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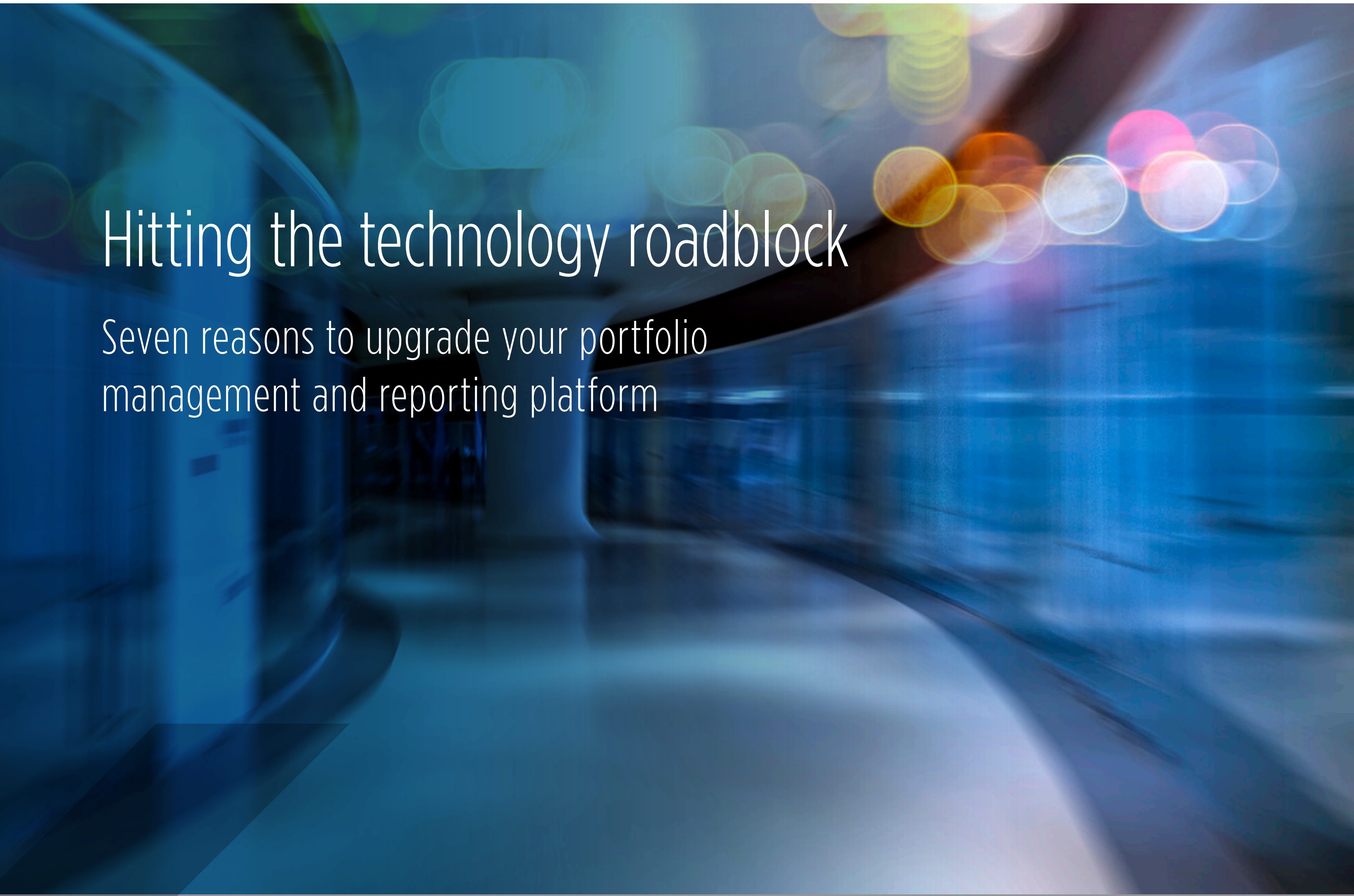

Hitting the technology roadblock

Seven reasons to upgrade your portfolio management and reporting platform

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This paper points out the perils for investment advisors of sticking with outdated technology. New technologies, particularly those that seamlessly and purposefully share data, present enormous opportunities for efficiency and enhanced client experience.

Technology waits for no one

As the wealth management industry undergoes rapid change, advisors need to constantly review their businesses, service offerings, infrastructure, and overall approach to ensure they are staying ahead of the curve.

Now, more than ever, advisors need to take into account the recent macro changes in technology, client expectations, demographics, and new emerging competition in their business plans. Whatever has made firms successful up to now won't necessarily get them where they want to be tomorrow.

Most people today are comfortable and expect an online or mobile experience for everyday conveniences. This includes financial information and advice.

Meanwhile, the massive baby boomer demographic—the historic sweet spot for advisors—is now rapidly making its way to retirement and transitioning from wealth accumulation to distribution, threatening the long-term sustainability of firms that have relied on this demographic for most of their growth. Advisors are trying to figure out how to serve the next, more tech-savvy generation of investors.

Add on top of these trends the emergence of low-cost, online robo-advisors—not just the small players, but the behemoth brands such as Schwab and Vanguard that are gathering billions in AUM in a matter of weeks—and pricing pressures on traditional asset management fees would appear to be right around the corner. Compounding this fee compression potential is a much more complex and costly operating environment driven by increased regulations, competition for talent, and a need to provide a broader service set to meet the changing needs of affluent investors.

When added up, these macro trends are putting pressure on advisors' ability to attract and retain the best clients, while serving them profitably. Industry experts agree that one lever advisors can push to solve this problem is to invest in technology to bridge the gap.

While the majority of firms count portfolio management and/or financial planning solutions as the hub of their technology platform (83% and 84% forecasted adoption by year-end 2017[1]), many firms haven't pieced it all together and may still be using spreadsheets on the side. According to The Kitces Report, a popular industry blog, Excel spreadsheets are still "incredibly popular" among financial advisors for everything from "specialized" analysis of a client situation to keeping track of specific workflows or even assessing business metrics.

Adding to this issue is that without the latest technologies, advisors risk falling even further behind. According to a study by global consulting firm Cap Gemini[2], 68% of high net worth investors expect their future wealth management relationship to be digital. Furthermore, nearly three-quarters of investors under the age of 40 say they are comfortable working with a virtual financial advisor[3].

So, what does this mean for independent advisors? Forward-thinking advisors are looking to enhance the client experience they are providing to include an integrated digital platform, designed to be mobile friendly and provide investor information beyond legacy portfolio management and performance reporting systems.

The good news for the industry is that there is a renaissance happening in advisor technology, corresponding with the growth of the independent advisor industry that can provide comprehensive solutions that create scale, efficiencies, an enhanced client experience, and a compelling return on investment.

If that is the case, why then, are so many advisory firms still stuck on legacy systems? How did the industry end up with this technology disconnect?

[1] *Investment News,* 2017 Adviser Technology Study

[2] *CapGemini,* 2016

[3] *McKinsey Group,* June 2015

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Contributing factors

The independent advisor movement really didn't get going until the mid-1990s. Mutual fund supermarkets and online trading were starting to become mainstream around that time, enabling independent advisors to begin leveraging these innovations through basic Internet technology and a fee-based pricing model to develop a sustainable business.

It was a fairly sleepy and fragmented emerging industry, typified by sole proprietors disenchanted with Wall Street's commission driven cultures.

Independents grew slowly, buoyed by sustained bull markets that hid many of the operational inefficiencies advisors were embedding into their firms through manual processes and spreadsheets. As their success grew, advisors began investing in desktop software platforms that, while manually-based, did provide needed efficiencies and ultimately became the operational backbone of most firms.

Despite the limited scalability of these systems, advisors stuck with them as they continued to benefit from client defections from Wall Street and a powerful baby-boomer growth engine as the massive demographic was hitting its peak-earning years.

Unfortunately, this market environment created many bad habits in practice management. Advisors began hiring more and more back-office and administrative staff to manage their business growth, yet did not invest in new technologies, but continued to Band-Aid their aging systems with workarounds, manual processes, and proprietary, hard-coded integrations.

As their back offices became more complex, it became harder to reengineer processes and invest in the latest technologies. Inertia caused by favorable market conditions became a powerful driver to continue the status quo and limit the ability to change without a massive effort.

Now, those days are over. There is a new sense of urgency for advisors to adapt to the massive changes in wealth management and consumer behaviors. Today's investor wants a digitally enabled experience that the emerging robo-advisors are offering—not necessarily the algorithmic portfolio management services, but rather the elegant interfaces, the ease of opening accounts online, and the convenience of information about their entire financial situation in one place, optimized for mobile devices.

The good news is that these same features and functionality are available in today's modern portfolio management and performance reporting systems designed specifically for independent advisors.

According to CEB Towergroup, "An advisory experience that is tailored to a client's individual circumstances and delivers action-oriented advice explains 54% of client loyalty. Additionally, 95% of high net worth clients who had a highly tailored advisory experience recommended their advisor in the last 12 months."[4]

Advisors need to adopt modern technology but also need to look at how the different pieces, from portfolio management to CRM to financial planning and more, integrate with one another. Only then can they provide a complete wealth picture to their clients while at the same time not suffering the consequences of manual processes.

[4] WMBO Top Technology Initiatives for 2015 in Wealth Management

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Seven reasons to upgrade your portfolio management and reporting platform

#1—Data management difficulties

Chief among the challenges is attempting to manage data across a firm using disparate systems that do not integrate with each other. Manually re-keying data between systems runs the risk of errors and inconsistencies, as well as inhibiting the ability to verify accuracy. If your platform does not eliminate manual processes, update all data with a single change across systems, or deliver timely reporting, then it is time for a change.

#2—Client communications

Investors today expect high-quality reporting that is clear, concise, and customized to their needs. They also expect to access it online and on their mobile devices when it's most convenient or comes to mind. They want real-time access to their data in an aggregated compelling view, using easy to read charts, graphs, and displays. They also want a cumulative, consistent experience in working with their advisors—they want to see the same information presented in the office when they're at home or on the go.

Today's modern systems leverage powerful document vaults and client portals with security features to seamlessly deliver information to clients quickly in a format they can access easily.

#3—Complex investments

With the growth in alternative investment usage by advisors and demand by clients, portfolios are becoming more and more complex. Portfolio management and performance reporting systems need to have advanced capabilities to be able to automatically incorporate data about fixed-income, alternative investments, and other hard-to-value products in order to provide an accurate picture of a client's wealth. Without this capability, firms are saddled with manual, offline processes in separate systems or spreadsheets. Significant time and resources are spent tracking down valuations and re-keying them into the system, which creates the risk of errors and inconsistencies.

#4—Lack of integration

Firms are likely using multiple systems to accomplish various business processes. There are efficiencies to be gained by integrating systems to share data seamlessly.

Top firms are using end-to-end portfolio management systems that consolidate the work of multiple systems into a single platform, built on open architecture that allows for easy integration with other capabilities, including CRM, financial planning, risk analytics, and more.

#5—Compliance and business risks

As today's regulatory environment becomes more complex, firms need to be able to respond to audits and information requests in a timely manner. In order to meet regulatory reporting requirements, firms need a core system that can automatically aggregate and standardize data from multiple sources. By eliminating manual efforts, firms save time and money, and have greater confidence they have accurate information, data integrity, and consistency, reducing not only compliance risk, but also operational risk.

#6—Support and service

When looking for technology partners, it's important to validate that their service and support will be there when you need them most. Can they provide front-line support and troubleshooting? Top firms focus on selecting vendors with proven track records, a history of service and support, and the ability to easily migrate to the newest versions.

#7—Evolution of the technology landscape

The one constant in technology is change. New platforms, new interfaces, new data management approaches—all of which continue to improve—are constantly moving the industry forward. Many legacy systems, however, are desktop and server based—an approach that requires investments in hardware, costly IT resources to update and customize, as well as ongoing maintenance to secure.

A solid cloud platform typically offers a streamlined IT infrastructure, scale, elegant user interfaces, strong security, minimal maintenance, simple integrations, and seamless mobile access. You'll also be able to count on them to constantly research the latest and greatest technologies and continue to innovate as part of their platform promise. Isn't that what a technology partner should do?

The good news is that advisory firms using the latest technologies enjoy enhanced productivity and profitability.

Key features of an advanced advisory platform

- Portfolio management, reporting, and rebalancing capabilities in a single platform with one login
- Extensive integrations with flexibility for a la carte or bundled solutions for CRM, financial planning, proposal generation and analytics
- Client portal, vault, and communications tools, tailored to specific needs of your clients
- High-quality daily aggregated and reconciled data to the asset level
- Alternative investments tracking and fixed income support
- Flexible, easy-to-use client billing
- Backing of high-touch service team

The way forward

As discussed throughout this paper, firms that focus on next-gen technology will experience better productivity across their office and have opportunities to improve client experience. As firms get to that next stage, they will need to keep going. More than ever, firms need to embrace technology solutions that help drive collaboration between advisors and their clients. According to Celent[5], the following trends are only just getting started in the industry:

- Advisory platform configurations that enable advisor and end investor to work together seamlessly
- Mobile and tablet platforms that provide a "desktop-on-the-go"
- Automated investment platforms for the end user and advisor
- Omnichannel digital advisory platforms that allow wealth managers to quickly and efficiently update content across channels

Furthermore, industry study after industry study highlight that advisors who adopt leading edge digital technologies have higher satisfaction, higher revenue, and higher productivity. What's not to like?

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[5] *Celent*, Serving NextGen Investors: Innovative Technolgy and Platforms, March 2017

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