



The Emerging Digital Advisor

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In collaboration with



Digital capabilities available to advisors and their clients support one of three functions: enhancing advisor-client engagement and collaboration, increasing advisor growth and efficiency, or expanding advisors’ portfolio management capabilities.

By incorporating a digital enablement tool, an advisor can enhance the entire advisor-client relationship at once—helping the practice become more efficient and client-centric.

Five Things You Need to Know

1. Advisors have high levels of interest in digital capabilities to enhance their business.
2. Digitally enabled advisors have experienced greater asset and revenue growth than traditional advisors—although they only represent a small percentage of advisors.
3. Industry-wide, digital platform capabilities vary widely—a minority of practices use digital applications to communicate with clients, and few use a client portal for basic activities.
4. Practices that are very interested in a digital advisor platform want to provide a hybrid offering to existing clients.
5. Most financial advisors want to use a digital platform to acquire next gen investors and the mass affluent.

Characteristics of a Digital Advisor

Digitally enabled advisors leverage technology to:



Automate operational processes while enhancing their service offering



Offer flexible engagement models, tailored for client preferences



Optimize portfolio management processes

About the Study

Advisor perspectives on the benefits of digital enablement tools and technologies differ greatly. Sentiment among advisors varies based on the type of clients served by the practice, the size of the practice and the budget for client-facing technologies. Digital services that are cost-prohibitive, still in their infancy or affect only a small part of an advisor's business are only being adopted by the most aggressive, tech-savvy practices.

The existence of—and advisor-client access to—a digital wealth platform alone does not make a tech-savvy practice. To be effective, advisors and clients must use the tools available on the platform to optimize portfolio management, minimize time spent on operations (i.e., onboarding, approvals, performance reporting) and collaborate.

The overall goals of this study are to understand how advisors use client-facing technology and what digital capabilities advisors would like to have in the future. Several aspects of digital enablement are assessed. These include identifying the digital service capabilities that exist as well as how they impact advisor-client relationships. Finally, an assessment of digitally enabled practices is conducted to understand characteristics these advisors have in common. Digitally-savvy advisors are identified, and their performance is compared to the total advisor population.

Methodology

In October 2015, Aite Group conducted an online survey of 403 U.S. financial advisors of varying sizes and worked with The Logit Group Inc. to program and host the survey. The results have a margin of error of 5 points at the 95% confidence level. Table A denotes the type of firm the sample population of advisors were aligned with at the time of the survey.

Table A: Survey Population by Firm Type

Type	Definition	Percentage of population
Financial advisor with other self-clearing firm	Large/regional players: Ameriprise, Edward Jones, Raymond James, LPL, J.P. Morgan, RBC WM (between 5,000 and 15,000)	21%
Wirehouse	Merrill Lynch, UBS, Wells Fargo Advisors, Morgan Stanley (more than 10,000 advisors)	19%
Financial advisor with insurance broker-dealer	Firms such as AXA, Northwestern (fewer than 10,000 advisors, some with more than 5,000)	16%
Independent RIA	Mostly small firms but also have registered investment advisor (RIA) groups working within larger broker-dealer firms	15%
Financial advisor with online broker	Schwab, Fidelity, TD Ameritrade on the retail side (fewer than 2,000 advisors)	14%
Financial advisor with independent broker-dealer	Firms such as Commonwealth Financial, ING (fewer than 5,000 advisors)	9%
Financial advisor with bank broker-dealer	Firms such as PNC, M&T Bank (fewer than 1,000 advisors)	4%

Source: Aite Group's survey of 403 U.S. financial advisors, October 2015

Emergence of the Digital Advisor

The digitally enabled advisor will possess three characteristics:

1. They will be a part of a practice that provides a platform that automates operational processes, while extending services beyond what is available in traditional wealth management relationships.
2. The platform will enable clients to perform a larger variety of tasks independently and with greater ease than with a traditional advisor.
 - This includes greater client choice of how to interact with advisors.
3. They also incorporate tools on their platforms that seek to enhance returns, allowing them to manage client portfolios and their businesses more efficiently.

Clients of all ages are using technology regularly. As a result, they expect their advisors to be omnipresent. This not only means allowing clients to choose how to interact with them (e.g., by phone, face to face or by email), but also requires advisors and clients to share service tools that support a coordinated and evolving client experience. Digitally enabled practices are not limiting their offering to a particular age group (e.g., millennials), or to clients at a particular asset level (e.g., mass affluent). Instead, these advisors offer a flexible model that can be tailored to each client's unique preferences for how he or she wants to engage and how much of that engagement should include technology (Figure 1).

Clients of all ages are using technology regularly. As a result, they expect their advisors to be omnipresent.

Figure 1: Digital Advisor Enablement Offerings



Source: Aite Group's survey of 403 U.S. financial advisors, October 2015

While many practices may be incorporating digital services as they grow, established advisor practices are also incorporating new digital tools and services.

Benefits of Digital Enablement

While digital platforms remain nascent, the digital advisor has already emerged. Innovation and the consumer appetite for digital services have prompted tech-savvy advisors to work with clients virtually. These advisors add value to the relationship through digital portfolio management (e.g., access to portfolio recommendations, portfolio optimization) as well as online services.

As digital technologies continue to flourish, awareness and adoption of digital service is likely to grow over the next several years, ultimately becoming part of the fabric of wealth management relationships. Among the 75% of today's practices with interest in these technologies, some will inevitably incorporate digital services into their practice.

Based on the synergies advisors can achieve when multiple services are offered, Aite Group identifies key characteristics that digitally-savvy practices possess. The criteria used reflects advisors' ability to add value to their practices through the following:

- › **Collaboration and client self-service**—Advisors have the ability to use tablets in client meetings, enable digital communication applications (i.e., cobrowsing) and provide clients with access to statements and real-time information about their portfolios.
- › **Acquisition and efficiency**—Advisors use digital services to work with clients virtually (often relying on the collaboration and self-service capabilities mentioned). They also use tablets to open accounts in real-time with clients and are able to build new client relationships outside the office.
- › **Digital portfolio management**—Advisors leverage a practice dashboard, allowing them to access key performance metrics. Practices have enabled clients to aggregate their accounts and support advisors' ability to see a client's complete financial picture.

The individual criteria for defining "digitally enabled" advisors is indicated in Table B. Notably, while many advisors have one or more of the criteria associated with digital advisor practices, only a small sample (10% of survey respondents) possess each of the digital service capabilities available to advisors.

Table B: Criteria Used to Define Digitally Enabled Advisors

Capability	Percentage of population
Use/have used tablet when meeting with clients	72%
Work remotely with clients frequently (some to all of the time)	69%
Offer client access to statements on client portal	61%
Provide client access to real-time portfolio information (holdings, balances, activity)	61%
Provide advisor-client collaboration tools (e.g., chat, cobrowsing) via Web or mobile	55%
Offer client ability to aggregate held-away assets on portal	52%
Use practice dashboard with key performance metrics	42%
Use tablet to open accounts in collaboration with clients	26%
Practices that meet each of these criteria	10%

Source: Aite Group's survey of 403 U.S. financial advisors, October 2015

In aggregate, digitally enabled advisors range in age from under 30 years old to over 60. The largest number of digitally enabled practices (75%) have advisors ranging in age from 30 to 50 years old. Given their age diversity, these practices also have differing sizes and production levels. While many practices may be incorporating digital services as they grow, established practices are also incorporating new digital tools and services. One-quarter of midsize/large practices (with \$500 million or more in assets) are digitally enabled. An even larger percentage of digital practices (60%) had production of \$700,000 or more last year (Table C).

Over 90% of digitally enabled advisors increased their assets under management, with more than a third of the practices growing by more than 10%.

Table C: Average Practice Size and Production of Digital Advisors

Client assets (in \$ millions)	Percentage of practices	Revenue production*	Percentage of practices
Less than \$100 million	30%	Less than \$300,000	8%
\$100 million to \$299 million	33%	\$300,000 to \$499,000	5%
\$300 million to \$499 million	13%	\$500,000 to \$699,000	28%
\$500 million to \$1 billion	10%	\$700,000 to \$999,000	20%
More than \$1 billion	15%	\$1 million or more	40%

Source: Aite Group's survey of 403 U.S. financial advisors, October 2015

*Last 12 months.

Performance Comparison: Digital vs. Traditional

Technology access and use allows advisors to maintain a competitive advantage through nimble service delivery that supports quickly changing client demographics and investor preferences.

The advisor who works remotely most of the time but cannot actually get business done without being in the office (financial planning, portfolio management, account opening, etc.) cannot optimize the client acquisition process. A review of performance metrics among all practices suggests that advisors able to provide both client engagement and digital services are positioned to grow. Using changes in client assets over the last 12 months as proxies, the 10% of advisor practices that are digitally enabled are outperforming traditional practices.

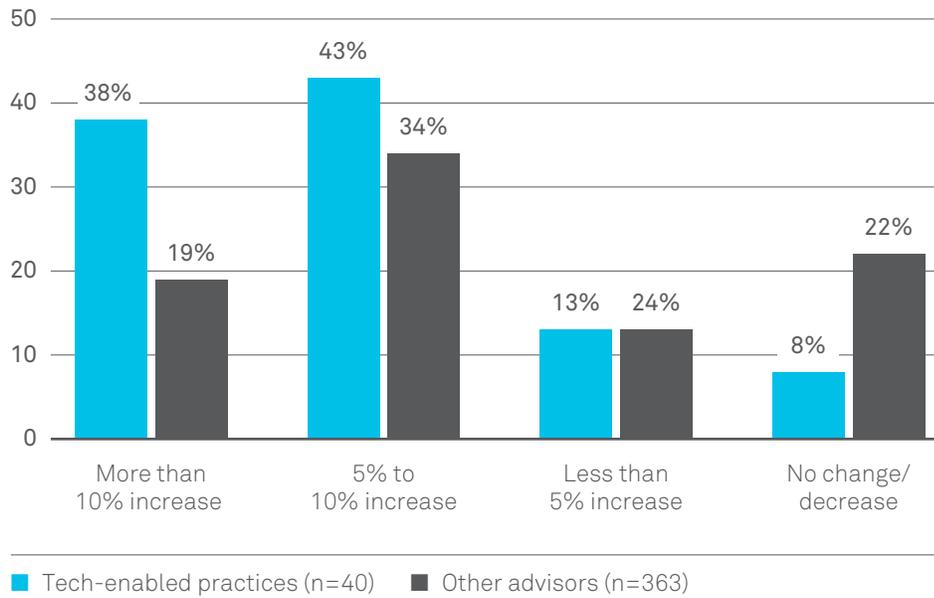
Digital Outperformance

Over 90% of digitally enabled advisors increased their assets under management, with more than a third of the practices growing by more than 10%. Not only did digitally enabled practices with asset growth increase assets more quickly than did other practices, but the percentage of advisors who saw their business decline was smaller. Among traditional advisor practices, only 53% reported asset growth of 5% or more in the last 12 months, while over 20% experienced no growth or declined (Figure 2).

Digital practices also experienced higher growth in revenue over the last 12 months. Over 70% of digitally enabled practices increased revenue by 5% or more, including 38% of practices that increased revenue by 10% or greater. In comparison, just over half of traditional advisors report growth of 5% or more (Figure 3). A greater proportion of traditional advisors also struggled to increase revenue over the last 12 months: 5% of the practices surveyed report a 10% or more drop in revenue, while nearly 20% report no change.

Figure 2: Asset Growth of Tech-Enabled Practices vs. Other Advisors

Average Change in Assets (Last 12 months)

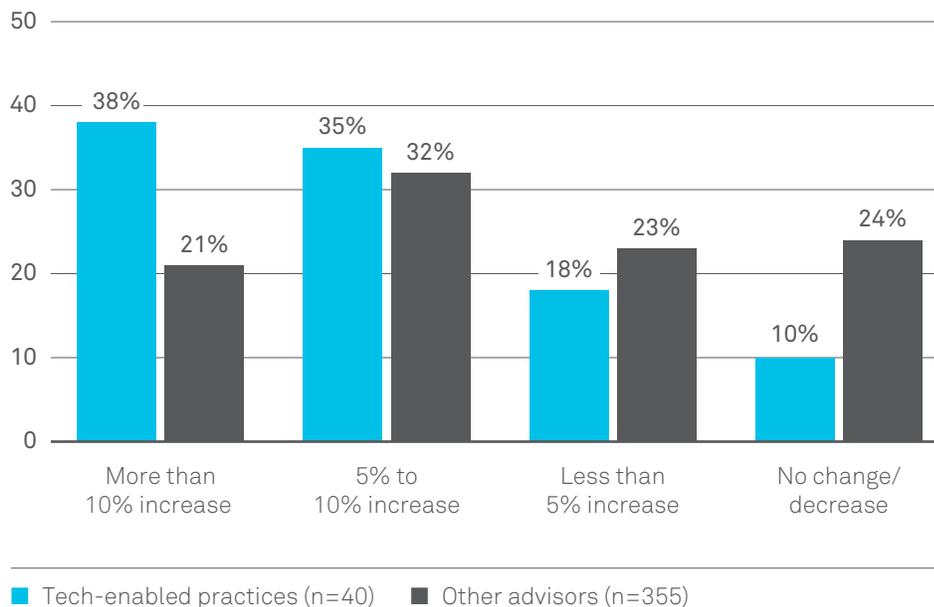


Over 70% of digitally enabled practices increased revenue by 5% or more.

Source: Aite Group's survey of 403 U.S. financial advisors, October 2015

Figure 3: Revenue Growth of Tech-Enabled Practices vs. Other Advisors

Average Change in Revenue (Last 12 Months)



Source: Aite Group's survey of 403 U.S. financial advisors, October 2015

Once advisors become comfortable with digital services, they can develop a more targeted strategy. Focusing on key areas and high-value clients will help support efficiency and long-term growth.

Face-to-face client service still accounts for the majority of advisor interaction with clients.

Gaps in Advisor and Client Digital Capabilities

Aite Group's financial advisor survey reveals the extent to which advisor practices are engaging in digital wealth management. Fewer than half of advisors have access to the digital wealth tools needed to service their clients. Only a small portion of advisors are using social media and digital marketing applications within their practices.



Client Interactions Still Largely Manual

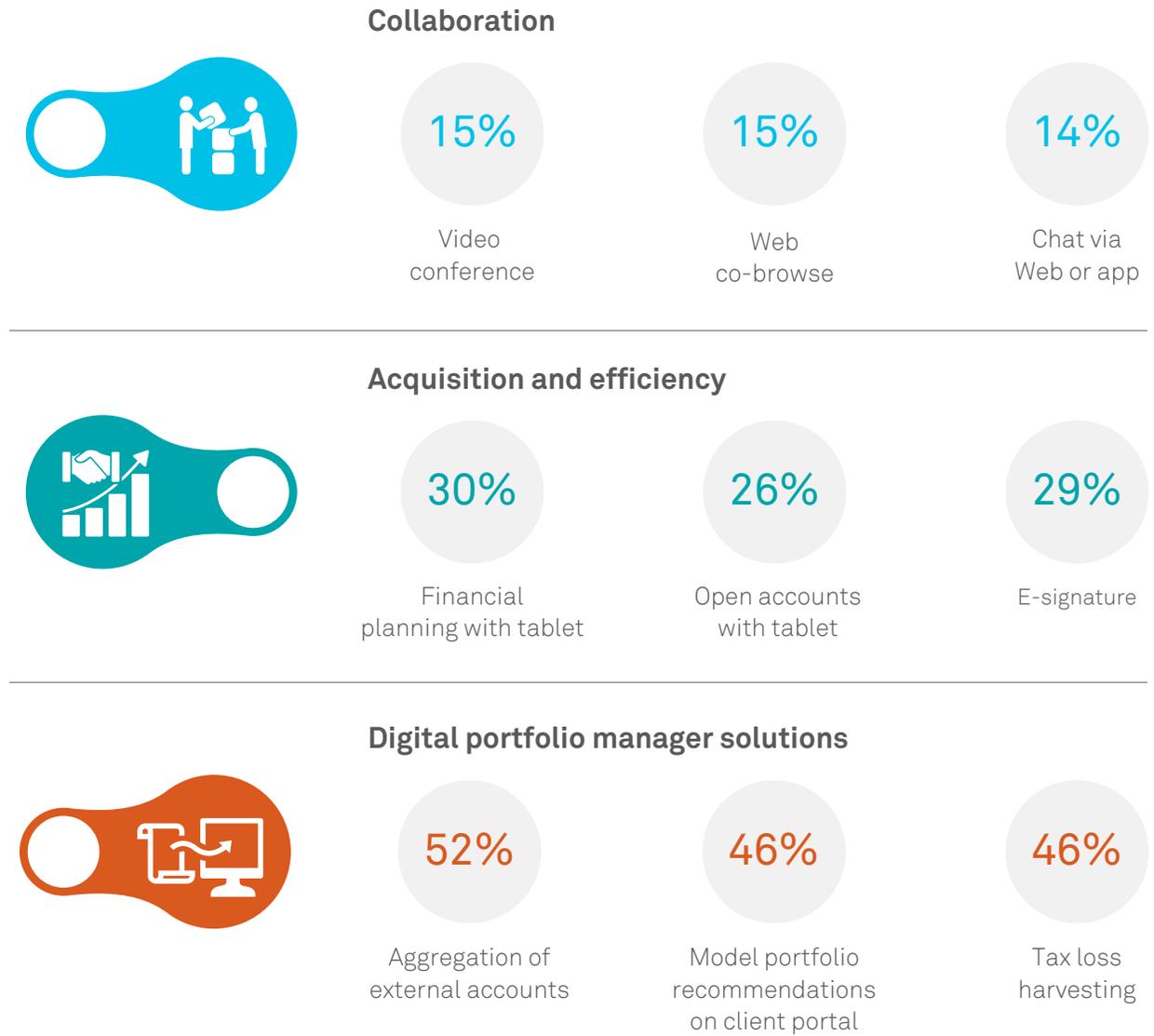
While the tablet is an increasingly common device that individuals use for interacting with friends, sending emails, researching and purchasing, less than half of advisors use one for work. Only one in four practices can use a tablet to open client accounts. Similarly, less than 30% of practices have e-signature capabilities allowing them to open accounts entirely electronically. Advisors have a long way to go before account opening is entirely automated.

Face-to-face client service still accounts for the majority of advisor interaction with clients. Over half of advisors work with clients face to face at least half of the time due to their limited acceptance of digital tools or inadequate tools to support clients digitally. Despite daily—if not hourly—use of smartphones by advisors and investors, most practices have made a greater investment in Web-based digital offerings than in mobile ones.

Among digital capabilities, portfolio management technologies are frequently used by today's advisor. Portfolio management tools can enhance returns, as they support clients' virtual access to information. Still, only half of advisors offer value-added services such as providing advice on client accounts held in and outside of the firm and tax loss harvesting (Figure 4).

Figure 4: Prevalence of Digital Advisor Capabilities

Digital Advisor Capabilities (N=353)

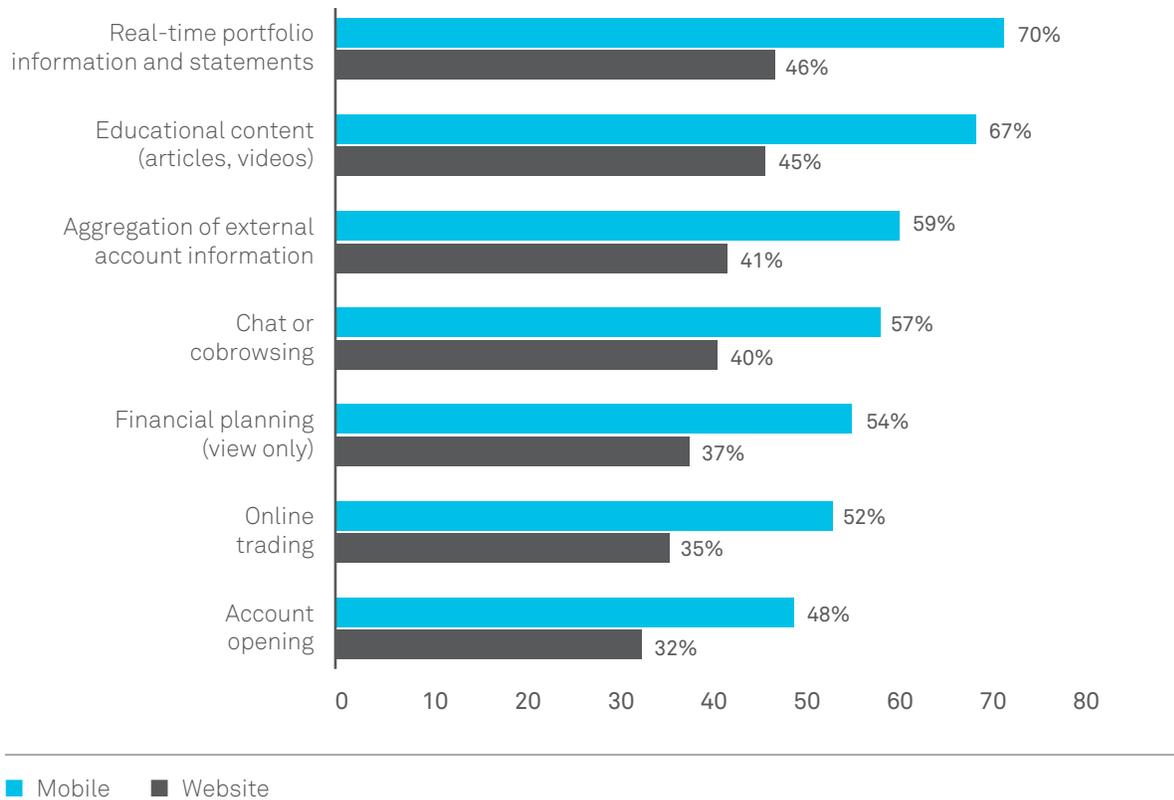


Source: Aite Group's survey of 403 U.S. financial advisors, October 2015

While digital service gaps exist, a majority of advisor practices have enabled digital tools that allow clients to access basic account information on both Web and mobile devices. These include access to portfolio data, educational content and financial planning information that is static in nature (view only) and does not require an advisor’s support. Conversely, enabling clients to communicate with an advisor, open accounts and trade is less prevalent, and still requires an advisor’s time and/or changes to the client portfolio (Figure 5).

Figure 5: Capabilities Available to Clients on the Client Website or Mobile Device

Q. What capabilities are (or will soon be) available to clients on the client website or through their mobile devices? (n=353)



Source: Aite Group’s survey of 403 U.S. financial advisors, October 2015

Advisor Interest in Digital Wealth Services

Today’s advisors are open to adopting and using digital tools already available, whether provided by their firm or outside parties. Nearly two-thirds of all practices have at least some interest in using digital advisor technology. Of this sample, 20% of advisors indicate their practices are very interested in leveraging new digital advisor technology over the next few years. Despite advisor willingness to embrace digital innovation within their practices, only 5% of all practices have made the decision to launch a digital advisor service.

On average, wirehouse advisors express the most interest in adopting digital advisor platforms over the next few years (Table D).

Table D: Interest in Leveraging Digital Advisor Technology Over the Next Two to Three Years

	Wirehouse	Independent RIA	Self-clearing firm	Fully disclosed
Digital service is planned	5	2	2	6
Interested/ very interested	22	14	29	25
Somewhat interested	30	16	25	37
Has not been discussed	8	10	9	21
No interest	10	17	18	29

Source: Aite Group’s survey of 403 U.S. financial advisors, October 2015

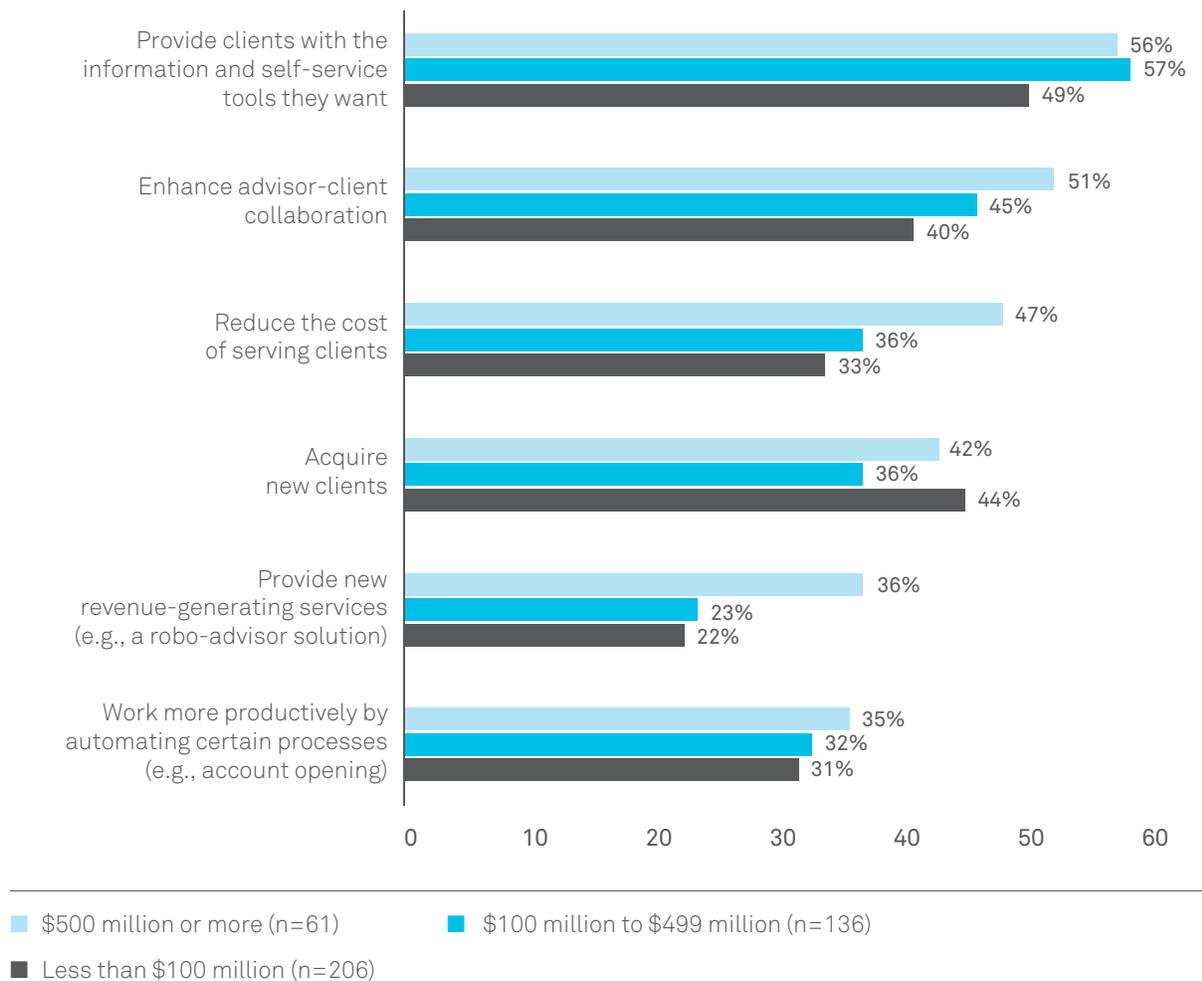
Barriers to adoption and greater advisor interest include budget constraints and implementation challenges that disrupt client services and impact advisor productivity—even if in the short term. As a result, some practices may test the water by focusing on a particular area (i.e., e-signature to increase asset growth, chat technology to facilitate client interaction) rather than invest in end-to-end digital solutions. Lack of awareness is another reason. Across channels, many practices have not even discussed digital enablement solutions, validating the fact that advisors are not yet clear on the impact going “digital” can have on their practices.

View of Digital Advisor Technology

Among advisors who see the benefits of digital enablement, most identify their clients' ability to engage in self-service or collaborate with their advisors as one of the greatest advantages. Near-term benefits of advisor efficiency and revenue generation are cited less frequently, suggesting that advisors are somewhat skeptical that digital innovation will help them grow over the next few years, if ever (Figure 6). These advisors have likely seen first-hand the downtime associated with regulatory compliance, technology and software upgrades, and process changes at large traditional firms in particular.

Figure 6: Perceived Benefits of Digital Capabilities, Based On Size of Practice

Q. In your opinion, what benefits does client-facing technology (i.e., Web and mobile technologies) bring to your practice today? "Client-facing technology allows our practice to ..." (Check all that apply)



Source: Aite Group's survey of 403 U.S. financial advisors, October 2015

Need for Additional Capabilities

Despite limited use of digital client-facing tools, many practices are interested in the benefits these tools provide. Aite Group asked advisors to put together a hypothetical budget to invest in digital innovation tools that would make a digital advice platform attractive to their practices.

Sixty percent of practices have a need for goal-based planning tools that support portfolio management and collaboration. Conducting financial planning is also dependent on advisor access to other technologies, including data aggregation on the back end, and the sharing of information between advisor and client portals.

Demand for Actionable Information

Advisors want practice management dashboards that include key performance metrics as well as tools to identify target opportunities among prospects and clients. These capabilities are sought by over half of practices and can support business growth by providing real-time access to actionable information (e.g., advisor alerts due to fund transfers, rebalancing needs, client inquiries).

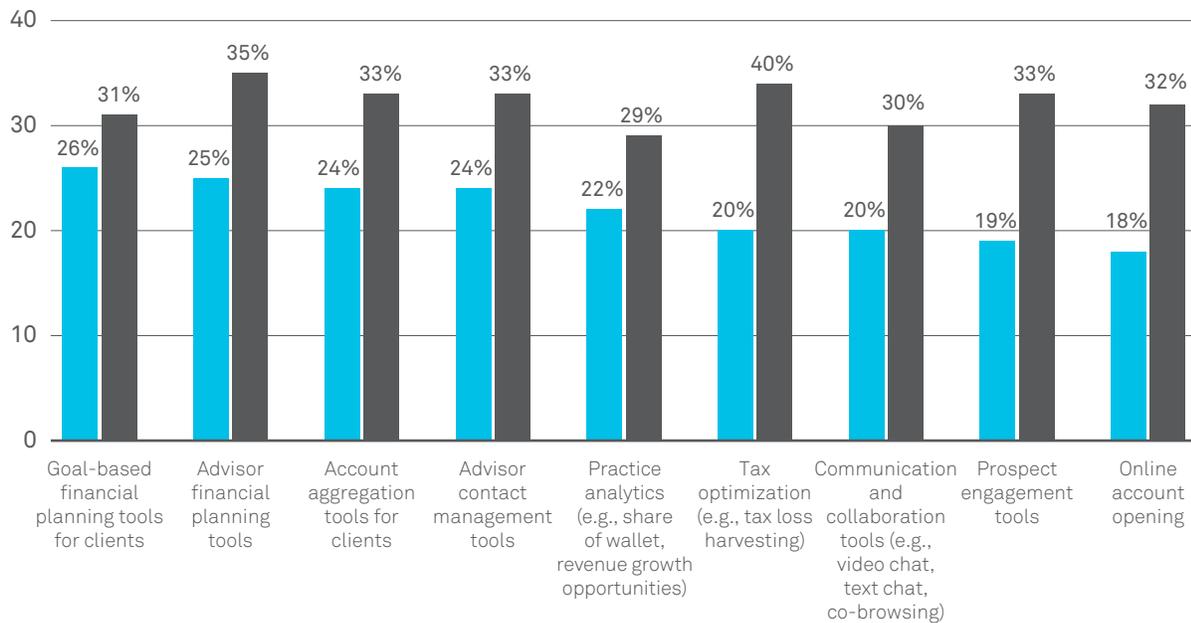
Additional portfolio management capabilities are needed. Over half of practices would like to provide tax mitigation services, including tax loss harvesting or use of tax lots for optimization. Account aggregation is another important capability to most practices—and critical to one out of four practices. Practices with client-facing aggregation capabilities are more likely to recognize the benefits of digital enablement, such as greater advisor productivity, access to new revenue and lower costs.

Digital enablement will help wealth management practices work more efficiently by leveraging CRM and front-end technologies to add clients, schedule activities and access client information. Advisors have the greatest interest in prospect engagement, contact management and account opening technologies, which automate front-end client acquisition and enable accounts to be funded quickly (Figure 7).

60% of practices have a need for goal-based planning tools that support portfolio management and collaboration.

Figure 7: Advisors' Hypothetical Technology Budget

Q. Imagine your practice has a budget to purchase new advisor tech. Which of the following would such a platform need to include to be attractive? (Check all that apply; n=396)



■ Must have ■ Important to have

Source: Aite Group's survey of 403 U.S. financial advisors, October 2015

Digital Platform Goals

Twenty percent of advisor practices have either made the decision to launch a digital advisor service or are very interested in doing so over the next two to five years. Advisor practices that have already begun adding digital advice (or are in active planning) are aligned in what they want from a digital platform. Their primary motivation is to serve the client: 50% to 60% aim to use the platform to improve the client's digital experience and to meet the needs of any client who wants low-cost portfolio management through an advisor. For advisors to be successful in providing digital portfolio management to clients of any size, the solution will need to provide the advisor with operational efficiencies. Digital advice platforms of the future are likely to offer many ancillary robo-services, including, but not limited to, automated prospecting and risk profiling, online account opening and remote servicing capabilities.

Although this advisor group will be positioned to serve clients of all sizes, in reality, the vast majority seek to acquire next gen clients rather than older investors with similar asset levels. Working with young, rising affluent clients will give these advisors the opportunity to establish long-term relationships and deepen them over time.

Expectations for Digital Platforms in the Future

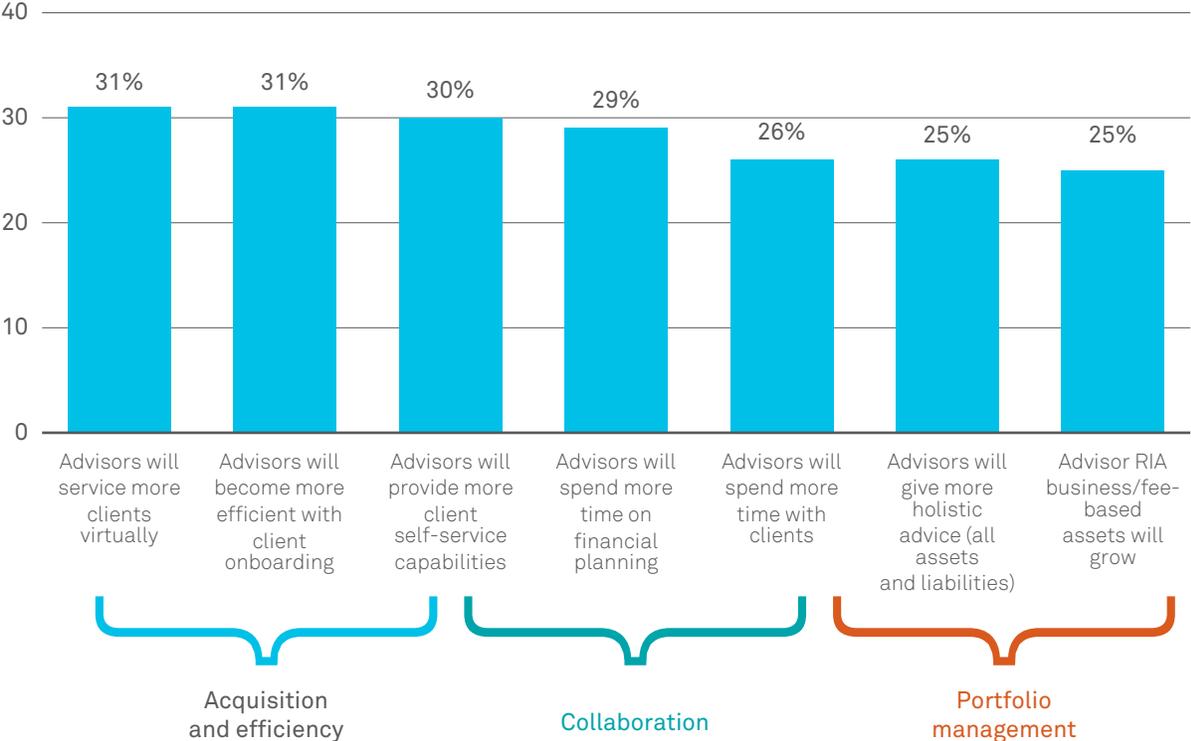
Advisors were asked about the future impact digital advice platforms will have on the industry. Many practices agree that digital advisors will play a significant role in the financial advisory business and the wealth management industry as a whole.

Advisor practices that expect digital services to have an influence on their service offering and client base are divided on how these solutions will impact the industry. Some believe the benefits of technology will span multiple areas—improving advisor operational efficiency and ability to grow through client self-service and digital client acquisition tools. Others expect to be able to build comprehensive portfolios through holistic planning (Figure 8).

The rise of advisory business is expected to be a large part of the evolving digital platform as advisor-client transparency grows and advisors continue to shift from transactional to relationship-oriented services.

Figure 8: Advisor Expectations for Digital Advisor Providers' and Platforms' Impact

Q. How do you think digital advisor providers and platforms will impact the industry over the next 5 to 10 years? (n=302)



Source: Aite Group's survey of 403 U.S. financial advisors, October 2015

Digitally enabled advisors may achieve synergies from incorporating multiple digital tools and applications in tandem, rather than investing in technologies on a piecemeal basis.

Conclusion

- › **A small group of digitally enabled advisors exists (10% of all practices).** Over 20% of advisor practices are emerging and are either very interested in launching or have plans to launch a digital advice platform in the near future.
 - Of them, nearly 60% aim to provide digital portfolio management capabilities.
- › **Workflow tools and client servicing capabilities are helping digital advisors outperform traditional advisors' practices.** Over the last year, digitally enabled practices increased assets more quickly than did other advisor practices.
- › **Advisors have a brief window of time to adopt digital client service capabilities to differentiate their practices** through deeper client engagement, self-service capabilities and easy onboarding.
- › **Many practices have not discussed the use of digital enablement solutions.** This may reflect a lack of awareness by advisors, concern over how solutions will be implemented and uncertainty around the potential impact of digital services on their practices.
- › **While advisor practices are interested in serving clients of all types, those with plans for a digital platform will predominantly seek next gen clients,** allowing them to establish long-term relationships.
- › **Adopting client-facing technologies can be an important facilitator of trust in client-advisor relationships.** Advisors can provide more thorough planning and support when clients share their complete financial circumstances.
- › **Advisors should consider taking a holistic view of their client-service model when making the decision to pursue digital client-facing capabilities.** Many digital advice offerings available to advisors complement one another (e.g., aggregating held-away assets, providing financial planning capabilities on the client portal). Digitally enabled advisors may achieve synergies from incorporating multiple digital tools and applications in tandem, rather than investing in technologies on a piecemeal basis.

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