisers as well). Firms should seek to grow their "share of wallet" with these investors by building and offering enhanced capabilities that deliver greater convenience and access to expertise that investors want. These investors—particularly Wealthy Under-50s—have also stated they would be willing to move their assets to gain these capabilities, so firms have an opportunity to grow their share with these investors.
- **Acquire / Retain Wealthy Under-50s:** Wealthy Under-50 investors are much more likely than their older counterparts to move to a new firm or adviser, so client acquisition and retention strategies should focus on this segment while they are "in play."
- **Provide a "lighter touch" model to self-directed investors and investors with fewer assets:** 30 percent of survey respondents had no financial adviser, many saying the services provided by the adviser were not worth the price. Investors with fewer assets also get less attention from their financial advisers, and it is not economically viable to provide them with the same level of service reserved for

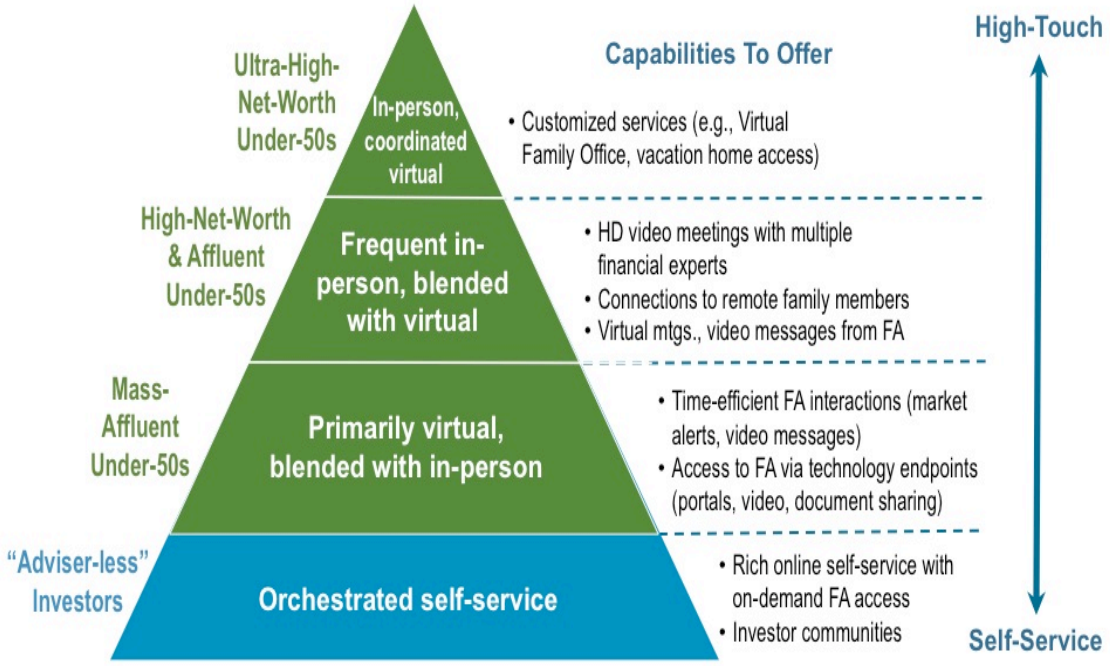
wealthier investors. Firms that can offer some of the services a financial adviser provides—but more efficiently, and at lower cost using online functionality—can also attract investors with fewer assets in a profitable way.

Pursuing these strategies will require firms to invest, pilot, and refine a set of new capabilities. Interest among wealthy investors appears strong for a number of select capabilities, including: 1) accessing experts and including family members via high-quality video from the adviser's office or from the investor's home; 2) receiving relevant video and other messages remotely; and 3) participating in social networks related to investment interests.

Firms will, of course, need to tailor offerings and capabilities based on their current client mix and strategies for acquiring new clients. Cisco IBSG's research shows, however, that financial services firms should focus on two segments, each with specific needs (see Figure 4):

1. Wealthy Under-50 investors
2. Self-directed wealthy investors (of all ages) who do not have a financial adviser

Figure 4. Opportunity Map: Wealthy Under-50s and Wealthy Investors with No Adviser



Source: Cisco IBSG, 2010

1. Deliver Technology-Enabled Services Geared to Wealthy Under-50 Investors

Cisco IBSG believes that by implementing the following strategies *now,* financial services firms can retain the Wealthy Under-50 investors they have, and gain market share from slower-moving competitors:

- For **ULTRA-HIGH-NET-WORTH** Under-50 investors:
  - *Design customized, technology-enabled services.* Financial services firms should design customized, technology-enabled services to increase loyalty and attract new clients. The findings showed that Wealthy Under-50s with at least $2.5 million in investable assets are even more enthusiastic than their less-wealthy counterparts about using technology to interact with financial advisers and firms. These important customers do not exclusively desire face-to-face contact; instead, they want multiple ways to interact with financial advisers and to access multiple sources of information. As the wealth grows into the ultra-high-net-worth range ($30 million and above), they become candidates for a variety of highly profitable services, including high-definition video capabilities via a "virtual family office" or various other locations (for example, a vacation home).
  - *Assign a virtual team featuring top experts from across geographies.* One Cisco IBSG client (a major North American bank) is piloting Cisco TelePresence™ services with its private banking clients in order to provide access to the bank's specialized financial experts located in other cities. The service proved so seamless and valuable that the technology quickly faded into the background; clients were "wowed" not by the technology, but by the convenience and value of the service itself.
- For Under-50s with **AT LEAST $1 MILLION** in investable assets:
  - *Enable meetings with multiple financial advisers and family members via high-definition video conferencing.* Wealthy Under-50s are collaborative investors who are more likely than older investors to consult with professionals other than their financial adviser about their investments. For many Wealthy Under-50s, the financial adviser currently does not play a role in synthesizing this advice into a coherent strategy; they are "on the outside" of these other relationships, unable to add value to the investor. By coordinating the participation of multiple professionals, financial services firms can address two key opportunities:

    1. *Grow wallet share* by (1) attracting new clients through a differentiating service that addresses an important need of Wealthy Under-50s, and by (2) providing multiple perspectives, expertise, and portfolio balancing *from the firm's own experts*—information investors are currently using several financial advisers and firms to attain.
    2. *Retain Wealthy Under-50s* (and increase client loyalty) by (1) placing the financial adviser at the center of the investor's extended financial team, and by (2) scaling expensive and scarce expertise from within the firm that wealthy investors need to access, but that cannot be provided at all of the firm's locations.

    Many Wealthy Under-50s also involve family members who live in other locations when they discuss their investments with their financial advisers. By offering access to high-definition video meetings, financial services firms can (1) attract and retain clients by providing a differentiating service that Wealthy Under-50s value, and (2) gain new clients from family members not currently investing with the firm.

- For Under-50s with **LESS THAN $1 MILLION** in investable assets:
  - *Deliver scalable interactions and timely advice via video messages.* Financial services firms should use video messages delivered to PCs, tablets, and smartphones to provide alerts, market commentary, and buy-and-sell recommendations tied to specific, time-sensitive events. These messages could be recorded by the financial adviser using a desktop PC, then sent directly to all clients for whom the news or recommendations are relevant. Services such as video messages provide "high-touch" interactions at lower cost than one-to-one interactions.
  - *Provide a range of technology-enabled capabilities.* Wealthy Under-50s want more access to their financial advisers, and to information that is relevant to their investments. Wealthy Under-50s are frustrated that they cannot use the technologies with which they are comfortable—smartphones, tablets, webcams, online video—to speak with their financial advisers or to receive up-to-the-minute investment updates. To address this shortcoming, wealth management firms should offer the following technology-enabled capabilities:
    1. Robust and relevant online portals through which financial advisers (and their staffs) can provide videos, market updates, and recommendations tailored to the needs of Wealthy Under-50 investors.
    2. Video technologies (home-based high-definition video conferencing, webcam, mobile video) that enable interactions with financial advisers via convenient, ad-hoc meetings and portfolio updates. Make video interactions available through mobile devices (e.g., smartphone, tablet PC) that support two-way video.

2. Provide Low-Cost Services To Attract "Adviser-less" Investors

Representing 30 percent of wealthy investors, this group is too big to ignore. It might be difficult to attract "adviser-less" wealthy investors using the current business models they have already opted out of. But an approach that brings self-directed investors under a financial services firm's "umbrella" could be the first step toward developing some of the important elements of an advisory relationship. To achieve this objective, firms should consider an offering that provides "light-touch" and "on-demand" financial advisory services:

- Research and analysis tools that self-directed investors need to be successful, including firm-exclusive research and how-to videos
- Online community featuring investor discussion forums and blogs from experts
- Financial adviser services, either "on demand" or virtual-only, depending on what clients are willing to pay. Advisers could offer a full range of services (e.g., financial strategy, portfolio allocation, selecting stocks), or ad-hoc, on-demand advice ("Should I sell?" "What do you think of this investment idea?") via virtual-only interactions.

In conclusion, Cisco IBSG believes that all the elements are in place to improve fundamentally how investors work with their wealth management firms and financial advisers. Investors (especially Wealthy Under-50s) are already using capabilities described above in their personal and professional lives, and want to incorporate them into the management of their financial lives. These investors represent a significant opportunity (and

challenge) today, and will become an even bigger factor in the future. The time is now for firms to identify and invest in delivery models that will boost wallet share and attract / retain more customers. There is much to be learned, but the winners will enjoy the benefits for years to come.

To learn more about this study, and about wealth management opportunities for financial services firms, please contact:

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Endnotes

1. “Global Wealth 2010: Regaining Lost Ground,” Boston Consulting Group, June 2010.
2. Ibid.
3. Our respondents averaged nearly $1.7 million in household investable assets, with average household income of $223,500.
4. The total size of AUM in North America (U.S. and Canada) is $35.1 trillion (Source: “Global Wealth 2010: Regaining Lost Ground,” Boston Consulting Group, June 2010). Under-50 investors make up 28 percent of the total net worth in the U.S., boomers are 41 percent, and silvers are 31 percent (Source: U.S. Federal Reserve Survey of Consumer Finances, February-March 2009, and U.S. Census Current Population Survey, March 2010). In the Cisco IBSG wealth management survey, respondents were asked what percentage of their assets they would consider moving to a firm that provided two-way high-quality video to connect with multiple financial experts. From this, total assets at risk were calculated to be $2.2 trillion for the Under-50s, and $3.4 trillion overall. Return on assets was estimated at 83 basis points (Source: “Global Wealth 2010: Regaining Lost Ground,” Boston Consulting Group, June 2010), yielding a total a revenue opportunity of $18.6 billion for Under-50s and $28.6 billion overall.
5. “Changes in U.S. Family Finances from 2004 to 2007: Evidence from the Survey of Consumer Finances,” Federal Reserve Bulletin, February 2009; Cisco IBSG, December 2010.
6. Twenty-two percent of Wealthy Under-50s say their biggest source of personal income is from a business owned by themselves or their family, as opposed to 7 percent of investors 50-64, and 5 percent of investors 65 and over. The difference in average household income is significant: under-50s, $338K; 50-64, $176K; 65 and over, $141K.
7. See endnote number 4.

More Information

Cisco Internet Business Solutions Group (IBSG), the company's global consultancy, helps CXOs from the world's largest public and private organizations solve critical business challenges. By connecting strategy, process, and technology, Cisco IBSG industry experts enable customers to turn visionary ideas into value.

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