SIFMA Insights

Private Client Conference Debrief

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Executive Summary

Recently, we hosted our annual Private Client Conference. With two days of presentations, events and meetings, and almost 250 in attendance, we gained insights into top-of-mind topics for market participants.

Inside this note, we recap what was seen and heard, including: today's client experience; fintech brings benefits but also increases risk; importance of the financial advisor remains strong; and other hot topics.

Today's Client Experience – Technology Enabled, Built on Trust

Lisa Kidd Hunt of Schwab set the scene for the conference with a conversation on the modern client experience. In today's markets, the price of investment continues to decline. Anyone can access the markets. Advice, information and data have never been more prevalent. Therefore, technology innovation drives businesses and the economy. She noted the information age is over, becoming instead the experience age. "The client's last best experience now becomes the minimum requirement for their next experience."

The modern experience entails ease and simplicity in investing, like what clients see from other technology-enabled experiences, such as:

- **Amazon** – Shopping on Amazon allows the customer to use one-click checkout, and the system also makes recommendations based on prior orders.
- **Uber** – Uber makes it simple to grab a ride home from the office, with a paperless environment (no money or receipts).
- **Alexa** – Essentially, Alexa is running many people's homes. One panelist joked they think Alexa might be doing their child's math homework for them!

A panelist indicated these modern experiences will become the base of investor expectations and will help drive the future of financial services. And this must be delivered with trust. As always, clients want education, transparency, and protection in their financial interactions, all of which has – and will continue to – drive trust, the most essential element in the relationship. This is enhanced by providing clarity, instilling confidence, and developing a structure to help the client navigate the complex world of investing in a simple, efficient manner.

Fintech Brings Benefits, But Also Increases Risk

Fintech can be critical to helping the industry keep their costs down by improving the efficiency of back office functions. On the front office side, panelists see fintech "as the future" and expect continued client demand for products that complement or enhance their financial advisor (FA) relationship. For example, a panelist remarked "mobile is king" and essential to making the client's experience more accessible.

While technology can help advisors better serve their clients, it can also bring risks, including:

- **Cybersecurity concerns** – Cybersecurity is a concern across multiple industries, but financial services is critical to the U.S. economy and therefore a "top target". Resiliency of individual firms and the financial ecosystem is crucial and on the top of management teams' agendas. Cyber readiness is also a major concern of regulators. Unfortunately – as we have written about regulations in financial services in general – there are many regulators globally examining the same aspects of firms' cybersecurity controls, leading to an inefficient use of critical resources. Panelists estimated firms spend 40% of their time and resources on cyber regulatory compliance and reporting. This is time, money and people that could be better spent developing new, stronger cybersecurity capabilities.
- **Personal data security** – Panelists indicated it is "scary" when regulators compile client and firm data across the industry into a single database or agency. How secure is it? Who can access it? What are you doing with it? How is this data enhancing the regulatory process? This is something we have written about with the consolidated audit trail – the SEC is requesting to build essentially the largest database in the world for personally identifiable information, overseen by 22 SROs and to be developed to be accessible by a minimum of 3,000 regulators (inclusive of SRO personnel). "Risky" was the word used by a panelist. Market participants believe financial services firms will be held accountable for how client data gets accessed and used.
- **Personal Data Aggregation** – Data is a commodity in this digital world. In light of this, we highlight on the next page SIFMA's and its members' proactive recommendations for protecting client data, via our Data Aggregation Principles.

SIFMA Data Aggregation Principles

Data aggregation applications compile customer financial information from multiple accounts and institutions onto a single platform. These applications may help investors better understand their overall financial situation and make more informed investment and financial decisions while, at the same time, create security risks for the financial institutions' data systems and individual investor information. SIFMA has adopted these principles as guidance for our members when working with data aggregation applications. While each member must determine for itself whether and how best to address these issues, these principles strive to provide customers with secure access to their financial information, while maintaining the security and integrity of our members' systems.

Access

- Customers may use third-parties to access their financial account data and SIFMA member firms believe that such access should be safe and secure.

Security and Responsibility

- Customers should not have to share their confidential financial account credentials (personal IDs and passwords) with third-parties.
- Customers deserve assurances that anyone accessing their financial account data will keep it safe and secure, adopt the same data and security standards followed by regulated financial institutions, and take full responsibility for any data that they receive and provide to others.

Transparency and Permission

- Customers should first receive a clear and conspicuous explanation of how third parties will access and use their financial account data, and then be able to consent affirmatively to this activity before it begins.
- Customers should be able to withdraw their consent easily and at any time with confidence that third parties will delete and stop collecting their financial account data and delete any access credentials or tokens.

Scope of Access and Use

- Customer information available to share with third parties typically includes financial account data such as holdings, balances, and transaction information, and does not include other
  non-public and confidential personal information.
- For customer protection, account activities such as third-party trading, money or asset movement, client verification, and other services that go beyond financial account data aggregation should be subject to separate agreements and require separate informed affirmative consent.

You can see additional details on the SIFMA Data Aggregation Principles here.
Additional resources are also available on the Project Invested website.

Importance of the Financial Advisor Remains Strong

Throughout the years, no matter what technological advances swept across the financial services landscape, one aspect remains clear – the importance of the FA remains strong. Human contact remains central to this business. The relationship between an FA and their client is about intimacy. The FA knows their hopes, fears and dreams, and they build a trust with the client as they work together to achieve the client's objectives.

That said, the FAs role and service to clients can be enhanced by new technology. As multiple speakers noted, technology can assist FAs in replacing manual processes – email check-in's, scheduling annual reviews, onboarding of new clients, reminders of key touch points (for example: an approaching bond maturity date) – allowing the FA to focus on value-add tasks. This can free up the FA to spend more time with all of their clients and develop ever deeper relationships.

Fintech can also help firms capture data for actionable analytics. While this eliminates time spent on data entry, it can also help FAs identify additional relationship building touch points and lifetime client events that call out for individual attention.

The value-add of the FA is not only in portfolio rebalancing, but also in helping people understand overall financial ideas and strategies for attaining both long range and short term financial objectives. While fintech may influence portfolio management activities, it cannot replace the human relationship. FAs can interweave fintech with this knowledge, saving them time on manual tasks to focus on personal interactions with the client. And time is one of the most valuable currencies we have. FAs can use the time released from tasks pushed to technology to enhance the client experience as they work to help the client achieve their financial goals.

Penny Pennington of Edward Jones gave a speech stressing the products themselves (stocks, bonds, etc.) are not the value. Clients need these products to service a particular job to get done (retirement savings, buying a home, etc.). Technology innovation needs to be built around these jobs, with clients wanting to know:

- **How did I get here?** (current financial position)
- **Am I ok?** (on track to meet financial goals in a timely manner)
- **And where are we going from here?** (outlining a holistic investment strategy)

Innovation needs to be built around the job to be done. Firms should only be investing in places that assist the FA in doing the job for the client, and, when choosing to connect technologies into the business, firms should enable their FAs to utilize the technologies to their fullest.

FAs are there to help their clients plan a sensible route to achieve these objectives – and often alleviate a client's financial anxiety as well. FAs need to remind the public of the value advice provides, continually building and maintaining the trust. After all, according to a 2011 Department of Labor study, clients who invested without the assistance of professional advice made investment errors costing $114 billion per annum.

Other Hot Topics

- **The Longevity Revolution** – America is experiencing an aging population, and the challenges that come with this. For the first time, two generations of retirees are living under the same roof, as baby boomers retire while their elderly parents are still alive. 75 million Americans will surpass age 65 in the next 20 years; one in five Americans will be at retirement age. 47% of people over 85 suffer from Alzheimer's. 37% of seniors have experienced some form of financial abuse, up from 25% in 2014, with collected losses estimated at $3 billion per annum (albeit this number is likely higher, as losses are often not reported). 19% of millennials are financially supporting a parent, of which 31% are also the caregiver for that parent.

  This creates a whole new set of considerations for FAs to consider and review with their clients. FAs must adapt to the changing needs of clients and help clients not just plan for retirement, but living longer in retirement. As some FAs say, helping clients plan for the expected and the unexpected.

- **DOL Fiduciary Rule** – Since the 5th Circuit's Court of Appeals vacated the DOL's fiduciary rule last month, there has been one significant update. The SEC held a meeting on April 18 to discuss their best interest standard, among other things. They voted 4:1 to propose a rule to establish a best interest standard of conduct for broker-dealers, to provide investment adviser and broker-dealer retail customers with a customer relationship summary document, and a proposed interpretation of the fiduciary duty owed by investment advisers to their clients.

  Market participants have been keen for the SEC to move forward quickly with their standard, noting the importance of having one standard (as opposed to multiple different regulators or multiple individual states each developing their own standards). That said, panelists indicated it is important the best interest standard preserve client choice and does not stifle innovation. SIFMA is pleased that the SEC, as the preeminent markets regulator, has initiated the formal rulemaking process and will share our views during the 90-day public comment process.

Appendix: Terms to Know

DOL	Department of Labor
SEC	Securities and Exchange Commission

PC	Private Client
WM	Wealth Management

AI	Artificial Interlligence
Fintech	Financial Technology

CAT	Consolidated Audit Trail
PII	Personally Identifiable Information
SRO	Self-Regulatory Organization

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