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WHITE PAPER

A Higher Standard of Care: The Future of Financial Services

KEN HAMAN
Managing Director

There are a lot of uncertainties facing the financial-services industry, and even well-established Financial Advisors (FAs) and insurance brokers are facing new challenges every day: margins are being squeezed, compliance requirements add pressure, support is drying up, and clients (as always) are hard to get and retain. To meet the challenges, many FAs are innovating. Some firms are deploying new relationship-management tools and novel approaches to building a client base and retaining existing relationships.

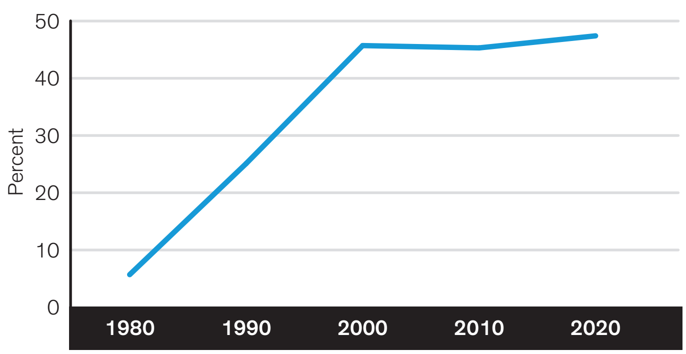
The key to success in financial services is to be more effectively engaged with sophisticated and experienced clients. Unfortunately, this timeless goal eludes many experienced professionals. What worked before is no longer effective. The world has changed, and clients' expectations have evolved. Many advisors recognize that the methods they currently use to manage client relationships must change as well. But do all of the methods need to change? For those that do, how do they need to change? These are the questions that dominate the thinking of the most successful professionals. In this paper, we'll take a close look at the state of the financial-services industry today, the forces that have created challenges, and the best way for insurance brokers and other advisors to succeed going forward.

A Look at the Past

For 40 years, the Baby Boomer generation has represented an important and formative influence on the financial-services industry. This generation has greatly affected how FAs have designed and managed their businesses during periods of impressive industry growth.

The industry had modest origins. Mutual funds have been available since the 1920s, but for decades only penetrated to a small percentage of the population. In 1981, only 5.7% of US households owned mutual funds, signaling a relatively low level of cultural engagement.[1] Then—suddenly and explosively—the culture embraced mutual fund ownership. The number of FAs also grew significantly over this period, from 243,700 advisors in 1980 to more than 670,000 Registered Representatives in 2000.[2]

US HOUSEHOLDS OWNING MUTUAL FUNDS



Historical analysis does not guarantee future results. For illustrative purposes only.

As of December 31, 2020 | **Source**: Investment Company Institute, *2021 Investment Company Fact Book*

What Caused This Explosion of Growth? The Boomer Wave

The oldest Baby Boomer turned 35 in 1981, followed by 78 million others of that generation. That works out to about 4 million a year for 20 years. As millions of Baby Boomers began to own mutual funds, the industry kept pace, growing rapidly to meet the need. That explosive growth has since leveled off, causing a major disruption in the industry. Fewer FAs have survived the challenges of building a business in this environment, and even established advisors have seen a steep decline in organic referrals.

This evolution helps us understand some of the patterns of behavior we see in well-established FAs. For those who experienced the "golden age" of expansion that started in the 1980s, recent years have been very challenging. In short, "the way we've always done it" no longer applies.

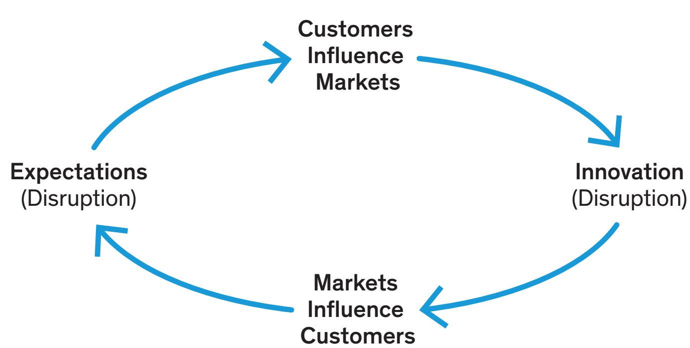
What Happens Next?

When an industry is in disruption and things are changing, the playing field tends to shift. Depending on how a professional anticipates and responds to disruptions, times like this can be scary—or exciting. Change doesn't have to be a bad thing; it can uncover opportunities.

To see the opportunities created by a disrupted environment, it helps to understand how disruptions happen and why they're inevitable. Innovations create a virtuous cycle in every industry—a built-in feature of our free-market economy. Companies compete for market share, and a big part of competing effectively is creating innovative features that are attractive to customers. When one company innovates effectively, others soon follow with their own innovations, hoping to stay competitive or gain market share. Over time, even companies with huge advantages can grow obsolete if they don't stay current. This virtuous cycle eventually becomes self-sustaining. Customers demand more, and companies work hard to deliver more in an effort to stay ahead of the competition.

Consider this example: Do you expect more from your cell phone today than you did five years ago? Do you think it will improve in an unexpected way over the next five years? Customers' sophistication and expectations rise over time as innovations continue.

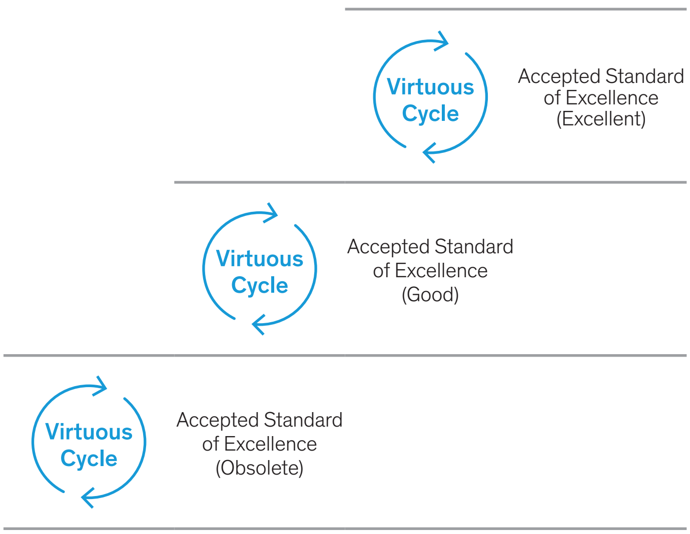
WHERE DO DISRUPTIONS COME FROM?



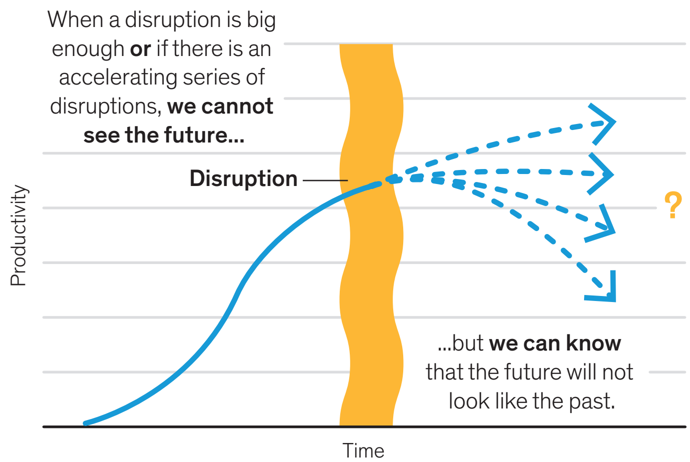
Source: Larry Downes and Paul Nunes, *Big Bang Disruption: Strategy in the Age of Devastating Innovation* (2014)

1 Investment Company Institute, *2021 Investment Company Fact Book*, as of December 31, 2020
2 Financial Industry Regulatory Authority and US Bureau of Labor Statistics, as of December 2020

COMMONLY ACCEPTED PROFESSIONAL STANDARDS TEND TO RISE OVER TIME



INNOVATIONS CAUSE DISRUPTIONS



Source: Joel Arthur Barker, *Paradigms: The Business of Discovering the Future* (1993)

Innovations + Expectations = Rising Standards

Over time, the virtuous cycle of rising expectations and frequent innovation raises the bar for customers' demands. An idea that was once innovative, unusual and surprising eventually becomes the recognized standard. Long ago, FedEx redefined expectations about package delivery. But over time, overnight delivery has become an expected standard, not a unique value proposition.

Customer expectations in every industry tend to rise over time, and the financial-services industry isn't immune to this. Our industry has shifted away from the rapid growth and expansion of the 1980s when innovation was driven by Baby Boomers. Since then, clients have gone through several market cycles, and they've learned a lot about financial-services professionals. With greater customer expectations, established FAs who are interested in staying competitive and growing their market share have work to do.

Why Disruptions Are So Challenging

To stay competitive, FAs have to figure out where to invest their time and energy in innovation. But the right path through a disruption can only be known through hindsight. Innovators head in many directions at the same time; no one knows who the winners and losers will be until the dust settles and consumers vote with their wallets. More than any other aspect of innovation, the biggest challenge is figuring out which innovations to embrace and how soon to embrace them!

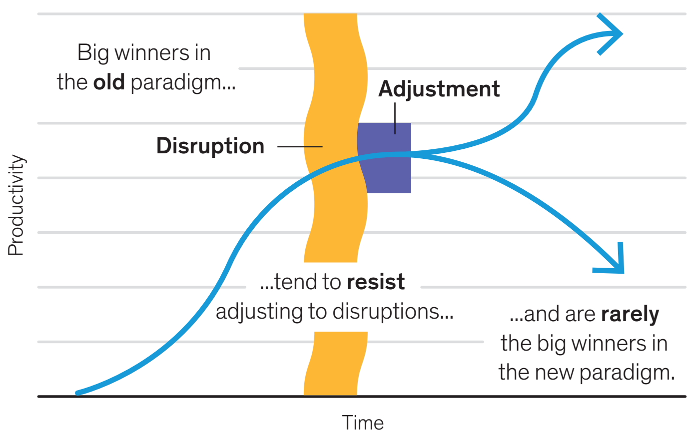
While we can't know the future, we can be certain that the future won't look like the past. This means that some type of innovation will be required to stay current. As the old saying goes, the only constant is change. Which change and which innovation are always hard to pinpoint at first.

Adapt and Prosper—or Become Obsolete

Technologies that were once cutting-edge eventually become so out of date that they're quaint. Today, you can still find a few blacksmiths hammering away, and it's still possible to send a telegram. Some FAs remember a time without email or online trading—innovations now considered standard. But advisors should also recall how disruptive these technologies were when they emerged.

Want to remember what disruptive innovation felt like? Think back to when you started conducting virtual meetings. Even a necessary change like this created a big learning challenge—and major frustration. But if you refused to adapt by not learning how to talk to clients this way, you were unable to work at all. Disruptions require that FAs adapt to stay competitive.

PARADIGMS



Source: Joel Arthur Barker, *Paradigms: The Business of Discovering the Future* (1993)

Why Some People Find It Hard to Change

Change creates dynamic tension for busy professionals: disruptions require them to adapt to stay competitive, but which innovation will drive a new standard of accepted excellence and require a response? The tension is even greater for FAs who've been successful in the past. As Joel Barker notes in his book *Paradigms*, businesses that win big by adopting a previous innovation are rarely the big winners when the *next* innovation disrupts their industry. Most adults prefer to learn "how it's done" and then continue to be rewarded for doing what they know how to do well. As Everett Rogers states in his book *Diffusion of Innovations*, only a relatively small number of people are natural "early adopters" of new ideas.

The result: most successful insurance brokers and advisors prefer to wait and see instead of jumping on new ideas when they emerge. This saves time, helps them avoid adopting new ideas that won't last, and keeps them from looking foolish to clients and colleagues.

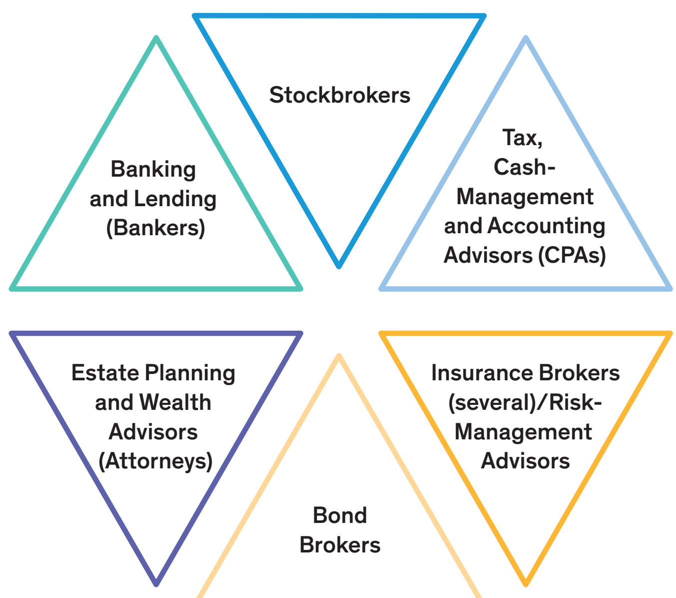
The Past: Fragmented Services

This reluctance to change is balanced by the inevitable requirement to respond to successful innovations. Financial services is a dynamic industry; it rewards advisors who compete effectively. *It would be foolhardy to believe that because you've built a successful practice over the past 10, 15 or 20 years, you're somehow immune to significant innovations*. And there's plenty of room for innovation to emerge, given the fragmented nature of our industry.

Historically, the various services that high-net-worth families need have been spread out over different providers—not aggregated under one or two key, diversified providers. This developed as an artifact of the industry's concept of brokering services. Stock, bond and insurance brokers—along with CPAs and attorneys—all made their services available to customers. Ultimately, the consumer was responsible for figuring out who did what well and for stitching together the right types of services he needed.

Over time, the original model has grown and evolved far beyond its scope. Services have expanded and strategies have proliferated, making it harder for individual clients to assemble the right set of solutions for their particular situation. At the same time, pricing has remained difficult to understand, accountabilities have been hard to pin down, and consistency from broker to broker has been nonexistent. The market does not tolerate inefficiencies for very long, and it increasingly demands transparency between providers and their clients. As a result, this fragmented service model is ripe for disruption by innovation.

INEFFICIENT, FRAGMENTED SERVICES



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Innovation Is Disrupting Financial Services

In the early days of the modern financial-services industry, clients' lack of experience left them less sophisticated and, as a result, less demanding. The dominant paradigm was the brokerage service model, which made it possible for a professional practice to prosper by concentrating on one narrow service area: "I sell municipal bonds" or "I'm a stockbroker" or "I sell life insurance." Over time and with years of experience, today's clients have grown frustrated with the old model; they want a new, more efficient model.

This model needs to be less fragmented, more convenient and more integrated. A more standardized and cohesive model gives clients confidence that they're exploiting capital-market opportunities, protecting themselves from risks, preparing appropriately for a secure retirement, positioning assets in tax-advantaged structures, and preparing their children and grandchildren for the transfer of assets. And they can enjoy the fruits of their labor as they do so.

Because of our most sophisticated clients' experiences with the inefficiencies of the old service paradigm, they've set new expectations. This has driven a new wave of innovations, leading to a "big new idea": the FA as holistic provider.

The Future: The Holistic Provider

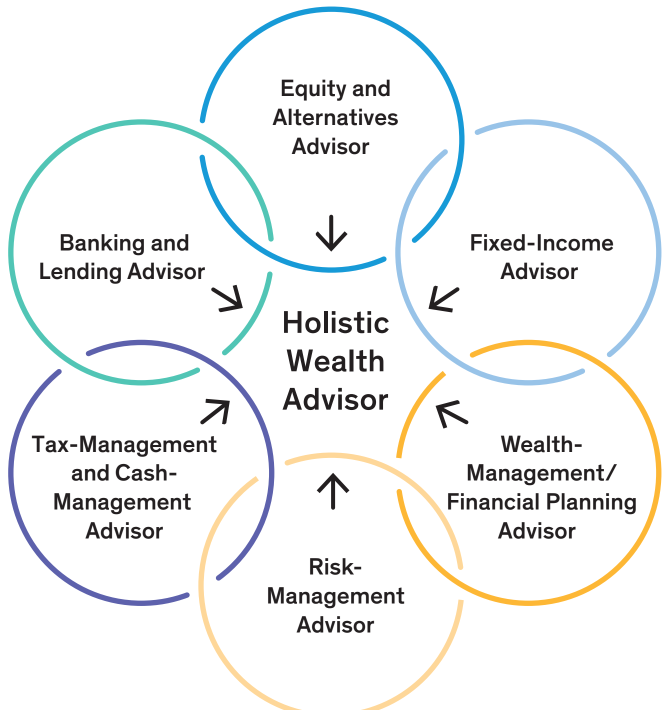
Why should today's FA move away from the fragmented service model and embrace the holistic model? For the same reason that FedEx revolutionized shipping: sophisticated consumers have come to expect it, and *every* consumer will eventually *demand* it. The answer to the question "What now?" is this: today's most sophisticated clients want to know that they are receiving all of the value their advisor's or broker's platform has to offer.

Sophisticated clients have higher expectations of their providers. For uniquely successful families, this higher standard is delivered by a trusted advisory team whose members help them navigate the complex decisions required to manage their wealth successfully. These clients take the label "Financial Advisor" seriously. They look for trusted professionals who understand the capital markets, have a wide range of solutions and recognize their unique life situation.

They want advisors with sophisticated abilities to anticipate their needs as they move from one stage of life to another. They seek advisors who look at the big picture of their life and the world, and who can apply the resources of their platform to deliver what is needed when (or before) it is needed.

As time passes and more clients discover that there are providers who can do this, the holistic servicing model is becoming the accepted standard in the financial-services industry. And the benefits are not just experienced by clients: holistic providers who generate revenue from several product sources will survive. They will be the big winners in the next evolution of our industry.

THE FUTURE: A HOLISTIC PROVIDER



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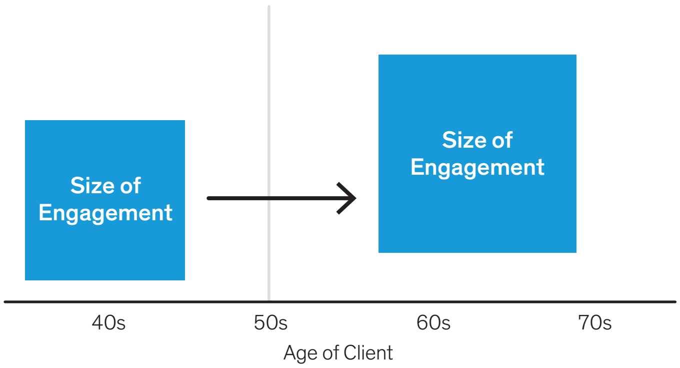
EVIDENCE THAT REVEALS A HIGHER STANDARD OF CARE



The Good News: Clients Value Advice—and Will Need Much More of It

Two observations about successful individuals and families are important to highlight:

1. Human beings evolve through a natural process of maturation over time. Time, all by itself, forces people to grow and change. The challenge of managing increased wealth adds its own evolutionary pressure.
2. Clients tend to need more from their advisor over time and as they reach new levels of wealth.

Both dynamics are true simply because human beings evolve and wealth impacts that evolution profoundly. It's easy to understand how managing the diverse needs of a full book of clients, from many different age groups and wealth levels, puts pressure on an FA. Creating and personalizing a high-touch business is a key to satisfied clients, but it's challenging to deliver more touches more frequently and manage a wide range of services to different client types.

The Future of Financial Services

Running a high-touch, frequent-contact business is a big challenge for financial-services providers. You need to stay in contact often with clients to keep them satisfied with your services, and there's always the opportunity to serve the expanding needs of each client over time. This can be a disruptive formula.

One way in which this disruption is obvious today is with clients transitioning from their midlife "grow my money" advisor to their "I need a plan for retirement" advisor. In the high-net-worth space, this also shows up with clients who change advisors after a significant monetization event. In both cases, the client becomes aware of new needs and looks for an advisor who can meet those needs.

Observing these dynamics over time reveals an important pattern. At some point in midlife, successful people build enough wealth (and enough of a need for advice) that they find their first FA. The relationship is based on those needs. The engagement tends to solidify around those needs until an event makes the client more aware of a greater need.

An advisor who is retained for her knowledge has been given a great vote of confidence by that client. *But unless the advisor establishes a clear vision of how she services clients with that expertise, there can still be times when the client thinks he knows better.* Obviously, no one knows better than the client how he feels and thinks and what values drive him. However, an advisor's responsibility is to know more about how her own expertise and her own platform's resources can help the client achieve his goals. You certainly know more about the resources you have available than your client does.

This is why clients hire you. They're retaining you for what you know, because they believe you know more than others about what they need and how to meet those needs! To take full advantage of this dynamic and provide a more compelling and satisfying value experience, do more than build an expansive Standard of Care: publish it for your clients. Your Standard of Care should become the common vocabulary that you and your clients use to understand what you are doing for them and why you are doing it that way.

Working with a Standard of Care Can Reduce Client Resistance

One of the great benefits of establishing a Standard of Care for your business is that it requires you to think through all the potential services and benefits you're able to provide to clients at different stages of life and wealth. For almost every advisor or insurance broker, there are solutions and strategies available on your platform that you rarely offer to clients. This creates a huge, built-in opportunity to expand virtually every professional's revenue base.

In addition, a higher Standard of Care can eliminate the issue of resistance from clients. A Standard of Care gives you an external reference point—a separate "authority" that you can appeal to when discussing your recommendations with a client or prospect. Instead of saying, "It's my opinion," you're in a position to say, "Our Standard of Care has established this as our recommendation for clients in your situation." The prudent professional gathers research and tactical recommendations from various authorities to buttress his argument. Ask your AllianceBernstein Regional Manager for research into the capital markets and particular strategies of interest.

Here's a simple way of seeing the power of this approach. Think of the last time your doctor recommended a treatment to you. She didn't say, "I think you might benefit from a cardiogram." Instead, she said, "The standard for people over 50 is that they get a baseline cardiogram." The doctor spoke with authority and confidence, and you trusted that this was the right thing to do and that you would benefit from the recommendation. Your Standard of Care should provide the same quality of confidence to you and your clients in your consultations.

Defining Your Standard of Care Framework

To create your Standard of Care, start by looking at your previous experiences from a new point of view. Rather than thinking about individual clients, build a grid that encompasses the largest array of clients you are currently working with and/or you may work with in the future. The easiest way to do this is to consider two primary defining characteristics: age and level of wealth (just as a doctor considers age, gender and body mass when making a preliminary assessment of a patient).

Plot a range of ages across an x-axis and three levels of wealth on the y-axis: mass-affluent (less than $1 million), wealthy ($1 million–$5 million) and uniquely successful (more than $5 million). On the resulting grid, you can plot the majority of your current and potential clients. Instead of encountering each client based on his assumptions about the engagement and previous preferences, you can establish your vision of what a client like this needs.

Of course, the ultimate engagement you define will evolve from this starting point. It will reflect the true uniqueness of each person, but the power of this grid is that it will allow you to develop a clear, professional point of view about what you believe clients need: your Standard of Care. It will ensure that you've expanded your thinking as much as possible for each person you meet with. This will help you overcome your tendency to narrow-frame your business engagements within your comfort zone. And it will give you a starting place for educating new clients (and, ultimately, existing ones) about the full value of your business.

Once you've established this basic grid, the next step is to populate each section with the engagement model you believe is the appropriate Standard of Care. We've designed three exercises to help you build your own Standard of Care.

Developing Your Own Standard of Care

Three levels of inquiry provide a starting point for expanding your thinking about what you should be offering your clients. From this point, you can build a more robust and fully personalized Standard of Care: your professional point of view. You can find the value of these exercises in the term *standard*. You're not operating by personal preference or the constraint that each client is familiar with. Instead, the grid and these considerations allow you to externalize and formally authorize a Standard of Care for your entire business. This external model informs your internal decisions, helps you avoid the consequences of narrow framing that will limit the productivity of your business, and allows you to build confidence and conviction in your practice expertise.

Start with a consideration that applies to every client, and engage the three levels of questions within each of the 12 grid locations. Ask your AB Regional Manager for guidance on the subjects on which to build a point of view.

Level One

1. What degree of financial plan should this type of client receive? From a simple set of investment goals all the way to a comprehensive, holistic financial plan, what is your point of view for each age and wealth segment? These answers will inform the type of discovery interview you complete, the content of your client reviews, and the breadth of products and services you ultimately offer.

	40s Early Accumulation	50s Setting Goals	60s Preparing to Retire	70s Transition and Distribution
$$$				For example: trust creation, wealth-transfer strategies, living will
$$		For example: retirement income planning, eldercare strategies, 529 plan, credit card strategies		
$				

2. What's your asset-management process for this type of client? Your process may be customized to different age and wealth segments, or it may be standard across all the clients you engage.
3. What's your communication model for this type of client? It can go far beyond a simple A, B, C segmenting/servicing model, allowing you to describe the various processes of communication and engagement you plan to provide.
4. What are your budget and balance-sheet considerations for this type of client?

Level Two

The second set of questions should be considered for most clients; that is, the majority of client segments in the grid should be engaged with these questions. The answers depend on specific clients' life stages, wealth and needs.

1. What are the life insurance, health insurance, disability insurance, umbrella liability insurance and long-term care insurance needs?
2. How current is the estate planning? For instance, does the will need to be updated? When were the most recent beneficiary review and document review (power of attorney, living will, etc.)?
3. What are the plans for engaging Social Security benefits? What are the retirement income needs? Is there a retirement income plan?
4. What are the guarantees around income and funding future health needs?
5. What are the general banking and lending needs?
6. Have you considered eldercare standards?
7. What are the credit card strategies?

As you encounter situations that are currently beyond your expertise, requiring you to climb a learning curve, work to master the material and feel comfortable offering these services. Seek coaching from your firm and the asset-management/servicing partners you work with. Stretching into areas you've neglected is often the best way to expand your value proposition.

Level Three

The final set of questions represents strategies that apply only to some clients, usually sorted out by limits due to age and level of wealth.

1. Have you considered 529 strategies for college funding versus 529 strategies as a wealth-transfer vehicle?
2. Is there a trust strategy, family mission statement, family wealth education, wealth-transfer plan or gifting capacity analysis?

Start with these questions, and then add your own considerations based on your professional convictions: What should certain types of clients consider as a basic standard for fully engaging the value proposition of your business? You may have one, two or even several more considerations to apply to your practice model.

Working with Existing Clients

It will take some time to educate new clients about your value proposition and how your engagement with them will evolve over time. Doing this during client intake is relatively straightforward once you've designed your model. Determining what to do with existing clients is a bigger challenge. Most FAs immediately resist the idea of introducing a broader range of services to existing clients because they fear that suggesting a change of engagement will stir frustrations or anger. In actuality, it's unlikely a client will become upset if you suggest a better way of doing things or if you propose an expanded engagement because the client has grown older or increased his wealth. But the fear of change can prompt very strong feelings.

How can you make the idea of transitioning to a Standard of Care less daunting, and how can you feel more confident about overcoming these potential hurdles? We've developed a conversation model to assist you. It will help you introduce a new idea to existing clients using simple but universal insights about human behavior and experience.

All human beings live through time: from the past through the present and to the future. In this way, the present is always a transition from the past to the future. Because we've experienced the past and sorted out information from those experiences, the past has a quality of being fixed and familiar. Humans can have lots of feelings about the past—anger, regret, sadness, joy and others—but *we can't feel anxious about the past*. Anxiety is reserved for the future.

This is the important insight the following scripting is based on: most humans are anxious about the future because we haven't yet experienced the consequences of the decisions we're making today. Many of us wake up wondering what will happen, and we feel anxious about possible problems in the future. But if you frame a new idea as being necessary because of changes in clients' lives or changes in the world around them, the need to consider a new idea will most likely make sense.

Start by framing the reason for the new idea, then propose the new idea as a remedy for challenges you present. This framing should make sense to those you're working with: "We need to make some changes because the world has changed—and so have you."

Two patterns of change are predictable, and everyone you're working with has experienced both of them. First, markets change over time. Volatility, taxes, interest rates and inflation are all likely to change. It shouldn't surprise anyone when you suggest a change in the way you engage with clients because of these variables.

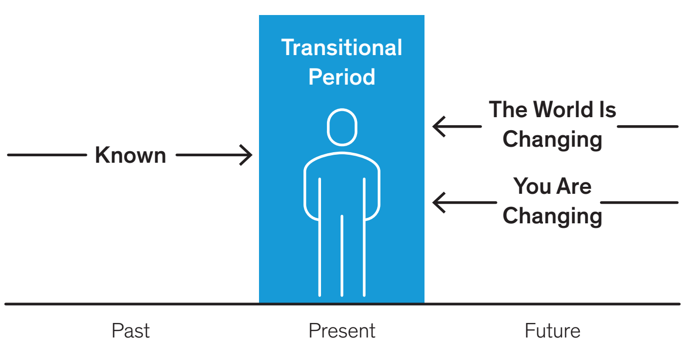
Second, life changes. Clients get older, start families, grow assets and retire. All of your clients know that their needs change as they age. You can use this as a catalyst for changing your engagement: "As you're moving into retirement, we need to approach your situation a bit differently than we have before."

Scripting the Conversation with Clients About Your Standard of Care

Just as the psychology behind the dialogues is very simple, the scripts for starting them are very basic. They merely require you to identify a milestone, a new chapter in life or a change in the world. Then, link that transition to the need for a different type of engagement. Both of the following frames can work; pick the one that works best for you.

1. If you'd like to link the new engagement need to changes in external market conditions, you might say, "Because of increasing volatility and changes in market dynamics, I'm recommending the following to my clients." Then describe the new idea or expanded range of services.

MOVING FROM THE PAST TO THE PRESENT



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2. Alternatively, if you want to link to life events, you can discuss them in two ways. First, you can talk about life events that the client is about to experience: "You're about to retire, and when my clients are on the cusp of retirement, we talk about doing things a little differently going forward." Or you can link to a recent milestone: "When my clients sell their businesses, we change the way that we manage their assets."

In each of these cases, you've used a development in the client's life or in the world that's distinct from the specific model of engagement you've been using in order to suggest a need for a change. This approach makes the discussion about the need for change much more palatable to the client.

Dealing with Resistance

On occasion, you may suggest a new idea to an existing client who may resist the idea. In these rare situations, we recommend using the following strategy to overcome the resistance and gain a fair hearing of your idea:

"You're my client and I'm your advisor, and as such, I would never require you to do something you're uncomfortable with. But I owe you my best thinking about what's in your best interests. So here's what I suggest: Let me walk you through my ideas, and let's discuss them thoroughly. Once you've had a chance to digest what I'm saying, we can discuss how you want to adapt my suggestion so that you can feel more comfortable with it."

Having achieved a window in which to be heard, you can then work with the client to decide how much of the new idea to engage. Of course, make sure you use our suggestions in line with your firm's policies and procedures.

Executing the Model in Your Business

Whether you are an FA who needs to expand beyond a focus on asset management or an insurance broker who has a vision of embracing asset management and other services to work more holistically with your uniquely successful families, the Standard of Care model will support your vision of a more robust and prosperous business. Ask your AB Regional Manager for support in designing your Standard of Care and rolling it out to your existing clients.

Learn More

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