The Importance of BUSINESS ANALYTICS for Financial Advisors

eMoney

Data is the backbone of all decisions made by financial advisors, firm managers, and home office practitioners. Whether identifying a life insurance need, calculating an appropriate income stream for a retiree, or sifting through demographic statistics looking for prospects, data is being managed and used in some capacity every day.

For financial professionals, there are many sources of client information: this can include bank statements, brokerage statements, or insurance policies to name a few. To help manage this efficiently, aggregation software is commonly used. These systems can pull information straight from bank and credit accounts, across thousands of providers, allowing real-time updates for advisors as well as clients. Held-away assets (as well as liabilities) are also typically included, providing a full view of a client's financial picture.

As processing power increases, and systems become ever more interconnected, the volume of client data available is expected to grow exponentially. Indeed, by 2020 it is estimated that there will be 5,200GB of data for every consumer on earth. Cumulatively, that is 40 zetabytes, or 57 times more than every grain of sand on every beach.[1]

As a result, the pressing challenge for those in the financial advisory industry is not so much how to collect client data, but how best to consolidate, understand, and make use of the large amounts of information available.

This is where an analytics platform comes in. By being able to sort and organize vast volumes of data within a single dashboard, these platforms offer huge utility for financial professionals. Whether it is the ability to get a clear view on client holdings across their portfolio, or rapidly identify opportunities for expansion, these tools can help financial advisors and managers make quick and accurate decisions. A recent survey of financial advisors showed that those with advanced data integration had 57 percent more clients and earned 46 percent more revenues.[2]

With shifting regulatory conditions in the market, the impact of robo-advisors — as well as increasing client expectations — the pressure on advisory professionals and firms has never been higher. This eBook looks at how individual financial advisors, firm managers, and enterprise office decision-makers, can use business analytics systems to:

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[1]*Computer World. 'By 2020, there will be 5,200 GB of data for every person on Earth.' Available at: http://www.computerworld.com/article/2493701/data-center/by-2020--there-will-be-5-200-gb-of-data-for-every-person-on-earth.html. Accessed March 2017.*

[2]*Wealthmanagement.com. 'Tech Integration Increases Advisor Productivity.' Available at: http://www.wealthmanagement.com/technology/tech-integration-increases-advisor-productivity. Accessed July 2017.*

- Improve client experience
- Create growth opportunities for their business
- Spot key trends and act upon them
- Improve decision making
- Automate compliance reporting requirements
- See the big picture across the whole enterprise

The benefits of business analytics

The latest breed of innovative data analytics platforms have a wide range of functionality, and new additions and upgrades are evolving rapidly as the technology matures. Now, any financial advisor with a laptop can use capabilities that once would have been only available to the most sophisticated and tech-savvy financial services firms.

In turn, this has changed the traditional client engagement model. Clients are increasingly looking to financial advisors to be more than just investment specialists that execute transactions or deliver financial plans. Asset allocation has typically been the main value-add for advisors. But now there is more of a need to be a full-service advisor; to act as the client's financial advocate and advise them on all aspects of their financial life. Indeed, the most productive advisors are looking beyond purely transactional business to build deeper client relationships and meet a wider range of needs. For this, they need access to the right data as well as the technology to manage it effectively.

Analytics platforms have many benefits for advisors and firms, from helping them to grow assets under management, to improving their decision making and allowing them to provide a more personalized and effective service for their clients.

Know your business to grow your business

Leading analytics platforms are able to consolidate data from a wide range of sources. These can include accurate and detailed information on held-away assets or other important documents, which give an advisor far greater awareness of the complete holdings and activities of their clients. The more advanced systems allow an advisor to get a single view of their entire client portfolio in one location, such as a dashboard or portal. As opposed to working on a single client at a time, an advisor can quickly view, analyze, and compare data from across their entire business or office.

This capability enables advisors and firms to stay informed about their clients' financial activities, while helping them identify service gaps and potential sales opportunities.

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HELD-AWAY, NOT LOCKED AWAY

One major opportunity for growth is held away assets, which can typically account for between 20-40 percent of a client's portfolio. Considering the cost and effort involved in acquiring new clients, being able to organically increase assets under management (AUM) by targeting existing clients is a common goal for advisors. But in order to do this effectively it is important they have visibility on both the value of assets held away as well as where they are held away. For instance, if an advisor knows a lot of their clients have assets held away in life insurance, they can focus their efforts specifically in that area. Armed with this kind of detailed information, advisors are able to better target specific clients with relevant marketing initiatives.

RETENTION: THE ROAD TO EXPANSION

Another, often undervalued, way for advisors to expand their business is through better client retention. According to one survey, advisors that retained 95 percent of their clients over a three-year period increased their AUM by 25 percent.[3]

Analytics platforms can help in this area as they enable advisors to provide a better service, thus creating more loyalty. After all, if you have detailed knowledge about a client's entire financial situation and are tracking their most important data points in real-time, you are in a better position to give more relevant and useful advice. For example, an advisor may run a list of clients that have mortgages and see what rate they're paying and recommend they refinance. Or they can screen clients with a certain type of insurance to identify service gaps.

Being able to segment client data by a range of indicators — such as age, income, profession and net worth — creates additional opportunities. By understanding the type of person they are, and how their specific financial needs may change over time, advisors can develop more relevant strategies.

Such capabilities allow advisors to build deeper relationships with their clients, with the aim of becoming their trusted go-to resource. What's more, higher retention rates also result in higher practice valuations.

According to one survey, advisors that retained **95%** of their clients over a three-year period **increased their AUM by 25%**.

Start evaluating!

Think carefully about the data you have access to and provide answers where you can:

- Do you know the percentage of assets held away by each client?
- Do you know the typical areas or institutions where those assets are held away?
- Do you charge for counsel on held away assets?
- Do you have a marketing plan for increasing your AUM?
- Do you segment your clients by age, profession, net worth or other key indicators?
- Are you able to benchmark your performance against other advisors?
- Are you able to spot trends across different groups of clients?

[3] *Forbes, 'The keys to client retention.' Available at: https://www.forbes.com/sites/advisor/2014/01/16/the-keys-to-client-retention/#9f3d7916a1c1. Accessed April 2016.*

Creating a hyper-customized experience

The first graphical methods of displaying statistics were developed by economists in Scotland in the 18th century and consisted primarily of hand-drawn bar charts and pie charts. The approach spread rapidly as it became clear that humans tend to understand and retain data better when it is visualized. In fact, research has shown that the brain processes visuals 60,000 times faster than text.

In the last decade, data visualization technology has advanced quickly, tied to faster processing times and improved graphical elements. Now, the most complex of data can be turned into detailed charts at the click of a button, and updated in real time. For financial advisors, the ability to visualize the key data points that are most relevant to their business is an important competitive advantage. Being able to slice and dice information in a variety of ways means advisors can pinpoint the specific opportunities they are searching for. For example, being able to rank clients by net worth allows advisors to quickly understand where to focus their efforts.

Data visualization makes it easier to understand complex data sets, recognize patterns, and find exceptions. This can be especially important when communicating with clients. By leveraging these tools, advisors can help clients to understand how their assets are performing and what the impact of different financial decisions can have on the short and long term.

Can you easily access all the business metrics that are most valuable to your practice?

Enabling critical conversations with your clients

Good communication is the cornerstone of all client relationships. But in order for it to be truly effective, it has to be relevant, meaningful, and timely.

A globally conducted study by Salesforce recently showed that the second most common reason a client would change financial advisor was lack of communication.[4] Indeed, in the U.S., over 40 percent of advisors contact their clients once a year or less.[5]

Research has shown that **the brain processes visuals 60,000 times faster than text.**

Start evaluating!

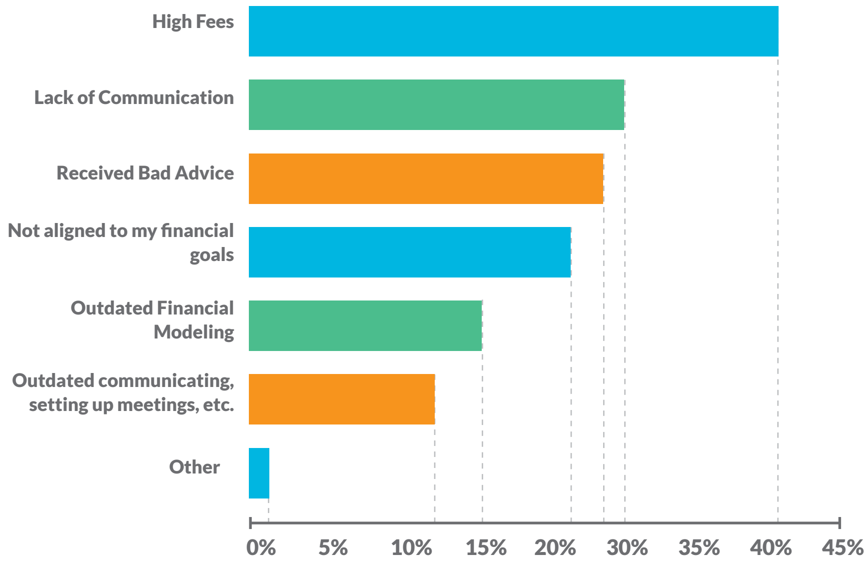
Think carefully about the way you currently break down your information and provide answers where you can:

- Do you have filtering tools to deep-dive into your data?
- Can you customize your dashboard and present the exact information that is most relevant to you?
- Can you see over-time metrics for held-away assets, or assets under management?
- Are you able to visualize key data points?
- Can you rank clients by net worth?
- Can clients get visualizations of how different decisions might impact their assets over time?

[4]Salesforce, 'Connected Investor Report.' Available at: https://secure.sfdcstatic.com/assets/pdf/industries/2016-connected-investor-report.pdf. Accessed April 2017.

[5]Bloomberg, 'Fund managers to increase spend on data analytics.' Available at: https://www.bloomberg.com/professional/blog/fund-managers-to-increase-spend-on-data-analytics/. Accessed April 2017.

Figure 2:
For which of the following reasons would a client change their financial advisor?



Source: Salesforce, n=2,424

The most advanced platforms include personal financial management portals where an advisor's client can log in and view their complete financial picture. These client portals are loaded with data and, if connected to a system that tracks usage and engagement, can be a powerful source of information for advisors. When that advisor has access to an analytics platform that helps them make sense of that client data, the possibilities are immense. For example, an advisor can see how often their clients are engaging with their finances online, how they interact with their personal financial websites, and what functionality they are using. This gives advisors an informed reason for contact based on their client's actual usage, with clear topics they can talk about.

This also translates into better service. Each touch point provides an opportunity to give advice or offer additional services. And continuous engagement throughout the year — even if it is just a phone call or an interesting article shared by email — can help to make clients feel more comfortable and connected to their advisors. In a period of market volatility, this personal touch can help clients feel supported and empowered.

Start evaluating!

Think carefully about the way you communicate with your clients and provide answers where you can:

- Do you have accurate data on what features your clients interact with in their online portals?
- Can you track how often your clients use their portals, and why?
- Do you leverage this information to inform your communications with key clients and reach out to them on a monthly basis?
- Do you communicate with your clients on the channels they prefer (email, phone, SMS, online)?
- Do you know the key areas and topics your clients are most interested in?
- Do you provide resources that your clients find useful (articles, newsletters, case studies)?
- Do your clients feel supported and empowered?

Turning data into decisions

Ultimately, having a sophisticated analytics platform allows advisors to put data at the core of the decision-making process. By being able to track crucial client and market data in real time, they can make more informed decisions. For example, rather than working on intuition or rudimentary predictions, they can use Monte Carlo simulations to determine the success of a financial plan. As a result, advisors are able to take action with more confidence, because they are taking a solid data-driven approach.

PREDICTIVE ANALYTICS AND THE FUTURE OF WEALTH MANAGEMENT PLATFORMS

The next wave of functionality is likely to center around predictive analytics. By constantly analyzing the data available, artificial intelligence (AI) systems will be able to recommend next best actions for clients based on sophisticated algorithms. This will help advisors make better decisions and improve their service. Alternatively, predictive analytics could be set up to give clients early warnings if they are overspending, or if assets are at risk from regulatory changes, helping them to be more proactive, rather than reactive. Another example would be for sophisticated systems to anticipate a major shift in clients' circumstances, such as marriage, retirement or parenthood, and predict which clients are about to experience these events. With such information, advisors can then amend their suggestions accordingly and better anticipate client needs.

Improving compliance

One area that analytics platforms can prove to be invaluable is in helping advisors stay compliant with the changing regulatory landscape. This is especially relevant with the Department of Labor's (DoL) Fiduciary Rule, which has sent shockwaves throughout much of the advisory industry. The regulation imposes a fiduciary standard on advisors who make investment recommendations to qualified retirement accounts. In essence, advisors will have to demonstrate that every decision they make is "in the client's best interest". This could have an impact on what services advisors can provide, as well as how they document those services to ensure they remain compliant.

Some advisors have seen the DoL rule as a reason to adapt their business focus. But to react effectively, they must have accurate information. An analytics platform can enable advisors to identify gaps in service to comply with DoL standards. For example, advanced charting tools could give a breakdown of all retirement assets under management, showing which clients will be impacted by DoL, and allowing the advisor to act accordingly.

Start evaluating!

Think carefully about the way you currently make key decisions and provide answers where you can:

- Can you get a complete breakdown of all the data relevant to your practice?
- Do you have a central, easy-to-access view of each client's assets?
- Do you have access to real-time information?
- Do you use predictive analytics — such as Monte Carlo simulations — to help decision making?

Start evaluating!

Think carefully about the way the DoL Fiduciary Rule will impact your business and provide answers where you can:

- Can you easily identify which clients will be impacted by the DoL Fiduciary rule?
- Do you have tools to make sure that you remain compliant?
- Do you have an accurate idea of retirement assets under management?
- Do you have a way to automate and aggregate the latest account data?
- How do you stay abreast of any changes to a client's financial goals?

Analytics for enterprises

Although the main benefits of business analytics systems remain similar, whether they are used by an individual advisor or an enterprise, larger firms often require different tools and functionalities. After all, they usually have more scale — both in terms of number of clients and assets under management. In addition, they have the business itself to run, which can span from a few advisors to multiple offices in different locations. As a result, it is vital that they have systems that can quickly organize and make sense of high volumes of data from a multitude of sources. Yet, according to a recent survey by Ernst & Young, 87 percent of asset managers claimed their firms were not capturing the entire value from data.

Dive deep into your business metrics

For enterprises, being able to get a firm-wide view at a click of a button is a major advantage. A customizable dashboard could, for example, allow a manager to see which advisors in their office are generating the highest returns. A manager could then potentially change the incentive structure to reward those with the best results. Alternatively, if some advisors or offices are having difficulties, they can be identified quickly and support can be offered to help get their performance where it needs to be. Not only are analytics systems able to facilitate critical and relevant conversations with clients, but they can provide the same functions with team members.

Armed with the ability to closely monitor all assets under management and accurately benchmark the performance of their team, managers can boost productivity across their firm. In turn, this generates a clear return on their technology investment.

Grow your business by pursuing opportunities

As the management theorist Peter Drucker famously stated: “Results are obtained by exploiting opportunities, not by solving problems.” One of the most crucial advantages of the latest generation of technology is that it can help financial firms and home offices identify the right opportunities to pursue. For example, ranking clients, advisors, or even offices by assets held away, enables a manager to quickly and easily see which areas to focus on to generate top-line growth. Or, alternatively, by analyzing the average age of clients, firm managers can see if their advisors are hitting the right demographics to make sure the future of business is protected.

Becoming a trusted digital partner

With more financial data than ever being shared, there is a growing need in the financial services sector for clear visibility surrounding data permissions, backed by robust regulation. Firms that can become trusted recipients of a wide range of client data, have the potential to offer an even more comprehensive surface. But there is still work to do. Only 47 percent of high net worth individuals in the U.S. trust their wealth managers with personal data.[6]

[6]PwC, *‘Sink or swim: Why wealth management can’t afford to miss the digital wave.’ Available at: https://www.pwc.com/jg/en/publications/pwc-wealth-management-sink-or-swim-why-wealth-management-cant-afford-to-miss-the-digital-wave.pdf. Accessed April 2017.*

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Technology to support decision making

Being able to get a complete breakdown of their business can help managers make better and faster decisions. For instance, access to historical trend reporting can allow managers to monitor the growth of their firm closely, and take decisive action if targets are not being met. What's more, they can have more confidence in their decisions as they are backed by hard data.

Alternatively, they can closely watch over firm-wide initiatives and track progress. If the company has a goal of increasing digital engagement with their client book, they can see how this is panning out. If the goal is to increase AUM over a period, they can view performance against their plan.

Likewise, managers can get a firm-wide view of all relevant data regarding compliance. This is especially important in DoL-era where advisors need to be able to clearly demonstrate that they are meeting fiduciary requirements.

Succession, exit, retirement

Business valuation — Estimates are not enough

Many financial advisors reach a point in life where they have both significant personal wealth, as well as the means to generate retirement income, tied up in the value of their practices. As a result, their focus turns to succession planning, whether that involves passing their business on to the next generation or selling it outright. In the U.S., it is estimated that by 2025, 70,000 financial advisors, managing $2 trillion in assets, will retire.[7]

Preparing a financial advisory business for sale with an accurate valuation is one of the most challenging aspects of planning for succession. Many financial advisors delay calculating exactly how much their practice is worth until the need to do so is close at hand, not unlike the propensity of the average person to delay planning for retirement.

Start evaluating!

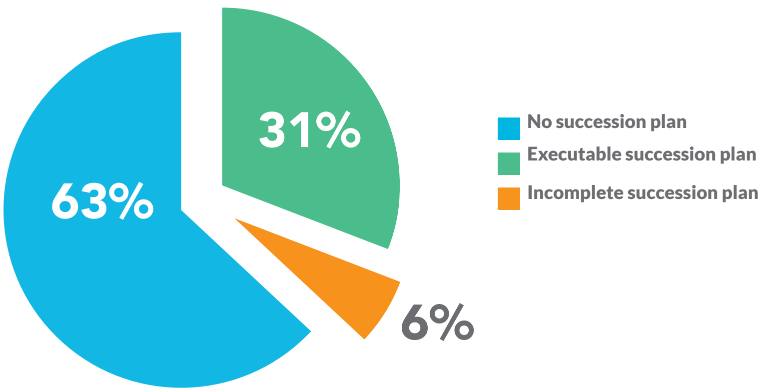
Think carefully about the visibility you have across your firm and provide answers where you can:

- Can you get clear visibility on assets held away across your entire firm?
- Can you benchmark your team members to see who is performing the best?
- Can you monitor the growth of your firm by accessing metrics over time?
- Are you confident in your ability to track metrics to demonstrate DoL compliance across your whole firm?

[7]SSGA, 'The advisor retirement wave.' Available at: https://www.ssga.com/investment-topics/defined-contribution/2016/The-Advisor-Retirement-Wave.pdf. Accessed April 2017.

There are a variety of different assumptions to be made about future valuation. Gross revenue multipliers, the quality of practice cash flow, the risk of transitioning clients to a new advisor, the demand of the local marketplace as well as the length and terms of financing are all factors that can be used to value a practice. This is information that some advisors are unfamiliar with.

Figure 3: Succession planning status of financial planners



Source: Aite Group

Analytics technology can provide advisors and firms with the means to simply and accurately value their business, as it enables quick visibility into the most important data points that underpin accurate forecasts (see Box 2). The alternative is to potentially overvalue or undervalue the business. An overvaluation can lead to difficulty finding interested prospects and closing the sale, while undervaluation could mean receiving less for the business than it is worth, and having less to retire on or invest elsewhere. Also, without this information, advisors could run the risk of breaching regulations.

According to recent research, the average advisor looking to exit valued their business at 2.7 times total revenues. But the average price paid was 2.1 times revenues, representing a 23 percent difference.[7] This highlights the importance of a more reliable method of valuation.

Key valuation drivers of a business

— Client age and tenure

— Business location

— Assets under management

— Assets held away

— Revenue mix

— Product mix

— Client retention post-deal

— Operations and technology platforms

— Financial terms of the deal

Source: SSGA, eMoney Advisor

[7]*SSGA, 'The advisor retirement wave.' Available at: https://www.ssga.com/investment-topics/defined-contribution/2016/The-Advisor-Retirement-Wave.pdf. Accessed April 2017.*

New SEC regulations on valuation

The SEC has recently instigated a new rule that would require registered investment advisors to adopt and implement written business continuity and transition plans. This is understandable as it is estimated that 63 percent of financial planners don't presently have a succession plan.[8]

The proposed rule would help address operational and other risks related to potentially significant disruptions in the practice's operations, and also help minimize client and investor harm.

Financial advisors might despair at the prospect of another rule forcing them to do more non-revenue generating work, but if enacted it could be beneficial. It will force advisors who do not have a succession plan to get one, and therefore better prepare themselves for one day giving up their business.

But those advisors not armed with the latest technology may find the requirements burdensome, despite the potential benefit.

The more advanced analytics platforms come with the tools to help with changes like the SEC's proposal. Advisors can use the analytics software to collect, analyze and report on data, which can help address requirements for this and future changes in rules and regulations.

Conclusion: The importance of integration

Financial advisors, firm managers, and home office decision makers are facing many challenges as digital technology continues to disrupt their industry in ways that would have seemed unfeasible only a few years ago. What's more, the pace of change is only increasing as the technology powering it advances. But there is also great opportunity for those that embrace digital transformation and lead change rather than merely react to it. Used effectively, technology should enable advisors to provide new heights of service for their clients, as well as gain greater insight into their own businesses. Analytics are at the heart of this. As the volume of data available to advisors and their businesses increases, there is more need than ever for systems that can consolidate this information and provide meaningful insights. The age of big data is already upon us. The challenges of the future will be how to integrate and manage these information flows effectively. Those that succeed in this area, and are able to harness the full capabilities that the technological revolution offers, will have huge advantages. Those that don't, will find it increasingly difficult to compete.

Start evaluating!

Think carefully about the succession planning across your firm and provide answers where you can:

- Are you looking to retire in the next ten years?
- Do you have a succession plan in place?
- If not, do you have a reliable methodology for valuating your business?
- Do you have access to the right data to create accurate forecasts (AUM, assets held-away, demographics, revenues mix)?
- Do you have a strategy for ensuring client retention after succession?

[8] *Wall Street Journal. 'Succession-Planning Tips for Financial Advisers.' Available at: https://www.wsj.com/articles/succession-planning-tips-for-financial-advisers-1457699402. Accessed April 2017.*

Start evaluating!

Best in class analytics platforms provide visibility on a variety of different data types. What are you currently tracking?

1. Advisors and AUM over time
2. Advisors and clients over time
3. Advisors over time
4. Asset status
5. Assets held away by account type
6. Assets held away by institution
7. Assets under management over time
8. Assets under management by account type
9. Client website last logon
10. Client websites
11. Clients & AUM over time
12. Clients over time
13. Clients by age group
14. Clients with Active websites by age
15. Liabilities held away by account type
16. Liabilities held away by institution
17. Liabilities under management by account type
18. Liability status
19. Top advisors by assets held away
20. Top advisors by assets under management
21. Top clients by assets held away
22. Top clients by assets under management
23. Top held away holdings
24. Top offices by assets held away
25. Top offices by assets under management
26. Top under management holdings
27. Advisor net worth
28. Fiduciary rule – retirement assets under management
29. Retirement assets held away
30. Fiduciary coverage