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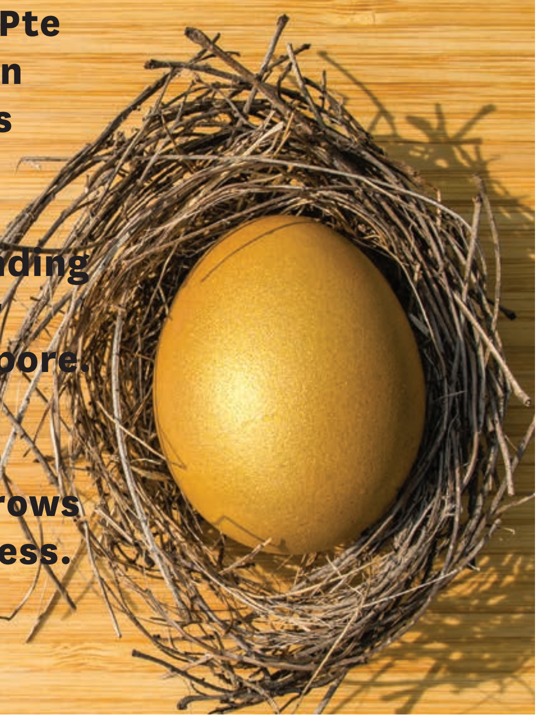
Facing the Future: How Wealth Advisory Firms Must Strategise and Adapt to Attract NextGen Clients

Mark Nelligan, Managing Director of BNY Mellon's Pershing Securities Singapore Pte Ltd, met with Hubbis recently to explain why wealth management advisory firms should develop strategies to appeal to future generations who are making or inheriting Asia's vast and rapidly expanding private wealth. He was joined by Taylor Luo, Vice President at the firm in Singapore. Nelligan and Luo work with wealth management businesses to forge new strategies, revising as their business grows and client needs evolve to achieve success.



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The evolution of business strategy for advisors

Nelligan emphasized several key points regarding the evolution of business strategy, technology transition, and transformative regulation. "Advisers and relationship managers are continuously changing their objectives and their strategies for serving their clients," he explains. "There are clearly different factors that can impact their strategy, for example, technology, as well as changes in regulations. Evidently, these different areas will impact how they run their business."

Nelligan focused on the evolution of business strategies to appeal to new client segments such as millennials. "The baby boomers are exiting the workplace, the older generations are passing on their wealth, so the challenge is for the business development teams to attract the new classes of clients and investors such as millennials, who are very technology savvy, and who prefer applications. So how as a business developer you market your brand to these individuals is an increasingly important factor."

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The times they are a'changing…

In March 2018, Nelligan informed a Hubbis audience that 85 per cent of Asia's billionaires are first-generation, which would naturally create a plethora of wealth transfer opportunities over the next 20 years. Worldwide, he reported, people would in that time transfer more than US$2.1 trillion to their heirs. Advisory firms that wish to participate in this opportunity must develop their strategies, services, offerings and psychology that will continue to serve the next generations.

Nelligan advises that while wealth managers may currently have a close relationship with existing clients, most of these close bonds are with the older generations, so it is vital to forge new bonds with their offspring and foster their trust in order to manage the wealth of the next generations.

The second element that is critical to future success relates to regulations. The many new or revised regulations, such as Europe's CRS (Europe), FATCA (US) and MiFiD II (Europe) are, Nelligan observes, having an immense impact on the strategies of the wealth management industry.

Taking the next steps

"The biggest challenge for many of the Enterprise Asset Management (AMs)," Luo adds, "is going from the one-person-self-identified boutique to becoming a business beyond that. These firms are becoming more institutionalized and adopting new principles, which requires the discipline to put formal practices in place. At many Asian Enterprise Asset EAMs, the clients identify with only the founder. We have seen that these practices are unable to grow beyond USD100 to USD200 million, where others have evolved and adopted more practice management discipline to accommodate growth."

A key issue, Nelligan reveals, is the inability of many of these founder-entrepreneurs to let go, or to professionally delegate. "They want to source all the clients themselves, for example," he explains, "but do not appear able to hire the right talent and then grow beyond just the individual, by employing practice disciplines in the firm to help the growth path."

Building requires stronger pillars

Luo observes that a firm with goals to support a larger client base needs to have the knowledge, human capital and skill sets support a larger client base.

"The biggest challenge," Nelligan shares, "for these smaller firms is how to attract newer client segments and how to deliver a meaningful value proposition. They do not know for sure how to attract these new clients, such as millennials–a different group of investors with a different mindset from the baby boomer generation. For example, millennials have participated in the dramatic boom in technology and social media, so this offers advisory firms a strategy for marketing to this client segment."

Don't just leap in the dark

The question then is how best to provide solutions and services to these clients. "People tend to focus on the investment side and forget the technology risks. We find that they tend to go for the quick plug and play, but soon find their existing technology lets them down, particularly where they have multiple custodians, or if the clients prefer to have different banking relationships with private banks. It then becomes very difficult to manage that client's overall portfolio. That is what is becoming increasingly challenging, especially now where we see that clients are consolidating their four or five banking accounts into two or three and wanting advisors to give the holistic view of their assets."

A key challenge, therefore, is being able to find the right solution. "There is no silver bullet," Nelligan adds, "it is a question of these firms trying to find a provider or several providers, that can work together and allow them to do what they do best, which is the advisory portion of the equation."

Knowing your target client

For the millennial generation, they add, social media platforms are their day-to-day mode of communication, more so than actually speaking to one another. "They are tech-savvy," Luo explains, "they like all the bells and whistles within the apps, so advisers that can provide these have an advantage. A technology provider that can offer all these different types of bells and whistles in a great app for millennial clients to use would be very appealing."

Luo adds that younger generations do not often trust their parents' advisers and bankers, so they tend to use digital sources to make or to verify decisions, accessing portals that offer insights, opinions and comparisons. "LinkedIn," he says, "is a very good example, and often is where the client of today looks for their advisers. As we move through the transfer of wealth from generation to generation, you just cannot rely on servicing the older generation, you must target the new ones, and that is precisely where you have to have a digital presence that is current, dynamic and actively updated to appear to younger generations."

Hybrid models flourish

Supplementing traditional wealth management delivery with digital advice is another step the independent firms can and should be making. "With the evolution of advice to robo-advisory,"

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Nelligan observes, "an investor or a service provider has more options. Certainly, as an investor, I would like to have options. Many forward-thinking EAMs we work with use a robo-advisor as a complement to their existing wealth management and asset management business. They complement one another."

Luo adds that this is especially true for advisers managing wealth for different generations. "You might, for example have one generation that prefers face-to-face [interaction] and the next generation wants more digital communication or clients that want self-directed with robo to complement. That is increasingly what we are seeing: it is fluid, it is no longer black and white, either/or these days."

Keep evaluating, keep adapting

Another mission for the smaller firms is, Nelligan adds, to continuously evaluate their solution providers to ensure consistent value added services. "Practice management is not like studying for an exam," he explains, "you don't do it, leave it and walk away. It is a continuous process. You need to consistently revisit what you are doing and how you are doing it and thereby make it relevant to your practice. Good practices tweak, change and adapt as and when the clients' needs dictate. Things continue to evolve."

For more information on business transformation read BNY Mellon's Pershing whitepaper Five Key Themes of Business Transformation: [Five Key Themes of Business Transformation] ■

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