INTERSECTIONS
Where Financial Institutions and the Investment / Insurance Industries meet

Tenth Edition

Wealth Management Product Development for Millennials by Millennials

To Robo or not to Robo; that is the question

Financial institutions have a major opportunity to educate Millennials about financial instruments. Data from our initial primary Millennial research indicates that 41% of the participants ages 21-34 do not yet have an investment philosophy, 55% would be 'likely or more likely' to listen to a bank or credit union advisor and 21% consider themselves moderate risk takers.
Click HERE for more details.

This would seem to bode well for wealth management advisors in financial institutions as they build their practice and look towards the younger generations to help them do so. However, because we specialize in helping our financial institution clients review and revise business models for the sale and distribution of wealth management services that allow them to optimize results; we wanted to test the conventional wisdom that Millennials are uniquely interested in using end-to end online and/or a robo-based investment process.

Our primary research is geared towards making use of 'plain language' questions with the ultimate goal of having Millennials design the services, features and benefits of products that resonate with them. There is a great deal of room for improvement in educating this segment of the population on financial terminology, investing and insurance benefits. Not surprisingly, the participants that were over the age of 30 and making more than $100,000 were a bit more confident in and comfortable with investment terms and the definitions of financial instruments. But are they ready for robo advisors?

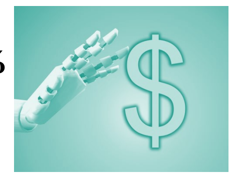
Robo-advisors collectively manage an estimated $20 billion, which is predicted to reach $450 billion worldwide by 2020, according to research firm MyPrivateBanking in its recent 2015 report on the ways in which robo-advisors are infiltrating the wealth management industry.

To gauge the interest of our Millennial research sample we asked our participants to rate these investment process options on a 5-point scale from, 'not attractive to very attractive', and were mildly surprised by the results.

A. Invest by yourself online, without an investment advisor
B. Invest with an investment advisor originally and subsequently do all trades and determine your own changes to your investments
C. Have an investment advisor tell you what to do with the money and be available whenever needed via online, chat, telephone or in person.
D. Entire process; advice, invest, and change investments is completed end-to-end online by you with no investment advisor. There is a "portfolio" that has been determined by experts and you simply follow their online recommendations

We found the following:

Only **8%** or our Millennial respondents found question A, a 'very attractive' offer and question D, analogous to using a robo advisor, was 'very attractive' to a mere **5%** of our participants. By contrast, Question B and C, where the advisor plays a much bigger role were' very attractive' to 11% and 19% of the audience respectively.



Why does this seem to fly in the face of what the current FinTech disrupters would have us believe; that Millennials and robo -advisors are made for each other? Well, as F. Scott Fitzgerald said, "the test of a first-rate intelligence is the ability to hold two opposed ideas in the mind at the same time, and still retain the ability to function", and that is the case here. There are subtleties that are not immediately obvious.

The first is that Millennials are staying single longer, with 75% of those between 19-29 single, compared to 43% of the Silent Generation at those ages. And today, only 26% of Millennials are married by the age of 32 compared to 48% of Baby Boomers. Therefore, a good proportion of Millennials may have not yet encountered the emotional questions around investments and insurance such as having a child, or buying a home. These events change and complicate the financial dialogue and allow an experienced advisor to add real value. In our sample participants, marriage may well be more prevalent than in the general population or it may be that financial literacy is low as we mentioned above and this factor is slowing adoption and creates hesitation in the mind of the Millennial investor to use a robo-advisor. We believe it is the latter, which consequently creates an opportunity for financial institutions.

There really is no typical user for robo-advisors and age and wealth do not seem to be a determinant; it is as always about the customer experience. If you are 60 years old and desire real –time performance reporting, transparency of your holdings and a lower fee schedule then you may choose a robo-platform for all or some of your portfolio. Robo advisor platforms can also be a boom to financial advisors needing to segment their client base, allowing them to spend more time on the more profitable clients.

Let me know your thoughts!

Carmen

C F Effron and Associates have developed a proprietary **WMAM**, or Wealth Management Accessibility Model, at a very low cost to help you design the best mix for your clients and advisors. The Model begins with an assessment of the current situation. We can help you determine how to access Millennials effectively whether you are a financial institution or working as a partner to the institution and want to add value to your client.

To find out more;

Call us at 203-226-2645 or email carmen@cfeffroncompany.com