INSIGHTS FROM PERSHING INSITE™ 18

I've been to many Investment industry conferences, most are valuable, but there was something special about this 20th anniversary edition of INSITE. There is a palpable sense of change and transformation in the wealth industry these days and this event captured that vibe. All the attendees I interacted with (including advisors, managers, technologists, traders, strategists and business owners) were eager to be there to learn and to engage and contemplate the future.

The roster of speakers was outstanding, featuring senior leaders from Pershing and parent BNY Mellon, along with experts from inside and outside the industry – including a theoretical physicist, a late-night television host and a certain former FBI director who's been in the new news quite a bit lately.

INSITE18 also marked Xtiva's return to the industry conference circuit, and a bit of an unofficial 'coming out party' for Xtiva's new Incentive Compensation and Sales Performance Management (SPM) suite as we took it on the road for the first time.

Overall, the event featured almost 60 breakout sessions and 5 general sessions, spanning a wide range of topics, including digital transformation, innovation and disruption, security, customer success and how the roles of people working in the industry will change.

If you missed INSITE18, we've got you covered with this summary of key takeaways.

FROM HUNTER GATHERERS TO CURATORS AND CONNECTORS

Now and Next: Trends Impacting the Future of Wealth Management, led by Deloitte's Jeff Silva and Gauthier Vincent, captured some of the most important changes that are beginning to impact advisors and the wealth management industry. Rising costs of risk and regulation, analytics and Big Data, goals-based advice, aging advisors, advancements in science, and the looming massive inter-generational wealth transfer are all putting enormous pressure on advisors and firms to change the way they do business and to start leveraging some of the new technologies that are advancing rapidly and readily available to them.

Looking through the lens of 10 Disruptive Trends in Wealth Management the presenters, explored how falling revenue, driven by lower market returns, fee compression, fewer new assets and losses to new and existing competition, are giving rise to new business models in wealth management. Overall, Silva and Vincent argue, there will be fewer advisors supporting more customers at lower payout rates, but that advisor productivity improvements will enable profits to increase. In fact, they argued that the industry needs to achieve a near doubling of productivity in the coming years to offset the other pressures. From a customer perspective, higher 'touch' interactions will bring with it much higher levels of customer satisfaction.

The Deloitte presenters captured these changes perfectly with these five changes in the role of the wealth advisor:

- From Hunter Gatherer to Curator & Connector
- From Tool-Dependent to Tech Savvy
- From Paper Pusher to Digitally Enabled Trusted Advisor
- From Risk Mitigating Decision Maker to Data Informed Decision Maker
- From Bank Loyal to Individually Oriented

Key Takeaway: Advisor productivity needs to be the #1 priority for both Advisors and Wealth Management executives over the next 3-5 years as waves of disruption roll across the industry. You might find our piece on Maximum Advice to stimulate some ideas in achieving this goal.

WHAT YOU DON'T KNOW CAN, IN FACT, HURT YOU

"The biggest challenge is making sure that everyone is aware of the tools available to them. Inefficiency is caused by not being aware."

In Strengthening the Foundation with Operations Excellence, Jason Betz, Stephanie DiMaulo and Anthony Rufo (from BNY Mellon Pershing) argued that failure to utilize is causing massive unrealized value in technology investments and business performance.

Many of the technologies on which the new business models of wealth management will be built are already available today. Firms will need to adopt more platform-based technology that is cloud-based and integration-ready. These technologies can also help reduce capital expenditures because they leverage best-in-class third-party platforms, industry utilities, and robotics. Data rich and smart technologies are needed to manage the explosion of internal/external data sources, generated by the Internet of Things (IoT) and artificial intelligence (AI). Finally, a new generation of technology will need to be able to exponentially scale through advanced analytics, low cost growth, and flexible customer service models.

In addressing the technology changes taking place, specifically those changes at Pershing to support more integration across the industry, Lisa Dolly and Jim Crowley talked about risk in their opening remarks. "With integration there is great risk," Dolly said, adding that the first priority for Pershing is to make sure that there is resiliency in their systems and their security programs. One way to manage this is by incorporating biometric authentication, including fingerprints, retina scanning and even voice matching, for many of the higher value/higher risk actions.

Key Takeaway: The time to deal with accumulated technology debt (and the associated operational burden) is now. The building blocks are available today and firms need to get started selecting and deploying new technology products to power the next evolution of the Wealth Management industry. Waiting will only leave firms behind and exposed.

BIG DATA IS CUSTOMER INTELLIGENCE WAITING TO HAPPEN

Marc Butler (COO at Albridge) suggested that instead of 'Big Data', we call it 'customer intelligence'. When used properly, and in conjunction with predictive analytics tools, this customer intelligence can identify many things about how a customer might be thinking. For instance, data analysis can identify when a client may be planning to leave an advisor, or when a customer is planning to sell their home.

James Patrick (EVP & Head of Advisory Services at Envestnet) told a story to illustrate how to creatively leverage customer intelligence and predictive analytics. The example comes from Tesco, the UK supermarket chain. As with any loyalty program, Tesco's loyalty card keeps close tabs on consumer purchases. In one case, the data reflected that the consumer, had started purchasing diapers. Tesco's analytics determined that there was an opportunity to offer the man coupons on his next purchase. So, they sent him some coupons… for beer. The analytics engine was able to intuitively determine that if the man was buying diapers, there must be a newborn in the house, and he had most likely stopped visiting his local pub. Quality data, along with analytics powered by machine learning and cognitive computing can find new opportunities everywhere.

While all of this technology and analytics is good, and while it suggests the possibility for humans to become diminished, Kevin Hughes (EVP & Head of Sales at MoneyGuidePro) stressed that's not the case. "Technology should allow humans to do human things."

We need to work side-by-side with technology, Hughes said, adding "90% of technology-enabled advisors saw 10% growth last year (roughly double the growth of non technology-enabled advisors)."

Key Takeaway: Technology can significantly enhance the advisor journey, producing leverage and enabling them to achieve more. Breaking away from the old back-office, middle-office and front-office technology silo thinking is critical to delivering the full leverage available in the data.

"YOU CAN'T MANAGE WHAT YOU DON'T MEASURE."

In his session focused on staffing and compensation trends, Marc Bruno (Associate Publisher at Crain Communications – InvestmentNews) reported that only 40% of the independent firms they surveyed measure performance based on capacity measures such as clients served or revenue serviced, adding "you can't manage what you don't measure."

Bruno said that "lead advisor compensation is up 23% since 2015" and that retaining these advisors is top of mind. There is significant focus on getting compensation structures right in order to do this. Data and analytics play a big part in developing appropriate compensation structures, but also in measuring their effectiveness.

Key Takeaway: Incentive Compensation is the foundation for effective productivity and performance management. It's important to get it right and keep it right. That means smart design, a solid technology platform and a commitment to regular maintenance checks. Don't make these mistakes.

"CUSTOMER SATISFACTION JUST ISN'T ENOUGH."

Julie Littlechild, founder of Absolute Engagement, lead a dynamic session on: Understanding How the Psychology of Referrals Can Drive Growth. "Customer satisfaction just isn't enough," said Littlechild, explaining that it is the combination of the right offer plus the right service that gets you to satisfaction, but it is "leadership that gets you beyond satisfaction."

Her entire presentation focused on understanding why clients do/don't give referrals and what advisors can do to improve their ability to encourage them. The findings from Littlechild's research were eye-opening. Although 91% of customers claim to be satisfied with their advisor, only 79% say that they are comfortable to provide a referral, and yet only 4% actually do. So, there are vastly more referrals available to advisors than referrals that materialize.

Littlechild pointed out that only "17% of clients refer because their advisor asked them to." Customers refer more, she added, because they want to help a friend or family member, far more than they have any interest in helping their advisor. Littlechild offered four ways advisors could do better:

- Understand how and why your clients refer
- Help clients to refer more often
- Translate referrals to introductions
- Convert more of those referrals

Key Takeaway: The vast majority of advisors misunderstand and under-leverage their existing customer base for growth. Check this out for ideas from Julie and her team.

TRUST IS AT THE CORE OF CUSTOMER ENGAGEMENT

There were two dominant themes at INSITE – technology as productivity enabler and trust as the only immutable ingredient to success.

Loss of trust is a disruptive trend impacting the finance industry. “Trust has eroded,” says James Patrick. “Young people today only trust their phones and their apps, not necessarily people.” This erosion of trust, caused by a variety of factors – advisor conduct, selling practices, language and communication approaches, customer experience, pricing and customer lack of confidence in their future – is an important reason why advisors should be trained on how better to engage with clients, and why adopting appropriate technology is important. “Trust is at the core” of all customer engagement.

Blaine Aikin (Executive Chairman at Fi360) said that advisors should “refocus from regulation to reputation…. This establishes trust with your clients and increases the value of your brand.” Of course, trust is directly correlated with reputation, but as Lisa Dolly said in her opening remarks, “people never forget about how you make them feel.”

This idea was reflected in former FBI Director James Comey’s comments on effective leadership. Mr. Comey said that “everyone suffers a bit from the Imposter Complex”, that is, knowing that if people knew who you really are, they’d think less of you. So, a good leader is able to “flatten that hill” and make team members (in his case, staff) feel less afraid that their boss will expose the “real them” (their inner Imposter). He said that a good leader needs to flatten the hill by somewhat equalizing things; by exposing bits of his/her inner imposter, and gave an example of saying “I don’t really know a lot about that, not as much as you do, so tell me what you think…” That’s good leadership. That’s a feeling that people won’t forget.

Key Takeaway: The wealth management industry is nothing without trust between advisors and firms and advisors and customers. At Xtiva we are obsessed about KPIs and how they are used for supporting and driving performance. We think it’s time for a Trust KPI.

THE JETSON FUTURE

One of the closing sessions of the conference focused on far-out technology – beyond the changes we’ve seen in technology in previous years and focused on the amazing new technology that will reshape who we are, how long we live, where we travel to (in space), and much more. Dr. Michio Kaku (Theoretical Physicist, Professor, Futurist and New York Times best-selling Author) gave his presentation, titled AI and The Destiny of Humanity. He spoke about mind-blowing concepts such as living into our 300’s, electing to stay age 30 for 100 years, settling on Mars and moving civilization beyond that to far-away galaxies.

But, he noted that these are all just predictions, and as the great Yogi Berra said: “Prediction is often very hard to do… especially if it’s about the future.”