

# Tech modernization

What wealth managers need  
to accelerate (or risk falling behind)



## INTRODUCTION

As client demands, advisor expectations, the blurring of wealth verticals and competitive pressures increase in new and unexpected ways, wealth managers are compelled to analyze their business models and transform their ecosystems.

Compounding those challenges is the growing awareness among firms that their digital transformation is mandatory. Decision makers must prepare for what is next today to create new, scalable infrastructures as quickly as possible. Finding a way forward will require leveraging emerging technologies to address a multiplicity of hyper-personalized solutions to accommodate the marketplace needs of the rapidly changing investment landscape.

Tomorrow's successes will be measured by the pace of a company's technology modernization; the speed at which new ecosystems are developed to compete in today's environment. Over the following pages, we will explore both the challenges faced and the strategic steps needed for developing successful tech modernization strategies.

### Digital Leaders Invest in Tech for a Simple Reason: Profits

SPEND ON NEXT-GEN TECHNOLOGIES AND REPORTED IMPACT ON PROFIT MARGINS FROM USAGE



\*Percentage of company's total annual IT budget invested in next-gen technologies

†Percentage point increase in profit margins reported through use of next-gen technologies

From Broadridge's Next-Gen Technology Adoption Survey, this chart shows the close correlation between technology spending and profit margins among wealth managers in four stages of tech modernization.<sup>1</sup>

## WEALTH MANAGEMENT: THREE PRIMARY CHALLENGES

To adapt to accelerating change, companies increasingly realize that they need to innovate—and they need to do it now.

Today's modern technology platforms allow companies to completely design new digital enterprises — but with a caveat. You have to begin with the development of a clear strategy and roadmap for success. This requires an understanding of what clients are looking for from their advisor and the headwinds facing wealth managers before identifying the steps needed to improve business outcomes.

Fifty-eight percent of C-suite executives in Broadridge's Next-Gen Technology Pulse Survey of 500 buy-side and sell-side financial institutions reported that creating a culture of continuous digital innovation was a top priority.<sup>2</sup>

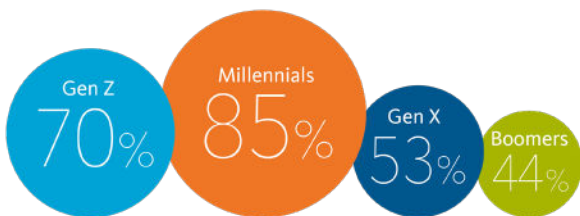
Lured by the attractions of more scalable technologies to meet the needs of clients, advisors are pressuring firms to simplify and transform their operating models. If they hold fast to the status quo, firms may fail to attract their share of the \$68 trillion transfer of wealth now underway and potentially lose existing clients to competitors that offer a more hyper-personalized, digitized client experience.

To solve a problem, you must first define it. Wealth managers at their core focus on increasing client wealth and strengthening relationships. However, by using yesterday's tools to solve tomorrow's problems they inhibit innovation, slow growth and fail to meet client needs.

### Investors Want Advisor Engagement

**% OF RESPONDENTS THAT WOULD LIKE TO HEAR FROM THEIR ADVISOR MORE OFTEN**

● Gen Z (18-24) ● Millennials (25-40) ● Gen X (41-56) ● Boomers (57-75)



*"I want to hear from my financial advisor more."*

Spurred by the convenience of digital interactions, clients have favored increased contact with their advisors for advice and recommendations.<sup>3</sup>



### Adapting to Evolving Investor Demand

Behavioral differences among generations, combined with evolving expectations driven by big tech has transformed the wealth management business through all of the client's engagement channels.

In step with the hyper-personalized experience clients value in their retail relationships, wealth management clients now demand being viewed as a "segment of one" in their own right.

The client appetite for more meaningful contact from advisors keeps getting stronger. Sixty percent of all investors say they want to hear from their advisor more often, with Millennials leading the list at 85% and Baby Boomers representing a sizeable minority.

Clients said they look forward to engaging with their advisor on topics that support their long-term goals. Firms that build client receptivity into their target operating models will tap into a particularly accessible and rewarding way to deepen trust and strengthen the client-to-advisor bond.

Similarly, a CFA Institute survey revealed that investors not only prefer a more personalized approach to meeting their investment needs, but 48% even said they would pay more for them.<sup>4</sup>

## Strengthening Client-Advisor Engagement

While advisors and client teams must commit to greater personal contact with clients to meet expectations, advisors reported spending 20% their week on administrative tasks.<sup>5</sup> Such distractions by non-value added activities impede the effectiveness of client-facing teams and make it more difficult to develop deeper relationships with clients.

While the ability of technology to build better client-advisor connections has been well documented, a surprisingly sizable percentage of North American financial advisors (77%) reported they lost business due to inadequate technology support. Both of these factors – non-client-facing activities and inadequate tech support – limit the effectiveness of your most valuable, client-facing resources.<sup>6</sup>

Advisors also appear to be missing a big opportunity: Almost half of investors in a Broadridge survey reported that their advisors have not communicated with those who will inherit or influence their investor clients.<sup>7</sup>

## Neglected Opportunities

CHILDREN



GRANDCHILDREN



HEIR



SPOUSE/EX-SPOUSE/PARTNER



NONE OF THE ABOVE



Almost half of advisors have not communicated to client family members – including heirs.



By overlooking client family members and other heirs as potential prospects, advisors inadvertently undermine the long-term client relationship value they already have. The problem intensifies when client service teams lack the capability to develop connections with the next generation of prospects who may be the beneficiaries of substantial, emerging wealth. Among clients who noted advisor’s failure to reach out to heirs or family members, 42% said they have not communicated with the spouse, ex-spouse or partner. Failure to engage with all stakeholders in the present makes it difficult for wealth managers to maintain strong client relationships in the future.

## Understanding the Transformational Power of Digitization

Firms must recognize that digitization reaches far beyond paper reduction, and “lift and shift” approaches which just move the problem to a new solution. Too often, these efforts only focus on paper reduction and keep a broken process in place. Such a limited use of digitization provides a minimal impact to enhancing the client journey or personalizing the client’s experience. In some cases, such digital interactions may even make interactions worse.

## TECH MODERNIZATION: SOLUTIONS APPLIED

Meeting the requirements of the marketplace is not enough. A restless investor landscape has kept clients and assets on the move between firms. According to Thoughtlabs' Wealth and Asset Management 4.0.<sup>8</sup>, in the past year one-third of clients said they transitioned more than 20% of their assets to another provider. Over the next two years, 44% said they plan to do so.

Wealth managers succeed in their retention efforts when they exceed client expectations, differentiate their offerings from the competition, personalize experiences and apply these strategic solutions.



### Show Clients You Know Them

Every time you engage a client, you have the opportunity to demonstrate your value in new and meaningful ways. Increasingly, clients have said they want to give you just this opportunity.

In addition to frequent contact, hyper-personalization through all channels – from face-to-face meetings through online interactions – is critical to building lasting relationships. Hyper-personalization takes a big step beyond traditional personalization. This approach leverages the information you already know about your client in real-time, using AI to deliver highly individualized messages to each investor.

There may be no better way to immerse yourself in a client's needs and concerns than by incorporating a holistic approach to your financial planning process. By understanding the client's full financial picture, and knowing their short and long term goals, the advisor and their team can quickly discover what the client values, how they are currently positioned for success and the outcomes they desire. This allows for a tighter bond to be built and the development of a trusted relationship.

Aligning with client values, the marketplace has seen a shift to more thematic investing over the past year. Kiplinger recently documented the rising interest in ESG investments,<sup>9</sup> noting that nearly 80% of investors said they would likely include them in their portfolios over the next two years – a strong indicator of the strategy's growing momentum in the marketplace. High percentages of Gen X, Millennial and Gen Z investors have stressed their preference for personalized investment strategies that included more direct indexing, and fewer ETFs and mutual funds, to meet their long-term investment objectives.

### Analyze How Well Your Business Model Aligns with Clients

To align with their clients' needs, advisors and teams should begin by understanding who their client is today and who they expect them to be tomorrow. Candid analysis and an understanding of how you compete for clients is critical in probing how well your organization is meeting client needs and strengthening relationships. Benchmark your firm's progress against the market, not just your direct competitors. Prepare to look beyond technology to how you will incorporate people and processes into your modernization strategy. This will provide a roadmap for expanding your service model and product extensions, including those from competitors with specialized expertise such as servicing cryptocurrency.

#### IMPLEMENT A TARGET OPERATING MODEL (TOM)

The TOM represents how best a firm can be organized to deliver and execute on your strategy, while letting internal teams visualize the firm's ecosystem from a variety of perspectives across the entire value chain.

People, processes and technology are key components of a model; critical for ensuring the success in execution of the strategy.

### Undertake a Journey Mapping Exercise

After analyzing and affirming your competitive position, undertake journey mapping. This powerful exercise that can lead to higher levels of client satisfaction. Too often overlooked in the strategic planning process, this effort will help identify client pain points and expose inefficiencies that internal teams confront – like solving for known problems rather than trying to optimize flawed initiatives.

Outcomes from modernizing your business model include better deployment of resources, higher client satisfaction and operational scale, and improved advisor efficiency.

## Evaluate Client Satisfaction

Determining if your clients are satisfied, loyal, at risk or indifferent towards you is critically important to revenue retention and expansion. A subjective review can quickly lead to errors and misconceptions. Optimize the objectivity of your analysis through next-gen technologies. Employing Artificial Intelligence (AI), Machine Learning (ML) and Predictive Analytics can help you quickly determine the Next Best Action (NBA) to take. Additionally, you can evaluate the health of client relationships through client-centric metrics involving cash activity, digital engagement, or numbers and types of interactions.

To stay objective, remember this old business adage: “A happy client tells their friends and an unhappy one tells everyone.” Keep different client groups in separate categories. Use your next-gen technologies to help identify high potential clients beyond simply determining who is a HENRY (High Earnings, Not Yet Rich). Other factors such as wallet share and wealth transfer profile can play a vital role.

## Roadmap to Tech Modernization

Tomorrow’s wealth managers will succeed based on their ability to build and improve upon scalable infrastructures that leverage technology to meet the needs of consumers and advisors.

## Measure Workforce Acceptance of Innovation

Most organizations have a highly structured process to evaluate capital spending and budgets for ecosystem transformations. Before funds are allocated, the projected Return on Investment (ROI) will be highly scrutinized. In contrast, the effort to evaluate the internal investment will be a lower priority. Acceptance of the ecosystem change created will be directly correlated with the value of the effort and the level of user satisfaction. Tech modernization does not make things “better” – it transforms the wealth management business model.

The development of a continuous feedback loop leads to a culture of constant improvement. This mechanism allows you to continually transform and differentiate your business model, rather than optimize and blend into the market. Through it, you are able to determine the degree of value gained from the initial investment, as well as gather the critical data needed for identifying and planning the next project.

Regardless of whether your actions exceeded or fell short of expectations, stay objective and document the results.



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## CONCLUSION

You cannot change the past. What matters now is how you move forward. It is human nature to move directly to an action without considering if the effort is fully aligned with the goal. Such approaches prove costly. It is better to adapt a “measure twice, cut once” mentality. Independent of next steps or specific projects, start by evaluating your client, the market, your current positioning and then develop your strategy.

This way you will build infrastructure resilience, as you prepare for continuous exponential evolution on the way to capturing new revenue opportunities. Regardless of where you end your transformation, consider that point as the first step in the next journey toward the ongoing improvement of your ecosystem.



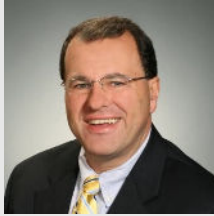
### NEXT STEPS

Establish a disciplined and structured approach from the beginning by addressing questions like these:

- What does your client of tomorrow look like?
- What will that client want from you – and what will they really need?
- Is your value proposition aligning with what the marketplace requires from you?
- Are there any gaps in your future offering that have not been addressed through your updated strategy?
- What does hyper-personalization mean to your firm?
- What do you need to do to differentiate your experience from your competitors?
- What is the best way to manage all client channels?
- What does your revised target operating model (TOM) look like?
- What is the priority for the projects needed to achieve your TOM?

The answers will lead to a more structured approach to a strategy that better aligns with your objectives and, most importantly, what your clients expect. Every innovation completed should end with one more critical step: the integration of a test and learn approach to maintain a continuous feedback loop.

## ABOUT THE AUTHOR



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A financial industry thought leader for more than 25 years, Mike develops readiness assessments, road maps and execution strategies for wealth managers preparing for “what’s next.” Organizations that prefer a solution architect to a conventional consultant turn to Mike for the depth of his expertise in technology modernization and simplification, product development insights and his knowledge of the data empowerment generated through Artificial Intelligence (AI) and Machine Learning (ML).

With a consulting background in performance measurement, securities processing, and operational best practices, Mike’s skill set is an especially good fit for wealth management firms that need a proven industry leader and consensus builder who can help guide internal teams in accelerating their pace of innovation.

## SOURCES

<sup>1</sup>[Broadridge Next-Gen Technology Adoption Survey](#)

<sup>2</sup>[Broadridge Next-Gen Technology Pulse Survey P.7](#)

<sup>3</sup>[Wealth Management 2021: Using Technology to Engage Clients](#)

<sup>4</sup>“What It Takes for Investors to Trust the Investment Management Industry” (May 6, 2020)

<sup>5</sup>[Broadridge The Future of Advice P.7](#)

<sup>6</sup>[Current Wealth Technology Tools Not Meeting Financial Advisor Expectations](#)

<sup>7</sup>[Broadridge “Investor preferences undergo lasting transformation”](#)

<sup>8</sup>Thoughtlabs’ Wealth and Asset Management 4.0 Executive Summary, P. 3.

<sup>9</sup>[Kiplinger Domini Poll: ESG Investing Is Gaining Traction](#)

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