



Moving from Transactional to Collaborative Relationships

Reader ROI

- Financial services firms have segmented the market and are developing products and services aimed at specific segments.
- The role of financial advisors varies across these segments.
- Firms must differentiate themselves in their target segments.

Moving from Transactional to Collaborative Relationships

Overview

Improved data exchanges and integrated processing have led financial services firms to partner with third parties for money management services, freeing up internal resources to focus on attracting and servicing end customers. To further differentiate themselves in the marketplace, the firms have segmented the market and are developing products and services aimed at specific segments. As a result, several financial planning service models must be supported:

- Self-Directed Planning: The client makes decisions without assistance of the FA.
- Event Driven Planning: The client makes decisions, but uses the FA in special situations.
- Collaborative Planning: The client regularly consults with an FA, but makes his own decisions.

This strategy has implications for the role of the financial advisor (FA) and the operations of the firm.

The high-net-worth client segment

Clients whose assets exceed \$500K (i.e., high-net-worth clients) seek a range of services in the financial marketplace. They rely on advice from a range of sources, rather than relying on one financial advisor and they diversify their portfolios across a range of firms.

As a result, firms must rethink their relationships with high-net-worth clients and focus on strengthening those relationships. The traditional “transactional relationship” centers on information about products and account performance. The new “collaborative relationship” centers on the needs of the client and the role of the FA in meeting those needs. Going forward, the value of the FA will be measured in terms of expertise and ability to provide objective advice.

Core to the collaborative relationship is the FA’s ability to understand client needs and construct a plan that will help the client to realize his long-term goals and objectives.

Implications for the firm

The firm must enable the FA to deliver information on multiple products and services and to be available to communicate with the client on a regular basis via multiple channels (e.g., phone, web, face-to-face meetings). Achieving this requires:

- Integrating profiling and wealth planning tools in a manner that will allow FAs to work with clients to create scenarios based on clients’ longer term goals
- Creating consolidated views of clients’ total relationship with the organization (and, if possible, other financial institutions) and enabling the reuse of data across processes
- Delivery of integrated investment management capabilities across products and accounts at a household level (covering asset allocation, asset placement, tax planning, income/liability planning, etc.)
- Using communications (e.g., customized statements) as an opportunity to further the client relationship
- Providing tools to the FAs (e.g., agent workstations) that facilitate the wealth planning process, integrate with the back-end process (e.g., account opening, funds transfer, etc.), and provide them with ongoing access to household-level information across a client’s accounts

In addition, the model under which FAs are compensated will need to be addressed. For example, some organizations are considering compensating the FA based on portfolio under management and retained business rather than on number of new accounts.

The mass affluent market segment

Clients whose assets range from \$100K to \$500K (mass affluent clients) represent a very large segment of the financial services market. The introduction of unified managed accounts (UMAs) is expected to accelerate growth of this segment, making it very attractive to financial services firms.

Firms are able to support this segment with low-cost, “advisor-lite” services now that the use of third-party intermediaries is driving down costs. However, competitive pressures require firms to differentiate the services they offer from others available in the marketplace.

Implications for the firm

To keep up with the high volume of new account openings and remain cost-competitive, firms must integrate front-end portfolio planning with third-party provider systems and streamline back-end account opening processes. Achieving this requires:

- Providing access to planning tools through low-cost channels (e.g., online, call center)
- Creating consolidated views of clients’ total relationship with the organization (and, if possible, other financial institutions) and enabling the reuse of data across processes
- Retraining of call center support staff to focus on wealth planning capabilities currently offered within the branch
- Streamlining back-end processes, specifically account opening and account maintenance, to scale with the business
- Improving the client experience across channels and creating client management strategies based on investment levels

Conclusion

Whether the firm chooses to target both market segments or one, success depends on putting client service at the center of operations to differentiate the client experience of the firm.



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