



Digital distribution

Customer experience:
Integrate digital technology to
personalize every touchpoint



In the decade-plus since the global financial crisis the needs and expectations of financial services consumers have changed considerably. The question is, are asset and wealth management firms making the necessary infrastructure and technology enhancements to keep pace with evolving buyer demands?

As investors, the expectations of financial services customers, particularly the Millennial and Gen Z cohorts—both digital natives—have been shaped by social media, as well as their experiences with companies in other industries, notably online retail. Beyond being **digitally enabled**, in most instances those interactions have been personalized, anticipatory, and transparent.

Customer experience must go hand-in-hand with product

With the exception of deep investment and tax knowledge—which should be table stakes—these qualities historically have not been hallmarks of the asset management space. Rather, the focus has been on product-driven differentiation, rather than client experience. Asset management firms are generally a step removed from the client. With the exception

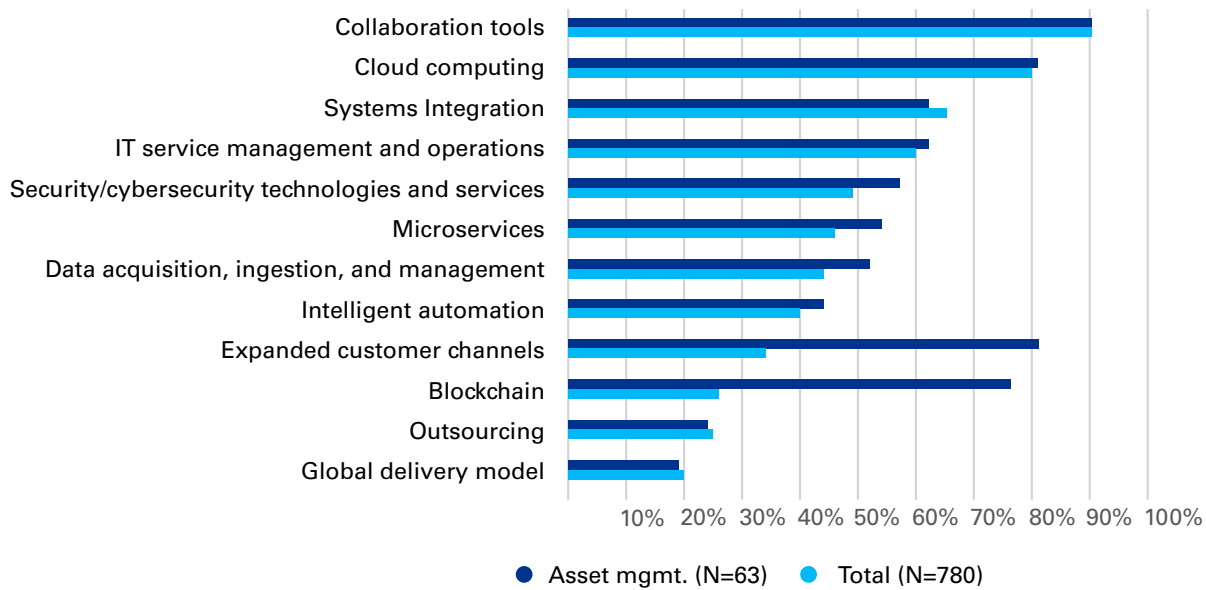
of direct-to-consumer-models, asset managers distribute product to investors through wealth managers, who in turn must create differentiated experiences for their clients.

If you don't have the product, customers will not come to you in the first place. If your product set doesn't adequately cover the universe of asset classes or performance is suboptimal, there is no way you can reasonably expect to garner and sustain more customer traffic than the competition.

In reality, there is not a lot of differentiation between asset managers and therefore customer experience is critical. That's where customer experience comes into play. Today, investment management organizations are focusing more on digital investments that are distinctly customer-centric, from collaboration tools and cloud computing to blockchain and cybersecurity.



The pandemic inspired asset managers to implement a broad array of digital technologies



Source: A commissioned study conducted by Forrester Consulting on behalf of KPMG of 780 professionals in 10 countries across 12 sectors, including asset management, who are involved with digital transformation strategy, July 2020

An industry in adapt mode

The industry overall is striving to adapt to the new reality. There are few, if any, asset or wealth management firms that don't have a significant ongoing **digital transformation initiative**, where they're building modern technology stacks, centralizing their data, and developing **digitally enabled distribution** networks in an effort to create these types of experiences. And they're taking similar approaches, looking to create personalized journeys designed to keep clients engaged.

To that end, many large asset managers are partnering with or acquiring fintech firms to provide advisers with a clear personalization capability. They recognize that they can no longer simply offer a new '40 Act mutual fund and count on advisers to distribute it. They must do more to provide access to customizable solutions and alternative investments. Bottom line, asset managers—and, similarly, wealth managers—are on a quest to differentiate their product offerings and, in the process, differentiate themselves.

And while 70 percent of financial services CEOs believe **customer engagement** will be done predominantly via virtual platforms in the future,¹ the underlying impetus for digital transformation among asset and wealth managers is more of a mixed bag. As illustrated below, a considerable

number of firms say their digital transformation efforts are geared toward strategic growth, while considerably smaller numbers of firms view it either tactically or simply a natural evolution.

Organizations are focused on digital transformation, but motivations diverge



Source: KPMG analysis; a commissioned study conducted by Forrester Consulting on behalf of KPMG, July 2020.

Know what customers want—and need

For these firms, creating a positive and sustainable experience starts with understanding the various customer personas—asset managers need to know the different types of advisers and the nuances of their books of business; similarly, wealth managers must get inside the investor and their goals, needs, and expectations.

The key outcome is ensuring that the voices of these customers are heard, and their concerns and priorities are addressed at every touchpoint.

Direct Indexing: An example of “voice of the customer” investing for product realization

Direct Indexing vehicles—typically available as customized separately managed accounts (SMAs)—feature a process of applying investors’ goals, beliefs, restrictions, and preferences into portfolio construction. The starting point is a common or proprietary index, which is customized to create a portfolio that meets the requirements of an individual investor. For example, assume an investor has specific ESG-based preferences. Starting with the S&P 500, a Direct Indexing approach could produce a customized model of 30 stocks that addresses the client’s request to replace tobacco companies with new green energy companies.

To operationalize this capability, you need to continue to evolve your technology infrastructure by building or purchasing the relevant tools, or link up with a fintech firm—find a way to expand your service partner ecosystem. And most importantly, prepare your organization to respond with greater agility and speed to changing market dynamics. While these are all viable strategies, we believe wealth and asset managers must play a “long game” in developing a customer experience characterized by personalization.

According to Cerulli, Direct Indexing SMAs held approximately \$363 billion in AUM as of March 31, 2021. Cerulli projects direct indexing assets to increase at an annualized rate of 12.4 percent over the next five years, outpacing ETFs (11.3 percent), separate account programs (9.6 percent) and mutual funds (3.3 percent).² It is still early days in the adoption of Direct Indexing, but these products present an immediate opportunity for wealth and asset managers to expand into a new, rapidly growing category that leverages much of what investment management firms already do well today: build investment portfolios.

Working together

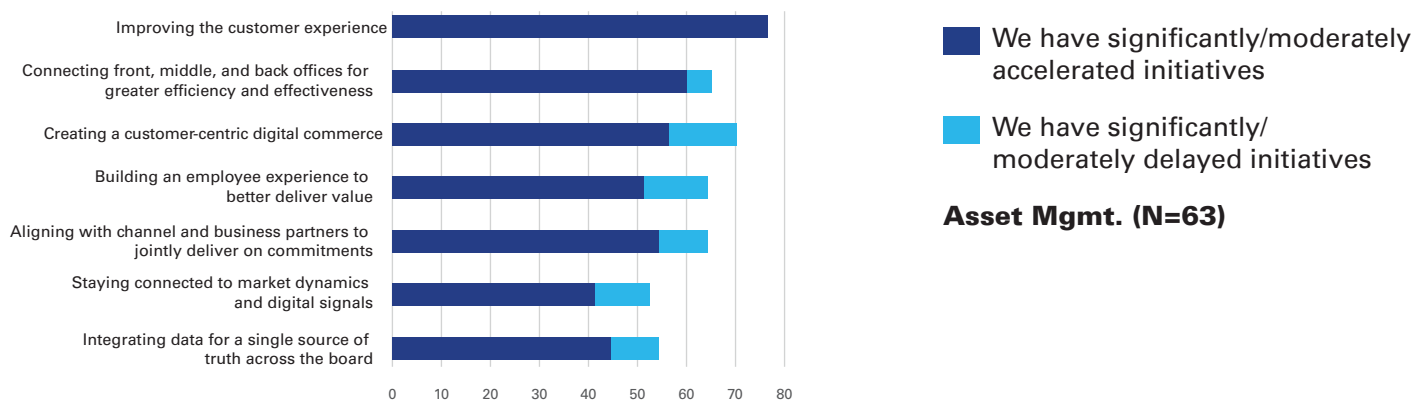
The wealth manager’s ultimate goal is to help clients achieve better investing outcomes. In this process, the asset manager’s goal is to help wealth managers pursue that objective by providing access to customized, easy-to-construct portfolios. Inherently, wealth managers gravitate toward asset managers that provide differentiated, value-added services.

To more effectively identify and respond to customer needs, and ultimately produce personalized experiences that delight, reflect the brand’s value proposition, and help position

the overall portfolio of products and services as differentiated, companies on both sides of the equation must get technology, data and analytics, and talent right.

These elements are not islands unto themselves—they’re interconnected. Clearly, the concept of customer experience is supported by data and analytics. In turn, data and analytics are supported by infrastructure and technology. Collectively, they contribute to a solid, unified digital distribution framework through which asset and wealth managers can work together to deliver personalized client experiences and customizable products.

The pandemic changed asset manager’s priorities, with customer experience rising to the top



Source: A commissioned study conducted by Forrester Consulting on behalf of KPMG of 780 professionals in 10 countries across 12 sectors, including asset management, who are involved with digital transformation strategy, July 2020

¹KPMG 2021 CEO Outlook Pulse Survey of 150 Financial Services CEOs in 11 key markets.

²Cerulli Associates, *Improving Client Experience: Customizing with Direct Indexing*, August 2021. Assets are limited to retail U.S. clients. Figures do not include institutional assets, global (multinational) accounts, or bank trust accounts.

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