

## Full-Service Firms Lead in Quality of Advice, New Entrant “Robo-Advisors” Perform Well

### *Life is More than Retirement: The Transition to Smart Investing and Financial Wellness*

(Rye, NY) – Full-service firms lead once again – with robo-advisors and other new entrants coming on strong – in the sixth annual review of over 40 advice and guidance offerings conducted by Hearts & Wallets, the preeminent financial research platform for consumer savings and investing insights.

**Inside Advice 2015: Early Career Millennials, Rise of the Robos & the Keys to Building Better Products & Advice Platforms** provides a competitive assessment of the current advice market and predicts future direction based on two distinct research analyses –

- exhaustive review of over 40 advice experiences from the perspective of a millennial consumer hypothetical, including a shopping assessment that evaluated over 120 factors for each experience. The study includes an examination of 18 robo-advisor platforms and other new entrants and their competitive positioning.
- confidential management survey of 18 industry firms with over \$18 trillion in assets under management or administration.

Study findings guide firms to improve customer offerings in a highly competitive space. Consumers seriously in the market for retirement advice shop up to 4 to 6 experiences, according to Hearts & Wallets data.

### **Life is More than Retirement**

“The study finds the advice industry at two crossroads – between traditional providers and new entrants on one hand, and between traditional retirement advice and broader goals on the other,” Laura Varas, Hearts & Wallets co-founder and partner, said. “A 30-year conventional retirement is increasingly irrelevant.<sup>1</sup> Many providers, aside from some full-service firms, have been slow to respond to the market shift. New entrants are filling the gap and finding a receptive customer base, especially with underserved younger consumers who are the industry’s future. Over half of younger consumers struggle with where to put their savings or financial planning.”

The study finds the average experience needs to broaden beyond retirement. Only 1 in 5 (19%) experiences include the best practice of identifying goals beyond retirement as shown below:

	All	New Entrants (all categories)	Full-service (incl. fin pro)	In-Plan (employer paid)	Self-service
<b>Include Goals Beyond Retirement</b>	19%	50%	75%	20%	0% <sup>2</sup>

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<sup>1</sup> Hearts & Wallets *Investor Quant (IQ) Database™* 2015: Only about 3 out of 10 U.S. households envision life as a senior citizen without any work.

<sup>2</sup> Despite self-service being designed primarily for retirement, a consumer may obtain answers to a number of financial questions from a suite of tools. Yet, suites do not integrate answers to place in context for a complete financial plan.

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## Full-Service Firms Again Lead Advice Experience/2

The average experience dedicates 85% of total monthly saving to retirement and did not address the hypothetical couple's need to pay off their credit card or get a house. Only 15% of experiences caught the fact the breadwinner husband (and father) did not have term life insurance. The best experiences recommend saving 15% to 25% of income with 20% to 30% going to retirement. Both full-service and new entrants perform well in addressing the need for an integrated plan.

"If the consumer is seeking help to make financial decisions, recommendations should be really good. A recommendation of 85% of savings going to retirement is good for the financial provider, but is it good for the consumer?" Chris J. Brown, Hearts & Wallets co-founder and partner, said.

## Key Study Findings

Among topic findings of the study are –

- **Full-service experiences again led with broader scope** in 2015 than other advisory firm categories, but that advice may come with a hefty price tag. Full-service experiences address topics in more depth and ask about issues – such as personal debt, real estate, college savings – the consumer may not have considered.
- **Robo-advisors and new entrants address unmet needs by helping to expand the scope of advice beyond retirement to a focus on financial wellness or smart investing.** New entrants raise the competitive bar across all categories, by providing things like motivational support to save more and account aggregation services to track saving and spending.
- **Consumers still face an uphill battle in selecting advice providers because of unclear industry competitive categories.**
- **New entrants are driving definition of competitive categories.** New entrants are emerging in all categories rather than existing in a technology silo. They are making inroads with lower pricing models, engaging positioning dimensions and the reduction of barriers (friction) to trial.

"The industry lacks clear-cut competitive advice categories that would help the consumer to make choices, marketers to differentiate within categories, and regulators to understand pricing models across and within categories," Varas said. "Ideally, financial services will move toward a transparent model like the pricing and value differences among competitive categories for cars. Everyone understands an SUV costs more than a compact, and each consumer can assess the trade-offs for himself. The same thing should happen in financial services. Full-service advice options, with their broader scope and depth of advice and support, should logically have a higher cost than more superficial self-service options. That cost should be transparent is obvious. Competitive categories need to exist first so consumers can decide what category is right for them. An offering positioned as a combination of self-service tools and a financial professional for 'free' is too confusing. Everyone knows free lunches don't exist, and if they did, they wouldn't be very good."

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## Full-Service Firms Again Lead Advice Experience/3

### Who Gives the Best Advice?

*Full-service* experiences (those that include a financial professional) deliver better, broader advice in the study. *In-plan* (paid for by the employer) is next best. *Self-service* (primarily consumer-driven with some help available) can be of value, if the consumer assumes primary responsibility. The study includes a fourth category, *prelude-to-a-sale* (an offering preview with some value add), which consumers often use to augment their own knowledge or as a preliminary step before seeking another type of advice.

“The highest quality advice – as measured by breadth, depth and scope across the many objective review factors – still comes from full-service firms, although new entrants are moving up across categories,” Varas said. “The only 5 (highest) rating in the study is a full-service experience, which sets a new bar for excellence with integrated advice.”

The assessment finds improvement in advice offerings year over year in each category. Criteria to earn the 5 rating in the Hearts & Wallets rating scale becomes more rigorous year to year, as the industry makes enhancements, raising the overall standard for advice experience offerings. In a major step forward this year, most experiences have adopted the best practice recommended in last year’s study of planning at a household instead of only an individual level. Five years ago, acknowledging some consumers want to work part-time in “retirement” was enough to be distinctive. Now, the majority of experiences are capable of accounting for some part-time work.

### Best Practices

The study offers best practices in all four major categories reviewed – customer experience, quality of recommendations, format, and process and resources. One best practice is to avoid a prediction of success or failure. An even better experience is to show how to achieve success or how to improve, which is most often offered by full-service firms and new entrants. Other best practices include addressing the spouse, Social Security, retirement age and life expectancy, and being clear about “retirement” income and assets being in today’s or tomorrow’s dollars.

### Putting the Robos in Market Context

The study provides a competitive framework to classify new entrants within the marketplace among traditional providers and other new competitors. The “robo-advisory” term leads to confusion. New entrants heavily use technology, but do so in a variety of ways to meet diverse consumer needs. “‘Robo-advisor’ is a term we dislike for its intellectual sloppiness,” explains Varas. “We prefer ‘new entrants.’ The new entrants are disrupting on what we call the *New Needs Framework*, in which the two classic needs of *Plan* and *Invest* are being filled out in the middle with *Support Action* and *Aggregate*.”

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## Full-Service Firms Again Lead Advice Experience/4

**Personal Capital** offers personal contact with a financial professional and competes in full-service at a price of about 85 basis points (bps). **Betterment** is a self-service option at about 35 bps. **Motif** is also a self-service offering but with vastly different positioning than Betterment. For example, using one of Hearts & Wallets' Six Positioning Dimensions, another technique to understand how new entrants are disrupting, Motif and Betterment are on opposite ends of the *Set-it-and-Forget* vs. *Engage* dimension. **HelloWallet** operates primarily as in-plan. **FlexScore** represents the prelude-to-a-sale category with its financial wellness score and referrals to advisors.

"New entrants are driving pricing transparency and delivery of previously inaccessible services to consumers of certain ages and asset levels," Varas said. "Where new entrants will see the most growth is in meeting unmet needs in areas of motivational support and aggregation. Much remains to be done to satisfy the unmet investor need for support action—which may eventually carry a price on a broad scale—and no one has fully disrupted aggregation. When custody is separated from advice, the industry will change as dramatically as it did with the first fund supermarkets."

### About the Hearts & Wallets Study

#### Methodology

Part of the Hearts & Wallets competitive landscape series, *Inside Advice 2015: Early Career Millennials, Rise of the Robos & the Keys to Building Better Products & Advice Platforms* assess the advice and guidance experience market through the eyes of a hypothetical customer (millennial couple in 2015). More than 40 advice experiences are assessed using 120 factors in four categories – customer experience, quality of recommendations, format, and process and resources. Three techniques are used to obtain advice experiences: signups for publically available experiences, payment of flat fees and confidential submissions from individual firms. There is no mystery shopping and no funding of investment accounts out of respect for compliance considerations and the time of financial professionals. This also ensure more objective comparisons. Hearts & Wallets does not have a financial interest in rating any one experience better or worse than any other and allows subscribers to quote the study in advertising and press remarks.

The study works in concert with the firm's qualitative, quantitative, market sizing research offerings to deliver a full picture of consumer behavior and buying trends to its clients. The **Hearts & Wallets Investor Quant (IQ) Database™** is the deepest and broadest single dataset on retail investor buying patterns and U.S. family finances. Annual data collection from about 5,500 U.S. households fuels the IQ database while the **Explore Qualitative™** consumer focus groups conducted throughout the year identify emerging investor trends to keep Hearts & Wallets clients on the cutting edge of shifts in consumer opinion.

### About the Hearts & Wallets®

Hearts & Wallets LLC is the preeminent financial research platform for consumer savings and investing insights that inspire innovation, inform choice and modify behavior. Most of the top 10 retail financial services firms, in terms of assets under management and investors served, subscribe to the syndicated Hearts & Wallets Investor Quant (IQ) database engine platform with data on 35,000 U.S. households over six years. The firm's integrated research platform combines consumer marketing and strategy frameworks with a deep, practical understanding of how the investment, retirement and banking industries function. Hearts & Wallets grows financial services client businesses by illuminating new, smart ways to truly help American savers and investors. Clients better understand the unmet needs of distinct population segments, improve their products and services, gain a powerful competitive edge, and ultimately, enhance consumer lives. The company is headed by two of the leading research experts in retirement market trends for the financial services industry, **Chris J. Brown** and **Laura Varas**. Their studies and conferences are must-have resources for retirement industry strategists, product managers and marketing and sales executives. For more information, visit [www.heartsandwallets.com](http://www.heartsandwallets.com).

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