VIEWPOINTS

A Charles River Conversation

Enabling Growth in a Time of Change

BUILDING A WEALTH PLATFORM FOR THE FUTURE

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CHARLES RIVER WEALTH MANAGEMENT

THE WEALTH MANAGEMENT INDUSTRY is undergoing significant change, driven by growing competition, regulatory uncertainty, and the evolving role of financial advisors.

In response, wealth management firms are rethinking their technology platforms. The right technology choices can position firms as industry leaders by helping to increase advisor productivity, streamline product introductions, and support the transition from financial advisor to fiduciary.

Charles River recently hosted a panel discussion with product managers Cem Er and Sean Durkin, and Cutter Associates' Cameron Taylor, to discuss trends in the wealth management industry and how technology enables financial advisor growth and greater responsiveness to client needs.

CAMERON TAYLOR

Senior Analyst
Wealth Management
Cutter Associates

Cameron Taylor is a Senior Research Analyst in Cutter Associates' Wealth Management practice which supports the technology and operational needs of the wealth industry through research and consulting. Prior to his current role, he led product strategy for FIS' wealth division from 2014 to 2018. He has also held positions at BNY Mellon, Bank of America, and SEI.

CT

CEM ER

Director
Wealth Product Management
Charles River Development

Cem Er leads Charles River's Wealth Product Management Team and provides direction and thought leadership for wealth management related capabilities including modeling and optimization. Prior to joining Charles River, Cem was a Head Trader and Portfolio Manager at Cobblestone Capital Advisors. Cem is also a CFA Charter holder.

CE

SEAN DURKIN

Senior Product Manager
Wealth Product Management
Charles River Development

Sean Durkin is a Senior Product Manager in the Charles River Wealth Product Management Team and is responsible for order generation capabilities including rebalancing and tax harvesting. Prior to joining Charles River Sean was a Product Manager at Financial Software Systems. Sean is a certified FRM holder.

SD

Advisors are increasingly moving into a partnership role with the investor and acting more like a financial strategist.

What are some of the changes you see happening in the industry and how do they impact the financial advisor (FA)?

CT Competitively, we are seeing a shift in how advisors are winning new business or keeping their existing clients. In the past, either the firm or the advisor would promote what stocks to pick or talk to clients about returns in order to try to bring on new business. Advisors are increasingly moving into a partnership role with the investor and acting much more like a financial strategist.

From the advisor's perspective it's all about the ability to understand the financial and life goals of the investor and being able to build a plan that aligns with those goals. Also, making sure that that plan remains flexible. For example, if the client needs to shift allocations based on their environmental, social, or governance (ESG) outlook, or to lower their exposure to risk assets. And most importantly, the advisor must be able to communicate that plan in a very clear and compelling manner to the investor.

Some of the reasons we're seeing the shift is that there are now more compatible investment vehicles aligned to goals-based financial plans. There is a lot more data available to the advisor, so they can see the full balance sheet and get a holistic view of the investor's wealth. And there's better technology and automation out there that's enabling the advisor to spend more time building trust with the client and establishing better digital communication channels.

How are these forces changing what an advisor needs to do their job effectively?

CE Let's expand on the idea of building trust with clients. Practitioners have to stay closely abreast of client dynamics. While this has always been true in the asset management industry, it's become increasingly critical for wealth managers.

FAs need to understand clients' needs and wants as part of a goals-based wealth management practice. Factoring in constraints such as ESG restrictions requires expanding the portfolio management life cycle upstream beyond the typical front office boundaries.

Also, advisors must be able to capture client risk and suitability assessments. Identifying and managing risk has become a significant focal point in our conversations with market participants as well as in our product development at Charles River. Having access to multiple strategies is critical, which allows your asset management team to diversify client portfolios appropriately. In essence, having greater diversification of client portfolios to manage risk.

FAs NEED TO UNDERSTAND CLIENTS' NEEDS AND WANTS AS PART OF A GOALS-BASED WEALTH MANAGEMENT PRACTICE. FACTORING IN CONSTRAINTS SUCH AS ESG RESTRICTIONS REQUIRES EXPANDING THE PORTFOLIO MANAGEMENT LIFE CYCLE UPSTREAM BEYOND THE TYPICAL FRONT OFFICE BOUNDARIES.

How is this changing the way firms think about their wealth offerings?

SD We see a lot of diversity in the FA's book of business. An advisor may be managing a low-touch retail account which requires a lot of automation. On the other extreme, an advisor might also manage a complex relationship involving multiple strategies, tax optimization and other value added services. The challenge from the firm's standpoint is how to ensure the advisor can manage that amount of variability in an efficient way.

Another challenge for firms is product rationalization. While it's critical to offer diversity in terms of asset classes or manager selection, firms don't want to overburden their advisors with too many choices. Ideally, firms should offer the minimum number of products required to achieve diversification while ensuring product suitability.

Suitability comes from two directions. This could be client suitability in the form of ESG restrictions, or it could be investment suitability from an asset allocation standpoint.

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What changes are you seeing in regard to technology requirements and preferences in the wealth management community?

CT We see wealth clients demanding a much more digital experience for communicating with their advisor. Firms have a lot of technology options to choose from, and there's risk associated with making those types of decisions. There are also growing regulatory pressures and risk and compliance rules that firms have to follow.

In the past, firms followed a best-in-class approach and delivered those solutions to the advisor. Today, firms are burdened by the overhead involved with managing these disparate point solutions. So a lot of advisory firms are considering the single-platform approach to see if they get the same level of functionality for the advisor in a much more integrated manner.

Whatever approach firms take, the underlying architecture for these solutions has to be very integration friendly, it has to be open, it has to be extensible. No firm knows what market and client demands they will be facing 18, 24 months down the road, but they know they'll need to add new capabilities to their platform if they can.

The other side of the equation is data. A lot of firms are looking at their data architecture to make sure that's sound, before they consider new solutions to put on top of that data. From the advisor perspective, the type of data they need is fully reconciled, aggregated data that provides them the full balance sheet view of their clients.

There are studies that show that when the advisor can get full balance sheet views, they're able to transfer more of the clients' wealth over to their firm to manage. So it's incredibly valuable for firms to get the data side of the equation right, based on all the fees that are up for grabs over the next 10 years.

Against that back drop, what challenges do you see for technology vendors helping wealth management firms meet these requirements and preferences?

SD If we go back to some of the points made earlier around empowering the FA to be a partner with their client, the technology vendor's goal is to allow the FA to spend quality time with the client, focusing on and addressing client needs. To achieve this, the FA needs to minimize the swivel chair effect when working with individual best-of-breed systems. It's not very efficient for an FA if they have to deal with five or six different systems to accomplish a simple task. We really want to make sure as technologists we allow FAs to spend that time with their clients instead of dealing with multiple systems.

Broad instrument coverage, either from an asset class perspective, or a domestic versus foreign security perspective is critical. Asset classes that were still considered exotic as little as five years ago might be less exotic in today's world.

THE FA NEEDS TO MINIMIZE THE SWIVEL CHAIR EFFECT WHEN WORKING WITH INDIVIDUAL BEST-OF-BREED SYSTEMS. IT'S NOT VERY EFFICIENT FOR AN FA IF THEY HAVE TO DEAL WITH FIVE OR SIX DIFFERENT SYSTEMS TO ACCOMPLISH A SIMPLE TASK.

We're seeing a blurring of lines between wealth and institutional platforms, so technology solutions ideally should support both sides of the house. One driver of this is that many high net worth wealth clients form charitable trusts and foundations. The ability for a financial advisor to offer those institutional services to their clients is beneficial for both parties.

And finally, let's touch on some ideas around extensibility and closed systems. There's a lot of work that goes into creating a new product at a firm level and we want to make sure that the technology is not a blocking factor. There are a lot of regulatory concerns and substantial effort to gain advisor acceptance for new products. If all those bridges are crossed and the technology solution still mandates five or six different steps in the investment process that aren't really consolidated, the adoption isn't going to follow.

Broad instrument coverage, either from an asset class perspective, or a domestic versus foreign security perspective is critical. Asset classes that were still considered exotic as little as five years ago might be less exotic in today's world.

Being able to measure and attribute performance to those esoteric securities that wealth management practices are leveraging requires large volumes of detailed returns data.

Based on those requirements what capabilities need to be supported in an enterprise class wealth management platform?

CE As mentioned earlier, data is the critical element and I'm going to echo that sentiment, especially since integration of external data is critical for an enterprise wealth management platform. Some data is pertinent to traditional portfolio management while other data sources are needed upstream for risk assessment and better understanding client needs.

Also, effective integration is critical for advisors and other end users of these applications, providing easy navigation when they are searching for information. Technology and intellectual property have to come together in a seamless, presentable way for the users to be able to extract the data they need without having to work through a significant amount of complexity in those applications. Technology solutions increasingly provide extensive data visualization capabilities to meet this need.

I also want to underscore what Sean said earlier about security coverage. The line between institutional and wealth management practice is blurring rapidly. We're seeing much more sophisticated instrument usage in wealth management practices, such as derivatives and esoteric instruments with synthetic elements, depending on the geographical presence of the wealth management company.

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Also, having extensible applications that allow seamless data integration is critical. For example, being able to measure and attribute performance to those esoteric securities that wealth management practices are leveraging requires large volumes of detailed returns data.

It also poses a problem for wealth management technology vendors trying to figure out how to integrate a firm's external IP in to their application and make it digestible and presentable to advisors.

Finally, the trend toward farming out portfolio management duties to external managers, either by receiving models or giving discretion to these managers, requires a seamless digital exchange of information.

We discussed the need to create efficiencies in the investment process. How are technology vendors addressing that?

SD We see a trend in the investment process where certain workflows involve multiple personas. This could be external managers, the FA and the home office itself. We've already discussed the inefficiencies of the swivel chair effect on the FA, now imagine compounding that problem where the actual investment goal requires three or four different actors to take a series of steps. If each of those individuals is dealing with different systems or manually communicating through email, it's risky from the firm's perspective and very inefficient from an investment perspective.

One example of this is model providers. An FA may select a particular model from a third party strategist, which has to be efficiently delivered to a sponsor firm so the sponsor can implement the model themselves. We still see a lot of manual steps in this process, where a provider has to log on to five or ten different sponsor systems to deliver the model. Also, the actual implementation of the model sometimes takes longer than it should if it's not done efficiently. This creates several challenges from a vendor perspective:

One, when designing wealth solutions, vendors need to think about these different personas in the investment process and make sure they are delivering capabilities that meet their unique needs.

Secondly, vendors need to be cognizant of the different systems that those actors use behind the scenes. For example, there may be workflows involving communication of data from a CRM system. You don't want FAs logging in to different systems.

To that end, technology vendors need to provide APIs and other means to consolidate and communicate this data efficiently, so it appears to be a single experience from the FA or home office or strategist perspective even if there are multiple systems involved.

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Although the DoL fiduciary rule seems dead for now, the notion of fiduciary responsibility is actually gaining momentum. How can technology help advisors fulfill that aspect of their work?

CT Over the past few years a lot of firms have already implemented standards and rules for advisors to follow so they do operate in a fiduciary manner. What's needed now is based on how much they were acting as a fiduciary traditionally, versus merely following suitability standards.

I think technology can certainly help an FA become a fiduciary. We're seeing a lot of firms implementing robotic process automation in their middle and back office and compliance departments.

Automation can identify existing conflicts of interest that might exist between the firm and the investor. It also helps with ongoing risk monitoring across accounts and portfolios. We're seeing firms implement fully audited workflows that can wrap around the compliance procedures they have in place, including the need to follow very strict investment policy statement guidelines.

We think goals-based planning software is helpful for firms to stay better aligned with the fiduciary standard. This helps provide transparency when aligning investors' goals with the portfolio that's been constructed for that investor.

And finally, on the communication side, technology provides better digital channels for the advisor to communicate with the investor. This starts with the client portal, making it easy for advisors to share fee scheduling, billing, and other information with their clients, adding transparency to the process.

Client portals often include document vault functionality, so the investor and the advisor can share documents back and forth in a secure manner. Summing this up, it's all about technology freeing up the advisor so they can spend more time developing the client relationship.

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What other ways can a wealth management platform improve the advisor experience?

CE Going forward, one of our biggest challenges as wealth management platform providers is to consolidate data, make data relevant to the end users, visualize the data, and translate the data into workflows. Making data actionable, and converting it into easily digestible views for end users. This allows the FAs to focus more on their book of business and improve services to their clients.

Differentiation in the business is very service centric and in the heart of that sits your client. Unless you understand your client, unless you manage to weed out the noise from actual important data using technology, you as the advisor are not going to be able to bring efficiencies to your book and grow your business accordingly.

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SD We talked a lot about digital, but that can be broken down into different delivery channels, including web, tablet or phone. A lot of conversations between advisors and their clients can now be done face-to-face, though remotely.

Some parts of the investment process may be perfectly appropriate for sharing data and helping clients visualize important data. But if the FA is also doing portfolio management, you have to be very careful when designing these solutions to make certain they are very intuitive and straightforward to use.

The other thing we hear a lot of is empowering the FA to explore different analysis paths, or perform "what if" analysis. This might involve proposal generation when they're onboarding a new client or tweaking an asset allocation for an existing client. Or, it could be at the tactical level, picking a new strategy or individual security within the portfolio.

IT'S VERY IMPORTANT TO ALLOW THE FA TO DISCOVER UNMET CLIENT NEEDS. BEING ABLE TO PRESENT DATA IN A VERY INTUITIVE AND EFFICIENT WAY HELPS THE FA DISCUSS REACHING CLIENT GOALS THE CLIENT THEMSELVES MAY NOT HAVE EVEN HAVE THOUGHT ABOUT YET.

This ability to analyze the impact on a client starting from a new asset allocation down to an individual new ticker within the portfolio is increasingly important. This helps the client understand the decision being made and how it impacts them. Finally, we think it's very important to allow the FA to discover unmet client needs. Being able to present data in a very intuitive and efficient way helps the FA discuss reaching client goals the client themselves may not have even have thought about yet.

Given the uncertainty surrounding the DoL Fiduciary rule and pending SEC regulations, what do you see on the regulatory horizon?

CE The future of DOL is anybody's guess but I think the industry is undergoing a self-imposed transition towards acting as fiduciaries when dealing with client portfolios. And this is applicable to FAs. I don't think that is going to go away any time soon. Acting as a fiduciary requires a deep understanding of your clients, a lot of ongoing client assessments and determining which strategies you need to deploy when managing that client's wealth. From a technology standpoint, having the right tools and controls in place is key.

What happens with future regulation is anybody's guess but the trend I'm seeing in the industry is more and more towards FAs acting as fiduciaries when managing individual client portfolios in the retail space.

Acting as a fiduciary requires a deep understanding of your clients, a lot of ongoing client assessments and determining which strategies you need to deploy when managing that client's wealth.

There have been a number of high-profile mergers between advisory firms in the past year. Where do you see this going and what do advisors need to survive and thrive in this new environment?

CT On the firm side we are seeing a lot of consolidation. It's expensive to run a smaller shop because you don't have the scale and AUM. On the advisor side, it's important to form a much better relationship with your investors to build loyalty and differentiate your firm by building greater trust between you and the investor.

Firms need to really own the new digital channels that are coming down the path and make sure they are very agile in how they communicate with different constituents in their client base. Advisors also need to make sure data is very relevant and usable for their clients. Today, the advisor has a greater ability to obtain a holistic view of the investor's wealth. Being able to very clearly communicate how their plan is matching up against the client's complete balance sheet, I think is one way to differentiate advisors from their peers.

FIRMS NEED TO REALLY OWN THE NEW DIGITAL CHANNELS THAT ARE COMING DOWN THE PATH AND MAKE SURE THEY ARE VERY AGILE IN HOW THEY COMMUNICATE WITH DIFFERENT CONSTITUENTS IN THEIR CLIENT BASE. ADVISORS ALSO NEED TO MAKE SURE DATA IS VERY RELEVANT AND USABLE FOR THEIR CLIENTS.

On the ultra-high net worth side, we see a lot of growth in UMA solutions for efficient tax management and other purposes.

Are SMAs and UMAs going to crowd out older and less flexible business lines?

SD What we're seeing is that there will always be space for a variety of product lines. There are a couple of reasons for that, one could simply be cost, and we see a lot of movement of mass affluent into the wealth space. And frankly, a UMA product may not be appropriate for such a client. However, on the ultra-high net worth side, we see a lot of growth in UMA solutions for efficient tax management and other purposes.

There's really no motivation to force clients to move to other product lines. And mostly from a technologist standpoint, we really think the key is flexibility.

Again, it's about providing solutions that allow firms to run different products and different solutions in a single wealth ecosystem. That should position firms well no matter what the future holds.

NEXT STEPS:

Read more about Charles River's Wealth Management Solution and how Charles River is helping wealth managers support new products and improve the advisor experience.

Contact Charles River to schedule a demo or visit crd.com.

You can find out more about Cutter Associates Wealth Practice at www.cutterassociates.com/wealth.