Building on belief

Wealth management: Embracing next-gen behavior analytics

Banking, Financial Services and Insurance

Abstract

As the wealth management industry accelerates adoption of digital capabilities to offer highly personalized, purpose-driven, and differentiated products and services, an emerging area that is gaining traction among digitally savvy firms is client behavioral analytics. Firms are looking to embed behavior-focused designs into customer touchpoints to derive actionable insights from the behavioral data generated across multiple channels to deliver a hyper-personalized customer experience. This white paper builds a case for wealth management firms to leverage next-gen behavioral analytics and enable financial advisors, portfolio managers, and others to help clients achieve their unique financial goals and elevate the customer experience.

Behavior analytics: The shift from personalization to hyper-personalization

In the wake of the COVID-19 pandemic, leading wealth firms witnessed accelerated customer embrace of digital channels, increased consumption of direct-to-customer services, and rising use of self-service tools, digital marketing, and engagement platforms. Now it is time for firms to further elevate the digital foundation by designing behavioral interventions, sifting through a deluge of new data to generate actionable behavioral insights.

The availability of data to derive behavioral insights is significantly influenced by the maturity of the relationship—more data becomes available as prospects become clients and deepen their relationship with the firm. Leveraging data available at every customer touchpoint to derive behavioral insights can enable a shift from personalization to hyper-personalization at scale. The benefits of embracing behavioral analytics are thus manifold—deeper relationships have the potential to substantially increase in wallet share through differentiated services, improve client engagement, enhance advisor performance, deliver delightful experience, and drive business growth.

Marching towards next-gen behavior analytics

The use of behavioral analytics within the financial advisory space is still at a nascent stage. As a first step, clients' behavioral traits need to be captured, ideally at the time of onboarding. Firms must put in place a well-designed digital questionnaire to discover the behavioral persona and gain a holistic view of emotional and cognitive biases of clients.

The client's financial attitude and biases captured during onboarding will need to be updated throughout the life cycle. Client behavior will change due to multiple reasons such as evolving long-term and short-term financial goals or life events like marriage, disability, divorce, birth of a child or retirement among others. Building a robust mechanism to capture customer-specific information and create a behavioral profile is the foundation for offering highly personalized wealth management advisory services.

Delivering hyper-personalized customer experience at scale, will require firms to implement a next-gen behavior analytics platform. The platform must enable advisors to equip themselves with in-depth understanding of their clients' behaviors and biases around money. Firms must also explore opportunities to partner with fintech firms to build purpose-led ecosystems to equip themselves with new capabilities and reduce time-to-market. Behavioral insights will help financial advisors to guide clients into making well-informed financial decisions. A next gen analytics platform will equip advisors to play an important role in coaching and helping clients achieve investment goals in a timely manner despite market shifts and volatility. From an advisor-client relationship perspective, behavioral insights will enhance advisors' ability to work in the best interest of clients.

Designing and building a next-gen behavioral analytics platform (see Figure 1) will involve several steps. Given that behavioral patterns will continually evolve through the client lifecycle, the platform must incorporate flexible information capture and intelligent learning mechanisms. Some aspects to be kept in mind include:

- Leverage knowledge graphs for their extensibility and flexibility:
    - A knowledge graph combines several paradigms in aggregating data with an explicit focus on organization and the use of data as a knowledge base
    - Extensibility through knowledge graphs especially helps in integrating diverse customer information and serves as a foundation for behavior focused personalization.
- Embed knowledge graphs into existing processes to build behavioral profiles as an extension of client onboarding, goal-based planning, client portfolio management, and client communication capabilities.
- Embed an intelligent recommendation engine into the analytics platform to generate actionable insights from the holistic client profile derived from the knowledge graph coupled with market and life events.
- Establish a mechanism to monitor how the insights are delivered and consumed by advisors and ensure the platform does not result in a deluge of alerts leading to digital fatigue and lost opportunities.

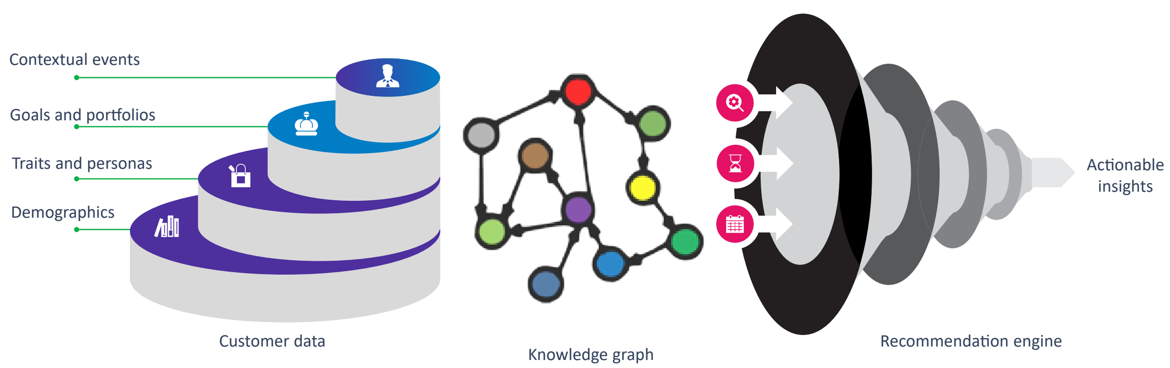

Figure 1: Next-gen behavioral analytics platform

The platform must be designed to process different kind of market events and map it back to the set of predefined personas of clients who are likely to be the most affected. It must automatically and continually generate actionable recommendations that financial advisors can suggest to clients; currently, this is done on an ad hoc basis by advisors based on their judgment and experience of individual client needs. Putting in place a system to take over this function will take personalization to the next level. For example, based on a client's portfolio, the platform will alert advisors of possible implications of evolving market situations and recommend furnishing the required insights through research reports or other such collateral. The platform must be capable of recording the actions taken by the client and the advisor in response to each recommendation in a knowledge repository, which should be leveraged while making future recommendations. For example, client action could differ based on their goal—a retirement goal may elicit a different reaction when compared with an investment goal given the risk appetite for investment goals are higher.

Emerging use cases

Before embarking on developing their behavioral analytics capability, wealth management firms should explore multiple business functions such as investment advisory, client communication, and sales and marketing where the behavioral insights can be leveraged. Intrinsic factors that will influence the selection process include client segments, channels, products and services, location, and regulatory guidelines. In our view, there are several functions where firms should consider embracing behavioral analytics.

Investment advisory

Personalized recommendations based on changing client behavior will enable the financial advisor to initiate a meaningful conversation with the client, review the portfolio performance, and keep them focused on their goals, despite short-term changes, to elevate the overall customer experience.

Similarly, during unusual market volatility, for example, a strong inclination to sell amid the pandemic, individual clients perceive risk differently and certain client segments may be more worried about the impact of such unforeseen, volatile events on their portfolio. In such a situation, the behavioral platform will be able to assist the advisor to proactively engage with clients, help rebuild confidence, and assess the investments keeping in mind long-term goals rather than short-term impact. It can also recommend the market research reports and insights as well as personalized educational content that can be shared with clients over their preferred communication channel such as through a mobile app instead of an email.

Client communication

Communication is key to successful client relationships; however, it is difficult for firms to determine an ideal frequency to connect with clients (excluding the ones mandated by regulatory authorities). Studying behavioral patterns can help determine the right frequency and the preferred communication channel besides facilitating customization to individual clients. For example, clients who exhibit loss aversion biases and feel more vulnerable during market volatility would expect more frequent communication from the financial advisor. Certain clients prefer personal communication with advisors through digital tools such as video conferencing instead of going through scheduled emails.

Client and advisor matching

The financial advisor plays a critical role in managing and deepening client relationships and it is therefore imperative that each client's unique advisory needs are fulfilled. Firms must examine individual clients' behavioral aspects before identifying an advisor for them. Matching the client with the right advisor will help strengthen the bond between the client and the advisor and arrest attrition. Similarly, while prospecting for potential clients, firms should partner with fintech firms offering behavioral assessment services and data aggregators to determine the prospect's

attitudes toward saving, spending, and risk to match them with the right advisor and enable hyper-personalized service.

Common traits among clients include overconfidence, loss aversion, risk aversion, maintaining status quo, optimism, over-trading and so on. The behavioral analytics platform can recommend advisors with experience in managing clients with similar biases, thus helping the advisory firm to build long-term relationships with clients. Firms can also leverage behavioral insights to reimagine the client journey and personalize user experience based on past behavior.

The way forward

Thriving in the post-pandemic normal will require firms to unleash the potential of behavioral data and embrace a next-gen behavioral analytics platform. As firms embark on this journey, it is essential to embrace digital ecosystem models and consider partnering with service providers for the required technology expertise. Early adopters will benefit from improved client satisfaction, increased customer retention, and exponential growth to race ahead of their peers.

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