WHITE PAPER

WEALTH MANAGEMENT GURUS UPGRADING I.T. TO MEET D.O.L. CHALLENGES

The impending "Conflict of Interest" regulation announced by the U.S. Department of Labor has major implications for the wealth management industry. Some companies remain indifferent to the ruling, while savvy firms see opportunity.

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The U.S. Labor Department dropped something of a bombshell on the wealth management industry this year, and it's forcing many firms to rethink the way they advise clients.

In response to consumer pressure, the government is taking steps to ensure that advisors prioritize their customers' interests over their own, effectively eliminating what the government sees as $17 billion in unnecessary commissions and other fees each year.

The new "Conflict of Interest" regulation taking effect in April places advisors squarely in the role of fiduciaries or customer advocates, such that firms with questionable tactics could face litigation.

So how is the industry responding? Many companies are still underestimating the impact of this monumental change, while others are already strategizing changes in company philosophy, products, services, processes and technology to compete effectively in what many view as a completely new playing field. At the same time, they're working to ensure viable profit margins while protecting their agents from accusations of wrongdoing.

"The industry is about to evolve at a rapid-fire pace," notes Heather Zimmerman, financial services practice manager for Magenic. "Many companies are already working like mad to leverage new and existing technologies so they can hit the ground running with their improvements as soon as the regulation takes effect. Others are about to find themselves left behind and/or at risk of non-compliance with a game-changing law."

Their ability to adapt represents high stakes in what has become a $25 trillion retirement services market.

What's precipitating the revolution? In general, it can be summed up in three ways:

Clients are pushing to know more.

Today's financial-savvy customers are demanding better transparency and more details when making decisions about financial risks that could alter the rest of their lives. Because they're educated about the amount, accessibility and quality of highly informative analytical data available in the modern financial marketplace, they're increasingly leery about partnering with companies that seem hesitant to share such information. For example, when Investment News **polled** U.S. recipients of inheritances last year it found that 66 percent had fired their parents' financial advisors, often citing a lack of useful information or direction.

"Over the next 30 years, an epic $30 trillion will be passed down from baby boomers to Generation X to millennials," notes Investment News reporter Liz Skinner of the study. "Many investment advisers will see their hard-earned asset base evaporate ... because they don't know how to connect with their clients' children. The problem is especially difficult for the many advisers ill-equipped to connect with clients who are technology savvy and expect a very different service experience than their parents did."

Zimmerman advises brokers to respond by openly sharing data sources and better explaining their rationales for recommendations.

"Client meetings should be beyond small talk," she recommends. "Today's consumers are looking for strategic roadmaps and continual monitoring of how their money is faring compared to their goals and objectives. Focus on guiding and empowering them, not just telling them what to do."

Fortunately, innovation in data-gathering tools is enabling that by increasing brokers' ability to collect and integrate such data into a single interface, turn it into meaningful insights and share it with customers in ways they can easily understand.

Integration of client accounts has been part of the industry routine for decades, Zimmerman notes, but FinTech innovation has taken it to the point at which dashboards can incorporate data from multiple – seemingly unrelated – platforms to create insights that sometimes astound. In the future, the most successful brokers will be the ones optimizing that data for their client's best interests – and maintaining proof that they're doing so.

Clients are pushing to become known.

To facilitate better and more comprehensive advice, brokers will increasingly be granted access to more holistic views of clients' financial lives, including corporate retirement accounts; insurance policies; money market, checking and savings accounts; credit card usage and home mortgage balances. But consumers won't just hand over that data carte blanche; firms must first prove they can be trusted and the information will be used to their clients' advantage. A 2015 Harvard Business Review **study** shows 97 percent of consumers worldwide are concerned about businesses misusing their data, with identity theft and general privacy at the forefront of their worries.

"A firm considered untrustworthy will find it difficult or impossible to collect certain types of data, regardless of the value offered in exchange," the authors note. "Highly trusted firms, on the other hand, may be able to collect it simply by asking, because customers are satisfied with past benefits received and confident the company will guard their data. In practical terms, that means if two firms offer the same value in exchange for certain data, the firm with the higher trust will find customers more willing to share."

Establishing trust also means greater objectivity may be called for if a client isn't in a position to make further retirement investments, but would be better served by pursuing other financial strategies.

"While the new wealth of customer data will enable better investment strategy, it will also hold brokers more accountable for putting clients' profits before their own," Zimmerman advises. "That may be painful at first for industry insiders accustomed to maximizing their incomes by choosing products by other criteria."

Clients want less friction, more personalized engagement.

Over the last several years, person-to-person interaction has been blurred as digital services become more widespread. Customers are reacting by choosing companies that demonstrate they're catering to their specific wants and needs (including preferred channels of communication) while making all transactions as smooth as possible. To make that happen wealth management firms must optimize what they've learned about each customer profile from analytics tools, striving not to waste their client's time and patience by pitching products and services that are likely of little interest.

A recent PriceWaterhouseCoopers study describes the new advice model as follows: "The new concept emerging is the 'health of your wealth' — how clients build and use their assets and how they achieve their personal and professional goals. More and more, an advisor's differentiation and value will be tied to the overall client experience, and to being an effective behavioral coach who helps people execute their plans. In response, many advisors are working hard to make clients more engaged partners in investment decisions. This has the advantage of deepening the relationship."

Taking all that into consideration, Magenic recommends wealth management firms focus on the following steps forward:

1. **Make change a priority.** The longer you wait on addressing the improvements you need, the farther you could fall behind in comparison to others in your industry. Start now to determine what you need, how much time it will require and what it's likely to cost. "The clock is ticking," writes Jerry Gleeson on news site **WealthManagement.com**. "Implementation starts phasing in next April, and once again advisors are looking to technology vendors and consultants for software and systems to cover new responsibilities. It's not the first time regulatory changes have opened doors for new technology that promises to help advisors smooth over the rough patches."

2. **Evaluate your current data strategy.** Identify which insights you need the most to compete most effectively in the new, more highly regulated environment. About what do your clients most inquire? What will help them make better-informed decisions regarding their investments? What proof will you need that your organization is complying with the new law? A DOL compliance surveillance system may be the least of your required changes. Smaller firms may find they need added capacity just to try or implement some of the newer tools on the market, while larger firms may require a complete overhaul that can fully address their hundreds or thousands of advisors.

3. **Take an end-to-end approach.** Simply having more data isn't going to solve all your problems. You must make solid plans for integrating that data, turning it into usable insights and sharing it with clients in ways that let them know you're paying attention to their individual needs and preferences. Magenic recommends starting small by building a tightly scoped "tracer bullet" solution that assesses feasibility before you invest in a more comprehensive software solution. Your new focus should be on the start-to-finish customer journey, not just the customer, and you might also consider a gap analysis that points to opportunities for added value — especially any that create competitive advantage. After that your next step may be evaluating storage, network and computing needs; cloud-based services may work best for those with fluctuating demand and variable budgets.

4. **Complete your integration.** Integrating multiple sources of information will allow you a much more comprehensive view of what's going on in the market, at your company and among your client base. When choosing investments, prioritize advanced analytics that could improve your competitive advantage in elements that include journeys, holistic economics and viewability of client segments.

Ready to get started?

"Some wealth management professionals view the DOL changes as a major inconvenience, but the smartest are looking at this as an enormous opportunity to differentiate themselves," Zimmerman notes. "Those who are proactive in improving the intelligence they bring to clients will come out the winners."

Magenic can help wealth management companies evaluate their data strategy. Contact us at **877-277-1044** or **info@magenic.com** for a consultation.

About Magenic

Magenic is a leader in business technology consulting. We understand the barriers to innovation companies are facing and apply the right technology to transform their business.

Visit us at **magenic.com** or call us at **877.277.1044** to learn more or to engage Magenic today.

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