

Business Transformation: Navigating a Path Forward

Summary Guide

The financial services industry is undergoing sweeping transformation, presenting challenges and opportunities. How can the financial services industry capitalize on these opportunities to reinvent itself and remain relevant to investors?

Business Transformation: Navigating a Path Forward, commissioned by BNY Mellon's Pershing and produced by Aite Group, identifies what financial services firms and financial professionals are doing to address an evolving regulatory, industry and socio-economic environment.

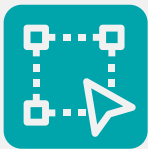
Aite Group interviewed broker-dealer senior executives and surveyed 290 financial professionals from broker-dealers, banks, insurance firms, and RIAs. Five key themes emerged.

Five key themes of business transformation



Evolution of the Business Strategy

Industry changes and new regulation over the last decade have altered the financial services landscape and include new perspectives on growth, major structural changes as well as modified product lineups.



Transformative Regulation

The complexities of an evolving regulatory environment pose significant challenges for the financial services industry.



Technology Transitions

While making technology changes to address regulatory requirements, firms have used this opportunity to enhance technology that also supports broader key initiatives.



Evolution of the Financial Professional Role

Business transformation in the financial services industry is inspiring an evolution of the role of the financial professional.



A Changing Financial Professional Landscape

As the role of the financial professional changes, successful financial institutions are taking an active part in providing the support and tools they need to remain competitive.

In collaboration with

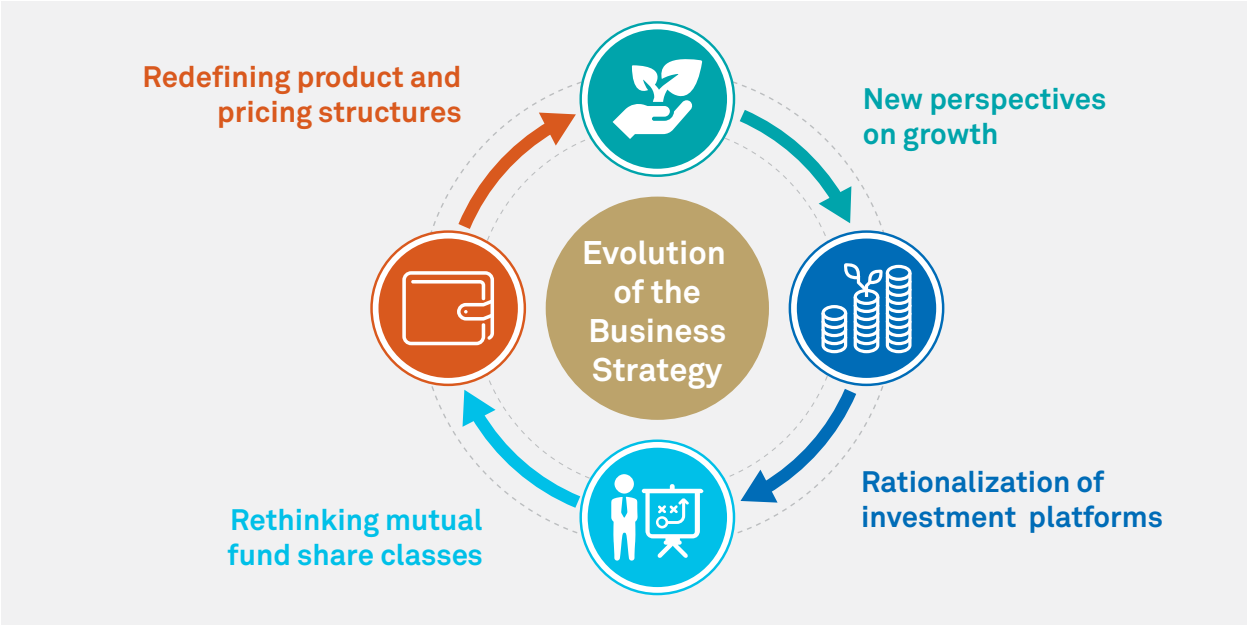
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1. Evolution of the Business Strategy

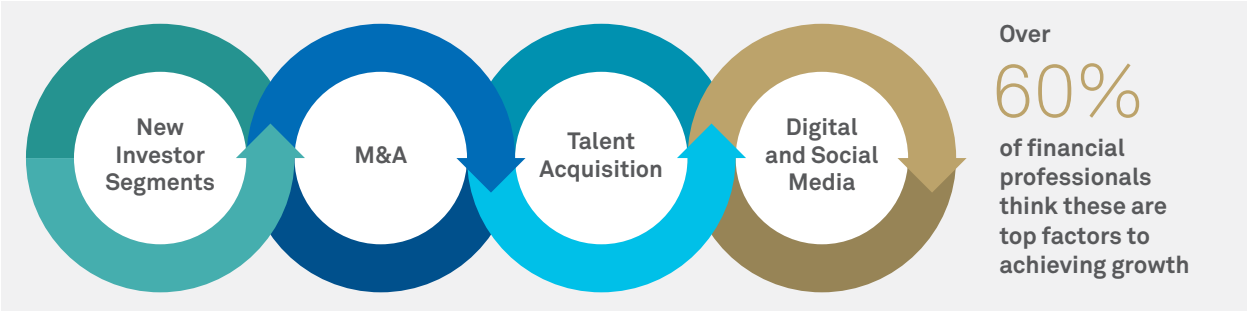
Industry changes and an abundance of new regulation over the last decade have altered the financial services landscape.



New perspectives on growth

Most financial professionals agree that attracting new investor segments as well as developing digital and social strategies are important to achieving growth. In digital engagement, Millennials (those born between 1982 and 1999) are a clear target for front-line financial professionals. More traditional growth through mergers and acquisitions, as well as strategic talent acquisition for financial professionals was also cited.

Methods for growth



Source: Aite Group's survey of 290 financial professionals, July 2017

The research indicated that despite financial professional focus on Millennials, broker-dealer executives do not specifically emphasize this group.

Rationalization of investment vehicle platforms

Many broker-dealer executives are still undecided regarding investment products until regulation—or deregulation—settles. There are several factors that now come into consideration beyond share class selection that impact an investment platform, including:

- › Meeting best interest standards
- › Level compensation
- › Impartial conduct standards

Of importance is the desire to minimize the impact on the firm’s clients and financial professionals—all against a backdrop of firm profitability. Product decisions will therefore continue to evolve over time.

While mutual funds are a mainstay and exchange-traded funds (ETFs) continue as favorites, broker-dealer executives said that insurance products and alternatives are important going forward.

Rethinking mutual fund share classes

Broker-dealer executives may wish for industry standardization regarding share classes but readily acknowledge that it is unlikely to occur. Opinions from broker-dealer executives on mutual fund share classes ran the gamut from “too many and too confusing” to “all share classes have value in various situations.” At this time, there is no consensus on the direction of future usage.

Many broker-dealer executives feel there are enough existing share class options to meet their clients’ needs.

2. Transformative Regulation

Managing the regulatory environment amid legislative and economic uncertainty is no easy feat.

Top ways regulation is transforming the industry



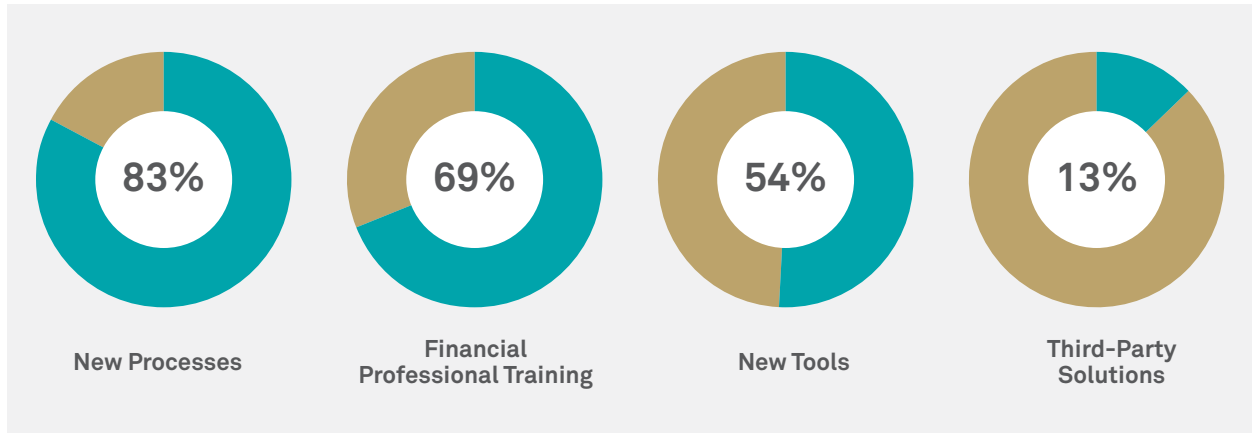
Source: Aite Group’s survey of 290 financial professionals, July 2017

Broker-dealer senior executives claim that growing the investment advisory business is a top priority.

DOL Conflict of Interest (Fiduciary) Rule

Overwhelmingly, broker-dealer executive interviews named the DOL Conflict of Interest Rule, commonly referred to as the fiduciary rule, as the number one regulatory pain point.

How firms are addressing regulatory requirements



Source: Aite Group's survey of 290 financial professionals, July 2017

Despite delays to compliance with the DOL rule, a fiduciary mindset is here to stay.

As of this writing, the DOL is seeking a delay of the transition period end date until mid 2019. For some firms, certain actions will be postponed indefinitely until the firm is confident of the rule's course. In the meantime, the Impartial Conduct Standards requirement of the rule still applies.

SEC uncertainty regarding fiduciary regulation



The SEC has authority under the Dodd-Frank Act to establish a uniform federal fiduciary standard for broker-dealers and financial professionals and is currently conducting its own examination of the standards of conduct and soliciting feedback from the industry.

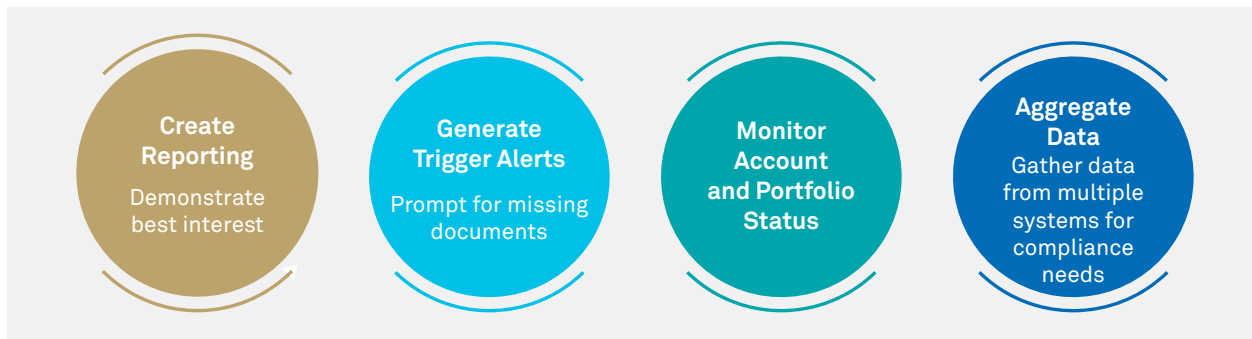
Overall, senior broker-dealer executives interviewed prefer a single standard of care for all retail and retirement accounts. The expectation of those interviewed is that the SEC would take the lead to provide a more universal standard of care for all account types. Only time will tell where the two regulatory agencies net out.

3. Technology Transitions

While making technology changes to address regulatory requirements, firms have taken the opportunity to enhance technology that also supports broader key initiatives.

Compliance and oversight enhancements

Financial institutions are focused on building technology to help the financial professional make the best investment recommendations from a compliance and oversight perspective. Technology changes enable firms to capture more client information and interactive data to:



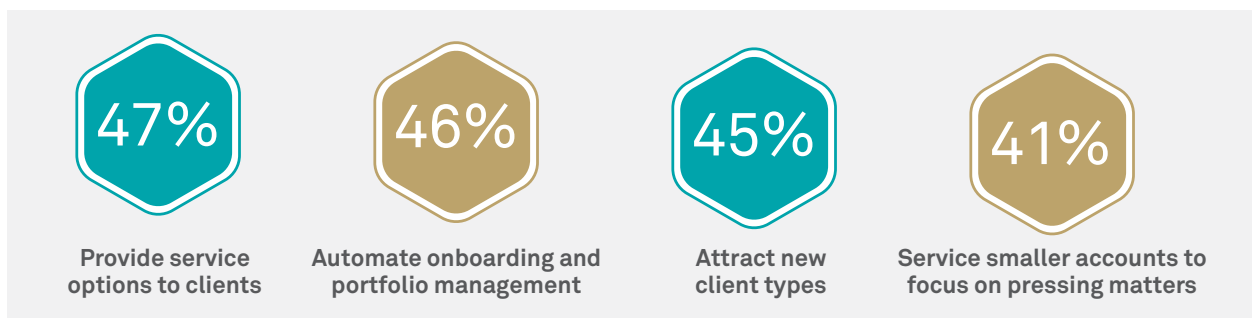
Regulatory pressures have meant faster approval processes of changes and additions to the technology stack.

Going digital

While making technology change to address regulatory requirements, firms have seized the opportunity to provide financial professionals with new digital engagement platforms that deliver:

- › Better online and collaboration tools
- › Improved dashboards
- › Enhanced client-facing platforms

Top reasons financial professionals use digital engagement platforms



Source: Aite Group's survey of 290 financial professionals, July 2017 (n=220)

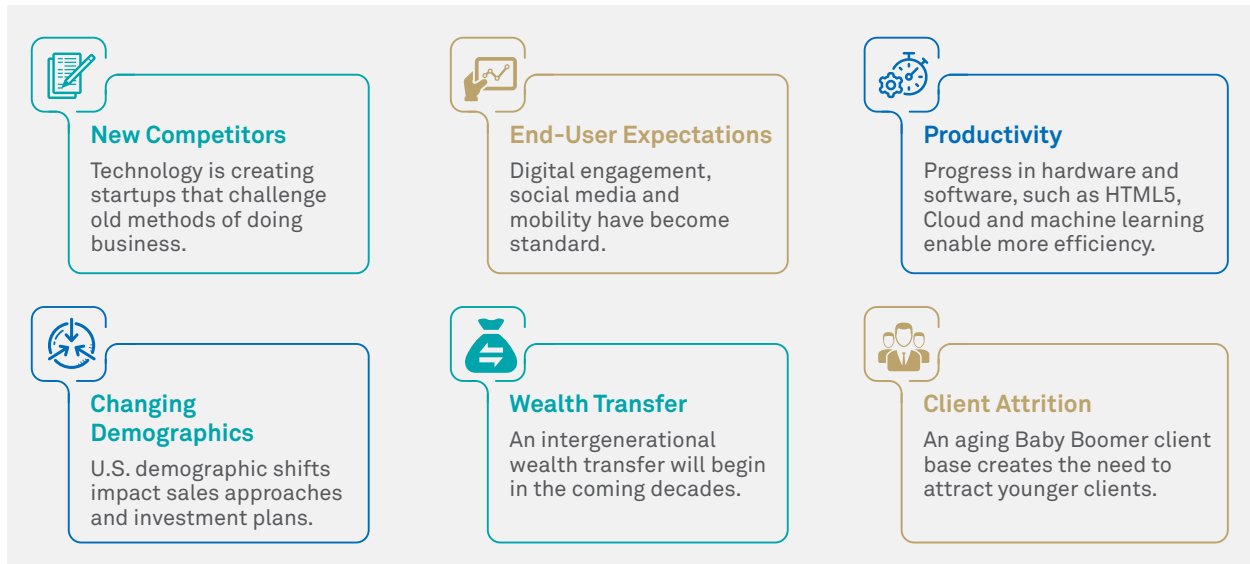
Broker-dealer executives state that home-office approaches to digital engagement platforms vary. Firms may use proprietary technology, purchase a digital solution from a vendor or third party, or deploy a combination of both build and buy.

4. Evolution of the Financial Professional Role

Transformation in the financial services industry is inspiring an evolution in the financial professional role. Broker-dealer executive interviews suggest there is a growing need to substantiate the value of financial professionals and the various types of support they provide their clients.

Enhancing the value proposition

Business evolution is gaining speed as an information-based society grows in sophistication, the financial services business attracts new and varied firms and investors ultimately find more choices at hand. For financial professionals who can enhance their value proposition, potential opportunity awaits.

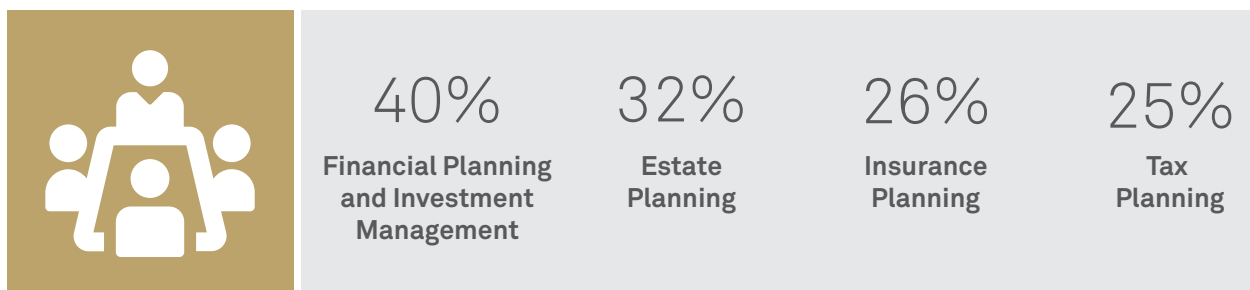


Source: Aite Group's survey of 290 financial professionals July 2017

Reviewing the service model

Aite Group asked financial professionals about services currently offered and what services they plan to add over the next 12 months.

Top services being added by financial professionals

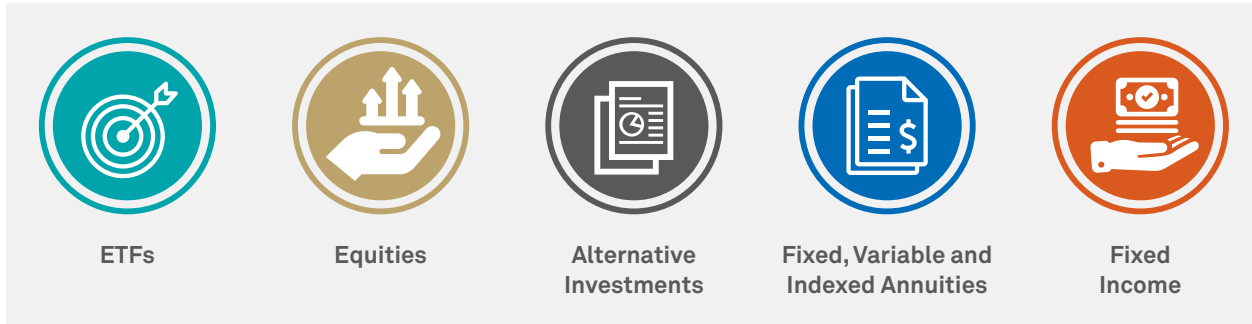


Source: Aite Group's survey of 290 financial professionals, July 2017 (n=290)

Assessing investment vehicle usage

Overall, financial professionals are utilizing the full spectrum of investment vehicles to meet investment goals, with mutual funds having long been a dominant player. In the future, ETFs will be very important. Annuitizing assets, however, is likely to take a more prominent position for retirees going forward as doubts about Social Security and rising healthcare costs continue to be serious threats to retirement income.

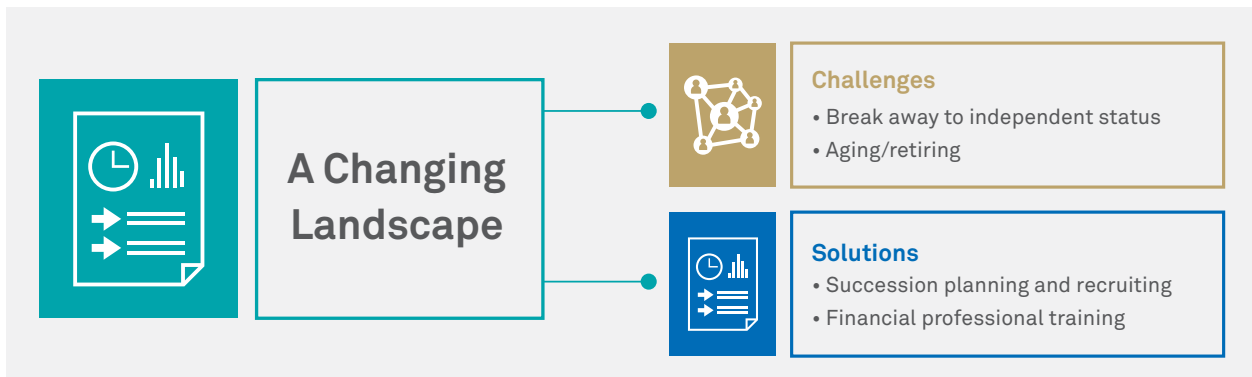
Top investment vehicles for the future



Source: Aite Group's survey of 290 financial professionals, July 2017 (n=290)

5. A Changing Financial Professional Landscape

Firms are facing increasing challenges particularly around attrition, as financial professionals break away to independent status—seeking a more entrepreneurial opportunity and potentially higher compensation.



In addition, an aging financial professional population is witnessing higher attrition rates due to the complex regulatory environment.

Succession planning is a critical concern of financial firms, as is attracting and training new financial professional talent. Building a financial professional force for the future has firms taking multiple approaches to hiring.

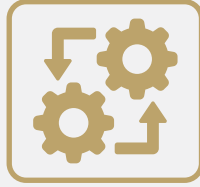
Regardless of the recruitment effort, respondents show a commitment to the business, equating business transformation with opportunity.

Financial professional training

A critical impact of all this change is the need for ongoing education and training to support financial professionals. Training needs include:



Onboarding newly recruited financial professional talent



Proprietary investment model and recommendation process



New products, including any potential new share classes



Ongoing regulatory and compliance policy and process changes



New technology tools, including online tools and improved dashboard and client-facing platforms

What Does Transformation Mean for Your Business?

The evolving industry landscape has forced firms to rethink every aspect of their business—from changing business strategies to sales practices and supervisory oversight. What are you doing to remain relevant in today's challenging environment? Some questions to consider:

- › Are you engaging with your clients to provide them with the most meaningful experience?
- › Are you leveraging regulatory technology investments to enrich your client interactions?
- › Have you looked to your existing business providers for solutions to support your transformations?
- › Do you have the right tools, training and education in place to enhance your value to clients?

To review the full research report, visit Pershing.com or Marketing Center in NetX360®.

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