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Technology Integration Turbocharges Advisor Productivity: Making Time for Clients

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EXECUTIVE SUMMARY

Technology Integration Turbocharges Advisor Productivity: Making Time for Clients, commissioned by Envestnet and produced by Aite Group, analyzes the impact that advanced technology integration can have on a financial advisor's practice.

HOW ADVISORS BENEFIT FROM ADVANCED TECHNOLOGY INTEGRATION

According to the study, financial advisors benefit from advanced technology integration in the following ways:

- Financial advisors utilizing advanced technology integration allocate more time to client investment management compared to their peers with basic or no integration: an increase of 19% for independent registered investment advisors (RIAs), 28% for independent broker-dealer practices, and 62% for bank/trust advisors.
- Depending on the priorities of the practice and its size, the increased time allocated to client acquisition and investment management enables advisors to deepen the relationship with existing clients or increase the practice's client and asset base.
- Many advisors in the bank/trust space have significant application gaps, with performance reporting, digital advice, and account aggregation being the most common.
- Bank/trust advisors benefiting from advanced technology integration shift around 20% of their time from operations to client investment management tasks, resulting in a significant revenue increase of 76% over that of their peers with basic or no integration. These advisors have the greatest efficiency spread.
- Independent RIAs with advanced technology integration generate around 50% more financial plans and investment proposals compared to their peers that don't benefit from advanced integration. This increased advice activity translates into a greater number of clients served by the practices (57% more), larger books of business (78% larger), and greater practice revenue/production (46% greater).
- Independent broker-dealers benefiting from advanced technology integration dedicate an additional 11% of their time to client investment management and serve a greater number of clients (44% greater), double their books of business, and increase practice revenue/production by 73%, compared to their peers that do not have advanced technology integration.

INTRODUCTION

Financial advisors are in a difficult position today. The market environment demands that advisors increase their books of business just to maintain revenue/profitability levels, while regulations require them to spend more effort on each client case. More than ever, advisors rely on technology to meet these needs. They have to take advantage of the added efficiencies a well-integrated technology platform can offer them. Time is a precious commodity for financial advisors, and technology's role is to enable them to work in the most efficient way possible so they can dedicate more time to serving their clients.

This research paper explores advanced technology integration and analyzes the impact it has on financial advisor practices from an operational and economic perspective.

METHODOLOGY

The analysis for this report is based an online Aite Group survey of 330 primary financial advisors fielded in April 2016. The survey had an approximately equal representation of the following advisor segments:

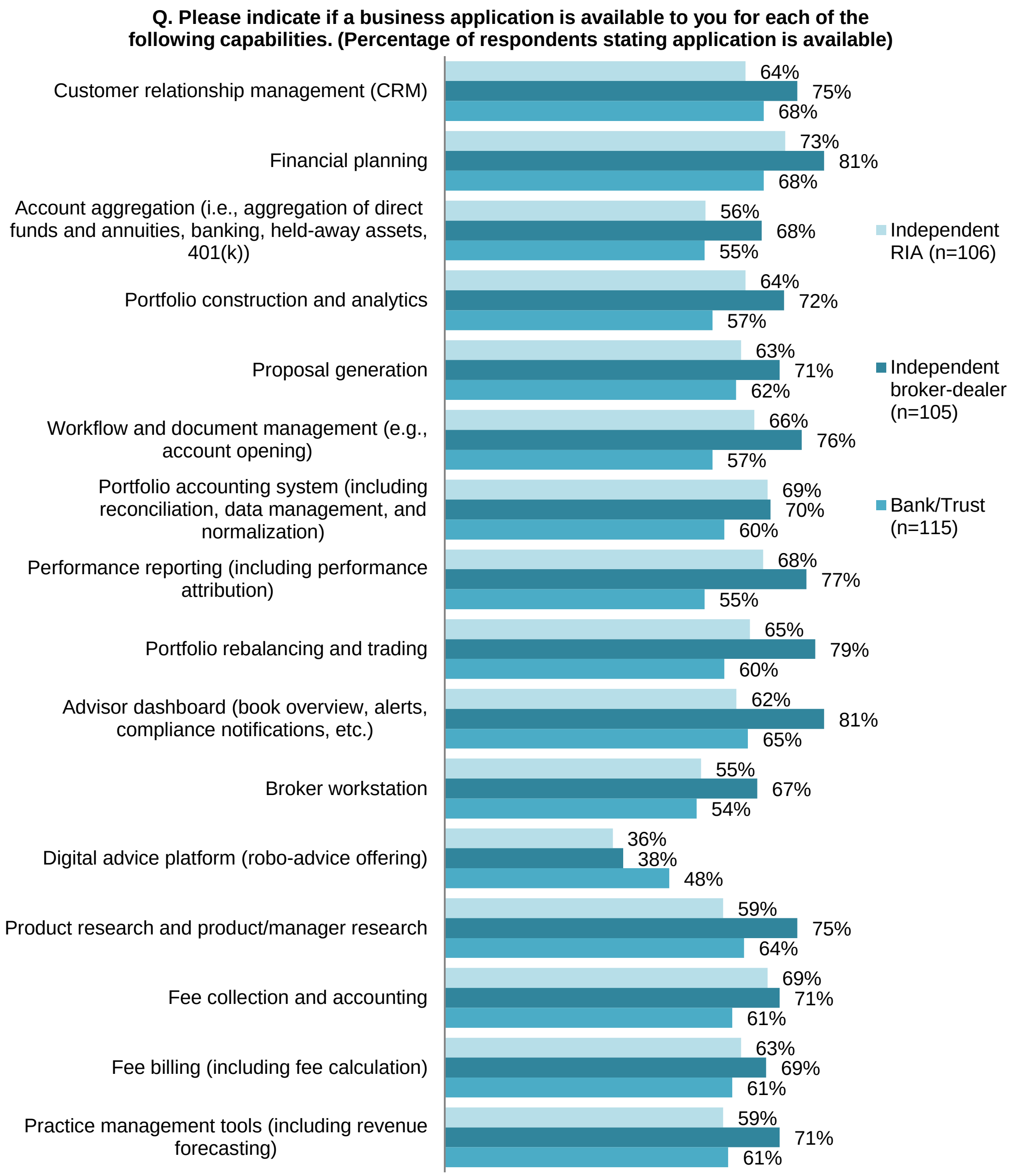
- **Independent RIA:** These financial advisors generate the majority of their revenue from recurring AUM-based fees. Their fee-based business is done as an independent RIA (as opposed to a broker-dealer's corporate RIA). These financial advisors could have a hybrid business model and engage in some commission-based business also.
- **Independent broker-dealer:** These financial advisors are affiliated with an independent or insurance-affiliated broker-dealer and use their broker-dealer's corporate RIA to conduct fee-based business.
- **Private bank/bank trust:** These financial advisors work within a stand-alone private bank or bank/trust firm, or as part of the private bank or bank trust division of a larger firm. This segment will be referred to as bank/trust throughout the report.

The margin of error for the full sample is 7 points at the 95% level of confidence.

HOW TECHNOLOGY HELPS FINANCIAL ADVISORS

Technology platforms used by financial advisors are complex, consisting of many business applications that are supplied by a multitude of technology and outsourcing providers and delivered on an installed or hosted basis. Figure 1 provides an overview on the range of applications advisors have available.

Figure 1: Available Business Application



Source: Aite Group's survey of 330 financial advisors, April 2016

DIGITAL ADVICE CATCHING ON SLOWLY

The availability of business applications differs from one industry segment to the next, though. Financial advisors at independent broker-dealers benefit from the broadest spectrum of business applications. Each of the 16 application types that was listed in the survey is available to at least two-thirds of advisors at independent broker-dealer firms. The exception is the digital advice platform (i.e., robo-advice offering), a new technology area for many advisors and therefore currently only available to a minority of financial advisors.

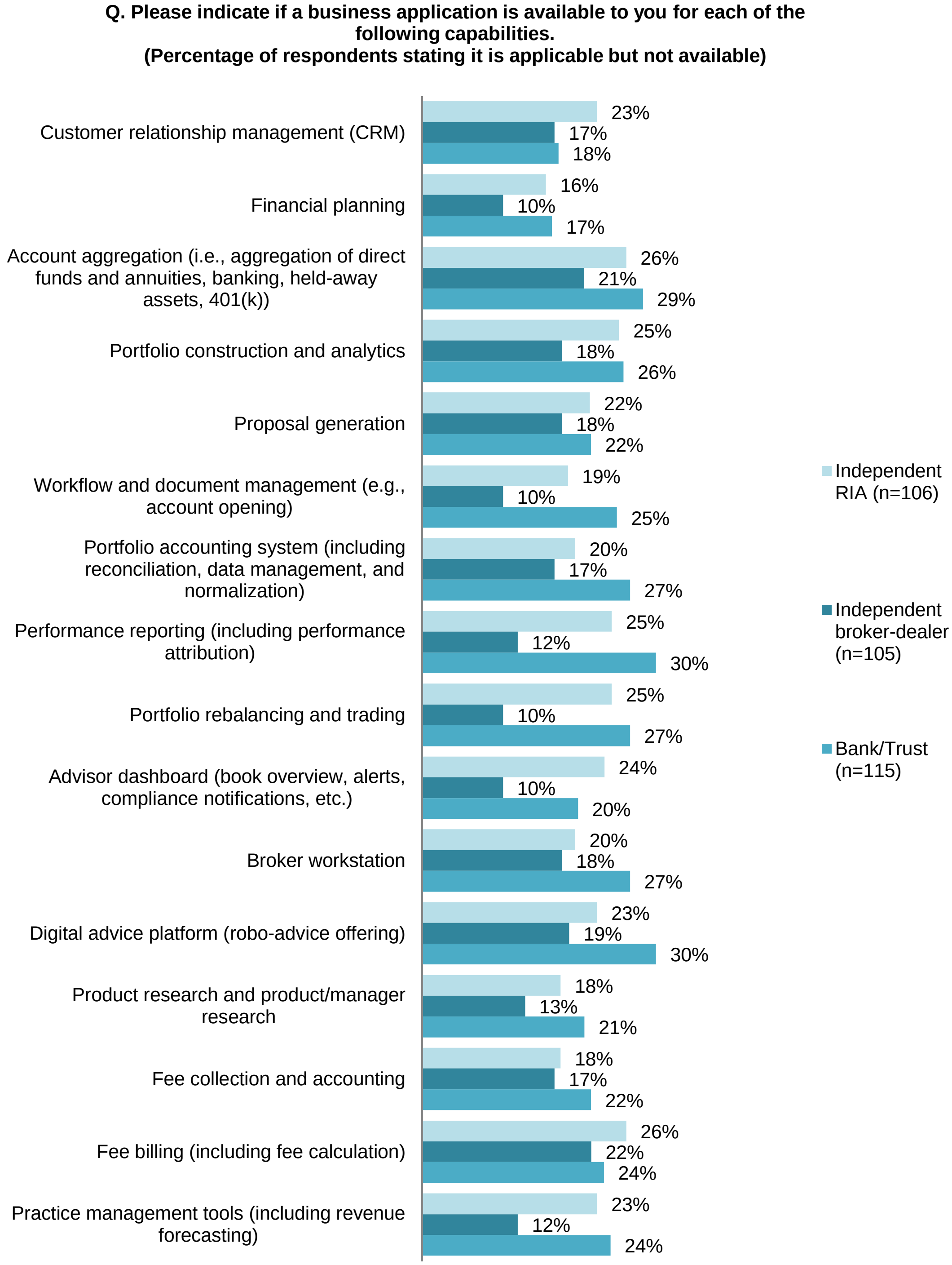
Independent RIAs, which often have to source technology on their own, show a somewhat lower adoption of business applications compared to their independent broker-dealer peers. Bank-based financial advisors trail when it comes to the availability of business applications. Only two business application types, CRM and financial planning, are available to two-thirds of bank/trust advisors.

PERFORMANCE REPORTING, DIGITAL ADVICE, AND ACCOUNT AGGREGATION IDENTIFIED AS GAPS

The lower adoption of business applications in the bank channel also becomes apparent in Figure 2. Twenty percent to 30% of bank/trust advisors say the applications they don't have available would be useful for their business. Most frequently recognized as gaps are performance reporting, digital advice platforms, and account aggregation.

Advisors at banks clearly see account aggregation as a gap. Similarly, 26% of advisors at independent RIAs and 21% of independent broker-dealer firms don't have access to account aggregation but see this application type as applicable to their business. Fee billing is another application that is recognized as a gap by more than 20% of advisors in all advisory segments.

Figure 2: Business Applications That Are Applicable but Not Available

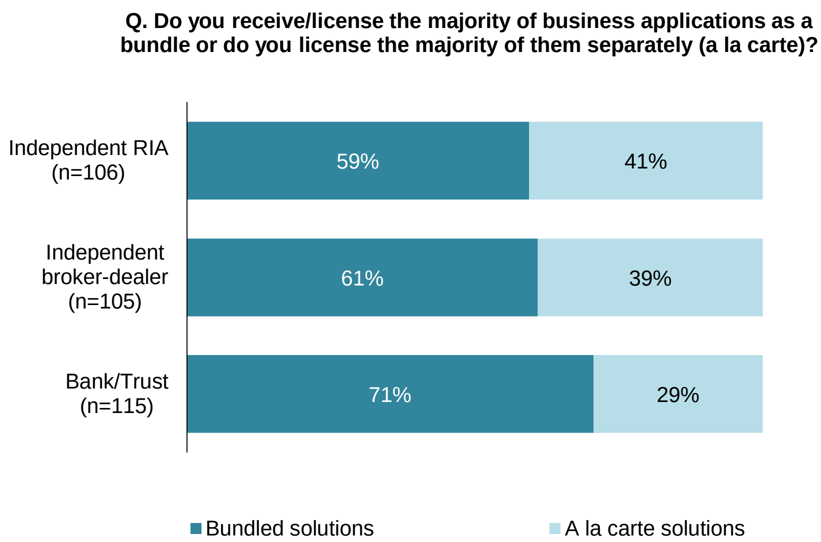


Source: Aite Group's survey of 330 financial advisors, April 2016

MOST ADVISORS PURCHASE TECHNOLOGY AS A BUNDLED SOLUTION

Looking at the way advisors source the business applications that are available to them, the majority of financial advisors in each segment receives them as a solution bundle (Figure 3), i.e., a collection of applications put together by a vendor, custodian, or broker-dealer firm. Advisors that leverage a bundled solution typically benefit from a greater degree of integration among business applications compared to those advisors that chose each business application separately. In the latter case, advisors and/or their firms have to take technology integration matters into their own hands, an often daunting task.

Figure 3: Sourcing Technology



Source: Aite Group's survey of 330 financial advisors, April 2016

AN INSIDE LOOK AT THE MANY LEVELS OF INTEGRATION

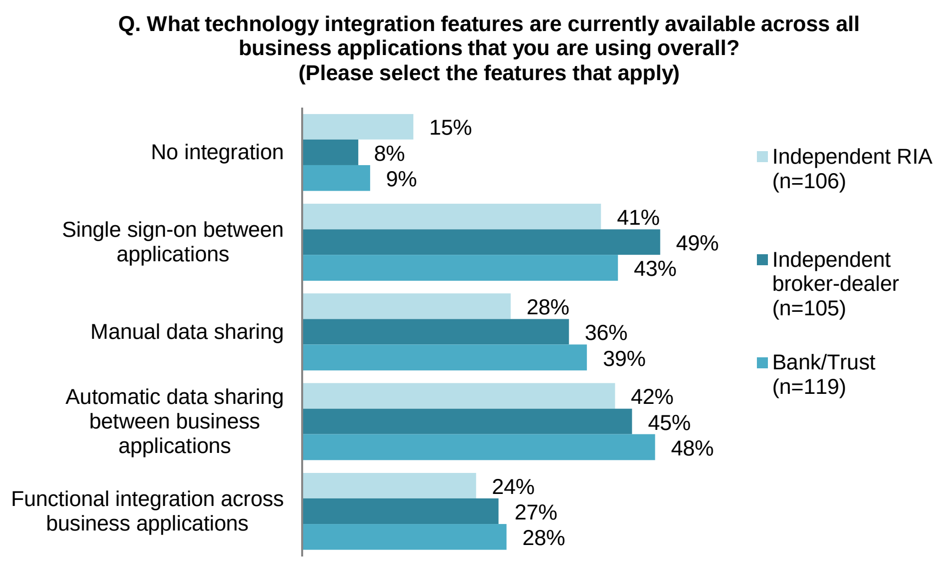
Technology integration denotes how well the various components used by a financial advisor work together. As business processes like new-client onboarding span multiple applications, a low level of integration results in an advisor rekeying information several times and spending more time than necessary to complete the process.

A number of features are associated with advanced technology integration that are critical to making an advisor's wealth management platform efficient and seamless. Three areas are worth noting:

- **Single sign-on:** Does an advisor need to sign on to every business application separately, or will signing on to one application provide access to all other business applications?
- **Data sharing:** Does an advisor need to rekey information when switching from one business application to the next, or can the entered data be shared through either a manual or an automated process?
- **Functional integration:** Are the application boundaries apparent to the advisor who is executing a process that spans multiple business applications? Is the workflow smoothly crossing from one application to the next?

A large percentage of financial advisors in each segment benefits from one or more of these integration features, as shown in Figure 4.

Figure 4: Integration Features



Source: Aite Group's survey of 330 financial advisors, April 2016

Advisors in each segment report very similar integration features; between 40% and 50% of advisors state that their technology platform offers single sign-on and automatic data sharing. Least available is the functional integration across business applications, with around one-quarter of advisors benefiting from it today.

DEFINING ADVANCED INTEGRATION

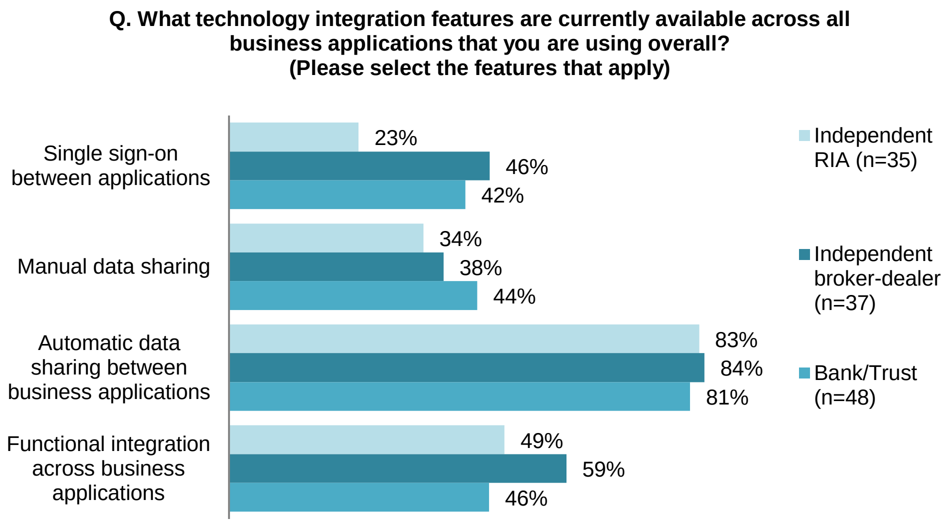
The presence of certain features provides a good indication of a technology platform's level of integration. However, the more important questions are whether the advisor experiences the impact of these features and whether the environment allows the advisor to work efficiently and productively. To glean deeper insights, the survey also asked advisors to provide a more qualitative assessment of the level of integration that they have available today. For this purpose, advisors evaluated their technology platform in percentage terms, with 100% referring to a fully integrated technology environment and 0% indicating no integration.

For the purpose of this study, technology environments with advanced integration were defined as those that meet two criteria:

- Have either automatic data sharing between business applications or functional integration across business applications (or both)
- Are rated by the financial advisor as having an integration level of 65% or higher

Applying both of these measures allows segmenting the surveyed advisor base through a mix of hard and soft factors, i.e., integration features and the advisor perception of them. With this segmentation approach, roughly one-third of surveyed advisors in each segment qualified for the advanced integration group. These are the advisors that truly benefit from advanced integration features. More than 80% have automatic data sharing capabilities, and half have functional integration across business applications (Figure 5).

Figure 5: Integration Features Available to Financial Advisors With Advanced Integration

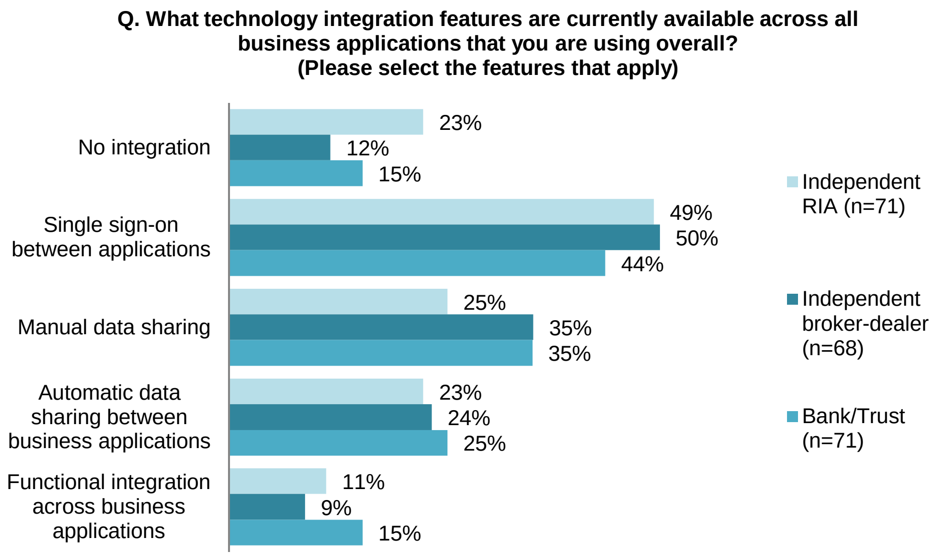


Source: Aite Group's survey of 330 financial advisors, April 2016

SINGLE SIGN-ON IS THE MOST COMMON FEATURE AMONG ADVISORS WITH BASIC OR NO INTEGRATION

Almost one in four independent RIAs in the basic-to-no-integration group report that their technology platform has none of the listed integration features. Single sign-on is the most prevalent integration feature for all advisors in this group, followed by manual data sharing. While a quarter of advisors in the basic-to-no-integration group benefit from automatic data sharing, advisors feel this advanced integration feature does not translate to a deep level of integration.

Figure 6: Integration Features Available to Financial Advisors With Basic to No Integration



Source: Aite Group's survey of 330 financial advisors, April 2016

BENEFITS OF AN INTEGRATED PLATFORM

This section compares financial advisors that have advanced platform integration to those with only basic or no integration, and it aims to quantify the benefits of advanced technology integration, differentiating between operational and economic benefits.

TECHNOLOGY INTEGRATION BOOSTS TIME SPENT WITH CLIENTS

The role of technology in wealth management is to aid financial advisors and their staff in becoming more efficient. Efficiency is often measured in terms of accurately completed tasks (as measured by error rates) as well as the amount of person hours required to perform a task. Using disparate systems to perform operations processes is rife with operational risk, a result of toggling back and forth between applications and manually keying in data. It also takes more time to complete these processes than using fully integrated systems, which necessitates increased headcount as practices grow and operations staff become overloaded (which leads to even more errors).

The survey analyzes the activities performed by financial advisors to assess practice benefits. For this purpose, this paper has defined four major activity categories:

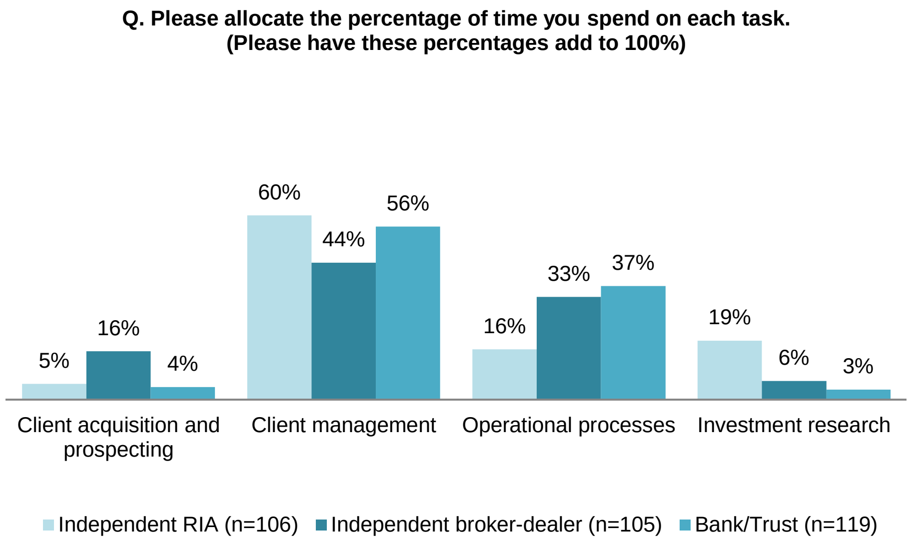
- **Client acquisition and prospecting**: These activities are aimed at growing the book of business by adding clients.
- **Client investment management:** These include all activities along the investment management process that are mostly performed for existing clients, such as financial planning, proposal generation, ongoing monitoring, portfolio rebalancing, and trading.
- **Operational processes:** These are tasks such as data reconciliation, performance reporting, fee billing, and general administration that do not relate to any one client case or prospect. Most of them are performed on a regular basis (e.g., monthly, quarterly).
- **Investment research:** These include all tasks related to following market events and identifying investment opportunities.

Each advisor’s time allocation across these categories depends on the business model of the practice, the size and organizational structure of the team, and the role the advisor plays within the practice (e.g., financial planner, portfolio manager). All surveyed advisors are in client-facing roles and own all or part of their practices.

It is no surprise, therefore, that across the three surveyed advisor segments, advisors spend an average 60% to 65% of their time on client-facing tasks, with the lion’s share of that time spent on client investment management, and 5% to 15% on client acquisition and prospecting. The weighting depends on the role the advisor plays in the practice.

Independent RIAs stand out from the two other advisor segments, as they have the highest time allocation toward investment research, indicating there is a heavy portion of investment managers among them. Also, the headcount of the surveyed independent RIAs is about 25% larger compared to the independent broker-dealer practices, resulting in RIAs spending less time on operational tasks.

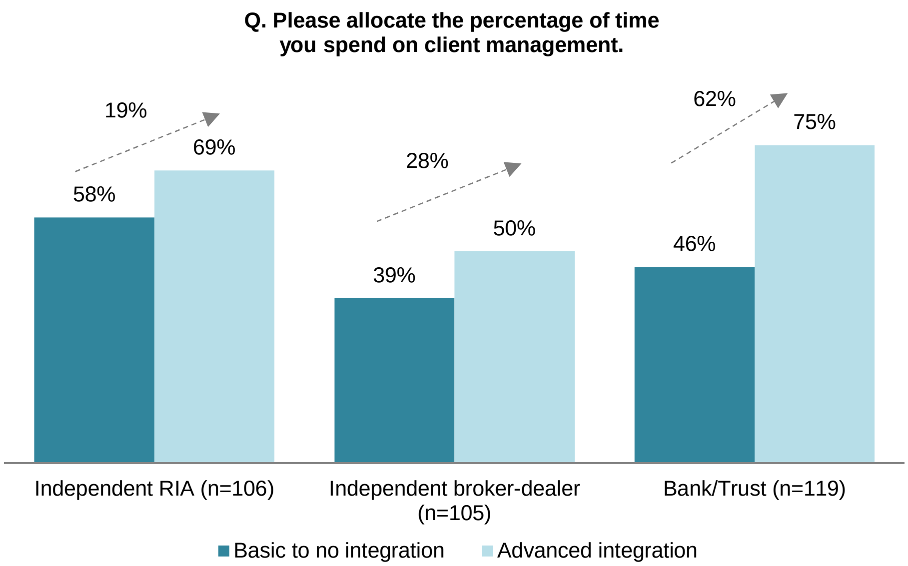
Figure 7: Time Allocation of Primary Financial Advisor



Source: Aite Group's survey of 330 financial advisors, April 2016

When comparing financial advisors who benefit from advanced technology integration with their peers who have only basic or no integration available to them, a sizable boost to the time they have available to manage clients can be observed, irrespective of the advisors' business model and segment-specific differences (Figure 8). Advisors at independent RIAs and independent broker-dealer firms benefit from advanced integration by allocating an additional 11% of their time toward client investment management, or an increase of 19% and 28%, respectively, compared to their peers with less integration.

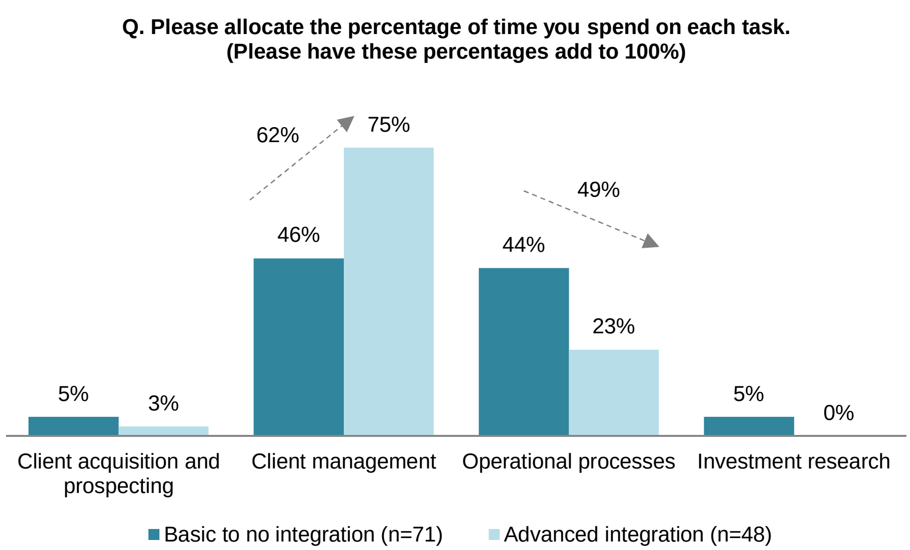
Figure 8: Effect of Technology Integration on Client Investment Management



Source: Aite Group's survey of 330 financial advisors, April 2016

The client investment management boost appears to be even larger for bank/trust advisors (Figure 9). This segment reported a 62% increase in the time spent on client investment management and a nearly 50% reduction in the time allocated to operations. This indicates that in the bank sector, advisor efficiency can vary greatly from firm to firm and that much improvement is possible through an investment in technology.

Figure 9: Effect of Technology Integration on Bank/Trust Advisors' Time Allocation



Source: Aite Group's survey of 330 financial advisors, April 2016

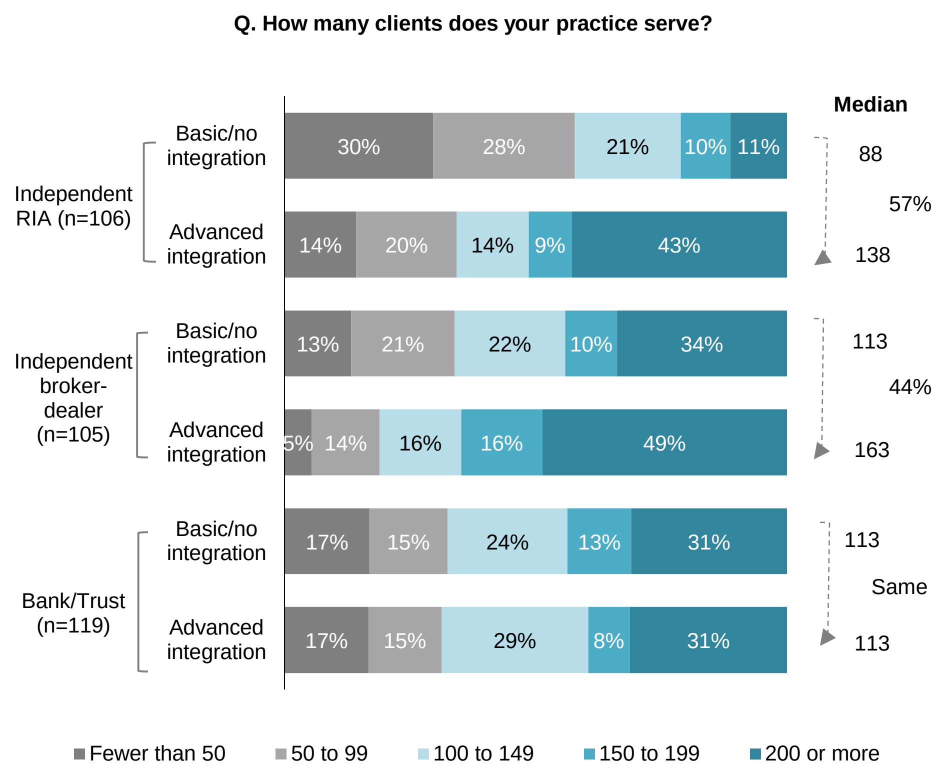
TECHNOLOGY INTEGRATION BOOSTS POTENTIAL FOR INCREASED REVENUE

The ability to dedicate more time to client investment management can result in either providing better service to clients or serving a greater number of clients. Either way, the practice should experience an increase in revenue from greater activity with existing clients or working with additional clients.

INDEPENDENT RIAS AND INDEPENDENT BROKER-DEALERS SEE THE BIGGEST INCREASE IN NUMBER OF CLIENTS

While bank/trust advisors did not experience an increase in clients, financial advisors in the independent RIA and independent broker-dealer segments reported a boost in client numbers by around 50. This is an increase of 57% and 44% more clients, respectively (Figure 10). This is an especially big achievement for independent RIAs, as the ability to scale their businesses is one of the biggest growth hurdles in this segment. The survey has shown that independent RIAs with advanced integration generate around 50% more financial plans and investment proposals compared to RIAs with basic or no integration, resulting in a larger number of households served. It is also worth noting that some 43% of independent RIA practices with advanced integration are able to serve more than 200 client households, versus just 11% for practices with basic or no integration.

Figure 10: Number of Client Households

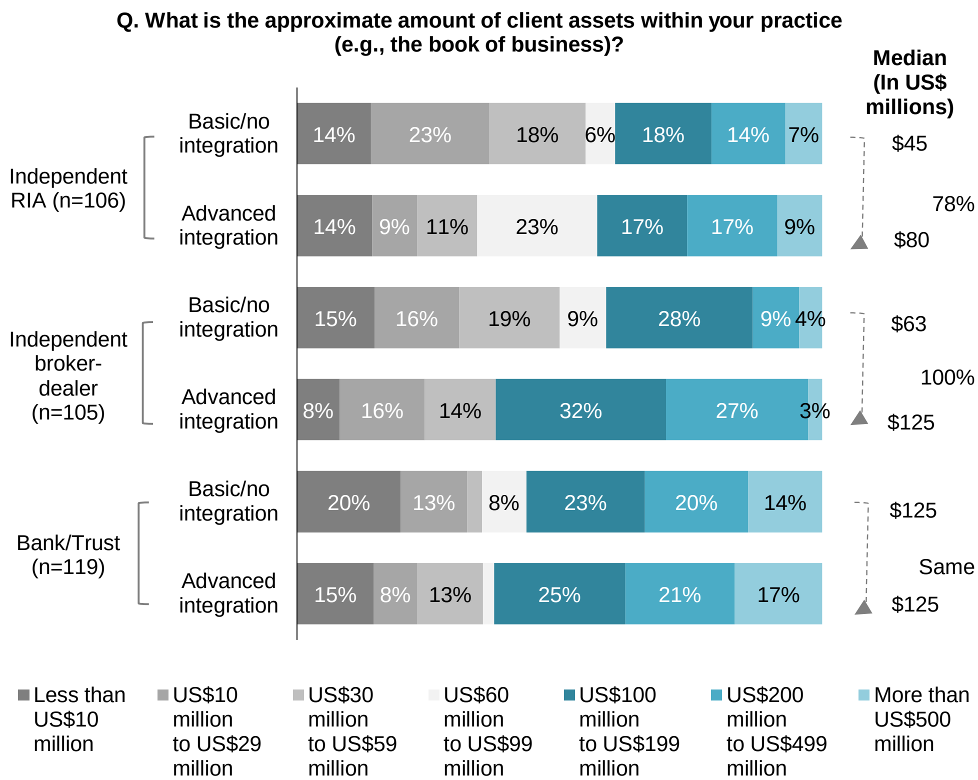


Source: Aite Group's survey of 330 financial advisors, April 2016

TECHNOLOGY BOOSTS AUM FOR INDEPENDENT RIAS AND BROKER-DEALERS

A similar picture can be observed when studying the practice size in terms of client assets (Figure 11), with independent RIAs and independent broker-dealer practices reporting an increase in client assets. A particularly dramatic increase can be observed in the independent broker-dealer channel, where advisors that benefit from advanced integration administer twice the client assets of advisors with basic or no integration. Some 30% of independent broker-dealer practices with advanced integration administer over US$200 million in client assets, versus 13% for practices with basic or no integration.

Figure 11: Practice Size by Client Assets



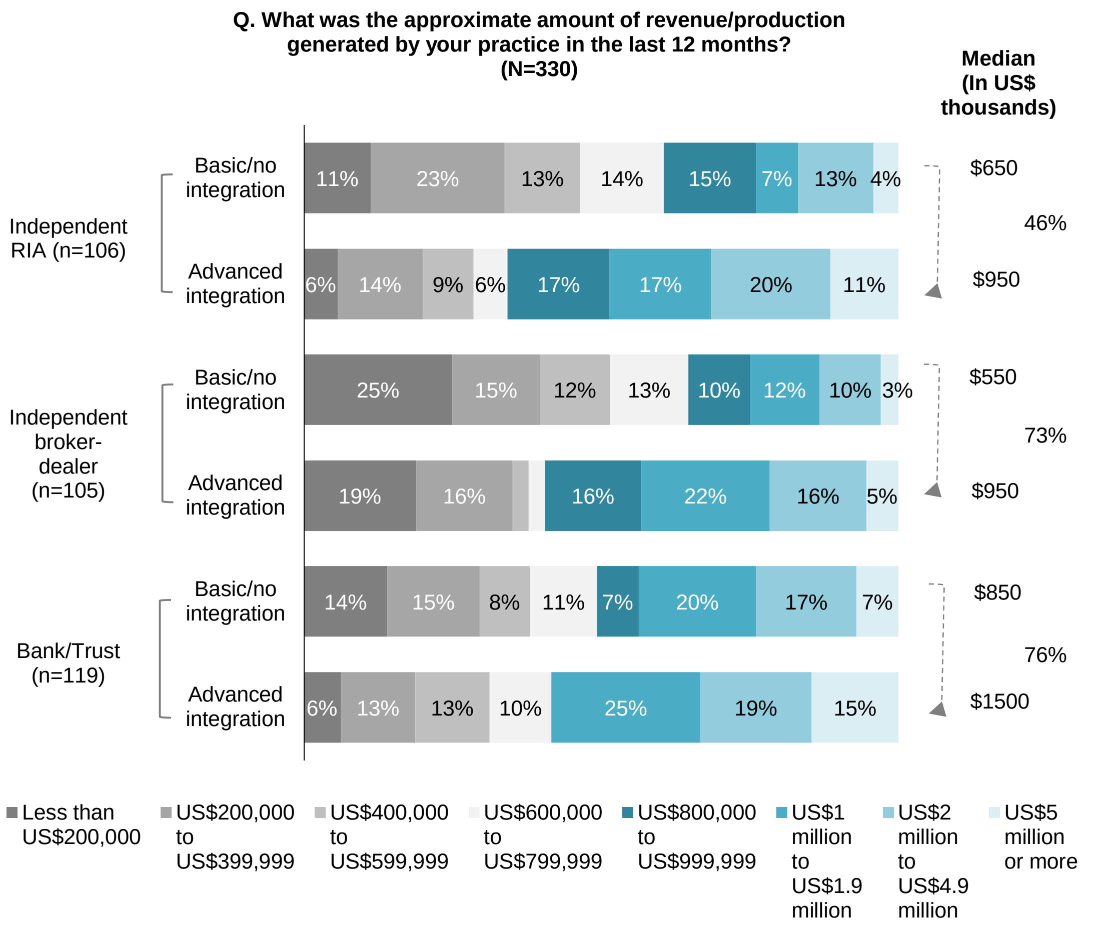
Source: Aite Group's survey of 330 financial advisors, April 2016

ADVANCED INTEGRATION LEADS TO THE POTENTIAL FOR GREATER REVENUE

While advisors in the bank/trust space serve the same number of client households and the same amount of client assets, they spend the additional client investment management time working closely with their clients. This becomes apparent when looking at the revenue generated by bank/trust practices, which increases by 76% with the use of advanced integration (Figure 12). Independent broker-dealers experience a similar revenue increase of 73%.

RIA practices that benefit from advanced technology integration generate 46% more revenue annually than do their peers with basic or no integration. Almost half of all practices with advanced integration are million-dollar practices, while only 24% of practices with basic or no integration can claim the same.

Figure 12: Practice Revenue



Source: Aite Group's survey of 330 financial advisors, April 2016

CONCLUSION

- Financial advisors must embrace technology to meet today's pressures for increased productivity and regulatory scrutiny. Adding staff members to the practice no longer suffices.
- Financial advisors do not have the luxury of time to try to make their technology work and iron out the inefficiencies that exist due to a low degree of integration among business applications.
- Modern platforms offer automated data sharing and functional integration across the business applications that are used in an advisor's practice. While modern application architectures allow for easier integration of business applications, putting together a fully integrated platform is a difficult task for financial advisors. Pre-integrated platforms provide an easier way to get to the ideal setup.
- Leveraging a technology environment with advanced integration features allows advisors to reallocate time from operations and investment research tasks toward client prospecting and investment management. Depending on the advisor's priorities, the ability to dedicate more time to clients can either result in better service provided to existing clients or in serving a greater number of clients.
- Independent RIAs benefiting from advanced technology integration dedicate an additional 11% of their time to client investment management and generate around 50% more financial plans and investment proposals compared to practices that have basic or no integration. This increased advice activity translates into a greater number of clients served by the practice (57% more), a larger book of business (78% larger), and greater practice revenue/production (46% greater).
- Advanced technology integration allows independent broker-dealers to dedicate an additional 11% of their time to client investment management and serve a greater number of clients (44% more), double their books of business, and increase practice revenue/production by 73%.
- The bank/trust space shows one of the widest efficiency spreads. Advanced technology integration can shift around 20% of an advisor's time from operations to client investment management tasks. The additional client investment management time appears to be invested in working closely with existing clients, resulting in a significant revenue increase of 76%.
- Wealth management firms and financial advisors have to take a second look at their current technology setup and evaluate it against the backdrop of their current needs, market pressures, and the technology offerings and capabilities available today. Sticking to inefficient legacy infrastructure will waste precious time on non-client-facing tasks and increase the risk of falling short on client and regulatory expectations.

ABOUT ENVESTNET

Envestnet, Inc. (NYSE: ENV) is a leading provider of unified wealth management technology and services to investment advisors. Our open-architecture platforms unify and fortify the wealth management process, delivering unparalleled flexibility, accuracy, performance, and value. Envestnet solutions enable the transformation of wealth management into a transparent, independent, objective, and fully-aligned standard of care, and empower advisors to deliver better outcomes.

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