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Good News for Advisors: The Future of Financial Planning Is Intelligent

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INVESTMENTS & WEALTH INSTITUTE®

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GOOD NEWS FOR ADVISORS

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In business, it's often said that if you don't innovate, you'll be left behind.

Now more than ever, financial advisors are having to face that truth. It's plain to see that our industry is changing, and a renaissance of technology is leading the shift. From continually improving client portals to more-robust proposal tools and even new client communication platforms, we can see the impact of rapid fintech advancement in our daily work. Just think about the ways you interact with clients. How has that changed over the past decade? How many emails and texts do you send to clients per week? What about 10 years ago? How many of your clients have opted for digital statement delivery over the years? What about opening new accounts? How many wet signatures do you collect today versus just a few years ago? Electronic signatures are the new normal.

The pervasiveness of convenience has hit our businesses in a very real way, brought on by advancements and widespread technology adoption. This has led to a core shift in the way we interact with clients. The quintessential in-office meeting of old is on its way out, especially in the wake of the COVID-19 pandemic.

This isn't your father's (or mother's) financial advisory business (and I know that all too well, having grown up in a family of financial advisors).

Technology has changed how we find, manage, and speak with clients, but more importantly, it's changed the way clients perceive the value of financial advisors. In short, we're becoming commoditized in the minds of the people we serve.

THE VALUE PROBLEM FACING ADVISORS

Investment management, and even retirement planning in general, is increasingly perceived as a commodity. I know you hear that all the time, but it's truer today than ever.

Nearly every advisor can see the ways in which investment management has become commoditized, largely due to robo-advisors. Financial advisors also aren't seen as necessary as they were in the past. Why? Because we are no longer the gatekeepers.

In the past, financial products and services weren't accessible by the masses, or at least not easily accessible. You more or less had to work with a financial advisor or broker to access them.

That dynamic has shifted. Just look at the flood of brokerage account openings in Q1 of 2020.¹ Charles Schwab reported more than 600,000 openings, a 58-percent year-over-year increase. TD Ameritrade reported a similar figure but a 149-percent year-over-year increase. The total number of stock positions held at Robinhood also more than doubled in 2020, up more than 15 million positions.

Although a lot of this growth is tied to the COVID-19 pandemic and the hysteria that followed as retail investors tried their best to time the market, the takeaway is that potential clients are investing on their own in record numbers.

Today, investors can access free financial education anywhere. Investors also can trade and manage their own money through free technology that is simple, intuitive, and conveniently accessible.

Robo-platforms have changed the game.

The rise of digital investment platforms has been easy enough to shrug off, because financial advisors have enjoyed a level of insulation from the disruption. When investors made enough money, or their financial situations became complex enough, we could rest assured that they would seek a traditional financial relationship with an advisor. Robo-platforms were a nice tool for our clients' kids to use to get started, but the real money always funneled through an advisor.

That assurance is gone. As robo-platforms move from new trend to mainstay, they are now offering financial advice, from a human, for as little as \$30 a month. And while traditional advisors get paid primarily on advisory fees, robo advisors are making money on the sales of investment and banking products.

Can you compete with that under your fiduciary model? Dollar for dollar, most can't. The simple financial advisor

add-on makes that transition, from robo-platform to traditional advisor, a much bigger sell.

But that's okay, because most advisors also should be able to provide a service that is head and shoulders above that of a robo add-on. And that's the more sustainable strategy—to compete on value instead of price.

The key is to find the right tools and technology that can give you the scale you need to compete. As that technology increases your efficiency and augments your skills, you can then more effectively communicate your value to clients and prospects.

THE OPPORTUNITY TO CHANGE THE PICTURE

At first glance, the adoption of new technology to fight the disruption of new technology can seem like a lose-lose proposition. You can either turn your business into something you don't recognize, where technology completely eradicates the human side of your practice, or you can join a dying breed of outdated service providers and close your doors permanently.

Neither option is especially appealing. You've worked hard to build a business and care for your clients, and you know that you have a lot to offer in terms of financial advice and guidance.

Luckily, neither option is necessary because there is a better solution. That solution is to use technology to act as an extension of yourself rather than a replacement for yourself.

Today's competitive landscape offers incredible upside for advisors who are willing to recognize this opportunity and adapt their businesses to capture it. Advisors, as a whole, seem to understand this.

In 2019, advisors spent a reported average of \$116,000 on technology.² That number is double the average spent

reported by advisors five years ago. Clearly, most advisors already are working to modernize their practices to remain competitive. Recognizing the need is a huge first step.

Investors crave comprehensive financial planning solutions (something that should cause every financial advisor to rejoice). In fact, 90 percent of high-net-worth investors report that comprehensive planning is the leading solution for which they pay their advisors.³ Investors understand the value delivered by financial advisors when the services align with their needs. The problem facing advisors isn't so much proving value as it is matching their service offerings with that perception of value.

What does all this mean for you and your business? It means that there's an awesome opportunity to go beyond the simplistic add-on offerings of robo-advisors. What's more, there's an even better opportunity to surpass less robust services offered by competing RIA firms down the street.

In a hyper-competitive industry, the clear-cut path to differentiation and value is found in what I call all-inclusive planning services. If you can find the right tools to enable you to provide those services, you can meet the needs as well as the desires of your target market.

How can you do that efficiently and without completely upending your existing business model? The answer is found in embracing artificial intelligence (AI) to create premium holistic planning services.

CREATING PREMIUM FINANCIAL PLANNING SERVICES WITH ASSISTANCE FROM ARTIFICIAL INTELLIGENCE

AI provides the tool that advisors need to improve their service offerings and drive differentiating value in our commoditized market.

Within the realm of financial services, AI can sound a bit outlandish. We

manage portfolios and guide individuals with unique financial situations and needs toward their goals. How can AI help us do that? AI is already a staple in our daily lives, helping us tackle equally complex problems. You just need to look outside the financial industry for context and inspiration.

WHAT IS AI?

We already are surrounded by AI. For example, AI is changing the way we get around cities with applications in self-driving cars. What was once science fiction is now within reach. But it's showing up in smaller ways, too. When's the last time you saw a Tesla? AI is an essential component of a Tesla as well as other vehicles with smart drive features such as lane assist and automatic braking—features that are more often standard than not in newer vehicles.

AI is also in your living room. Smart home devices such as Google Home and Amazon's Alexa use AI to recognize your speech, identify patterns, and make smart recommendations. Similar technology is used in popular tax filing services such as TurboTax. Text recognition technology is used to scan tax forms, which can now be uploaded as images.

Finally, AI powers your media binges. Netflix, Hulu, and just about every other content service use AI to power content recommendation algorithms. The same principle applies to those ads you see on Facebook and the recommended products you see on Amazon.

The takeaway is two-fold. First, AI is practically used in countless industries to create value by presenting simple solutions to complex problems. Second, it's important to note that AI encompasses a wide array of capabilities. Each of these companies uses AI to accomplish similar things like convenience and helpfulness. However, they are using different variations of the technology to get there.

Google Home and Alexa use natural language processing, a form of AI, to understand what you say and what you want. Netflix, on the other hand, relies on predictive algorithms and recommendation engines to make suggestions based on your actions and the aggregated actions of others. It's two sides of the same coin, and both are relevant to today's financial advisor.

HOW DOES AI WORK FOR FINANCIAL PLANNERS?

The same AI-powered technology used by Tesla, Amazon, and Hulu can be used to develop and manage comprehensive financial planning solutions at scale and without reducing your value.

We can start to see how by looking at the two greatest challenges of financial planning: time and expertise.

Financial planning is by nature time consuming. The tools we use today are powerful mathematical engines that offer completely advisor-driven solutions; however, they do not create much time savings.

The second challenge, expertise, is more difficult to overcome. Building the expertise needed to understand a client's needs and make quality recommendations takes time and, in many circumstances, requires degrees, certifications, and designations. Additionally, the software available today generally solves only for a client's retirement savings (e.g., retirement calculators, Monte Carlo projections, etc.). Other areas of holistic planning, such as estate planning, retirement decumulation, and navigating the complexities of insurance, often aren't tech-enabled.

How can we solve these challenges to create a compelling and valuable financial planning solution? By combining the knowledge of relevant subject-matter experts with AI-powered technology.

With AI, advisors can streamline the back-office side of financial planning

and simultaneously use client data to identify and deliver relevant insights from a network of experts. This makes a comprehensive financial planning experience available to more clients—which gives you scale.

This can be done in a number of ways. I know it can be done because I founded a software company, FP Alpha, that helps advisors use AI-powered financial technology to deliver holistic planning at scale.

Although the possibilities for AI-fueled financial advice are numerous, the following are four specific instances where AI can help advisors deliver more sophisticated and valuable services to their clients:

Identify opportunities from client documents and data. The comprehensive side of financial planning often entails optimizing items such as wills, trusts, and tax returns. However, it's unrealistic to offer these services without charging for the extensive amounts of time required to thumb through each individual document. That is, without AI. Natural language processing can analyze, understand, and archive client documents and data almost instantly. The beauty of natural language processing is that it doesn't require a template or form mapping. Regardless of layout, the technology can read and identify the important information in the document. This serves as the foundation upon which recommendations can be made, efficiently, to benefit your clients.

Build a financial plan. Once client documents and data have been analyzed by natural language processing software, an AI-powered platform can recognize opportunities for optimization and make recommendations that are backed by subject-matter experts. We manage that connection by pairing AI technology with algorithms built by more than 40 subject-matter experts. Once opportunities for optimization are identified, the AI provides advisors with insights from relevant experts that can be used to

improve clients' financial well-being holistically. With AI, the algorithm does the hard part—matching the right recommendation to the right client. Efficiently finding solutions to clients' financial challenges is half the battle. Once that's done, your job of guiding clients toward their goals is much more manageable.

Deliver actionable reports. With a client's financial opportunities outlined, AI-powered software then aggregates those opportunities into a single, actionable, and easy-to-read report for clients. Coupled with relevant insights and tools, the report serves as a tangible demonstration of the advisor's value—investment management.

Manage client progress. A plan is only as good as its execution. Like most business owners, many advisors struggle with designing and following processes. AI can help advisors here by linking each individual financial plan with a task manager that gives advisors full transparency into their clients' progression toward key financial goals. The task manager is fully customizable; its components can be edited and prioritized to fit each client.

These are just four areas where I've seen the transformative effect that AI can have on an advisors' business, my own included. These examples illustrate the tremendous value available to advisors through AI. Previously AI was available only to advisors with deep pockets and a large team of experts. Now AI-augmented advice makes it possible for any advisor to create and manage an all-inclusive financial planning experience.

And further, for firms with multiple advisors, a process-driven AI workflow creates a consistent and repeatable experience for all clients. A major benefit of AI is a reduction in human oversight, error, and variance.

Today, most advisors follow a common and basic financial planning model. The

advisor helps clients identify and set their goals. The advisor works with the client to fund targets, then anchors the financial advice around managed investments and household money decisions.

But that leaves so much value on the table. With an AI-powered approach to planning, advisors can extend their value into a number of untapped areas by reducing the time needed to evaluate client data and the learning curve required to make beneficial recommendations.

Think about services such as tax planning, estate planning, personal insurance, and legal planning. What do they have in common? Depending on the client, they may be significantly valuable to the client's finances. But the commonalities end there. Each discipline is extremely nuanced, requiring deep expertise to deliver real value.

The ability to provide prudent and expert financial advice on a broad range of financial needs increases the value of a financial advisor significantly. More importantly, it greatly benefits clients through time savings, improved likelihood of goal achievement, and reduced risk of a financial misstep that could jeopardize financial security.

It's also important to note that comprehensive financial planning services can greatly improve an advisor's ability to close new business. With a prospective client, it's essential to showcase your value. There's no better way to do that than by demonstrating an understanding of prospects' current financial situations, where they need to go, and how to get them there.

The challenge with this strategy is it takes a great deal of time to generate a comprehensive financial wellness review—but not with AI in your toolbox. With AI-powered planning technology, generating financial health reports can be done with a prospect's demographic information. In much the same way as

Netflix can recommend shows to you watched by viewers with similar interests, intelligent planning technology does the heavy lifting in these scenarios too.

In years past, the cost of technology and the time needed to provide financial planning services of this breadth and scale would be astronomical. Only the largest advisors, with the wealthiest clients, had the resources to provide a truly comprehensive financial planning experience. And even so, it was terribly inefficient, requiring firms to cobble together multiple technologies and generate recommendations manually.

With AI-fueled insights delivered through an intuitive and helpful framework, advisors of all sizes can provide comprehensive financial planning services at scale. That's great news for financial advisors, but it's even better news for individual investors. For the first time, investors aren't priced out of a holistic financial plan.

AI is the great equalizer. It gives the average financial advisor access to truly competitive solutions, which in turn makes life-changing planning services available to a wider range of investors, regardless of account size.

CAUSING DISRUPTION INSTEAD OF REACTING TO IT

Technology may be disrupting our businesses, but it is also providing a clear path for advisors to establish their value in clients' lives—today and for future generations. I think that value revolves around delivering truly comprehensive planning solutions to investors.

Doing so requires innovative uses of technology, but innovation doesn't have to be hard. With AI, comprehensive planning at scale is doable, widely accessible, and intuitive.

As advisors, I ask you to think about where technology is currently allocated in your budgets.

According to a 2019 advisor study, only one-quarter of advisors plan to increase spending on financial planning technology.² In our competitive landscape, where robo-platforms continue to raise the bar and clients continue to raise their expectations, one in four advisors is far too low.

I don't think it would surprise anyone to say that integrated and inclusive financial planning is the future of our industry. Holistic planning seems like the natural next step in terms of financial advisors' value. Our budgets should reflect that.

So if creating a richer client experience across your client roster is high on your list of goals for 2021, I encourage you to look into how AI can make financial planning a better experience for both you and the investors you serve.

I grew up in this industry. I love this industry. I want to evangelize about the value of financial advisors. The best way for me to do that today is by finding ways to help you make technology work alongside you—with the goal of deepening your value across a wider portion of your client base. Indeed, the future of financial planners is intelligent and the future of financial services is bright. ●

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ENDNOTES

1. Maggie Fitzgerald, "Young investors pile into stocks, seeing 'generational-buying moment' instead of risk" (May 12, 2020), <https://www.cnbc.com/2020/05/12/young-investors-pile-into-stocks-seeing-generational-buying-moment-instead-of-risk.html>.
2. "2019 Adviser Technology Study," *InvestmentNews*, <https://www.investmentnews.com/whitepapers/the-2019-investment-news-adviser-technology-study-summary>.
3. "High-Net-Worth Investor Research 2019," *Investments & Wealth Institute*, <https://investmentsandwealth.org/getmedia/d4e1f893-eb93-4633-9117-a8a33de07248/HNW-report2019-1.pdf>.



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