

Strategic Client On-boarding and Services in Wealth Management

The goal of this paper is to provide a better understanding of client on boarding in wealth management and how services are utilized during this strategic process. Wealth management is a very broad industry that encompasses tax services, portfolio management, investment advice, financial planning, and estate planning for individuals needing assistance in managing their wealth. While these services vary from firm to firm and from person to person, at the core is the client. Financial advisors try to take a holistic approach when discussing a client's needs. Some key life priorities financial advisors consider when assessing one's financial situation include family, finances, health, home, work, leisure, and giving. According to an Accenture Report, the first 90 to 120 days in getting to know and onboarding a client are crucial. Onboarding encompasses the use of leads, creation of a financial plan based on a client's wants and

needs, and selecting financial products in order to initiate client account(s) that are established. The client onboarding process is notorious for being tedious and filled with useless paperwork. Based on the Wealth Management Services division for Accenture, time that is allocated for manual onboarding tasks can be allotted to building a client-advisor relationship. This can be beneficial in creating a successful alliance between an advisor and its clients. Often times, wealth management advisers will probe deeper to find out a client's underlying reasons for investing and their investment preferences. For example, Merrill Lynch utilizes their own proprietary investment personality assessment which takes behavioral finance methods and derivations to serve as a starting point for conversations with clients. One important conversation between a client and their advisor is about risk. The amount of risk

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clients are willing to take on varies. While the onboarding process for a client is long and tedious, it is crucial as it sets the tone of relationships for years after. Due to this, behavioral finance plays vital role in wealth management and learning about goals clients may have. It offers advisors the opportunity to develop a high-resolution picture of your clients. Instead of looking first market performance or outlook, behavioral finance is based on the mindset of an investor and their preferences. The goal of behavioral finance is to find out what an individual would like to do and accomplish with their money. A popular practice in wealth management and financial planning is to use the following questions to find out more about a client's mindset:

1. What is the primary intent of your wealth?
2. Do you feel like you have more than enough? Just enough? Or not enough?

3. With whom do you want to share this information?

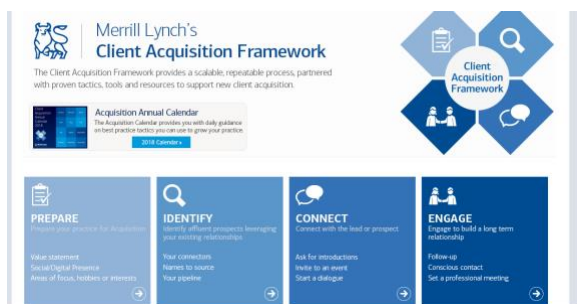
Building a Profile

Having a well detailed profile of a client can help an advisor understand their clients better. A well detailed profile would have information on demographics, financials, and clearly outlined client goals. Having access to a client's aggregate holdings at Merrill Lynch and elsewhere. When clients share information about external accounts held elsewhere, an advisor has the obligation to take those accounts into consideration whenever an investment method or approaches are recommended or with any stock purchases for a client's portfolio.

An interesting approach to building relationships with clients stems from an outside-in approach. When advisors comprehend the expectations clients may

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have and information that is at hand, and find a simple way to reiterate the importance of a client's experience; the client onboarding experience can be maximized.



Client acquisition framework for leading firm, Merrill Lynch

Client-Advisor Relationships

It is becoming more popular for clients to depend on their advisors for assistance beyond financial and investment advice. One of the biggest concerns for more affluent Americans and especially among older ones is of health care expenses. In this day and age, it is important to be well versed in Medicare and health care expenses to help clients in their everyday lives. A client's goals should always be the foundation for a client and adviser relationship. There should

be an expectation from clients of their advisors. Advisors should know clients on a personal level so that they can offer products tailored to their needs. To be able to do this, advisors must offer a compelling value proposition and create a basis for a strong foundation between their clients and themselves. In order to be more productive and create lasting relationships, firms must segment their clients based on different service levels. More and more, digital platforms are becoming a channel for clients that want easier accessibility and convenience. There is a need for more efficient client on-boarding, but it is also important that advisors/firms have a complete picture of a client's information. This is important for operational and compliance risk, but it is also important to be able to leverage client insights and needs in a changing financial climate.

Outlook

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There are a few different factors which influence the onboarding process and furthermore, the future of wealth management practices. These include: market performance, income, an aging population, and regulation. According to 2018 IBIS report on financial planning and advice, families with higher disposable incomes changes the amount of financial advice and investment opportunities they have available to them. On top of this, an increase in the median age of the population means that a number of individuals are reaching the age of retirement which has increased the demand for retirement and estate planning services. Market performance is another factor impacting the need for wealth management services across the U.S. The S&P 500 (Standard & Poor's 500 Index) is a benchmark that is used to evaluate equity markets and performance in the U.S. (IBIS, 2018). Changes of prices of

individual securities affect the value of portfolios held by individuals. Advisors often utilize financial products that follow indices for their clients. Therefore, volatility in specific indices such as the S&P 500 is often an accurate representation of volatility in equity markets and investments of clients. As we have seen in the last couple of months (October and November of 2018), volatility and swings in the markets have impacted investments significantly. These swings cannot be controlled and thus is an important factor for clients to learn about before they are on-boarded at any financial institution. It is also likely that individuals with higher earnings will make use of professional financial advice more. While robo-advisors or online platforms for investing have caught the eye of many middle-income households, financial advisors and their advice is highly regarded by high net worth and ultra-high net worth

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individuals. Lastly, regulation within the financial services world also plays a role in the demand for wealth management services. This is because regulation affects the way financial advisors can invest for clients. It also affects the manner in which advice can be given to clients.



Client Segments

The way financial advisors or wealth management professionals segment their clients varies. Nonetheless, segmentation of clients is important. One way to segment clients is through age/life stage and the number of assets. Imagine a matrix with 9 quadrants sliding from left to right based on age and from bottom to top based on the number of assets they possess.

Lifetime Income

A major service offered by financial advisors is retirement planning. Often, clients need professional advice on how they will accumulate income for retirement while also minimizing their exposure to tax (IBIS, 2018). Services within this realm of wealth management includes setting up retirement accounts sponsored by employers and selecting investments for individual retirement accounts. An Individual Retirement Account or IRA is tax-advantaged and can help enhance one's wealth for retirement.

According to the IBIS report of 2018 on financial planning and advice, retirement planning services are expected to rise following the aging of the baby boomer population. In addition to retirement income, financial advisors offer advice on life insurance policies and long-term care insurance.

Trusts

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Trusts offer individuals the ability to protect their assets, even under extenuating circumstances. They are a flexible tool that also allow clients to maximize their goals.

Trusts can be controlled by clients or can be controlled under professional management.

They can also be used to provide financial backing to a spouse, children, and future generation family members. Another component of trusts is its capability to give back. Trusts can be used to give money or assets to charities of one's own choosing.

Some trusts may also provide federal or state tax breaks to allow an individual to give back more to the causes they care about.¹

Estate Planning

An estate plan can be created according to an individual's goals and values and on the flipside, it can provide tax benefits and

greater preservation of assets. An estate plan can provide many benefits and is a tool that can be used by all sorts of people no matter what wealth level they may be at. It can provide a safeguard to make sure that assets are distributed how one intended to distribute them and protects from creditors and events such as divorce. It can also be held under professional management and can provide directives for health and medical decisions of clients.²

Investment styles

There are a number of financial products and investment opportunities offered by firms. Highlighted here are some investment approaches by Bank of America Merrill Lynch (BAML). BAML has a 7.5% market share within the wealth management industry and is considered one of the largest wealth management companies with over

¹ <https://www.ml.com/legacy.html#is-trust-right-for-you>

² https://mlaem.fs.ml.com/content/dam/ML/pdfs/ml_do_you_need_estate_plan.pdf

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17,000 financial advisors. Combining Bank of America (as a bank) and Merrill Lynch, a brokerage house in 2009, the firm has been able to cross-market products to their clients.

The Merrill Lynch Investment Advisory Program (IAP) provides customized advice to individuals through professionally managed accounts. As discussed earlier, personalization is key to win and onboard a client successfully. With the IAP program, clients work with their advisor to build an investment strategy in line with their personal objectives. With the creation of a customized portfolio, clients have the ability to decide the extent of management of their investments and a plethora of resources to stay knowledgeable about their financial decisions.

Beyond the scope of Merrill Lynch, wealth management services that provide fiduciary advice to help clients meet their goals, an investment strategy based on a client's goals, and a transparent experience are imperative for clients to be prospected and won over. There is no one formula for the success of a wealth management firm, but it is important to focus on client onboarding and their goals.

Think of the IAP offerings on a spectrum beginning with a managed strategy that works in tandem with the firm. A managed portfolio is designed by the firm and utilizes institutional quality third-party investment managers. It is also based on client discretion³ and can include SMA's⁴, mutual funds, and ETF's. The investment minimum for this portfolio is \$5,000. A custom

³ Client discretion relies on the guidance and advice from an adviser but no changes to investments can be made without a client's approval. Investment strategies are built together.

⁴ SMA's or separately managed accounts are portfolios that are comprised of assets and are managed by an investment firm. Each portfolio is unique to a single account and a money manager

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managed portfolio includes managed strategies and the ability to make adjustments to holdings. It is based on client and advisor discretion.⁵ Like a managed portfolio, custom managed portfolios are comprised of ETFs, mutual funds, and SMAs. However, the investment minimum is \$20,000. The defined portfolio strategy gives advisors the ability to create and manage distinct portfolios on a completely discretionary basis and include a range of investment solutions from equity, fixed income, mutual funds, and ETFs. There is no investment minimum for this strategy. Last on the spectrum is the personalized strategy and it works as an advisor implemented strategy. It allows advisors and their clients to build a fully customized portfolio across all asset classes and

vehicles. It also includes a range of investment solutions from equity, fixed income, mutual funds, annuities, alternative investments, and ETFs. Again, there is no investment minimum for this strategy.

Client Goals

While client-advisor relationships vary from firm to firm, transparency is a crucial element in onboarding a client. No matter if investment strategies such as the Merrill Lynch IAP, retirement planning accounts, or estate planning are utilized, clear discussion about pricing is important. Consistent billing methodology should be used across accounts and fees should also be based upon relationships. After all, the stronger the relationship is between a client and advisor, the more likely clients are to continue building their relationships.

has the discretion to make decisions of separate accounts.

⁵ Advisor discretion allows an adviser to manage day to day investment decisions while still giving a

client control over their investment goals and priorities. It can give an adviser the ability to react quickly when market conditions may fluctuate.

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Seamlessness is also crucial to the client onboarding process. Having a single enrollment procedure allows for time to be allocated to other relationship building activities such as investment discussions and goal setting. In addition, in order to build a strong client-advisor relationship, communication is key. Some large institutions also hold a yearly review with clients to go over their overarching life goals and priorities. It can also be a chance to revise portfolios and go over performance as a whole.

Current Events

While the economy is constantly fluctuating, here is a snapshot of how markets may be reacting post mid-term elections. This is a special section which includes the views of the author based on market research. In no way does the following information reflect a view of this publication. GDP is at a growth rate of about 3.5% YoY for Q3. Tax cuts

have helped GDP growth, but growth may slow by the second half of next year.

Inflation has had an overall 2.3% YoY growth in core CPI and above trend economic growth can push it up higher.

However, we are not in an inflation prone economy right now.

Some major topics we will see legislative debate around includes healthcare, infrastructure, trade, and immigration. The stock market has had a very rough October.

However, with relatively low inflation, low unemployment, and strong economic growth, the backdrop is good. What does this mean for asset classes and investment implications? Rates will continue to grind higher and with a split government, there is no reason to see why interest rates would shoot higher. There is a relatively flat trajectory and the yield curve will continue to flatten. Earnings growth will slow in 2019 which is when tax reform will be slowing

The following article will follow the format of The Wall Street Journal- Journal Reports: Wealth Management

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off but growth will not stop. It is important

to look at what will happen to margins.

There should be a focus on industrials,

materials, and health care stocks as they are

attractive value stocks. Trade is key and

Chinese stimulus continues to lift markets.

Redistribution of growth evenly around the

world and dissipating idiosyncratic risk such

as trade uncertainty can help. It will be

important for advisers to include less

correlated assets in portfolios to remove

volatility and add fixed income into

portfolios.