The Future Client is Female: How to Address The Needs of This Large Market

THE AMERICAN COLLEGE
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CENTER FOR WOMEN
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THE CURRENT DYNAMICS

For many years, financial advising has been a male-dominated profession. Male advisors are the norm – only around 15% of advisors across channels are women,[1] although women make up almost 51% of the U.S. population – and males also tend to dominate the profession's clientele; even among married couple clients, the advisor's primary relationship tends to be with the male spouse.

The environment that gave rise to this situation, however, is changing fast. Already, women constitute a major – and largely untapped – market for financial advice, and their appeal as clients and their need for advising services is likely to grow rapidly over the next few decades.

A number of factors are driving this growth. Among wealthy Baby Boomer clients, for example, there is likely to be a significant transfer of wealth in the next few years from the hands of Boomer males to their surviving spouses, making these women attractive potential clients.

Among younger people, meanwhile, the proportion of women in the workforce is higher than it was for older generations, and young women are more likely to hold college degrees than young men, suggesting robust earnings potential. The prevalence of divorce has also created many women-headed households.

Thus, women form a large and potentially affluent market for financial advice. However, many remain unadvised either because they are not being targeted by advisory firms or because they do not find the available advisory services appealing or compelling. In other words, while women represent a significant market opportunity for the industry, they are generally overlooked and underserved.

So far, wealth managers and advisory firms have been slow to respond to the demographic and social changes that are transforming the market for financial advice and many are missing out on the opportunity that women represent.

This is because while women generally need the same basic services as men – and expect the same baseline levels of competence, professionalism, and knowledge from their advisors – they have some distinctive preferences and needs that firms have, so far, been slow to meet.

At some firms, however, recognition of this opportunity is forcing leaders to reevaluate their approach, and there are important lessons to learn from these trailblazers.

Looking ahead, firms that wish to grow and thrive in a changing world must adapt to changing demographic and economic trends, building their practices and honing their processes to attract and better serve women while retaining their male clients.

[1] McKinsey. Women as the next wave of growth in U.S. wealth management. July 2020.

THE MARKET OPPORTUNITY

Over the last 50 years, a number of demographic and social changes have reshaped the U.S. population.

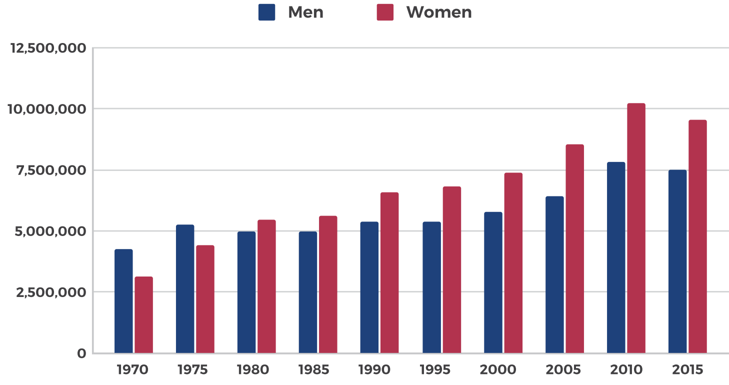
> **Today, women are working more, earning more, owning more, and making more financial decisions than at any point in America's history.**

Let's explore some of the changes that are driving this compelling market for financial advice.

Education & the Workplace

Women in America have a growing educational advantage over men. Since the 1980s, women have represented the majority of college enrollments (see Figure 1). Women are also more likely to graduate than men. The Department of Education reports that, of the cohort of college students that enrolled at four-year institutions in 2012, 48% of women had graduated within four years, compared to only 38% of men.[2] After six years, 65% of women had graduated, compared to 59% of men.[3]

Figure 1: **College Women Outnumber College Men**

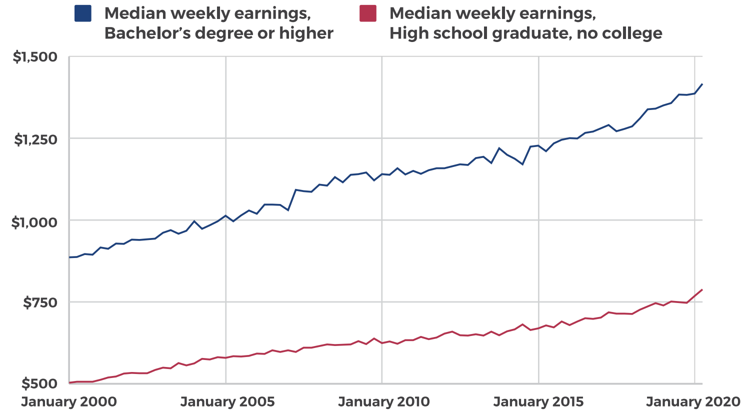


National Center for Education Statistics. Digest of Education Statistics. 2019.

As a result of these factors, women today are, on average, more educated than men. The most recently available data indicates that, in 2017, there were 24.3 million women with bachelor's degrees, compared to 21.9 million men, and 11.5 million women with master's degrees, compared to 9 million men.[4] More men have professional degrees than women (1.7 million versus 1.4 million) and PhDs (2.4 million versus 1.7 million), but the trendlines indicate that American women are closing the gap in those areas too.[5]

This has had significant consequences for the workplace. In general, people with a bachelor's degree or higher tend to have higher employment rates than their less-educated peers, and they typically earn more too – college graduates earn, on average, 80% higher wages per week than high school graduates, and this gap has persisted and expanded even as college enrollment has risen (see Figure 2).

Figure 2: **College Graduates Earn More**



National Center for Education Statistics. Digest of Education Statistics. 2019.

All of these factors mean that today, although women make up a smaller proportion of the total workforce than men, women make up slightly more than half of the more affluent college-educated workforce.[6] While wage gaps persist, these have shrunk as women move

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[2] National Center for Education Statistics. Digest of Education Statistics – Graduation rate from first institution attended for first-time, full-time bachelor's degree-seeking students at 4-year postsecondary institutions, by race/ethnicity, time to completion, sex, control of institution, and percentage of applications accepted: Selected cohort entry years, 1996 through 2012. 2014.
[3] National Center for Education Statistics. Undergraduate retention and graduation rates. 2014.
[4] U.S. Census Bureau. Educational attainment in the United States: 2017. December 2017.
[5] U.S. Census Bureau. Educational attainment in the United States: 2017. December 2017.
[6] Pew Research Center. U.S. women near milestone in the college-educated labor force. June 2019.

into traditionally better-remunerated, male-dominated professions reserved for educated workers.

As college-educated workers generally comprise the bulk of an advisor's pre-retirement clientele, women are now at least as important a potential client pool as men.

Evolving Family Structures

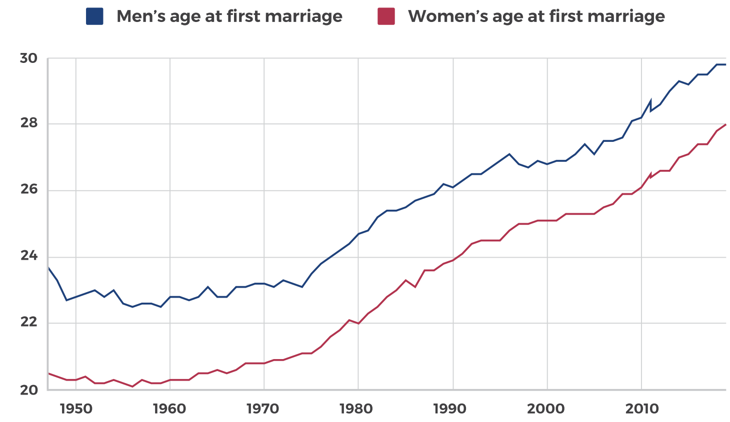
Beyond the workplace, the structure of American families is changing too. From divorce to late marriage to increased longevity, a range of social changes has transformed how American families look and who controls the family finances.

Senior couples, for example, are experiencing a significant shift. Around 70% of affluent households' investable assets are controlled by Baby Boomers – two-thirds of which are held by joint households, generally married couples where the wife is not actively involved in financial decisions.[7] Over the next decade, these joint households' assets – an estimated $11 trillion – will change hands and in many cases, will pass to the control of the female spouses.[8] Women live longer than men, and in many Boomer couples, wives are younger than their husbands, meaning that they will be in sole control of the family assets for some years. Indeed, McKinsey estimates that by 2030, women are likely to control the majority of the $30 trillion in assets owned by Baby Boomers.

Many of these Boomer women currently work with an advisor. However, those advisors were generally hired by their husbands and there is no guarantee that these women will retain their current advisors after their husbands' deaths. They, therefore, represent a significant market opportunity for advisors and wealth managers.

Among younger people, meanwhile, social changes are also putting women in control of assets. Americans are marrying later in life, which means that both men and women have a longer period of solo asset accumulation before they marry (see Figure 3). Further, many marriages end in divorce.

Figure 3: **Late Marriage Leaves More Time for Solo Asset Accumulation**



U.S. Census Bureau. Age at first marriage by sex. November 2019.

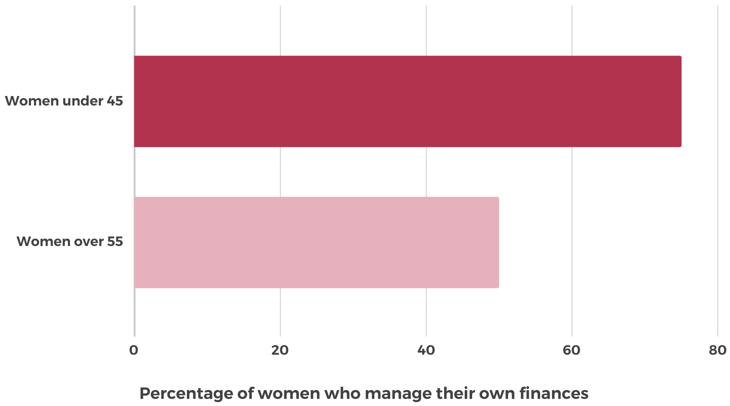
These social trends mean that single women are increasingly heading up households and controlling decisions about household assets. This reality is increasingly reflected in the statistics – the National Association of Realtors, for example, notes that in 2019, single women made up 18% of homebuyers versus 9% for single men (and 63% and 8% for married and unmarried couples respectively).[9] Single women make up the fastest-growing segment of homebuyers, and similar trends may be present in other asset markets.

Meanwhile, among married couples, there is evidence that financial decision-making is more equally shared in younger generations than was the norm for Boomers – one study, for example, found that married women under 45 are twice as likely to say that they are the primary financial decision-maker in their household than married women over 45.[10]

This suggests that advisors must make an effort to build relationships with the women among their married couple clients, rather than focusing solely on the males – and this fact will become ever-more relevant as assets pass from Boomers to their Millennial children over the next few decades (see Figure 4).

[7] McKinsey. Women as the next wave of growth in U.S. wealth management. July 2020.
[8] McKinsey. Women as the next wave of growth in U.S. wealth management. July 2020.
[9] National Association of Realtors. 2019 home buyers and sellers generational trends report. April 2019.
[10] Merrill. Creating a better financial future for women. July 2020.

Figure 4: **Younger Women Are More Likely To Control Their Own Money**



Merrill. Creating a better financial future for women. July 2020.

Even though women control a large and growing pool of assets and increasingly either have sole responsibility for household finances or actively share in the decision-making, they remain underserved by the advisory industry. Fewer women work with financial advisors than men, and many are skeptical of financial advisors and are unhappy with their services.[11] This is illustrated by the fact that 70% of widows switch their wealth management relationship to a new institution within one year of their spouse's death, strongly suggesting that these women feel that their advisors are failing to meet their needs.[12]

> **Oliver Wyman estimates that financial services firms are missing a $700 billion revenue opportunity each year by failing to meet women's needs.[13]**

If women's asset allocations mirrored men, wealth and asset management firms would generate an additional $25 billion in fees in the first year alone.[14] Similarly, McKinsey estimates that firms that simply retain their Baby Boomer women clients could see one-third higher revenue potential, while firms that acquire and retain younger women – especially Millennials – as clients could see their revenue grow up to four times faster.[15]

In short, women represent an enormous opportunity for financial advisors – if they are willing to do what is necessary to capitalize on it.

BUILDING A WOMEN-FRIENDLY ADVISING BUSINESS

When advisors wrestle with the question of how to attract more female clients, they often start with a faulty premise – the assumption that women differ radically from men when it comes to their expectations and needs.

In reality, much of what men and women expect from their advisors is the same – they expect competence, professionalism, knowledge, clear communication, and good service. However, these qualities are necessary but not sufficient to attract female clients. Women have distinctive preferences in many areas of the client experience and understanding this and adapting to it is crucial to success in this market.

What advisors get wrong

When it comes to working with women, advisors make many common mistakes.

Perhaps the most serious is either overlooking or patronizing women they serve. When working with married couples, for example, advisors tend to focus their attention on the husbands and pay less attention to the wives. Eye-tracking studies indicate that in a typical session with a married couple, an advisor will spend 60% of their time focused on the male spouse and only 40% of their time on the woman.[16] This may be one reason why so many widows change advisors after their husbands die.

[11] Forbes. What women want in a financial advisor. May 2018.
[12] McKinsey. Women as the next wave of growth in U.S. wealth management. July 2020.
[13] Oliver Wyman. Serving women as financial services customers. 2020.
[14] Oliver Wyman. Serving women as financial services customers. 2020.
[15] McKinsey. Women as the next wave of growth in U.S. wealth management. July 2020.
[16] Merrill. Seeing the unseen: The role gender plays in wealth management. July 2020.

Advisors also often make erroneous assumptions about women. After observing a large number of advisor meetings with married couple clients, Merrill noted that the most frequent errors were:[17]

1. Assuming a man is the decision-maker
2. Assuming a woman wants direction
3. Assuming that a couple's finances were merged and jointly invested
4. Assuming that women are more risk-averse
5. Assuming that women are less knowledgeable than men about investing

Advisors who make these assumptions without properly assessing their clients as individuals will offend and annoy many women, and studies show that women are more likely to switch or walk away from advisors after a bad experience than men are.[18] When women feel patronized or unheard, they are likely to walk away from a potential advisory relationship – and the advisor may never know what happened.

Box 1: **Case Study**[19]

Vivian did not participate in the investment process while her husband was alive and was thus overwhelmed upon his death at age 71. When their financial advisor – who her husband had hired – called, she was relieved. She assumed that with his help she could learn how to look after her assets.

But when they met, she was told, "Here's how I do business. I invest the money on a discretionary basis and charge 1% at your level of assets. I'm very good at it but it takes up all of my time. If you have a question, you should call my admin assistant."

Given his dismissive attitude, she assumed that she did not have enough assets for him to bother with. So, she found another advisor – one who was willing to spend time to help her understand investing. As it happens, her account was worth $6 million.

A second common error advisors make is failing to approach women at all. Research indicates that men are twice as likely to be approached by a financial advisor than women are.[20] This may be because advisors have an "ideal client" profile that is male and thus fail to recognize the client potential in the women they encounter. By failing to update their ideas about the ideal client, advisors are missing out on a major opportunity.

What advisors can do better

When considering how to build a more women-friendly practice, it is important to start by separating myth from fact. For example, many advisors believe that women have a systematically lower risk tolerance than men. This is not entirely accurate, however.

In general, women tend to have more volatile income over their lives than men, because many take breaks from their careers for caregiving. This also means that they tend to build up smaller retirement accounts and often have lower net wealth than comparable males. In addition, women live longer than men and spend more time in retirement. Research shows that, after controlling for income volatility and net wealth, women's risk appetite is broadly comparable to that of men. In other words, women are not necessarily uniquely risk-averse – they simply have lower risk tolerances in line with their more volatile average lifetime incomes, lower average net wealth, and more intensive retirement needs.

As this example illustrates, it is important to think about women as individuals rather than as an undistinguished mass. Women are no more a homogenous group than men are. Each client – whether male or female – has a unique set of circumstances, needs, and preferences, and a good advisor must tailor their approach to the unique needs of each client. Thus, the first step to building a more women-friendly practice is to ensure that you treat each client – male or female – as a unique individual.

Myths aside, when it comes to women's distinctive preferences, we can identify some helpful issues.

[17] Merrill. Seeing the unseen: The role gender plays in wealth management. July 2020.
[18] EY. Women and wealth: The case for a customized approach. August 2018.
[19] Strategy Marketing. Financial advisors are failing women: What female clients really want and how to change the dialogue. 2016.
[20] Strategy Marketing. Financial advisors are failing women: What female clients really want and how to change the dialogue. 2016.

First, women tend to focus less on relative investment performance and more on personal financial goals.[21] While men tend to frame their needs in terms of market outperformance, women tend to identify specific goals and expect their advisors to help them reliably achieve them.[22] Women, therefore, prioritize having a financial advisor that takes the time to understand them and their goals and who can explain, in clear, direct, and transparent terms, how those goals can best be achieved.[23]

Trust and transparency are important to women. In general, women tend to be less confident about their financial knowledge than men, who often overestimate their own abilities.[24] Women, therefore, prefer advisors with whom they can build a relationship based on trust, mutual respect, clear communication, and honesty. Perhaps because many have experienced neglect or condescension from advisors in the past, women say that having an advisor that is a good personality fit is important to them.[25]

A key practical difference is that women tend to be more concerned about fees than men. While they are happy to pay for high-quality service, they prefer to know exactly how their advisor earns money and what fees they are paying.[26] Again, this is part of women's general preference for transparency, accuracy, and honesty – advisors should prioritize clear communication with female clients, and should take the time to ask and answer questions. Remember, women are more likely than men to walk away from an advisor if they have a bad experience.

The good news is that advisors who succeed in adapting to serve women will likely enjoy a boost in word-of-mouth – women that are happy with their advisors are more likely than men to recommend them to friends (70% versus 65%) and to follow them to a new firm (40% versus 30%).[27]

Finally, it is important to consider diversity at the firm level. Firms with a greater proportion of women advisors are better positioned to understand the needs of a diverse range of clients. While women do not generally express a preference for women advisors, there is reason to believe that women work better with other women. Studies show, for example, that women are 2.5 times more likely to say they are comfortable with taking investment risks when their financial advisor is a woman.[28] There are thus good reasons to increase the diversity of advising staff when seeking to recruit female clients.

THE WAY FORWARD

The key to building a women-friendly business is ultimately simple. Treat women clients well – do not overlook, patronize, or ignore them. Listen to them and understand their unique needs and expectations, and make sure to explain investment decisions and products in clear, accessible terms. Remember that the available product-selection or risk assessment process may not be genuinely "gender-neutral" – in practice, this usually means "designed for men, marketed to everyone." Product recommendations should align with clients' goals, not with a hypothetical desire for the best possible performance (or a real desire for the highest possible fees).

By treating clients with dignity, respect, and professionalism, advisors can build the types of relationships women prize, those based on trust, honesty, and transparency. Doing so is the recipe to delight not only your female clients but – research indicates – your male clients too.

Learn more about how The Women's Center is promoting the advancement of women in the financial services profession at WomensCenter.TheAmericanCollege.edu.

[21] McKinsey. Women as the next wave of growth in U.S. wealth management. July 2020.
[22] EY. Women and wealth: The case for a customized approach. August 2018.
[23] Forbes. What women want in a financial advisor. May 2018.
[24] McKinsey. Women as the next wave of growth in U.S. wealth management. July 2020.
[25] EY. Women and wealth: The case for a customized approach. August 2018.
[26] Forbes. What women want in a financial advisor. May 2018.
[27] EY. Women and wealth: The case for a customized approach. August 2018.
[28] Merrill. Seeing the unseen: The role gender plays in wealth management. July 2020.