



*cutting through complexity*

Financial Services

# The New Inconvenient Truth

**Social media: Too big for  
wealth managers to ignore?**

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# Forward

The lines between 'real world' and 'virtual world' are blurring. Social media adoption is affecting everything we do as individuals, from staying in touch with friends to impacting how we do business in general. Clearly, social media is driving sustained and irreversible disruption in how customers stay informed, how they make decisions and how they interact with businesses. Wealth managers, as in other industries, must quickly adapt or face obsolescence.

Now is the time to act. We are witnessing shifts in demographics, wealth and location that, in turn, are changing the nature and the scope of the industry. For wealth managers, the opportunities – and the risks – are real and immediate, requiring the industry to rethink how it can provide clients with services they can't already get online.

Wealth managers must embrace these changes. This requires stepping outside their usual comfort zones and employing social media in ways that might run contrary to their traditional client-side behaviors. Changes in client expectations require real-time responsiveness from wealth managers. Through social media, the industry faces a rare opportunity to up their game by building stronger one-on-one client relationships in the very crowded wealth management marketplace.

In the pages that follow, we take you on the wealth management journey, focusing on present-day and future applications of social media, including the evolution of the client relationship, how to manage social media disruption, social risks and regulations, and the steps wealth managers should be taking right now.

As inconvenient as the adoption of social media might seem to wealth managers today, the future of the industry could very well be at stake.



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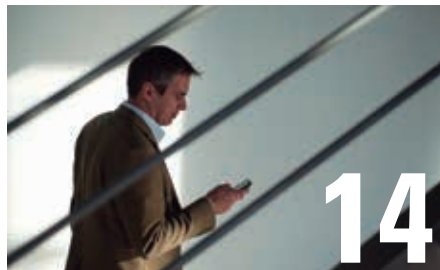


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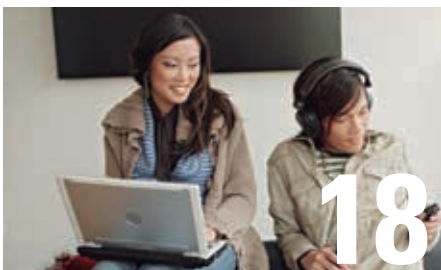
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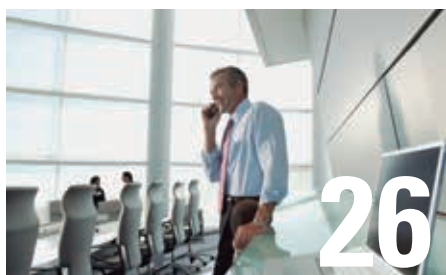
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# Introduction

Ask wealth management chief executive officers (CEOs) what social media is good for, and you'll likely hear about how their spouses post pictures of their pets or how their tweens waste time addicted to social channels. This narrow view of social media and somewhat open disdain are shortsighted, as social media is quickly becoming ubiquitous to the wealth management industry. Conservative leaders of wealth management firms who are well tenured and haven't embraced social media themselves often underestimate the flow of information and influence of social media. Like Al Gore's 'inconvenient truth' about climate change, or historical missteps relating to slow adoption of new technologies (Kodak with digital photography and Xerox with the computer mouse come to mind), the wealth management industry today must take notice of the profound changes that social media will have on their business environment. Simply put: Social media is now too big to ignore.

## Definition: Social media

Social media refers to non-linear online communications that are created, published and widely distributed by individuals, companies and other groups. With little or no cost of entry, social media users create messages, share ideas and information, network with others, foster relationships, build reputation, and exchange user-generated content through social channels.

In general, social media refers to key sites like US-based Facebook, Twitter, LinkedIn and YouTube, and sites from other countries, which transcend international borders. Popular and business-focused blogs and public forums also can be purely regional, with for example, social sites like RenRen and SinaWeibo being the most influential in China.

### Social media can:



Influence investment decisions



Provide a route to market – expansion and network



Produce insights into market and consumer behavior – advantage and early warning signals as well as relationship networks



Influence market stability



Enable financial inclusion

'Wealth management' and 'social media' initially don't seem compatible or at all mutually beneficial from a layman's perspective. However, social media is, in fact, becoming pervasive in virtually every industry. And whether they realize it or not, wealth management already is on the cusp of being surpassed by this highly disruptive technology. For the cautious wealth management industry, social media seems very cutting edge – maybe a little too cutting edge. The industry is still trying to decide how to best apply the technology to existing business models. As such, new approaches to engaging with customers and industry business models driven through social media are emerging.





## By the numbers

The pool of prospective global savers has become larger, older and richer. Developing markets currently represent less than 20 percent of global personal financial assets, but represent 40 percent of global GDP. By 2050, developing countries will represent 60 percent of global gross domestic product (GDP). In China and India, personal financial assets have grown at a rate of 25 percent per year for the past 20 years. All of this suggests that the wealth management industry is likely to continue its upward trend.

### Social media facts



#### Social media

Number 1 activity on the web  
1.8 billion users globally <sup>1</sup>



#### Facebook

1.4 billion active users <sup>2</sup>  
45-54 year olds are the fastest-growing demographic



#### QZone

654 million active users <sup>3</sup>  
China's most popular social media platform



#### 2014 Australian budget

80,000 tweets generated in three and half hours

Source:

1 <http://www.statista.com/statistics/278414/number-of-worldwide-social-network-users>

2 <http://www.statista.com/statistics/272014/global-social-networks-ranked-by-number-of-users>

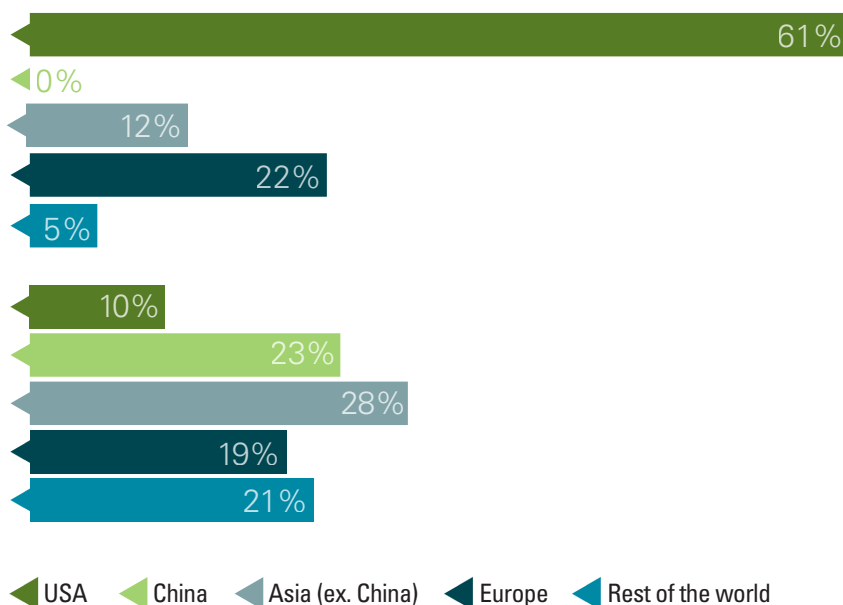
3 <http://www.chinainternetwatch.com/12809/tencent-2014>

### Growth in internet users

**1995**  
**35 million users**  
0.6 percent penetration of global population



**2014**  
**2.8 billion users**  
39 percent penetration of global population



Source: Euromonitor, ITU, US Census.



## Paradigm shift

The advent of social media in wealth management is illustrative of the massive and irreversible paradigm shift affecting the industry today, including changes in customer expectations, the ability of the industry to embrace technology, and the new direction wealth managers must take to stay current with their customers and the marketplace as a whole. This is all in addition to a historic demographic shift underway within wealth management – and across all industries – as ‘Baby Boomers’ settle into retirement, ‘Gen Xers’ approach the apex of their careers, and “Gen Yers” mature into the dominant demographic. The US Bureau of Labor Statistics reports that in 2015, Boomers and Gen X each make up 31 percent of the workforce, and for the first time are surpassed by Millennials at 35 percent.<sup>1</sup> Further, consumers, the industry at large and wealth managers in particular must all adapt to the promise and potential pitfalls of Fintech and social media. The rules of wealth management, like never before, are being rewritten. Whereas Fintech helps bridge the virtual gap between theoretical and practical technology adaptations for the financial services industry, so too does social media help change the mindset from traditional to modern thinking in wealth management. Everything is changing:

### For the wealth management consumer

Social media use today reflects the preferences and proclivities of the modern consumer. As in all other areas of their lives, consumers have rapidly evolving expectations about how they receive information and interact with organizations. Their ability to instantly receive research and information on-demand ‘like the experts’ is empowering wealth management customers to take greater charge of their portfolios and make financial decisions on their own – for better or for worse. They assume greater risks, and suffer unilaterally if social media-sourced investment advice doesn’t pan out. The profile of the consumer also is changing. It’s no longer a ‘luxury’ realm of high net worth individuals requiring customary levels of high-touch interaction with wealth managers. Instead, they are skewing younger as the general population ages and Gen Y surpasses Baby Boomers and even Gen X in terms of consumption. There is also an explosion in the middle class in developing countries, and they, too, are younger and more internet savvy, creating new marketplace opportunities for wealth managers.

### For the wealth management industry

The technology-fueled evolution is rapidly creating both opportunities and challenges, as the traditional wealth management industry is forced to change – whether they like it or not. The disruption for the industry comes from new technologies, as well as from clients who are already adopting these technologies. The wealth management industry must learn to view social media with fresh eyes, casting aside their preconceptions based on outdated and often incorrect assumptions about the potential benefits of social media, and who uses these channels. With the added weight of maintaining their collective and individual reputations online, there is a real vulnerability that by not following suit, the industry faces disintermediation or even outright obsolescence.

### For wealth managers

Wealth managers have reached a virtual crossroads: Embrace social media and all the accompanying uncertainties or risk losing some of their most valued – and valuable – clients. Leaders in the industry often ignore social media because of a misunderstanding that it’s purely a vanity marketing play, and they perceive it as too youth focused. The dangers lie in wealth managers struggling to accept the far-reaching impact of social media, and then sitting idle while their customers find their own way through the virtual cacophony of less experienced (albeit louder) social media voices. Very few will come out ahead in this scenario.

## The big internet markets

**China** is number 1 in sheer number of internet users

**India** is number 1 in new internet users<sup>2</sup>

<sup>1</sup> [kpcb.com/InternetTrends](http://kpcb.com/InternetTrends)

<sup>2</sup> [kpcb.com/InternetTrends](http://kpcb.com/InternetTrends)

# Social media: Evolving the client-wealth manager relationship



## **Social media: The next 'disruptive' technology**

Arguably, the internet continues to be the most disruptive innovation of our time. Disruptive technologies generally create new markets and value networks, while displacing earlier technologies. However, the internet continues to rapidly evolve in terms of its usefulness across business and personal arenas. Each internet generation appears to be more disruptive than the last. Social media, a more recent and more disruptive offspring of web-based technologies, is changing daily lives and creating new opportunities for advancement across global industries. As the core component technologies behind social media improve, such as tablets, smartphones, wearables, and broadband networks – and all at a lower point of entry – faster speeds and greater accessibility will continue to spawn new uses at home and in wealth management. Baby Boomers increasingly are getting onboard; Gen Yers have always embraced web-based technologies since their beginnings; and so-called 'Digital Natives' have only known a digitally interconnected world. A new era of 'social inclusion' – in which social media and technology open the market to those who have never invested in it before – is looming. With more innovative uses still on the horizon, the wealth management industry must embrace social media today to keep up with the advances of tomorrow.



Four megatrends are expected to impact the industry over the next two decades:



## Demographics

Demographic trends will radically change the nature of the business and an investment manager's potential client base.



## Technology

New developments act as major drivers of social, economic and environmental change, creating new opportunities and disrupting existing business models.



## Environment

Resource insecurities are changing the nature of investment opportunities and demand for risk protection, as well as increasing the importance of socially responsible corporate behaviors and investment strategies.



## Social values, behaviors and ethics

Technology and the internet are revolutionizing how global populations interact, communicate and behave.

The highly interconnected and interrelated nature of these megatrends is likely to magnify the overall effects on the industry. Demographic transformation combined with technological advancement and social shifts will significantly change the profile, needs and requirements of investors. To effectively target and service this increasingly diverse client base, it is clear client profiling and data analytics, which leverages insights from social media, will play increasingly important roles.

Source: KPMG International, "Investing in the future," May 2014



## Digital ecosystem

In China, Tencent not only embraces social media, but thrives because of it. Having avoided the whole e-commerce boom (and subsequent bust), Tencent moved straight into mobile commerce. Taking a natural next step from its mobile chat product, it has built a full suite of financial products. As a mobile-commerce entity, Tencent operates under an integrated 'digital ecosystem', which enables continuous business interactions with social media users. WeChat serves as an integrated platform for e-commerce (PaiPai), payments (Tenpay), and basic banking services (WeChat Wallet). And by tapping into data analytics, Tencent can assess user behaviors through social interactions among 500 million WeChat users. In this case, trust was not an issue, given the vast brand recognition the organization already enjoys.

Clearly, the social media genie is already out of the bottle, and the lasting effects are impossible to ignore. Finding advantage from this disruption, however, could yield significant competitive advantage in the industry. The new 'inconvenient truth' for the industry is that wealth management is certainly not immune, and social media is impacting it in significant, and often unforeseen and likely irreversible ways.

### Bucking the trend

In the past 5 years, few industries have remained untouched by disruptive social technologies. In 2013, for example, activist investor Carl Icahn tweeted his announced purchase of Apple stock. This simple social declaration went viral and reportedly pushed the stock's value up by USD17 billion within an hour.<sup>3</sup> This demonstrated the power of social media – at a time when social channels barely registered on wealth managers' radar.

Even businesses that believed they were immune to the influences of social media are finding themselves on the wrong end of disruptions. Clearly, it's not a question of 'if' but a question of 'when' such disruption will hit wealth management. Industry examples abound. Take the taxi and limousine industry in the United States. Uber has revolutionized on-demand transportation – an industry not generally considered to be high on the list for technology disruption. In travel and leisure, Airbnb now boasts a higher market capitalization than the global Hilton Hotel brands – and the social-centric vacation accommodations company was only founded in the past 10 years.

Optimism, investor confidence and expectations for continued strong results have helped push the markets to new highs. However, it is instructive to juxtapose the wealth of the market with calls for innovative progress to leverage that wealth from leadership within the industry. Can CEOs do more to evolve with the consumer within a social media context? Of course. With investors diving into markets with both feet (to a mantra of: the NASDAQ rally is really real this time!), the industry could be primed for concurrent growth by tapping into social channels – if they can get their heads out of the proverbial sand. Wealth management companies need to think about ways to capitalize on opportunities, and now is the time to act.

### Shift in the balance of power

Social media is creating tension in wealth management. In the past, the industry relied on the expertise and personal reputation of its wealth management advisors, who demonstrated their knowledge of investments and ultimately addressed specific client needs. However, social media and widespread internet availability now affect the level of real-time access and the types of knowledge instantly available to consumers. Customers are able to interact with wealth managers (and vice versa) in ways that were not possible 10 years ago. Are we now witnessing a shift in the balance of power away from wealth management professionals and toward the wealth management consumer? It certainly appears that way. And the net effects could be positive for consumers.

A recent *Harvard Business Review* (HBR) article suggests that a "new power" emanating from digital connectivity and on individual terms is like a current, "It is made by many. It is open, participatory, and peer-driven. It uploads, and it distributes. Like water or electricity, it's most forceful when it surges." This new model encourages cooperation over competition, but also provokes a "do it ourselves ethic," as Scott Heiferman, the CEO of Meetup, called it.<sup>4</sup>

This availability and breadth of information wealth management clients can access on their own are changing the way the industry functions. As such, the relationship between advisor and client must also change to keep up with the times, particularly as wealth managers struggle to stay current – or really catch up – with technology.

<sup>3</sup> Brenda Bouw, "Social Media Growing in Importance for Investors Survey". Thu 23, Jan 2014 Yahoo Finance

<sup>4</sup> Jeremy Heimans, Henry Timms, "Understanding 'New Power'", December 2014, <https://hbr.org/2014/12/understanding-new-power>

## Clients' 'paradox of choice'

From a client perspective, the diversity of investment choices are staggering, with dozens of asset classes. Traditional wealth management firms have provided a high level of client service via strategists, analysts and managers, who delivered customized investment and financial products to satisfy the specific financial requirements of each client. Today, technology has expanded exponentially the choices for consumers, with 'do it ourselves' becoming their new marketplace mantra in wealth management. Wealth managers must consider expanding their offerings and avenues of outreach to at least attempt to address some of this new consumer demand and the abundance of information available through multiple channels. These data choices can be overwhelming.

This so-called 'paradox of choice' is affecting the way consumers approach wealth management. The industry and consumers are realizing that 'more is better' may not be the most effective avenue to pursue wealth. Smart consumers are looking for reliable information from trusted sources. 'Verified' experts from outside the wealth management industry are gaining traction. Like Amazon and eBay, which add top reviewer and top seller designations to its notable users, investment-focused sites like The Motley Fool (TMF) legitimize frequent contributors with official TMF monikers. The tech savvy wealth managers have an opportunity here to build relationships with the upcoming wealth management client.

The empowerment of customers to conduct research and build knowledge via social media will continue to grow, along with the consumer desire to connect and collaborate online. Wealth management clients already have been operating in the social media space for years and have the potential to leave wealth managers behind. A new danger emerging is that wealth management clients now have the ability to actually advance beyond the industry (and wealth managers) in certain areas, namely in their ability to conduct unfiltered research and to investigate advisor reputation. The industry as a whole must work to understand what consumers already know and how to provide additional benefits that consumers cannot get themselves via social media or other digital channels. This is the real value-add the industry can provide.

## Example

In the UK, Darwinex (formerly TradeSlide) is a social trading broker and asset manager that utilizes a trading platform that rates its investors' strategies according to factors including risk, scalability, performance and experience. Other investors can evaluate peer trading strategies and invest similarly. This forex 'copy trading system' is regulated by the FCA.

Among US adults with investments, online reviews are nearly as important as peer reviews and recommendations when selecting a financial advisor:



**Peer**  
recommendations  
or referrals

Gen Xers

73%

Baby Boomers

57%



**Online**  
reviews

Gen Xers

64%

Baby Boomers

53%

Source: 2015 Wealth Management for Connected Investors, Salesforce Research, 2015



# Mitigating the social media shift



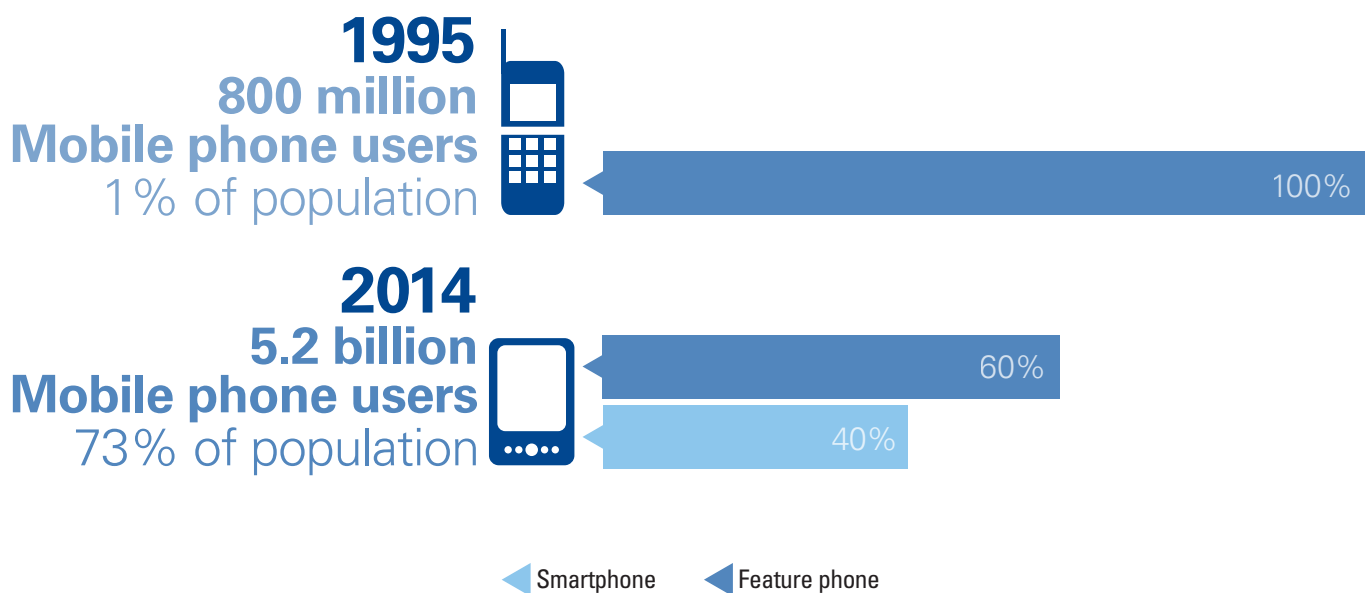
## Running rampant on rumor

Effective wealth management advisors must help clients sift through all the information out there to make the best possible decisions and avoid unnecessary risk. Forming good digital and social habits today can yield significant payoffs in the future. While it might be too soon to expect a shift industry-wide, wealth managers can move quickly to position themselves to showcase their abilities, knowledge, products and teams, and better communicate with clients on *their* terms.

The core question remains: What can wealth management advisors do to provide strategic and tactical value to clients? In particular, what is their emerging role, as they face rising competition from so-called social media 'experts,' who don't answer to any regulatory authority, and can do and say what they want?

With all the unfiltered information out there, the trick is to remind clients that you can help them make sense of it all. The vast information in social media, particularly on social media sites like Twitter, moves so quickly that it is often difficult to follow – let alone digest – for investment purposes. Mobile social apps, such as Buffer, Hootsuite, Sprout Social and Everypost are effective ways to reach customers 24/7 on their always handy mobile phones and tablets.

Mobile phone users have increased from 1995 to 2014



Source: Informa. World Cellular Information Service (WCIS)

## Case in point:

### BEPS

In October 2014, a tax avoidance issue relating to base erosion and profit sharing (BEPS) blew up in the mainstream press. Traditional media 'broke' the news that BEPS could have adverse impacts on Australian economic activity, tax revenues and the potential to diminish the status of Australia as a regional investment hub. Front-page newspaper articles touted the seriousness of the implications. However, this was old news. The BEPS conversation had been brewing in social media for months, but had only just surfaced in traditional media.

### Allergy pathways

Allergy Pathways Pty Ltd customers' had made bold claims about what benefits its products could deliver in testimonials posted to the company's social media assets. In Australian Federal Court in 2011, a judge ruled that as the claims were false and knowingly left on the site, the company was responsible for their publication of the third-party postings. The company director was found in contempt, as the company was aware of the false testimonials but chose not to remove them from their site.

In this age of advancing technology, wealth managers offer something that others can't: old-school (read: real) experience and the distinctive ability to isolate and then shield clients from following bad advice. Digitally savvy wealth advisors with good social media presence can position themselves as trustworthy and knowledgeable and help:

- Pull the *right* data
- Help clients distill this data
- Map out effective insights
- Serve as a buffer against bad advice and unfounded rumors

In the end, good advice and sound guidance transcend the shift from real world to online world, though such guidance now spreads faster and further than ever before. Simply put: Wealth managers can help turn value from risk.

### 'New' versus 'old': Understanding your clients

The 'new power' versus 'old power' struggle noted in HBR is just the tip of the proverbial iceberg. The need to 'get with it' in terms of social media outreach is vital to maintaining and even improving competitive advantage in the wealth management industry of tomorrow. cursory attempts at social media outreach generally aren't enough when it comes to affecting online inertia – either for you or against you. Strategic engagement through social channels is crucial. Is anybody out there really listening to you and, more importantly, are they talking back to you in a meaningful way?

Organizations might not always like the way people talk back to or what they say about them online. But in the social media realm, companies must be prepared for the good, the bad and the downright ugly when it comes to their reputations. It is vital to recognize emerging trends early on, before they reach critical mass online. Clearly, views expressed via social media can be highly influential. In wealth management, social media analytics can help uncover customer attitudes from a range of online sources and help put your social media data to work for you to better understand your markets, manage your brand, and improve the experience of your clients.

Third-party software that merely monitors social media isn't enough. So-called 'vanity metrics,' such as counting 'likes' and 'tweets,' are based predominantly on online volume around topics. Such *quantitative* analysis does nothing to interpret the *qualitative* aspects. Addressing complex issues raised online can't be boiled down merely by the numbers. In social media, the context matters. Understanding the nuances of who is saying what, and how they are engaged leads to more actionable intelligence for wealth managers.

## The future of social media analytics

For wealth managers, the remedy for the social-inspired power shift could very well be found in social media analytics. It is crucial to understand which way the wind is blowing within the wealth management industry. Social media analytics take a uniform and robust approach to capture non-linear consumer data, analyze its meaning, identify influencers, predict potential problems, and help preempt them from becoming business obstacles.

Social media is an instant indicator of sentiment that has the potential to merely dissipate over time or explode into the latest crisis. As such, social media analytics provide deep insights into the interplay between social and traditional media, and are vital tools for handling risk in wealth management – all while connecting with consumers.

However, merely realizing that a consumer shift is underway simply isn't enough. Understanding these shifts – in terms of why, what, and with whom – can be the real game changer. Social media provides an unfiltered opportunity to understand how customers engage via social channels, and, in turn, find out what they really want. This effectively mutes the 'vanity' argument from elder statesmen of the wealth management industry, which is slowing progress toward embracing the benefits of social media.

Wealth management organizations need to dig deeper to harvest more specific (read: useful) demographic data to ultimately help target specific segments. The scatter-shot cold-call approach of yesteryear likely won't survive the social media age. Now, client profiling via social media can arm investment managers with real-time analytics through which they can target, approach and ultimately interact with customers. In short, social media can give wealth managers a fresh advantage in new client outreach.

Clearly for the industry at large, if wealth management organizations aren't already engaged with large-scale social media analytics, they risk becoming obsolete in the face of smarter, more tech-savvy competitors. Or as one CEO recently suggested: "If you haven't got a big project going on which leverages advanced data analytics with a mobile front end, you are likely to become extinct."

### Questions for wealth managers to consider:

- Are you building a client base through social media?
- Do you know enough about your clients and potential clients?
- Are you aware of your clients' needs?
- Have you engaged in client dialogue in a meaningful way and on their terms?
- Are you listening to the 'word on the street'?
- What do people think of you and your organization?
- Is your reputation online intact or under fire?

### These practices in the face of disruptive technology, yield the best results:

1. Focus on client.
2. Partner with external experts.
3. Invest in new capabilities and business brands.
4. Become fast and agile.
5. Build up internal experts and invest in talent.





### Social media activism

A rise in social media activism is adding pressure on wealth managers and investment funds, particularly when it comes to the areas in which they invest. Social media activists employ social media and communications technologies to affect social and political campaigns for change by posting to social sites, creating video, blogging, and reporting information (right or wrong) to personal and professional groups.

The highly interactive nature of social media creates fast-moving messages that reach wide audiences. Twitter, Facebook, LinkedIn, YouTube and other social channels are the virtual soapboxes of the twenty-first century, reaching thousands – if not millions – of people with a few keystrokes and a zero cost of entry. The first rule of social media activism? There are no rules. The enforced standards of traditional media do not apply. There is no fact-checking and no approval process in the modern equivalent of “I heard it through the grapevine,” which can be dangerous. In the world of wealth management, social activists target customers to help dissuade investment in what they perceive as immoral or unethical assets, or encourage investments in more virtuous funds.

Clearly, organizational reputation is at stake here. Companies often fail to read signals about predictable future trends that could be emerging on social media. For example, in Australia future mining of new coal seam gas (CSG) deposits became the target of social media activists. The big CSG companies failed to detect a rise in anxiety over the issue in social activism circles. By the time the companies tried to react, the battle already was over. They lost millions of dollars because social media



# Social risk and regulation

impacted the debate, and ultimately reached government levels. Early warning apparatuses were not in place to detect the undercurrent, and the CSG companies had no capacity to react effectively or in a timely manner.

## Regulating the shift

Where is the regulatory point of view on the advent of this new social media convergence? Until recently, regulators took a muted view in wealth management – either because it was so new or simply because new regulations simply hadn't caught up with real-world applications. Either way, regulators are starting to weigh in. Previously scattered attempts at regulation are beginning to gel into a more concerted effort. For example, the US Securities and Exchange Commission is clarifying its guidelines on advertising and communications, and now includes specific industry regulations for social media<sup>5</sup>, as well as specific guidance for investors on social media fraud.

Like traditional communications and industry conduct, social media outreach and standards will fall squarely under the purview of regulatory bodies. Whether regulations currently are in place or not, wealth managers must still adhere to existing norms, no matter what the medium. A crop of online social media compliance tools for regulated companies already exist. These include:

- Actiance (provides security, compliance, ediscovery, archiving and governance services)
- Gremlin (social archiving tool that filters phrases that violate regulations)

<sup>5</sup> <http://www.sec.gov/investment/im-guidance-2014-04.pdf>

- Hootsuite (its social compliance tool simulates social media emergencies to help develop policy guidelines)
- RedEd Arkovi (archiving, monitoring and analyzing content to improve social media marketing)<sup>6</sup>

As the regulatory environment evolves, the industry should strive to anticipate future regulatory challenges. However, looming regulations, added to the pressures from customers for higher yields and lower fees, could present some difficulties for wealth managers going forward. And as the digital revolution continues to transfer more power to the buy side with greater levels of electronic or self-directed trading, the sustainability of intermediation must, at some point, come into question.<sup>7</sup>

### The industry shifts – or does it?

Corporate boards throughout the industry should be holding strategy sessions addressing the use of technology in their consumers' hands. Yet many are still at a loss for how to handle this level of disruption. There is often confusion over who is responsible for brand reputation, particularly online. Is it the chief marketing officer or the chief information officer or the chief risk officer or a combination of all three? Is effective use of social media an issue of better public relations, or more information technology capabilities? Is managing social media effectively a so-called 'news spin,' or is it a data-driven technical effort?

Wealth management leadership is compelled to ask these broad questions, and set aside their instinct from the 'old power' era of the recent past. Times also require a need to look for new angles globally. After all, their competitors are implementing tactics to leverage digital consumer behavior and leveraging new emerging technology models to address those behaviors.

Social media risk is already established, and proactive social media programs have been lacking across financial institutions. Businesses that prioritize best practices in the management of ethical investment will stand to strengthen their brand, make gains in the long term, and conversely, those that don't will suffer losses. As the demographic shift in active investors changes to include a majority of those who consume and use social media on a daily basis, the importance of managing and understanding the medium only increases.

The purposeful questions to debate center on the understanding of digital and social trends and how they could disrupt business inputs. What impacts will digital and social trends have on the supply and demand of people resources, such as skills and ways of working, as well as systems and processes? And what are the potential longer-term social and economic implications of a 'second machine age,' and how will this affect the financial services industry and our business?

### Where can social media go wrong...and right?

It is far too easy to lose control of a firm's reputation. In today's marketplace, wealth management firms no longer fully control their reputations via traditional channels. Recently, online ad spending exceeded print advertising for the first time. Managing client expectations and delivering what you promise are the keys to success. In the insurance industry, for example, social media offers companies an unprecedented opportunity to interact with customers during natural disasters or other crises. Done correctly, this can lead to improved service levels and the retaining of customers at a lower cost and at scale.

Social media is often perceived to be beyond the range of wealth management companies, though they are helping to shift client perspectives on whether they want to do business with you or not. The battle for new customers might already be won or lost before you are even aware.

<sup>6</sup> <https://blog.kurtosys.com/excellent-social-media-compliance-tools/>

<sup>7</sup> <http://www.sec.gov/investor/alerts/socialmediaandfraud>



## Time spent by US internet users

(Average daily minutes)



Source: eMarketer.com, November 10, 2014

Fear is often a great driver of change, but in wealth management, it has often obstructed social media entry. Examples abound of professional reputations being damaged because organizations didn't actively react or manage feedback on social media. Companies might launch social media channels only to abandon them for any variety of reasons. Such 'placeholder accounts' become afterthoughts but remain active, leaving clients frustrated by a lack of response. Result? Reputation damage. Marketing experts say social media is fraught with risk, and suggest that large companies need to develop social media risk strategies.

Wealth management organizations must also come to a new understanding about who is responsible for handling social media risk. Social media is not strictly a function of marketing. The chief risk officer and head of public affairs must be fully engaged to ensure a productive outcome from the corporate social media footprint. Even with proper oversight and the best intentions, there are still very real reputational risks in social media. Some examples:

- At Advance Micro Devices (AMD), a client group of social activist investors took 1 percent stake to shake up the company. Their goal: To have a voice. The group succeeded by building the campaign through social media.
- Another common example: Someone takes to his social media page to boast of winning a triathlon or other athletic competition. All is good until the company paying the winner's workplace disability claims comes calling.

The potential downsides are quite real, but the vastly expanded ability to access current and potential clients one-on-one helps overshadow these risks. Some organizations are embracing the potential of social media.

- CVA, the largest wealth management firm in Australia, is at the cutting edge when it comes to engaging clients via social media channels. CVA is taking advantage of such potentially disruptive trends as social media and thrives in the virtual rise of online communities.
- In the context of social media, 'sentiment' has become both measurable and meaningful (and potentially profitable). In the US, a Boston hedge fund will take this a step further and launch a new fund that tracks consumer sentiment in social media to make investment decisions.<sup>8</sup>
- In China, Alibaba (and many other companies) waged a virtual 'red envelope' gift campaign to ring in the Chinese lunar new year, opening the virtual wallets of hundreds of millions of revelers (read: potential clients) in the process.<sup>9</sup>

<sup>8</sup> Sabrina Willmer, "Hedge Fund Mines Twitter for Stock," Bloomberg, April 1, 2015, <http://www.bloomberg.com/news/articles/2015-04-01/hedge-fund-mines-twitter-information-overload-for-trading>

<sup>9</sup> Liyan Chen, "Red Envelope War: How Alibaba and Tencent Fight Over Chinese New Year," Forbes, February 19, 2015 <http://www.forbes.com/sites/liyanchen/2015/02/19/red-envelope-war-how-alibaba-and-tencent-fight-over-chinese-new-year/>

# Fintech and the future of wealth management



## Fintech – The emerging industry

Against the backdrop of the major disruption from social media, a related disruption is occurring through financial technology, or Fintech. Unlike the slow pace of adoption of social media in wealth management, the financial services industry is rapidly embracing financial technologies, that solve everyday problems, such as payments and transactions; mobile trading; commodities markets; FX; peer-to-peer lending and crowdfunding; retail banking; risk and compliance; security and privacy; digital and alternative currencies; digital wallets; financial advisory services; and insurance.

There are several parallels with social media: First, Fintech is disruptive in its own right to wealth management's 'business-as-usual' models. Second, the advent of Fintech is generational – figuratively and literally – with a younger breed of innovators providing timely and creative solutions for the next generation of consumers. Third, comes innovative thinking, with Fintechs delivering radical ideas to build, deliver, access and advance IT infrastructure at financial institutions – often with a common goal of improving the customer experience. With Fintech, a union of pacesetters and the established financial services order seems to work symbiotically: Fintechs innovate in a way financial services organizations cannot; and financial services need an infusion of fresh thinking to remain competitive – or to get ahead – in ways the Fintechs cannot. Interestingly, several brick-and-mortar Fintech hubs are being built globally, creating a tangible presence – think Amazon in the big-box retail world – which cannot be duplicated in the social media realm.

As a clear-cut indicator of how the financial services industry has embraced Fintech, global investments have more than tripled to USD3 billion in 2013 from USD930 million in 2008. The nascent Fintech industry has seen rapid growth over the last few years. According to the office of the Mayor of London, 40 percent of London's workforce is employed in financial and technology services.<sup>10</sup> We have not witnessed a similar relationship – or level of investment – emerging in the social media space.

An example of innovative financial technology, California-based InvestCloud delivers collaborative cloud-based securities solutions. Their platform targets the wealth management industry in particular, seamlessly integrating its scalable and swappable applications with other technologies, applications and processes via existing infrastructure.

<sup>10</sup> <http://www.ndrc.ie/2014/03/fintech/#sthash.8C6HbZzK.dpuf>

## The future of funds?

FutureAdvisor, a digital wealth management service, employs an algorithm to analyze the retirement and brokerage accounts held by an investor and then makes investing recommendations based on his/her personal goals. The program can tell investors how to best divide their assets and can also suggest new investment funds that can potentially save them thousands of dollars in fees over the lifetime of their investment. The program even executes trades on clients' behalf for a monthly fee.

## The dangers of disintermediation

At a point not too long ago, wealth managers strongly influenced client decisions – with few questions asked. Ignoring the link between the customer and the end results they seek can put companies in danger. Wealth managers generally work as enablers, helping to provide access to investments, professional guidance and, hopefully, peace of mind for their clients. As technology helps eliminate the need for middlemen, customers who are accustomed to connecting directly with unfiltered investment advice will demand an even higher level of service for an even lower price point if and when they ultimately seek out investment help.

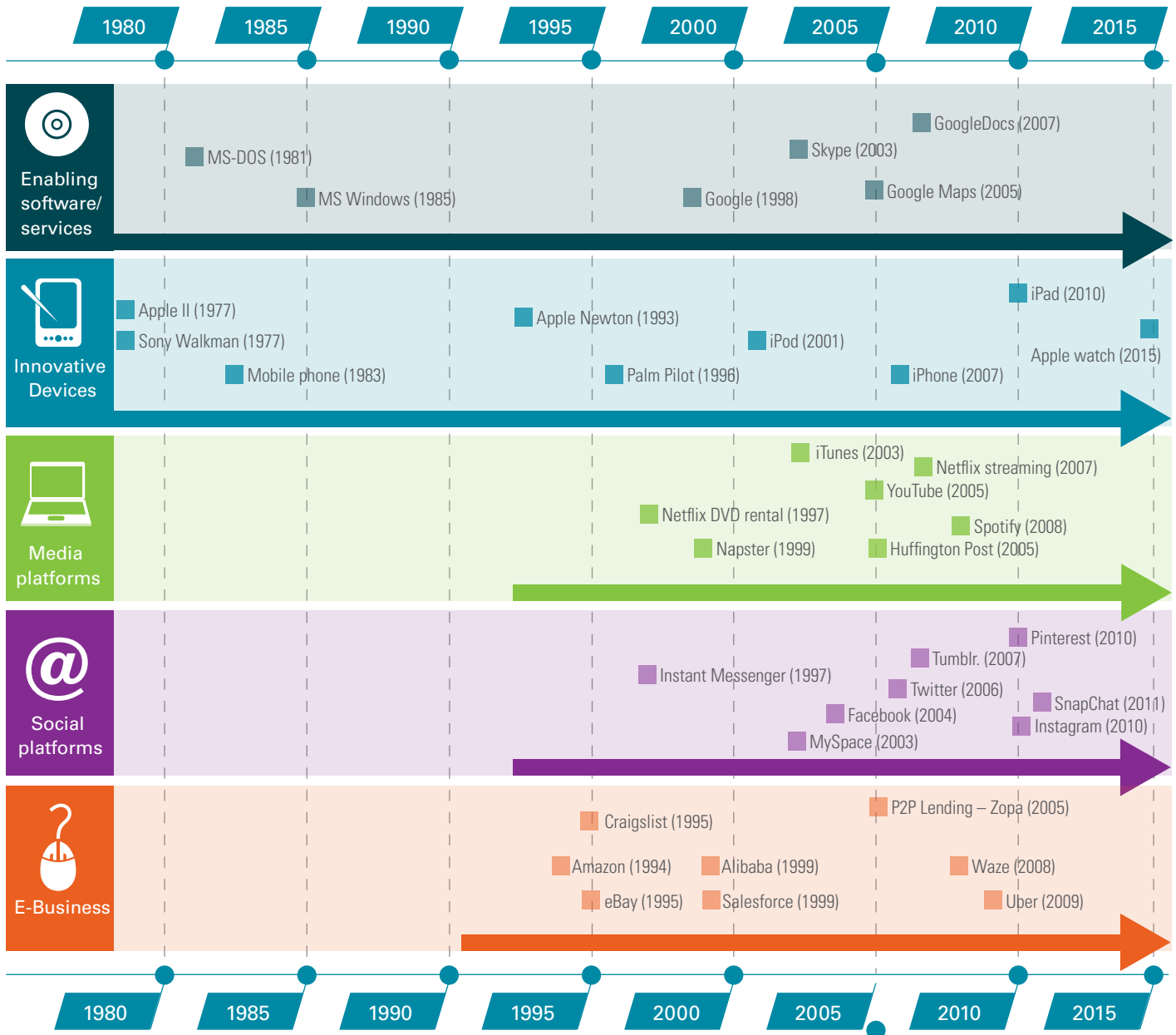
As an example of this phenomenon, early-adopter consumers are gravitating toward 'robo advisor' sites, such as Financial Engines, Wealthfront, Nutmeg, and Betterment, among other online wealth advisory firms. These firms employ traditional algorithm-based portfolio management to create low-cost online portfolios that appeal to tech-savvy consumers, with minimal involvement by a human advisor. Wealth management is no longer reserved for the wealthiest of clients.

By applying customer-friendly technologies, robo advisors reach an under-served segment of younger and smaller investors who are largely ignored by traditional wealth firms. As such, robo advisors are well positioned to win their share of the anticipated wealth transfer to Millennials from their Baby Boomer parents.

Their recent growth is impressive (estimated at USD5 billion in assets under management); however this is barely a fraction of the USD18 trillion retail investment market. Most adopters of robo advisors are younger and enjoy the ability to do their own research; they want to be informed and to be in control; and feel more self-confident online than their Baby Boomer parents.



## Technology timeline



Source: KPMG International, 2014

# The future is now



## Wealth managers of the future (today)

Social media is changing the role of the wealth management advisor. Social media is too often underutilized in the wealth management industry. There are several challenges for wealth managers to overcome regarding social media, notably equipping themselves with the skills needed to succeed. Most importantly, wealth managers probably need to update their resumes to reflect more social angles of their experience. Beyond the need for expertise in all things financial, wealth managers must also understand and appreciate that the climate is shifting in their day-to-day outreach activities. There are several steps they need to take:

1 

### Change the climate

There is legitimate cynicism among industry professionals. The wealth managers of tomorrow must strive to overcome a misconception by senior wealth managers that social media is merely narcissistic or some kind of vanity play, and are, in fact, valuable tools to stay current with client needs and industry chatter.

2 

### Enjoy the weather

Spend more time involved with social media day-to-day. Research, fact-checking and data sharing must move online, and traditional client outreach via phone or in person must – at the very least – be supplanted by social media interaction.

3 

### Check the barometer

Make social media complimentary to the traditional ways that wealth managers connect with clients. Technology is changing everything. Scale and low cost of entry should deliver more 'at bats' to begin potential client conversations and develop new client relationships.

4 

### Trust the forecast

Stay connected. Wealth managers must not only be able to report how good they are online, but they must also be able to prove it. Again, solid social interaction is vital. Wealth managers must be able to provide points of view on issues of importance to their clients.

5 

### Plug into all the weather channels

Learn to use social channels as research tools, to locate clients, discover their interests and start conversations.

6 

### Talk about the weather

New technology tools can help wealth managers engage more personally with their clientele. With technology supporting the strategy and planning aspects of wealth management, advisors can focus their attention on more personal one-to-one conversations.

## A contrarian view

C-suite skeptics might not be completely off when they question the urgency relating to adopting a social media strategy. Of course, now is not the time to abandon all that they know in terms of client outreach and service. Clearly, traditional sales and marketing methods are working today. Revenues are still rising in the global wealth management industry, instilling a sense of security in maintaining the current approach. However, success with the status quo can only last so long. Wealth managers are in a unique position, straddling the fence between the merely digital literate and full-fledged digital natives. Wealth managers of today (and tomorrow) must prepare for the inevitable shift in customer base. Their future ability to grow the industry hinges on how they prepare for their next generation of clients.

# Next steps?





## What should CEOs be doing right now?

Social media is an effective tool to build competitive advantage, when executives get onboard. So what's today's wealth management CEO to do when it comes to real-world tactics? Here are a few next steps:

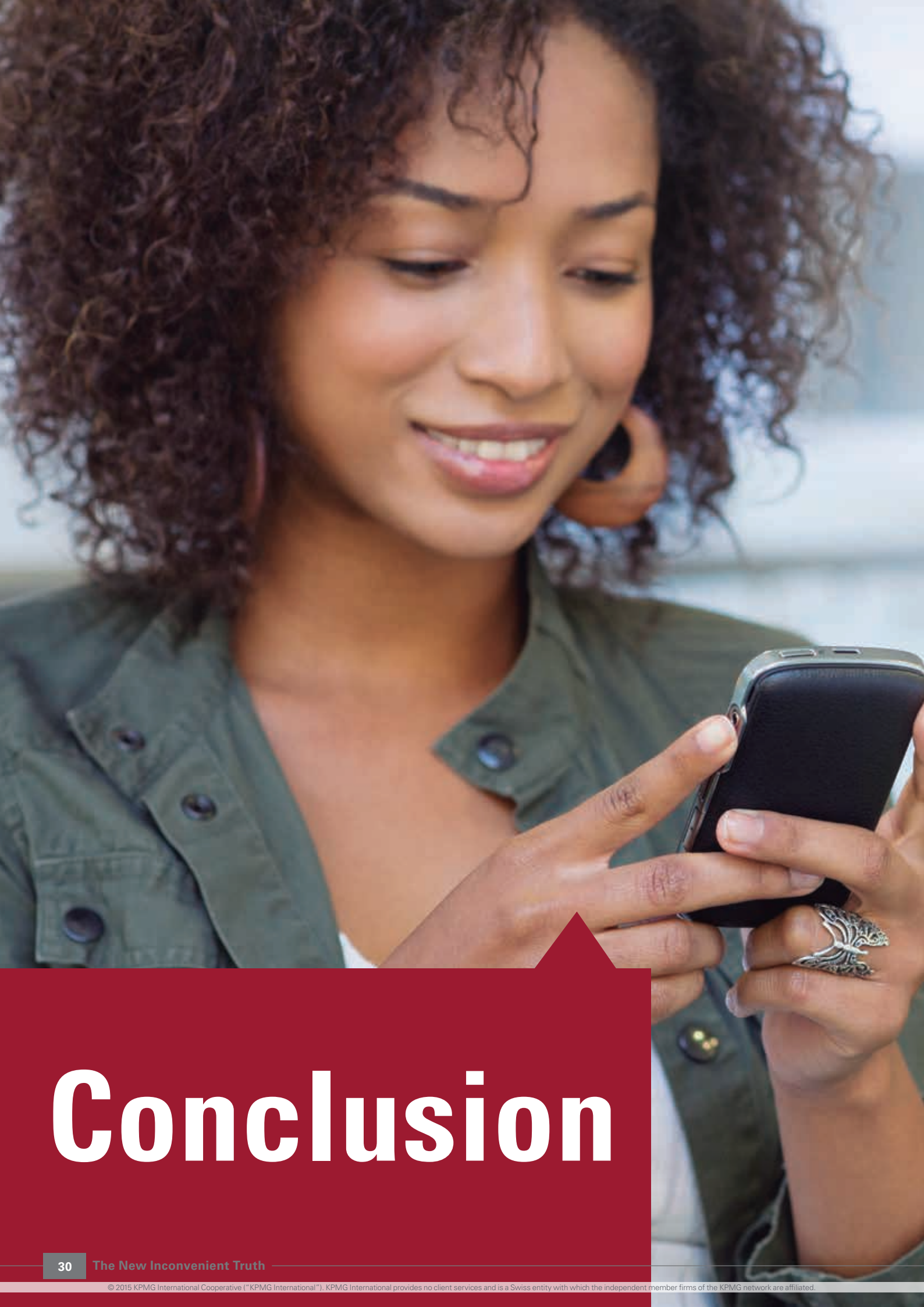
<b>1</b> 	<b>2</b> 	<b>3</b> 	<b>4</b> 
<b>Observe it.</b> Audit or review your social media landscape. This includes what people are saying about you, your products and your services.	<b>Get with it.</b> Social media is happening whether you are ready for it or not. Importantly, customer expectations are changing to expect more from social media.	<b>Understand it.</b> There are social media opportunities and threats to your business. Use social media to bring customers into your community, and listen to what they have to say.	<b>Take it all in.</b> Don't ignore your weaknesses. Your head of risk, CFO, and audit committee chair should be in on the good, the bad, and the ugly. Be prepared to manage crises.
<b>5</b> 	<b>6</b> 	<b>7</b> 	<b>8</b> 
<b>Have a POV or two.</b> Compete on your own terms. Your points of view and points of differentiation can help create value for your customers, investors and distributors, and ultimately manage any downside risks.	<b>Don't be afraid.</b> This is too important to let fear get in the way. Respect what your users are saying. Think about the short- and long-term effects.	<b>Embrace it.</b> Develop a high-level plan, one that incorporates a variety of areas of the business not just marketing.	<b>Focus on it.</b> Get social media reports that provide you with actionable intelligence, not just more data.

## In particular, CEOs should focus on the last two points

When thinking about creating a high-level plan, they must consider what value social media can deliver for all areas of the business. For example: Are you collecting information and data from social media that better informs how your events team target invites? Are you collecting information to ensure you don't run afoul of any regulatory requirements with respect to social media discussions? It is important to appropriately store any discussions that can be perceived as 'advice.' This is often overlooked.

Generating actionable intelligence from social media can start with very simple steps, such as mapping your high value clients and their networks on social media. Is there a correlation between your key stakeholder group and the people you are following as a company? Or connecting with as a professional? If not, it's time to revise who and how you are connecting with people. Begin to take stock of whom you follow and where you need to connect to make more sales or create stronger relationships. Another simple step is to track what questions or content your prospects are 'liking' or sharing, perhaps you need to review your own content plan to ensure you are hitting the mark.

It is worthwhile to invest time and money looking at the behavioral drivers of Gen Y and the next generation of investors, in particular, those aged 45-54. They will grow more relevant to wealth managers as they, too, begin to accumulate wealth at the same pace as their Baby Boomer parents have done.



# Conclusion

The paradigm shift in the wealth management landscape is occurring rapidly, and the stakes are too high for today's wealth managers to ignore. Ultimately, the firms that emerge as the leaders in the decades to come will be those that are best able to quickly respond to changes in their external environment, business mix and operating models, as well as meet the needs of increasingly sophisticated corporate clients and investors empowered by technology.

The 'democratization' of technology has already seen buy-side institutions assuming more control over the trading systems they employ, reducing their dependency on the sell-side to supply them with the tools they need. This important shift will continue to gather momentum as the buy-side becomes galvanized by technology, seeks to preserve returns in difficult markets, takes more control over the quality of execution, and the sell side struggles with its capacity to respond.

Organizations can materially damage their brand and reputation in this new era of social media, as they expose themselves to the risks inherent in the 'sharing' of the online world. Tech-savvy consumers have within their control the ability to damage or promote products and services like never before. Wealth managers must keep up to date, as social sentiment can now affect their bottom line minute-by-minute instead of month-to-month.

On the industry side, wealth management leaders need to seek new angles globally. They must assume that their competitors are already pursuing social media and other new digital channels to spread their influence and business outreach.

Beyond wealth management, personal and work lives are growing more intertwined, and the lines between inside and outside the workplace have already blurred. Consumer expectations change quickly in this new era – thinking that extends far beyond the looming generational shift that impacts other industries. Companies today find that tech savvy employees already engaged with social media now expect more of a work-life balance and a greener more sustainable work environment.

The social media movement is not confined to a single industry, but is instead yielding lasting cross-industry effects. This could be a double-edged sword. To mix a metaphor, that light at the end of the tunnel could actually be a train coming from the opposite direction. Wealth managers must adapt and embrace social media as another tactic in their client outreach strategy. The stakes are too high for wealth managers to sit this one out and hope that social media will pass as yet another fad (it won't). The power to persuade has shifted and now firmly resides in the hands of connected individuals via computers, tablets, smartphones, and wearables.

In future hindsight, this very well could be the 'do or die' moment for the wealth management industry – no matter how 'inconvenient' this truth turns out to be.

“

**The extraordinary pace of growth necessitates pulling out all the stops.**”

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