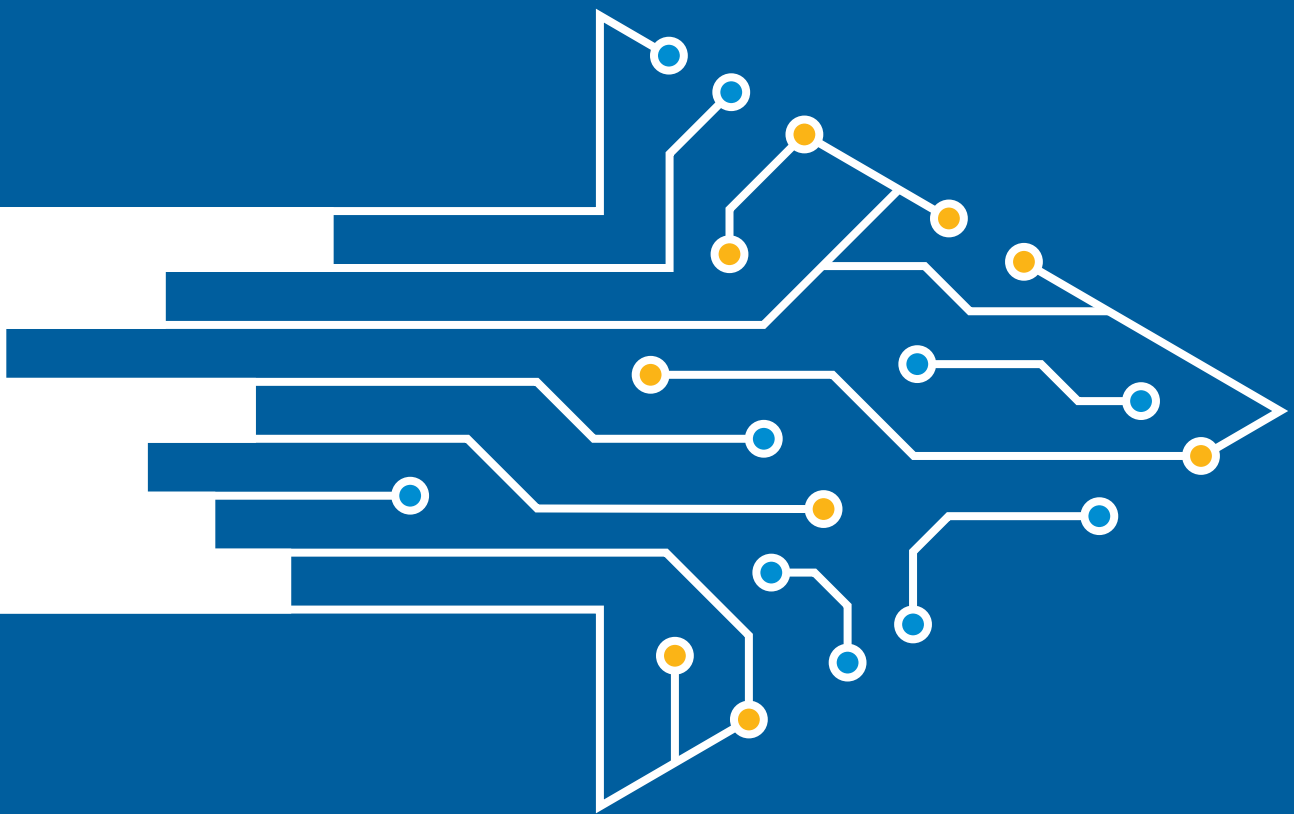


Accelerating

the WealthTech Transformation



>>> An Envestnet Report
Illuminating Opportunities Ahead





To Help Clients Live The Intelligent Financial Life™

At Envestnet, we believe the age of the intelligent, connected financial life is what is next for our industry. And we are ready to empower it.

In The Intelligent Financial Life, Bill Crager, Co-Founder and Chief Executive Officer of Envestnet, shared insight into why our industry needs to connect and expand the ecosystem of solutions we offer consumers. The paper envisions a world where people are empowered to make smart decisions about their money that balance and honor the competing demands of day-to-day and long-term financial planning.

Today, advisors and financial planners tend to support just some aspects of their clients lives. But we believe that with customer education, smart technology, and a reframing of how advisors and their clients work together, the advisor of the future will be able to make this vision a reality for an ever-growing proportion of the population – with positive benefits for advisors, individuals, and society as a whole.

In the pages that follow, we'll take a closer look at how the events of 2020 set the stage for a transformation of our industry in the years ahead. We'll explore the key ideas and questions every firm and advisor should be asking themselves to help determine how they will move forward. Some of these are baby steps along an existing trend, others are seismic shifts in the way we need to do business. All of them are important as we look to adapt and evolve.

The Intelligent Financial Life™

How Money Becomes More Powerful for People



People today find themselves living two financial lives – their day-to-day spending and long-term financial goals affect each other, but rarely do people consider those interactions when making decisions to spend, save or invest. Read Envestnet CEO and Co-founder Bill Crager's thoughts and insights about why it is important to weave these lives together, and how an expanded ecosystem of tools and advice can help make that vision reality.



[Download the White Paper](#)

For all the challenges of 2020, now is the time to look for silver linings.

We've stress-tested ourselves and found ways through unexpected challenges, emerging more resilient, confident in our ability to adapt, and with new perspective. We understand better what is essential and what's optional in life. And now we have a wide range of opportunities and untapped potential before us.

For the wealth management industry, this is a generational opportunity. We wouldn't have chosen to endure a pandemic, economic downturn, social unrest, and political upheaval. But we did endure, and the lessons we've learned and the ways our industry and clients have changed make possible new ways of conducting business that would have seemed impossible, or at least a far-off vision, just a year or so ago.

This is the perfect time to reevaluate your processes, tools, and solutions.

- >>> **Can your systems support the experience your clients are looking for?**
- >>> **What pieces of your process still make sense in a post-pandemic world, and what should be left behind?**
- >>> **Do you have the capacity to create your own solutions, or would you serve your clients and business better by outsourcing some products and programs?**
- >>> **Are you ready for what's next?**



Not yet knowing the answers is okay.



Not asking the questions is not.

This is not a work of prognostication, but a place for Envestnet's leaders, representing a diverse cross section of skills and knowledge from across the wealth management and fintech fields, to outline our point of view on what has happened and what the future may hold. We will place a particular focus on how technology and data can enhance and enable the next generation of wealth management services, starting this year.

We also are driven to help you because we are navigating these challenging times with you. In order to serve the more than 100,000 advisors our solutions touch, we've had to shift to virtual work, support worried clients who were unsure what was coming next, and ensure our own business' success while trying to adapt to each new challenge.

It's worth noting that innovation and growth that occurred in the hothouse environment of 2020 has taken multiple forms. We have anticipated some changes, like the shift toward more virtual experiences and outline engagement, for the past several years. Other transformations, like altered client expectations and the focus on health and emergency preparedness, are linked directly to the events of 2020. But in every trend, we see signs that holistic financial wellness is an approach that resonates – and that advisors will need to help deliver.

An unfinished story, but the plot is becoming clearer

This year will mark a dividing line between the way things are and the way they used to be. Here are some of the things we believe have been changed forever:

- > **From “Let’s Meet” to “Let’s Screenshare:”** Not only do clients and advisors have new relationships with their technology, but they will also continue to use technology as a primary way to interact. Face-to-face meetings will return to calendars, but less frequently. The upside will be a move toward more frequent, less formal interactions.
- > **From “Tell me what to do” to “Help me do this:”** An outcome of digital meetings and the general rise of digital self-service culture is that many clients will expect to have more control over their financial wellness. Advisors will need to fine-tune their approaches to help clients get where they want to be.
- > **From “Stay in your lane” to “Under one roof:”** The advantages of bringing together the components of financial wellness have become clearer. After 2020, more people see how investments, debt, savings, health and life insurance, and other financial aspects of their lives interact.
- > **From “What’s my return?” to “What’s my impact?:”** ESG (Environmental, Social, and Governance) investing, another trend that predates 2020, got a big boost in 2020. Social unrest brought a new range of issues to the forefront, while strong identification with particular values has more people asking to direct their portfolios toward investments that reflect their values, whatever they may be.

That’s not to say all the answers are clear. Here are some of our outstanding questions:

- > **How many clients and advisors will fall back into old habits?** While we are confident in the overall trends, the speed of recovery and returning to normal could affect their rate of adoption. People less affected by the turmoil of 2020 may return to their old ways.
- > **What lasting effect will 2020 have on Millennials and Gen Z?** Some younger clients have now endured two or three major economic crises in 20 years. These generations were already known to be more conservative and wary; will they become even more so? Where will they turn for advice and help?
- > **What changes are coming – and when – from regulators and the new U.S. administration?** The transition to new leadership will undoubtedly lead to tax code and regulatory changes that will impact the wealth management industry; the market volatility tied to anti-institutional self-serve clients will also spark a reaction. We have an idea of what may be coming, but timing will depend on the pace of economic recovery.



“Investors will increasingly look for strategies that allow them to personalize their portfolios to align with their values or unique investment goals.”

Dana D’Auria, CFA
Co-Chief Investment Officer, Envestnet

The linchpin of the future: Technology and data

As a provider of technology, data, and product solutions to the wealth management industry, Envestnet is focused on how these tools and services can improve how advisors serve clients. We believe the data now available to advisors (and just as importantly, data that is available efficiently and at scale) will transform how advisors do business. It will surface portfolio and plan opportunities for clients that advisors can bring forward proactively. When clients reach out with inquiries and requests, advisors can offer answers and recommendations drawn from the solutions that have worked for others.

In each of the sections that follow, look for callouts that summarize the key changes and opportunities driven by technology and data. We will also share:



Points of view from Envestnet leaders



New and updated definitions of terms



Data snapshots



Questions you should be asking



Steps you could be taking

We hope you find this report a helpful and insightful resource as you plan for the future.

Todd Buck

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Co-Chief Investment Officer, Envestnet

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Head of Analytics, Envestnet Analytics

Brandon Rembe

Chief Product Officer, Envestnet

Andrew Stavaridis

Executive Managing Director, Group Head of Wealth Solutions Distribution, Envestnet



Automated



Earlier



Evolving

Client Life Cycle Management Trends

Advisors and firms have always been designed to deliver services tailored to the client lifecycle, from prospecting, to onboarding, to progression through life events and the accumulation of wealth. This was traditionally a manual process – in annual or quarterly meetings, advisors would ask about a client's status or interests, and then make recommendations based on experience with others in a similar position.

Fintech tools and data are adding substantial value in lifecycle management, to the benefit of advisors and clients alike. We expect a continuation of the core trends in this space:

- > **Expansion and improvement of prospecting tools**, using data, targeted messaging, and content marketing to attract the right type of client at the right time. Quickly generating a custom proposal, a key part of an improved process, requires new technology. Social media will play an increasing role; one survey of advisory firms found social media marketing generated 8% of new clients.¹ Another found that 75% of advisors are active on social media, especially LinkedIn. 58% of advisors active on the platform feel it generates qualified leads.²
- > **Automation of onboarding**, an area where online self-serve tools can save significant time and effort for advisors.
- > **Platforms designed to seamlessly transition** clients as they go through life stages and accumulate wealth. Major life changes are often when people evaluate the level of service they get from an advisor. By proactively bringing the next level of service that clients need, advisors are better positioned to retain them. Conversely,

missing a transition – failing to offer updated advice after the birth of a child, or a change in income, for example – creates an opening for other advisors to earn the client’s business.

The economic uncertainty that began in 2020 will make it especially important to recognize the lifecycle of clients:

- > **Millions of people had changes to employment status or income.** Advisors should be watching for changes that might suggest a need for financial advice and reach out proactively. From March 2020 to March 2021, a full year dominated by the COVID-19 pandemic, more than 80 million claims for unemployment benefits were filed, more than double the number in the Great Recession.³ These are people whose financial lives have been disrupted, and who would likely welcome advice about how to balance near-term and longer-term financial needs.
- > **Prospects and clients at every lifecycle may have new motivations and questions.** Younger clients may have more interest in long-term and emergency planning than they did before 2020; experienced clients who were on autopilot may suddenly have questions about market turmoil in the news. Make sure your marketing and messaging are timely, relevant, and proactive. A survey found that about a quarter of respondents are seeking help from an advisor for the first time because of the pandemic.⁴

We believe that prospects and clients who don’t already have unified financial plans would benefit from having one. A comprehensive plan will help people make sense of the many different financial needs they have and help them improve their decision making, not just in times of crisis but in the years to come – and the advisor who can provide comprehensive plans will be positioned to help clients manage a larger share of their assets, to the benefit of both client and advisor.

>>> Which aspects of prospecting and onboarding do you spend the most time on?

>>> How are you tracking changes to your client’s life?



“Wealth managers used to say ‘We need digital engagement for millennials and Gen Z.’ The pandemic changed that – now every generation needs a good digital experience. So, whether you’re a 75-year-old focused on your retirement or whether you’re a Gen Z that is working to pay off their college loan, that entire life cycle has to be supported in a digital way.”

Brandon Rembe
Chief Product Officer, Envestnet

1: Ming Li, “New Clients Scorecard of Advisors’ Virtual Prospecting,” Financial Advisor IQ, 4 Feb. 2021, prod-2.financialadvisoriq.com/emailcontent/3042183/381304; 2: Fidelity Investments, “Diving Into Digital Marketing,” 2020, institutional.fidelity.com/app/proxy/content?literatureURL=/9888573.PDF; 3: Ben Winck, “US weekly jobless claims rise less than forecasted to 745,000 as stimulus nears key vote,” Business Insider, 4 Mar. 2021, www.businessinsider.com/us-weekly-jobless-claims-745000-economic-recovery-labor-market-unemployment-2021-3; 4: Karen Demasters, “More Investors Searching For Advisors’ Help For First Time,” Financial Advisor Magazine, 23 Apr. 2020, www.famag.com/news/more-investors-searching-for-advisors-help-for-first-time-survey-says-55370.html; 5: Cerulli Retail Investor Advice Relationships 2020



More Digital



More Values-Based



More Visibility

Clients, Attitudes and Actions

Changes to wealth management start with the end customer: the clients who depend on and seek value from advisors and firms. The events of 2020 had profound impacts on clients interests and expectations.

- > **Ongoing uncertainty has clients looking for answers and reassurance.** They are looking for trusted, credible sources. Advisors should continue to invest in building personal rapport, display empathy, proactively offer relevant information, and make themselves accessible to clients.
- > **A nudge to update portfolios, emergency plans and estate planning.** Portal usage for Investnet | MoneyGuide increased 39% among new clients and 44% among existing clients in Q1 of 2020 vs. Q1 of 2019.⁶ Additionally, 69% of clients checked in on their portfolios during the spring of 2020, and 37% made adjustments out of concerns to protect wealth and ensure financial health.⁶ The focus on the health crisis also led many clients to ask for help ensuring their wills, estate plans, and emergency savings are adequate.
- > **Instant comfort with digital engagement:** More clients of every generation are now adept at video calls, logging into online accounts, and virtual document-signing, even for high-value interactions like health and finances that once were considered “face-to-face” conversations. Advisors now can push these experiences forward, which will also result in efficiency benefits. This rapid acceptance of virtual advisor experiences has implications for both advisors and their firms, which is where the investment in these systems ultimately rests.

> **Accelerated interest in ESG investing.**

ESG investing has been growing in popularity for years, but we believe the events of 2020, both social unrest and intense interest in social issues and values, will turbocharge that trend. Even before the pandemic and social unrest of 2020, 95% of millennials were interested in sustainable investing.⁷

Given rising interest in ESG, estate planning, health care, insurance, and emergency finances, we see that clients are essentially asking for unified financial plans that touch all aspects of their financial lives, even if that isn't how they would identify the need. Advisors should be attuned to clients who are feeling financial uncertainty or a general need to do more and use that as an opening to promote financial planning.

In addition to these recent accelerations, other significant trends we've seen in recent years will continue to create opportunities for wealth management professionals, such as a willingness to share personal information in exchange for personalized service. This creates an opportunity for advisors to deepen their relationships and offer more value to clients and do so efficiently using automated self-serve systems.

New definition

Performance: This used to be just a number showing growth of assets. Now it will also include how well a portfolio supports a client's values, and the impact that investments have on environmental, social or governance issues. Envestnet offers Impact metrics to help advisors incorporate this new way of evaluating environmental, social and governance performance alongside financial performance.

⁶: Envestnet, Inc., "The Advisor's Playbook for Leading Your Clients Forward," 2020: ⁷: Tim Quinson, "The Boom in ESG Shows No Signs of Slowing," Bloomberg Quint, 10 Feb. 2021, www.bloomberquint.com/business/the-490-billion-boom-in-esg-shows-no-signs-of-slowing-green-insight

- >>> Does your platform enable mass customization for values-based investing?
- >>> Are you communicating with your clients as often as they like, and through the channels they prefer?
- >>> Is the user experience of your platform on par with the other online experiences your clients engage in?



"We believe the value an advisor brings is not just investing, but it includes credit, insurance, trust & tax planning and healthcare advice."

Andrew Stavaridis
Executive Managing Director,
Group Head of Wealth Solutions
Distribution, Envestnet

Reflecting ESG values in portfolio increases satisfaction:



8: Money Management Institute and AON, "Advisory Solutions: Expectations and Experiences, Part 2: Harnessing Generational Differences Across the Financial Planning Process," June 18, 2020;
9: YCharts, "How Can Advisors Better Communicate With Clients," December 2019, goycharts.com/hubfs/YCharts_Client_Communications_Survey.pdf

Email is still king:



75% of clients
under 50 and 87% of those over 50 prefer to get interesting financial content from their advisor via email.⁹

There is a mismatch between advisors and clients regarding values-based investing:



77% of clients
(and 91% of those under 45) want advisors to ensure investments are aligned with their values.⁸



44% of advisors
think their clients want them to ensure their investments and values are aligned.⁸

Four Macro-Trends in Social Behavior to Follow >>>

By Dani Fava

Head of Strategic Development,
Envestnet



The overall trends we see in society today are also affecting what wealth management clients expect of their advisors. Here are four macro-trends I see affecting our industry that were accelerated by the events of 2020, and that I think are especially important for wealth management firms to track in the years to come:

- 1 Decentralization:** People are decentralizing where they perform tasks, get information, and make purchases. They are open to changing their patterns for experiences that are easier or offer better value.
- 2 Age of the Creator:** People listen to and consume content from peers. They are more comfortable with collaboration. They don't just want to be told what to do, they want to be co-creators – and that goes for financial wellness decisions as well.
- 3 Measuring Wellness:** People have new tools and interest in tracking their health, sleep, mindfulness, and other aspects of their lives. They are comfortable with data and look for evidence they are doing the right thing. The wealth management industry can not only offer more measurements of success in their area of expertise but use broader data to offer total wellness insights.
- 4 The Involuntary Tech Revolution:** This was a profound effect of 2020 and the pandemic-related shutdown on doing business in-person. While many advisors said they lost business because they couldn't interact with advisors effectively, the good news is that the population at large appears to have increased trust in digital experiences.





Collaborative



Personalized



Holistic

Products and Services

As client motivations and expectations have changed, the products and services offered to them need to evolve in lockstep. The biggest trends here are those that were already underway before 2020, but the speed at which new products and services are deployed, the emphasis advisors and firms place on them, and the ways they are positioned have changed.

- > **An accelerated push toward planning:** Clients took a closer look at their overall financial picture during the pandemic and asked their advisors for help. 71% said they think their financial planning needs improvement. 15% said they didn't have a plan, but the volatility of 2020 has prompted them to seek out planning services.¹⁰ Advisors can leverage the financial planning process as a core way to offer value and uncover areas where clients need help. From there they can work to fill those gaps directly, or refer them to other experts.
- > **Geographic barriers are now broken:** Advisors can work with clients around the country by conducting their businesses remotely. In turn, we continue to see clients working with subject matter experts regardless of geographic location. According to the State of Financial Planning & Fees study, 7% percent of advisors surveyed are no longer associating with a geographic location and are providing services virtually.¹¹ We believe the future is the "virtual advisor" – they can meet clients more frequently through virtual planning engagements and make the tools accessible to them directly. And clients of virtual advisors are showing great interest in financial planning.
- > **Digital collaboration products move to the forefront:** In 2020, planners couldn't meet in person, so they had to open access and let clients in. Now that clients are used to digital

collaboration, the only way forward is to make it a key part of the advisor's offering – which we believe will lead to better outcomes for both clients and advisors. This trend will continue throughout 2021 via co-browsing and Client Portal features. In a recent Twitter poll by Investnet, 50% of advisors said they plan to engage with clients mostly virtually, while 17% indicated they will engage with clients 100% virtually moving forward.¹²

\$1.3 trillion in Q3 2020 and had a 2-year growth rate of 24%. Over the same period, UMA assets grew 56% to \$1.6 trillion.¹³

As part of broadening the available product and service offerings, more and more firms are looking for additional products they can sell and service, such as insurance products. This has been a long-term trend, and one we expect to see continue.

- > **Broadening the advisor's playing field:** Client interest in the link between health and wealth increased because of the pandemic. This has created an opportunity for advisors to position themselves as more than just an investment expert. Advisors who were equipped with holistic planning tools could gather information about insurance, credit, health savings accounts, emergency savings, debt and more, and use data to make overall financial wellness recommendations.
- > **Customization and personalization at scale:** As clients have taken a greater interest in values-based investing and goal-based investing, and as direct indexing and fractional share ownership becomes more widespread, advisors need to be able to develop portfolios that match clients' interests and do that for each individual client efficiently and at scale. Advisors need tools to help capture inputs from clients and turn them into real-world allocations, and then apply tax overlays, perform rebalancing and tax loss harvesting, and do so efficiently.
- > **Continued adoption of SMAs and UMAs:** These Separately Managed Accounts and Unified Managed Accounts allow clients to apply their investment strategies more precisely with personal, professional management. As technology makes rebalancing and managing the holdings more efficient, these accounts will find wider acceptance. SMA assets totaled

Three steps to better customer service:

- 1 **With your team**, make and share a list of all the tools available in your platform. It may have more in-built capabilities built in than you realize.
- 2 **For services** you don't offer directly, form partnerships with trusted providers to whom you can refer clients.
- 3 **Start all conversations** from a place of personal empathy. Ask about a client's feelings, hopes and concerns to provide advice they will truly value.

¹⁰: Northwestern Mutual, "2020 Planning & Progress Study: Americans' Financial Response to COVID-19," June 2020, news.northwesternmutual.com/download/COVID-19+Insights.pdf; ¹¹: Investnet Inc., "State of Financial Planning and Fees Report," 8 Dec. 2020, www.wealthmanagement.com/white-papers/state-financial-planning-and-fees-report; ¹²: Investnet Twitter poll; ¹³: Cerulli Managed Accounts Edge 4Q 2020

Economic uncertainty reinforced the value of planning and professional help



71% of advisors surveyed said they had more clients now than before the pandemic.¹⁵



¹⁴: "Investors' Willingness to Engage in Paid Advice Relationships Is Peaking," Cerulli Associates, 22 Oct. 2020, www.cerulli.com/news/investors-willingness-to-engage-in-paid-advice-relationships-is-peaking;
¹⁵: Asia Martin, "It's True, More Investors Are Looking for Financial Advisors," WealthManagement.com, 15 Oct., 2020, www.wealthmanagement.com/industry/it-s-true-more-investors-are-looking-financial-advisors

The Power of Collaboration in Goal-Based Investing >>>

By Tony Leal
President, Envestnet | MoneyGuide



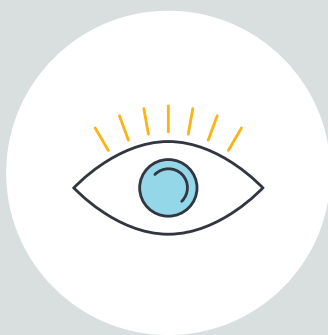
The thing we all need to remember is the plan belongs to the client, not to the advisor. We need the client to be the one who sets goals, and the more goals they identify, the better we can apply data to help them achieve those goals.

We have data on plans from the last 20 years, and when advisors are the ones driving the engagement and entering the goals, the average number of goals listed was just over two. But when the client got to enter their own goals by directly engaging with the technology or through a co-created advisor engagement, the average was closer to eight. This inspired us to continue developing planning tools that are visually engaging and easy to use, since we know the client needs to be involved.

Goals aren't a number. They are experiences, achievements. And that's where data can really be transformative. When we can look across a universe of plans and see what worked for other clients in the same situation in terms of reaching their goals – it's much more meaningful than just focusing on investment returns.

Clients want to travel. They want to pay for weddings. They want to do all these things. That's the emotional tie they have with financial wellbeing, and the advisor is the sherpa. They're the ones who are then guiding them through. And that feels good to the advisor too – I'm not just doing data entry; I play a huge role in someone's life.





Perception



Automation



Proactive Ideas

Advisor Essentials

In addition to the tools that help advisors connect with their clients digitally, technology and data are helping increase the power and effectiveness of advisors. The ideal technology doesn't replace advisors – it gives them superior senses, greater responsiveness, and ideas backed by data that goes far beyond any one individual's experience. The technology takes the lead when efficiency and speed are key, and the advisor engages when perception and personal touch are required.

These trends are part of the overall evolution of wealth management but were put to the test in the pandemic. During the volatility of the spring of 2020, advisors had to connect with all their clients in a very short period of time and make an enormous number of moves in portfolios. 78% of CFPs reported an increase in client inquiries during the early months of the pandemic.¹⁶ They updated risk tolerances 4x more in March 2020 than in the average month in 2019 and saw double the average activity in the following months as well. Portfolio rebalancing also spiked; moves between ETF and mutual funds were 5x and 4x greater respectively than the 2019 monthly averages during the crisis.¹⁷

But advisors were able to reassure clients to stay the course overall while making necessary short-term changes. After the markets recovered, most clients rated their advisor's help very positively. Before the pandemic hit in 2020, full-service wealth management firms were already scoring high in customer satisfaction. After enduring the uncertainty of the pandemic, 90% of clients said their confidence and trust in their advisor had increased.¹⁸

¹⁶: CFP Board, "Pulse Survey: The Impact of COVID 19 On CFP Professionals And Their Clients," April 21, 2020, www.cfp.net/knowledge/reports-and-statistics/certificant-surveys/april-2020-cfp-professionals-covid-19-survey; ¹⁷: Envestnet benchmarks; ¹⁸: "Advisors Get an 'A' From Investors on Pandemic Response: Survey," ThinkAdvisor, 23 Oct. 2020, www.thinkadvisor.com/2020/10/23/advisors-get-an-a-from-investors-on-pandemic-response-survey/

Here are some of the ways we expect fintech and data will continue to help advisors evolve:

> **Automatically identifying opportunities:**

Holistic wealth management platforms make it easy to track the big trends, like net worth and portfolio performance. But with the right technology, they can also look for intricate details an advisor might otherwise miss – changes in spending patterns that might indicate a life change, or imbalances between the different components of a wellness plan, such as outgrowing an insurance policy. These insights give advisors an opportunity to offer value by reaching out and making financial wellness conversations an ongoing engagement, not a once-a-year update.

> **Effective client segmentation:** Better data will allow advisors to predict the opportunity that each client presents, and target prospects with a service offering that delivers the right level of service for each client, so that the advisor is neither underdelivering service (which could lead the client to miss opportunities) nor overdelivering (which would take an advisor away from clients who need more personal service.)

> **Turnkey financial planning:** To meet the expectations of clients, advisors will benefit from turnkey planning solutions they can apply at scale, and that generate truly personalized and integrated plans. This is exactly the kind of value-added service that clients are willing to pay for, so being able to offer it is essential to advisor – and by extension, wealth management firm – success.

> **Making “next best action” recommendations:**

The real power of data lies not in creating a report, but in informing action. As advisors integrate the power of data into their practice, they can use that data to identify granular actions their clients can and should take. Data taken from a large universe of people can help unravel what might otherwise be gut calls – for example, whether it’s best to use a windfall to pay down debt or invest.”

> **Automation of routine advisor tasks:**

Advisors benefit from automation, which is why they are eager for their firms to provide robust automation tools. Every task that can be taken off an advisor’s plate frees more time to build relationships, prospect and offer personal value to clients. Already, platforms can largely automate rebalancing, tax loss harvesting, and reporting, which can save hours or days. But there are also systems to automate client communications, whether outgoing emails with useful content or chat bots that can gather information from incoming requests to allow the advisor to step in just when needed.

53% of clients

reported their advisors had contacted them during the worst of the crisis. Clients who received proactive communication from their advisor showed much higher satisfaction than those who did not.¹⁸



Turning Inward: Using Technology to Support Advisors' Businesses



By Todd Buck

Head of Business Development & Client Service, Envestnet Analytics

By Dave Lieberman

Head of Analytics, Envestnet Analytics

There's another side to the story of data and technology. Of course, the number one goal of wealth management is to help clients find success. But advisors need to pay attention to their own business and need to be able to make a profit to simply be there for clients.

The automation tools are a big part of that – as margins get squeezed, anything that can be done faster, better, and more efficiently helps the bottom line. But it's exciting to see how the tools that help make the next best action recommendations for clients can also apply to advisor businesses.

We can do peer benchmarking, to see how other practices perform, and identify the steps that could help an advisory firm maximize its potential. This might help a firm recognize when it is time to bring on additional advisors or support staff, for example. Or you can turn the data on your clientele, see what types of clients you thrive on, and where there may be groups you could serve better and how. It's an exciting opportunity more advisors could take advantage of.



How can you renew your advisory business?



Rethink

physical space requirements and whether more work can be done from home.



Invest

in your digital footprint and communications.



Create

a value proposition and messaging that is relevant to today's clients, with a focus on personalization, values- and goal-based investing, and holistic financial wellness.

Advisor crunch:



New definition

Advisor: No longer just a person with expertise in investment strategies and trade execution, an advisor today is a financial catalyst, the part of the equation that combines goals and resources to create the wealth needed to achieve client success.

¹⁹: "How to Deal With an Aging Advisor Force and Aging Clients," Think Advisor, 5 Feb. 2020, www.thinkadvisor.com/2020/02/05/how-to-deal-with-an-aging-advisor-force-and-aging-clients



Efficiency



Growth



Differentiation

Back Office and Business Trends

For wealth management firms, the long-term trend has been one of shrinking margins and a search for efficiencies of scale and new revenue streams. All the trends described throughout this yearbook roll up to the firms offering advisory services. In the years to come they will need to make strategic decisions about their way forward.

The trends described in this paper about the wants and needs of clients and advisors trickle up to firms. If clients want more personalization, advisors need to deliver it to be successful. Advisors need to become more efficient to maximize their value to clients. And their firms are the ones who need to make that investment. The investment then pays off in terms of more productive advisors and happier end clients.

Achieving scale is one way firms can get the most out of their tech investment. We are seeing more firms grow in scale already, especially through mergers and acquisitions.

In the second half of 2020, merger and acquisition activity among RIA firms accelerated. By the end of the year 159 transactions were recorded, an annual record and 20% more than the year before.²⁰ The trend continued in January 2021, with 23 more transactions – the most ever in a month.²¹

There isn't a single best approach. But for firms of all sizes, outsourcing their back-office tasks can enable more rapid evolution without the major development costs required to modernize systems from scratch, especially when developing such systems isn't a core part of a firm's competencies. With the support of technology partners, we anticipate more firms to follow one of these paths:

- > **Double down on offering robust, next-generation advisory services:** Among the largest firms, their resources and capacity available to build out their advisory platform with all the latest tools and automation. This may include significant investment in front-end user experience and assembling outsourced best-in-class back office and other solutions behind the scenes to manage operations.
- > **Consolidate through mergers and acquisitions:** For smaller firms, the best path forward may turn out to be as a part of a new organization. By achieving greater scale, they can benefit more for the efficiencies of technology and automation.
- > **Exit the advisory business and partner with established firms:** Some financial institutions are deciding to exit the advisory business, citing shrinking margins, the cost of updating their platforms, and changes in regulations. Some of these firms are opting to partner with established advisory firms, either co-branding or offering “white label” advisory services under their own brand, but completely outsourced to another firm.

In all these cases, we don’t anticipate firms will be able to stand still. There will continue to be competitive pressures from innovators in the industry and narrowing margins that will require investments in tools that improve efficiency.

Firms have the added pressure of making sure these new tools they are investing in are deployed and used throughout their businesses. Building a better mousetrap doesn’t make a difference if nobody knows about it or doesn’t know how to use it. Continuing to invest in ongoing advisor education and recruiting new advisors who reflect the firm’s values and connect with clients are dual challenges that follow from any technology investment.

\$70 trillion in assets (about \$220,000 per person in the US) will be transferred over the next 25 years²². Today’s wealth holders will need help with the transition, and recipients will need help managing it. The need for advice isn’t going away.

- >>> Based on how your business had to adapt in 2020, what will fundamentally need to change to sustain and grow your business?
- >>> What will your brand stand for in 2021? How will you communicate that?

20: DeVoe & Company, “RIA Dealbook Q4 2020” static1.squarespace.com/static/5410ec1be4b0b9bdbd0cc342/t/6022cf1312cfd10153590324/1612893974694/DeVoe+Deal+Book+Q42020-Final.pdf; 21: Fidelity Wealth Management, “M&A Transaction Report January 2020”; 22: Cerulli, “U.S. High-Net-Worth and Ultra-High-Net-Worth Markets 2020,” quoted in ThinkAdvisor, “The Rich Are Getting Richer, and That’s Good for Advisors,” 3 Dec. 2020, www.thinkadvisor.com/2020/12/03/the-rich-are-getting-richer-and-thats-good-for-advisors-cerulli/

An unmet need: Financial Education

It's important for the wealth management industry to get actively involved in making our communities a better place. Not only is this kind of engagement increasingly important to clients – it serves to demonstrate our own commitment to upholding values – it also is the right thing to do to make our society stronger.

One place our industry is uniquely well positioned to help is in the field of financial education. In our experience, a worryingly sizable portion of our communities lack a basic level of financial education; things like how to manage cash flow, how to safely use debt and credit, or how to design and follow a budget.

This is an area where technology can play a vital role. These are concepts that can be taught effectively using online “blocks” that walk users through concepts and help them take action. In general, unfortunately, the people who can benefit from these tools rarely engage with wealth management professionals. And the specific skills advisors provide best – helping identify goals and opportunities to reach them – are not a good match for people who lack the understanding of basic financial principles.

Envestnet is committed to helping raise the level of financial education in our communities, and we encourage wealth management and financial advisory firms to engage in their communities as well. We also should all look for opportunities to advocate for a higher standard of financial education in schools. Raising the level of financial literacy will help empower members of our communities to make better financial choices, with benefits to individuals, families, communities, our industry, and our society.

Finding new advisors to attract next-gen clients:



Envestnet is helping recruit and train the next generation of advisors through the Envestnet Institute On Campus (EIOC) program, which **4,257 students completed** from 2015 to 2020.

¹⁹: “How to Deal With an Aging Advisor Force and Aging Clients,” Think Advisor, 5 Feb. 2020, www.thinkadvisor.com/2020/02/05/how-to-deal-with-an-aging-advisor-force-and-aging-clients



Picking Up the Pace of Hyper-Personalization

We are excited and hopeful that this report will spark some serious conversations and “what if” brainstorming about the path your organization will take in the coming year or two. While we have touched on many trends, statistics, and new opportunities, and recognized the complexity of the interactions between them, we believe that all these ideas collectively give us a glimpse of the potential of hyper-personalized financial plans and guidance.

The pandemic and related volatility that touched both sides of people’s financial lives – both short and long term – has primed them to appreciate the value of comprehensive financial planning. At the same time, their interests, needs and wants have become more specific. And our period of change hasn’t ended yet.

The partner you choose is critical to your success

At Envestnet, we aren’t just highlighting trends and opportunities – we are living them as well. We went through the challenges of 2020 alongside our clients, peers, and partners, and we had to pivot, adapt, and learn to work in new ways as well.

Our history of innovation served us well. We have been innovating and developing new features and solutions throughout the past year to be ready for what’s next. Like you, we have our eyes open for opportunities to grow and improve. We feel confident that our suite of businesses, from investment management solutions to financial planning platforms, from data aggregation to outsourced back-office technology, is well positioned to help you transform your business in the years to come.

Ready to help you pick up the capabilities you need

Even with all that we are tracking, there are still more industry-shaking changes happening that we are working to adapt to every day. Like you, we are working to create solutions that drive success in an environment where commission-free trading and fractional shares are bringing a whole new type of client into the market.

What will those solutions look like? What capabilities will successful firms need to have two years from now, or five, or ten? What kinds of help will clients turn to their advisors for in years to come that they wouldn’t think about asking about today?

Those are stories that are still being written, and we’re thrilled to be able to help you author them.

Want to learn more about the full suite of technology, data, and product solutions Envestnet can offer? Want to explore ways to adapt and deliver the kind of service that matters to your clients? Contact us today.

Are you ready to accelerate your practice? >>>

Visit us at envestnet.com/accelerating-wealthtech to continue the conversation.

We believe the age of the intelligent, connected financial life is what is next for our industry.

And we are ready to empower it.



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