



REDPAPER

HOW TO THRIVE, NOT JUST SURVIVE, IN THE POST COVID WORLD



REDHAWK[®]
WEALTH ADVISORS

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Introduction

What is the future of the financial advisory practice after recovery from the COVID-19 pandemic?

The landscape of RIA technology has become increasingly crowded, but the recent shock of the COVID-19 pandemic has catapulted financial advisors into a new understanding of the importance of efficient technology and digital client engagement.

The fallout from the COVID-19 pandemic creates the need for a new type of financial advisor who can integrate digital marketing tools, use video conferencing to close business, provide virtual client servicing, and more.

The technology is now evolving to address market dynamics, new challenges, and the changing concerns of clients. Most RIA platforms have a primary focus on portfolio management and reporting, but most financial advisors need help with new digital marketing tools as the seminar approach has had to adopt to a whole new series of prospective client engagement techniques. Additionally, clients are staying home and not going to the office and virtual servicing will be the “next-normal.” It is also critical that financial advisors have the right digital technology (digital ecosystem) to support their business and most importantly that those different technologies are integrated to realize their full potential.

The COVID-19 crisis has impacted the advisory practice on multiple levels and the changes are here to stay. Financial advisors must make substantial changes to their customer experience model to remain the trusted partner for their clients in these challenging times. The focus needs to pivot to higher levels of client engagement, greater activity in online digital marketing strategies, videoconferencing, and online portals. This pivot will require financial advisors to balance such evolving high-tech solutions with high touch advisory services.

Acceleration of Digital Transformation

Digital transformation was on the minds of most major RIAs before COVID-19 hit. However, the pandemic has caused this initiative to move to the forefront, and in many cases, it has become critical to their survival. Now that the country has had several months of working remotely, a working next-normal is taking shape rapidly across the country. The potential for the virtual workplace is being realized by many financial advisors and this next-normal will impact everything in the advisory practice.

The Institute of International Finance found that there will be several fundamental shifts brought on by COVID-19:

- Forced adoption of online and mobile technology.
- Overnight virtualization of the workforce and ways of working.
- The tipping point for digital and contactless servicing.

Virtual Claims - In virtual claims, customers take a picture of their damaged vehicle and submit it directly to their insurance company via a mobile app. In early April of this year, during the height of the pandemic, Allstate estimated that more than 90% of all auto claims would be submitted via its virtual tools. That was up from 50% two weeks earlier. Before the pandemic, roughly 11% of auto insurance customers used virtual claims tools². When (maybe if) the world does eventually get back to normal, our bet is that the insurance industry is not going back to the old way of doing things.

Banking – The coronavirus pandemic is on a path to radically change the way consumers interact with their banks, with 24% of customers planning to use branches less, or stop visiting completely, according to a new study released by Boston Consulting Group (BCG)³. Banks will be forced to modify their business models.

So how will the next-normal impact your advisory practice?

The top 5 things to thrive.

According to a Nationwide survey of more than 2,000 adults, conducted during the first week of April, 24% of respondents engaged a financial advisor for the first time ever. The survey also found 80% of respondents feel they have lost control of their ability to manage their investments and finances since the COVID-19 pandemic emerged⁴. This affirms that financial advisors are important and valued, and prospective clients want to interact with a human being and not a robo advisor.

Consumers have become comfortable with going online to fulfill needs that are traditionally served in person. To seize this opportunity, RIAs must re-design their customer experience to enable digital engagement from prospecting, contracting, and servicing to capture and retain the next client.

This red paper will cover the top 5 things you need to thrive (not just survive) in the post COVID-19 world.

1. Digital Marketing

Financial advisors temporarily pulled back from client prospecting in the immediate wake of the COVID-19 pandemic. In fact, advisors conducting public-facing seminars and workshops were shut down overnight. To get back to their once thriving practices, they must find a new path towards new business.

Prospecting today is more about building relationships than it is about selling. Financial advisors need new skills and tool kits to switch to social selling strategies focused on building relationships. With restrictions on in-person interactions that might otherwise include lunch meetings, seminars, and industry events, financial advisors need to embrace the idea of social selling, which will take longer.

Digital marketing offers an exceptional opportunity to reach new clients. There are 5.1 billion unique mobile users around the world⁵ and 3.72 billion active social media users⁶. Those are some big numbers that indicate a sizeable opportunity for financial advisors to adopt a disciplined approach to connecting more deeply with clients and generating leads that will help drive a strong future for their business. It also allows financial advisors to be available to clients when traditional means are not possible.

Before COVID-19, seminar content, mailings, and other paper-based marketing collateral, not digital marketing, were the top priorities of marketing budgets for RIAs. The financial advisory industry also spends less on marketing overall than other industries. According to a Gartner CMO Spend Survey 2018–2019, overall marketing budgets were 11.2% of revenue in 2018⁷. By comparison, according to Fidelity research, RIA firms spend an average of 2% of revenue on marketing⁸. It is obvious that financial advisors need to increase their spending on marketing to grow in the next- normal. Redhawk fully embraces marketing and knows that it is critical to a financial advisor’s success. We spend roughly 12% of revenue on marketing.

This pandemic has also presented an opportunity to reach underserved investors, as demand for a financial advisor tends to increase during periods of market turmoil. Roughly half of U.S. investors with investable assets between \$100,000 and \$5 million do not have a financial advisor. Additionally, half of those investors with advisors are not fully satisfied with the financial advice they are receiving (see the chart to the right).

Investors crave advice during a crisis, and many do not have an adviser



Financial advisors need to be with an RIA firm that is committed to digital marketing which has been accelerated by the COVID-19 crisis. Acquiring new clients ranks as a top benefit for financial advisors (see the chart to the right) and digital marketing will be essential for engaging prospects and the next generation of clients, given the impending transfer of wealth. In fact, digital marketing will likely become one of the primary ways to acquire new clients in the next-normal. We (and some others) have been undertaking digital marketing campaigns well before the pandemic hit.



Source: Alte Group's survey of 400 U.S. financial advisors, April to June 2019

2. Video Conferencing for Client Acquisition

Video conferencing can put the face-to-face back to acquiring more clients. Historically, client acquisition has been a face-to-face process. Before COVID-19 hit, financial advisors met with prospective clients in person to establish the trust necessary to form an advisory relationship. Information was gathered in person, a financial plan was reviewed in person, and plan recommendations were delivered in person.

With social distancing, these face-to-face meetings can no longer take place. Just a phone call will not work because it is hard to develop the same level of connection and relationship, at least in the very early stages, over phone lines. Similarly, email may be efficient for brief interactions or relaying information, but it does not allow for emotionally attached two-way conversations.

Video conferencing enables a conversation where the financial advisor and prospective client can see each other face-to-face, in a manner that simply does not exist with telephone calls or email correspondence. Research suggests that most communication comes from the non-verbal cues. Video conferencing allows both parties to see gestures, posture, and facial expressions. This can result in the prospective client developing a deeper connection with the financial advisor. As social beings, we like to connect visually. Visual connections can build trust and trust is where the rubber hits the road.

For example, financial institutions are evolving their traditional way of interacting with customers through video conferencing. In May 2020, Citibank introduced its industry-first remote video insurance application service, where financial advisors can recommend and sell insurance products through virtual meetings.

In the *next-normal*, financial advisors are going to need assistance in accelerating the trust factor with prospects when using video conferencing. We have found that having an investment strategist as a resource during the initial portfolio review with a prospective client, adds significant value that:

1. Builds trust by meeting the person who is going to manage their assets.
2. Shortens the sales cycle by seeing the process and how they will benefit.
3. Increases the win rate by viewing how their financial picture looks in retirement.

You can find out more about our client acquisition process in the “Freedom to Soar” A guide to a better financial outcome book at www.redhawkwa.com.

3. Virtual Servicing

Due to COVID-19, the advisory practice support model is evolving quickly to allow for financial advisors and back office operations staff to work remotely. There is no longer a need to keep financial advisors, operations, and technology personnel in one physical location. Fully integrated technology platforms with video conferencing capabilities allow advisors to interact in real time with both clients and back office operations staff.

For years, advances in digital technology have been raising the expectations for convenience. But in the post-COVID-19 world, convenience will no longer simply be about speed or ease of use, it will also be about being contactless, thus eliminating the need for any human contact or interaction – virtual contact will be the next-normal.

COVID-19 has put a strain on all interpersonal relationships, and the advisory practice is no exception. Financial advisors must manage clients’ intimate life events in a touchless world. As financial advisors turn to digital channels to facilitate collaboration with their clients, strong digital ecosystems, and a secure channel for managing conversations and digital documents are essential. Clients who need to discuss confidential life events will demand privacy and security. RIA firms that can assertively demonstrate a digital ecosystem wrapped in security will create positive experiences that will win financial advisor and client trust.

One of the most important values of a financial advisor is their ability to work closely with clients as well as other functional groups within the RIA (such as back office operations, portfolio managers, and compliance). At times, the advisor’s client may also interact directly with one of these functional groups so a strong collaboration between advisors, clients and the RIA’s functional groups is critical.

COVID-19 has forever changed how financial advisors will interact with their clients, their RIA, and perhaps other entities such as custodian, insurance marketing organization (IMO) and other vendors. Today, many clients do not want to go to an office and meet in person as they may be fearful of the obvious danger all around them. Elderly clients are especially concerned. RIAs should provide the technology for financial advisors to facilitate the collaboration with their clients through ad-hoc video conferencing that includes screen sharing of financial planning and investment performance.

Staying safe during the pandemic means that tools for the onboarding of clients, including e-signature, document scanning, and identification verification need to be available (virtually) while still satisfying compliance and regulatory requirements. RIA firms not equipped with such tools could experience asset outflows and revenue loss.

So, what are some of these tools that RIAs should be providing?

- **Video Conferencing** – to digitally meet with clients.
- **Collaboration Technology** – to work seamlessly with the RIA’s back office operations, portfolio managers, and compliance team. Gone are the days of accomplishing this through email or a phone call.
- **Electronic Client Onboarding** – Transforming account applications and agreements to electronic documents and most importantly a process that is compliant and includes e-signature.
- **Data Vault in the Cloud** – Having a secure place to digitally store and share all client documents that is compliant and can be accessed by the financial advisor and other key functional groups.

4. Integrated Holistic Financial Planning

Holistic financial planning came out of a movement to move away from a product-driven approach to financial planning in which a financial advisor's goal was to sell a product such as life insurance, mutual funds, or an annuity. Holistic financial planning is now about achieving the client’s life goals by properly managing their financial resources. This holistic value-added approach to financial planning provides the financial advisor a compelling advantage over the competition.

Online access to financial planning tools helps to raise the level of engagement and collaboration with existing and prospective clients by allowing the advisor to jointly walk through the planning options online with all the interested parties engaged. Advisors can run real-time scenarios with different planning assumptions and see various outcomes or impacts on goals. These planning tools often allow clients to run various scenarios on their own.

According to a Russell Investment survey conducted in 2017, a financial plan that includes tax awareness and investing can add 1.75% to a retirement portfolio¹⁰. A Morningstar study places the figure even higher, with estimates of the advisor impact helping to create 29% higher retirement income wealth. It is our bet that financial advisors can keep doing what they do and will probably survive. Elite financial advisors wanting to contrast themselves in the marketplace will place more emphasis on taxation, something their savviest investor clients are growing more concerned about with every new trillion the government prints during this pandemic.

Evidence is everywhere to support our claim. Morningstar says smart financial planning can translate to 1.5% more in annual average returns. Additionally, Vanguard performed a similar study and concluded that financial advisors can add about 3% in net returns to their clients’ portfolios.

As it relates to accessing the integrated and holistic picture, clients expect to have one place to go where they can log in and see everything. They expect their financial advisor to give them a 360-degree view of all their assets and liabilities, no matter where they hold their accounts or who manages them. Younger clients are especially used to all their data being a mouse click away. People are sick of remembering lists of websites, passwords, usernames, and security questions. Clients can view their accounts, holdings, and performance on an easy-to-use interface that is accessed via a firm-branded website and mobile application.

As the market for financial advice moves towards greater consumer comfort with digital interactions, it will enhance the customer experience and elevate the role of the financial advisor in providing more holistic advice. As more stages of the financial planning process are automated, financial advisors will have more opportunity to drive deeper conversations with clients and play larger roles in clients' financial lives. Thus, advisors should consider how their skillsets can complement the next-normal digital ecosystem.

Clients want a financial advisor that can give them advice on their entire financial picture. A holistic view provides clients with:

- **An Improved Understanding** – The client can more readily view their entire wealth so the financial advisor can help them make informed and confident decisions.
- **Coordinated Advice** – The financial advisor can see all the assets and liabilities, so they can help their client best position each piece to serve their total household needs.
- **Efficient Tax Planning** – It is easier for the financial advisor to maximize the tax efficiency for their clients when they are looking at the entire picture.
- **Smoother Wealth Transfer** – The financial advisor knows everything, so they can help beneficiaries experience less stress because the assets are organized and readily identifiable for them.

5. Digital Ecosystem

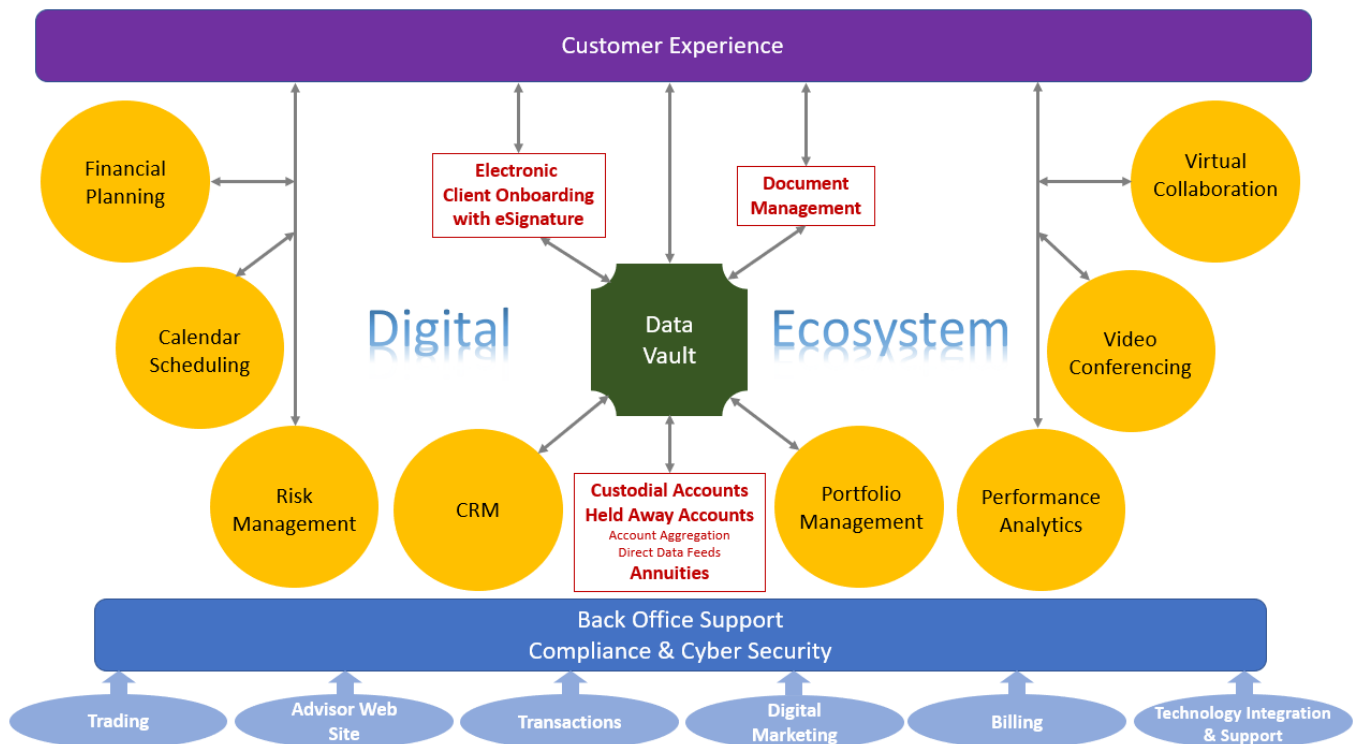
The term fintech generally refers to technology that enables parts of the financial services world to be automated. For financial advisors, it means that tasks such as financial planning, portfolio management, and data aggregation are now done by software and keeping track of each client's situation is handled by digitized systems. The result is less time spent crunching numbers, entering data, and going over spreadsheets.

The *next-normal* financial advisor client relationship features many of the same components of financial advice today to be enhanced through a seamless digital experience tomorrow. Financial plans will live in a data vault located in the cloud, where they can be accessed anywhere, from any device, 7 x 24 x 365. Data feeds will automatically update the financial plan daily instead of rushing to enter the information before the review meeting.

Many financial advisors will never meet their clients in person but will connect frequently through digital channels such as videoconferencing, texting, and social media, greatly increasing accessibility and enabling greater specialization of advisors across geographic boundaries. The next-normal digital ecosystem will require financial advisors to:

- Gain new skills in social media to attract and engage with clients.
- Utilize new technologies in the delivery of advice.
- Become a behavioral coach as more complex client data is available.
- Serve as a one-stop shop for client needs, whether they are financial, personal, or technology-related.

The graphic below shows what the next-normal digital ecosystem looks like. Pre-COVID, we were on track to make it a part of our platform.



While most of the new skill-sets discussed involve technical capabilities, communication and interpersonal skills will also grow in importance. As more activities in financial advice are automated, advisors will have greater capacity to establish deeper and broader relationships covering a wider array of financial topics. Furthermore, as technology increases both the capability and complexity of the financial planning systems, financial advisors will be tasked with simplifying and translating that complexity to clients..

Summary

The coronavirus pandemic will shape our lives and the global financial markets for years to come. The COVID-19 crisis accelerated the need for RIAs to digitize their offering into an all-encompassing digital ecosystem. Many RIAs have not embraced this change and continue to offer workable, but fleeting technologies and services.

After months of sheltering in place, COVID-19 is reinforcing the desire for human communication and connection in contactless ways, and financial advisors that can adapt will benefit from this social trend. Because of COVID-19, financial advisors are in greater demand than ever. People of all ages, from millennials to baby boomers, want smart financial advice during times of market volatility and economic uncertainty. Investors want to know they are doing everything they can to protect and grow their wealth and the pandemic has in fact accelerated these trends, a great thing for the financial services industry.

It is imperative that financial advisors embrace these changes that are quickly taking shape in the next-normal and partner with an RIA firm that will provide the right digital ecosystem to thrive.

Acknowledgments

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