SIFMA Insights:
Private Client Conference Debrief

April 2019

Key Takeaways

Recently, SIFMA hosted its annual Private Client Conference. With two days of presentations and events and 250 attendees, we gained insights into top-of-mind topics for market participants. Inside this note, we recap just some of what was seen and heard, including: the continually evolving role of the financial advisor, Regulation Best Interest and the important role financial advisors play in helping clients achieve their financial goals.

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SIFMA Insights can be found at: https://www.sifma.org/insights

SIFMA is the leading trade association for broker-dealers, investment banks and asset managers operating in the U.S. and global capital markets. On behalf of our industry's nearly 1 million employees, we advocate on legislation, regulation and business policy, affecting retail and institutional investors, equity and fixed income markets and related products and services. We serve as an industry coordinating body to promote fair and orderly markets, informed regulatory compliance, and efficient market operations and resiliency. We also provide a forum for industry policy and professional development. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit http://www.sifma.org.

The Continually Evolving Role of the Financial Advisor

The wealth management industry is undergoing changing demographics: women now control $14 trillion of the wealth in the U.S.; there will be $68 trillion in wealth transferred to the next generation by 2045; and the average financial advisor (FA) is a male in his mid-50s, with a quarter of them planning to retire in 10 years. The industry is also experiencing an evolution in client preferences. The shifting demographics and increasing numbers of younger, technology-savvy investors changes how people want to engage with their FA. Investors want an omnichannel approach, human connections coupled with technology offerings. Further, the proliferation of content has created noise for investors. The amount and velocity of information available today – available through multiple sources at the touch of a button – is overwhelming, causing cognitive overload in many cases and resulting in an even more important role for advisors.

With these changes, the wealth management industry must continue to evolve. As Tash Elwyn, President and CEO of Raymond James & Associates Private Client Group, put it, “The ability to adapt and evolve is key, and companies (and industries) must face adversity.” He reminded conference participants that the LEGO Group almost went out of business with the introduction of more advanced electronic games. Instead of running from the technology, they embraced it and used it to update their own product offerings. Now LEGOs outnumber humans 86:1 – with over 7 billion people on the planet, that makes over 600 billion LEGOs.

How does the wealth management industry continue to adapt and move forward, and what is the modern role of the FA?

Client First Focus

Individual investors, the clients, are becoming more engaged, more informed and more value-centric. FAs are responding with a holistic approach built on trust. Wealth management is not just about the numbers or portfolio returns. The FA role is greater than simply financial advice. FAs are confidants for people as they move through their life’s journey. Wealth management is about people, and FA firms are emphasizing the need to build a culture focused on doing what is best for their clients, ensuring trust is the foundation of the relationship.

Participants at the conference noted the need for FAs is growing, not going away. The service FAs provide is a partnership between an advisor and the client. It goes beyond maximizing investment portfolio value, rather to a focus on life’s real priorities, i.e. family, home, philanthropy, etc. And the FA role continues to evolve. For example, a panelist indicated conversations with clients have changed over the last few years, it is no longer just about the purpose of the money, accumulating and managing investments for retirement or set goals. The intent of investing has shifted to creating the freedom to do something a client wants to do now, or “living life in the middle” (not just retirement).

As such, conference attendees noted the human touch becomes more valuable than ever. Clients want trusted advice, and they are willing to pay for it (please see the retail investor initiative section for further details). Yet, FAs need to embrace change and the evolving needs of clients. While the basis of a trusted relationship stays the same, the manner in which FAs approach clients continues to adapt. For example, the use of the team approach continues to grow. Many FAs now service clients via large teams containing multiple specialists (estate planning, private banking, insurance, etc.) working together. This expands the amount of service offerings the FA can provide to a client, enabling the FA to provide the client an all-inclusive experience.

Additionally, the tools FAs use to service client relationships are also changing.

Incorporating Technology If/As Clients Choose

The traditional client first approach in financial advice does not change with the conversation of how and when to use new technological innovations. It starts with the client, learning how technology can enhance the client experience. Many clients today want a high-touch/high-tech relationship, and FAs are responsible for helping clients navigate this environment, using technology to complement the human touch aspect of the client relationship. An approach which is tailored by client, based on an individual’s needs, preferences and taste for incorporating technology.

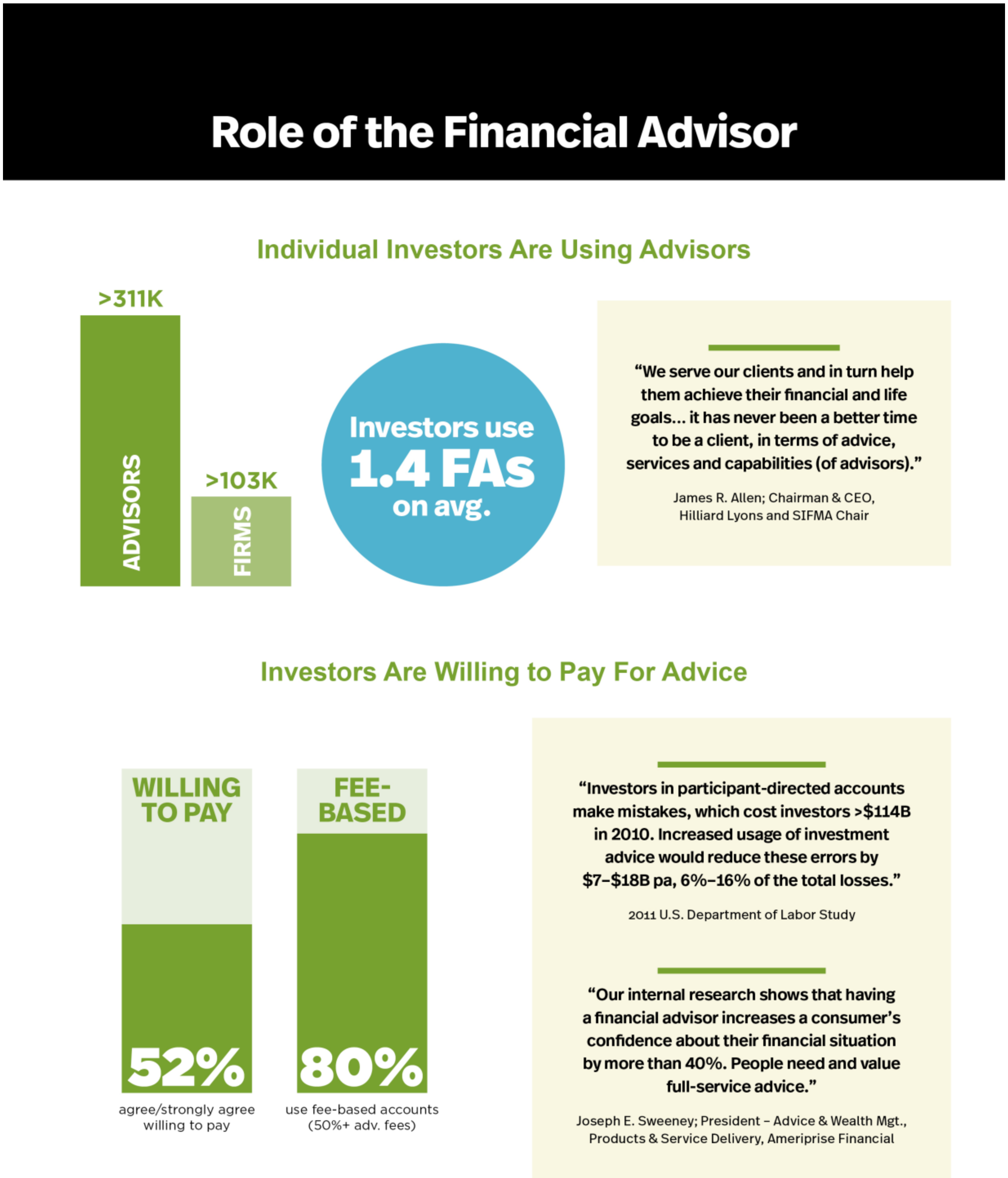
One conference speaker indicated 88% of Americans want the technology relationship to complement not replace the FA. 36% surveyed trust robo/digital advice, yet only 5% of Americans say financial planning should be left to just technology. In other words, the need for human advice coupled with technology to gain efficiencies persists. People understand people, and this relationship is hard to replace with just technology. Participants at the conference indicated “technology will turbocharge human touch but not replace it”.

This loops back around to the trust conversation. Financial investments and planning for one’s life goals involve trust. One speaker noted this is the case across all age groups of investors. When surveying Baby Boomers, Generation Xers and Millennials, “experience” (the trust in a FA’s knowledge and abilities) ranked #1 across all demographics for choosing a FA. Firm reputation also played an important role, particularly with younger generations: 47% of Generation Xers and 42% of Millennials indicated this was important when picking a FA. And, remember, Millennials are born tech-savvy, with 38% using a smart phone as their primary tool of communication with their FA. Yet, they too worry about trust and reputation.

As mobile continues to become the primary tool for investors – which creates ease of use and simplicity for clients – the industry needs to ensure data is safe. Data privacy and protection remains top of mind for financial institutions, as it does among regulators and legislators. Conference participants reinforced the need for supervision of systems storing and utilizing data. As a customer-focused industry, participants must balance the need to serve growing client demand for technology with the protection of investor data.

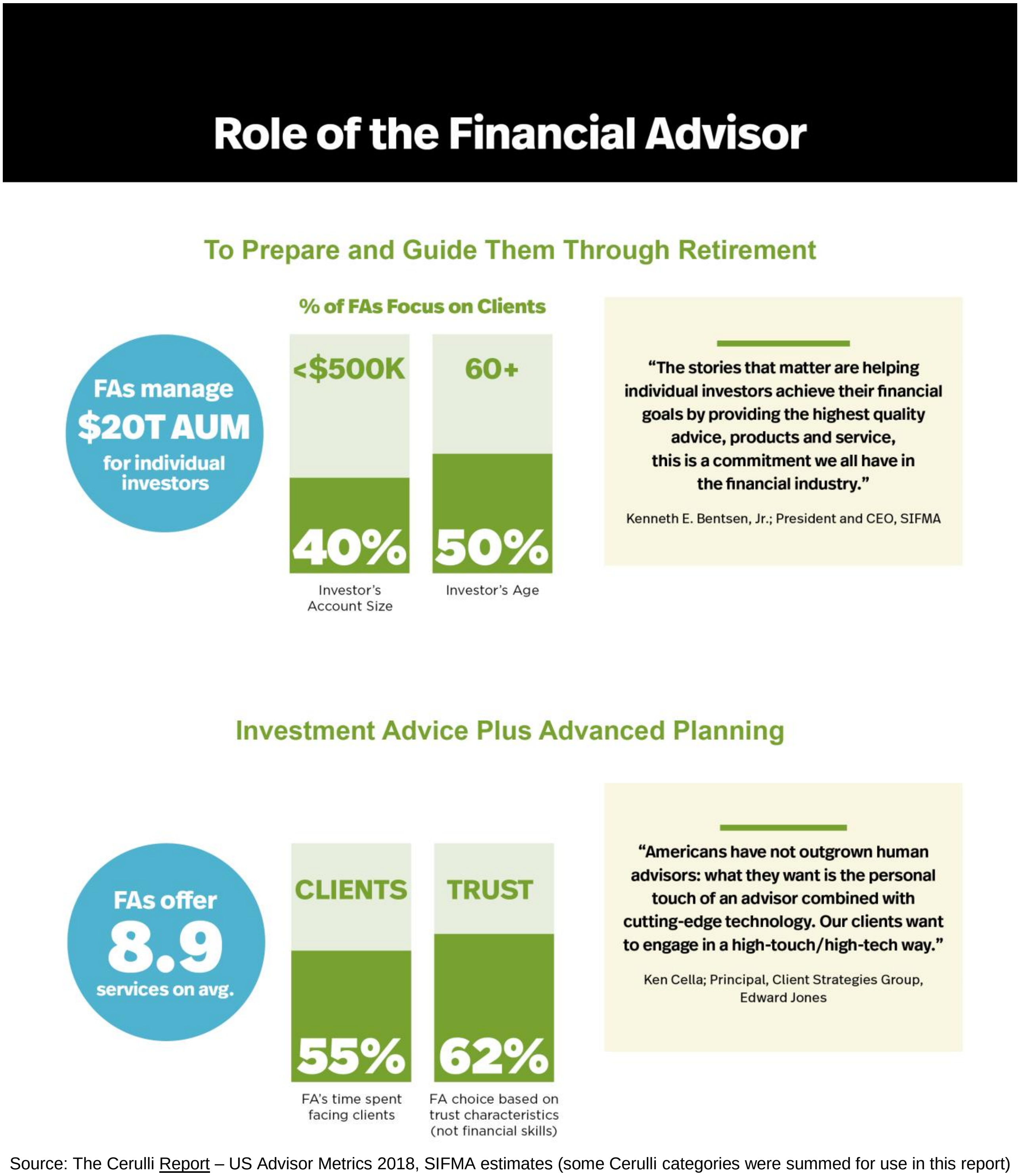
“As we continue to grow the digital economy, personal data is the most important currency there is, and as an industry, we have a responsibility and obligation to protect it. We can’t make things better for clients if their data is vulnerable. As such, last year SIFMA introduced its Data Aggregation Principles, which was a cross-industry effort to build consensus for incorporating investor data protection into developing industry protocols and technology for data aggregation.”

-- Kenneth E. Bentsen, Jr.; President and CEO, SIFMA



Source: The Cerulli Report – US Advisor Metrics 2018, SIFMA estimates (some Cerulli categories were summed for use in this report)

Note: >103K firms = broker-dealers, RIAs, hybrids, etc.; adv. = advisory fees.



Source: The Cerulli Report – US Advisor Metrics 2018, SIFMA estimates (some Cerulli categories were summed for use in this report)

Reg BI – Raises the Bar on Investor Protection, Yet Preserves Investor Choice

Regulation Best Interest (Reg BI), the SEC proposed best-interest standard, goes a long way to ensuring investors are protected in their dealings with financial professionals by raising the bar on investor protection while preserving choice. **SIFMA President and CEO Kenneth E. Bentsen, Jr. stated, "SIFMA has long supported the creation of a heightened best interest standard for broker-dealers, and we commend the SEC for proposing a new best interest standard that raises the bar on investor protection while preserving retail investor choice."**

This is an extremely important topic for the wealth management industry. As such, we recap key takeaways on Reg BI from the conference:

- Multiple Conflicting Standards – SEC Chairman Jay Clayton indicated the SEC final rule would be out before September. The CFP Board's fiduciary standard comes en force in October. Nevada has proposed its own fiduciary regulation, and now New Jersey has as well, and other states look to follow (e.g., Maryland). This leaves financial institutions in a conundrum as to how to comply with multiple conflicting standards. Conflicts exist between the SEC's proposal (as the industry understands it today), state legislative and regulatory proposals, and private standard setters. Reg BI is sound and understandable by clients, and it, importantly, establishes a harmonized federal standard. While panelists indicated that states' intentions are admirable, it is better for the industry and the clients served by wealth management professionals to have a single, federal standard written by regulators with extensive depth and knowledge of how the industry operates (i.e. the SEC and FINRA).

- Fiduciary or Best Interest? – Detractors of the "best interest" standard question whether it truly represents a heightened standard for broker-dealers. The term "fiduciary," however, carries connotations from a legal perspective, yet it is unclear if clients even understand what this means. The phrase best interest, however, is clearly understandable by clients – my advisor is working for me, in my best interest. Some market participants believe the term fiduciary is just a red herring, not really a question of whether one is better than the other. The focus should be about ensuring clients' needs are put first (which firms already do) and the industry is transparent about the products and services provided to clients, not on terminology.

- Will Investors Lose Choice? – For a number of years, both firms and clients have been migrating in the advisory services direction. Now, with confusion around conflicting regulations and differences across states, firms are considering limiting service offerings in order to remain compliant. Panelists are afraid new regulations may both accelerate the move to advisory accounts and also limit the availability of brokerage accounts, thereby limiting client choice. Client choice is key – it is appropriate for some clients to be in a brokerage account. Investors and their financial advisors should make the choice that is best for the particular client, and not because a state regulator or standards board said so. The SEC is trying to avoid an outcome where firms stop providing brokerage accounts, balancing the need for a best interest standard and preserving investor choice.

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