The Breakaway Advisor's Guide

Introduction

In the registered independent advisor (RIA) sector, both assets under management (AUM) and headcount have doubled in the past decade according to recent research by Cerulli Associates. Growth is set to remain strong as advisors continue to break away from wirehouses and either join established RIAs or create their own practices.[1]

There are many factors driving this trend, including advisors' desire for more autonomy, the potential for higher remuneration, as well as the expiration of many of the long-term retention deals signed in the wake of the financial crisis. In addition, advisors have an incentive to explore independent channels because a number of wirehouses are exiting from the broker protocol, which is preventing advisors from moving between broker-dealers and taking their clients with them.

But there is another major factor in play: technology.

The emergence of sophisticated, financial technology is encouraging many advisors to break out on their own. From powering business development to delivering advice, servicing client relationships, and managing compliance, the availability of such a supportive and increasingly accessible tech environment is making it possible for advisors, even those with limited capital and human resources, to achieve more with less and out-compete their more established peers.

However, it is essential that advisors looking to break away make the right technology choices for their new RIA. Not only is the competition fierce—nearly 17,000 RIA firms operate in the U.S. alone[1]—the cost and risk of selecting the wrong technology is high.

This white paper will explore the current trends and challenges in the RIA market and serve as a guide to help breakaway advisors understand how technology can drive success.

Challenges and Opportunities for Breakaway Advisors

Market Conditions Remain Strong

For advisors who are considering breaking away, conditions in the RIA sector are positive, with lots of opportunity for new entrants. Growth in the RIA market has been resilient over the past decade, both in terms of headcount and AUM. Cerulli research also shows that, between 2007 and 2017, the number of advisors at independent RIAs and hybrid RIAs, those affiliated with a broker-dealer, almost doubled, reaching 63,202 at the end of 2017. Currently, one-fifth of all advisors in the U.S. are associated with an RIA.

AUM for the industry has grown 128 percent over the last decade to reach $4.7 trillion.[1]

Smaller RIAs with AUM between $100 million and $500 million are seeing more year-over-year and five-year growth rates than their larger counterparts.[1] As RIAs grow, they may experience capacity constraints and require professional management, impacting their firm's bottom line.[1]

Breakaway advisors focused on bringing new clients through the door, as well as increasing share of wallet for existing clients, can do so by offering higher value services and upgrading the customer experience, which are likely factors in the decision to go independent in the first place. A well-designed tech stack can help breakaway advisors in almost all aspects of running an RIA and, in the early days, can often be the key to building a successful firm.

WEALTH MANAGEMENT TECH:

Powering RIA Productivity and Organic Growth

The availability of sophisticated tech platforms has made it easier for advisors to strike out on their own. Integrated firm-wide platforms now provide levels of scale, infrastructure, and oversight similar to those found at broker-dealers and wirehouses. These platforms also include specialized applications that add value to an advisor's business.

Attracting New Clients

Acquiring new clients can be a challenge in the RIA sector. Fifty-six percent of RIAs consider referrals from clients, friends, or family members as a major source of new clients, while only 21 percent cite prospecting and marketing. But research from Investment News has shown that business development and marketing are three times as effective as referrals for bringing in new AUM.[2]

For breakaways looking to develop a marketing program and create an independent brand, technology can be a key enabler, helping with everything from prospecting to creating and distributing content. Although often overlooked, marketing technology has an impressive return on investment: On average, companies that use marketing automation decrease marketing overhead by 12 percent and increase sales conversions by 53 percent.[3]

MARKETING TIP:

Building Relationships Through Meaningful Content

A good time to find new clients is when they are transitioning between life stages, such as the birth of a first child, death of a parent, or an imminent retirement. By sharing content across different online channels, advisors can build relationships with members of their target audiences. For example, an advisor can share an eBook or video tutorial with financial insights for new parents, and promote it with targeted social media ads. They can then follow up with a series of shorter financial content pieces that are easy to read. To reduce marketing overhead, advisors can adopt a platform that includes a library of relevant digital content and videos. Tools that automate the publication of emails and newsletters reduce the pain of nurturing prospects.

But to grow organically, advisors must not only generate new client relationships, they also must retain and expand their relationships with existing clients. Such a strategy requires high-quality, personalized service. It also requires the ability to scale so that as the business grows, the customer continues to enjoy an excellent experience.

Providing Personalized and Scalable Planning Services

One of the benefits of becoming an RIA is the autonomy that advisors gain to broaden and deepen their planning services. They have more flexibility to customize solutions to help clients reach their goals. But according to recent research from Cerulli Associates, the number one challenge facing RIAs is selecting, maintaining, and integrating technology.[1]

Financial planning software can play a key role for newly established RIAs, helping smaller firms scale more complex planning services and giving them similar capabilities and reach as their much larger rivals.

Traditionally, financial planning software has focused on either goals-based planning or cash flow. However, these distinctions are disappearing as the best systems integrate both, allowing advisors to track both a client's cash flow and how it relates to—and impacts— their long-term goals.[4]

Benefits of Full Spectrum Financial Planning Software

- RIAs are selling advice, so it must be comprehensive and meaningful
- Solution grows with clients' needs from goals-based to cash flow planning
- Advisors can offer a wider range of services, such as estate planning and tax planning
- Plans can be created with a click of a button, saving time and increasing productivity, so advisors can service a larger number of clients
- Real-time updates allow for continuous planning, helping to ensure clients stay on track when their circumstances change
- Advisors can better meet clients' best interest based on an accurate understanding of the client's financial situation
- Provides one of the highest ROIs of all advisor tech

Source: eMoney Advisor

Advisors can also use these integrated solutions to attract next-generation clients. They can help Millennial clients pay down student loans or save for their child's education with goals-based planning, and seamlessly transition to cash flow planning as their needs grow.

As a result, advisors are able to create plans with greater breadth and scope than was previously possible. In fact, financial planning technology can also enable advisors to expand their services and move into new high-value areas such as charitable giving or estate and tax planning.

The key is to adopt a solution that supports clients with planning needs appropriate to their stages of life—from early accumulation through retirement.

The most sophisticated planning software also updates a financial plan based on real-time data, such as interest rates or university tuition. Rather than creating a static output that is refreshed only once or twice a year, the advisor can offer a continuous planning service, which carefully tracks the client's progress over time and allows for adjustments when necessary.

Recent research shows that advisors, especially members of the next-generation, consider financial planning solutions as one of the most valuable technologies available.[5] These platforms empower advisors to create more sophisticated plans, with real-time and interactive features, which may increase the fees they can charge. Because the software automates much of the planning process, advisors can focus on delivering more meaningful services to more clients. And they can drive growth by providing real, tangible value in every client relationship.

Using a digital personal financial management solution helps the average investor cut expenditures by almost 16 percent in the first four months of use.[6]

An advanced client portal doesn't just display key financial metrics, it also promotes collaboration. Charts within the portal help clients visualize how plan adjustments and life events will impact their goals. The portal becomes the focal point of real-time planning discussions. The combination of a client portal and collaborative financial planning creates a strong value proposition because many clients want to review their financial situations and control their plans.

Increasing Automation and Efficiency

After RIAs have launched their practices, they will need to balance customer service with business development and business management. When purchasing new technology, 72 percent of independent advisory firms viewed the client experience as one of three top considerations, and 65 percent cited productivity gains.[7]

Newly established firms may not have a large support staff. The key to managing limited resources is automation, which reduces time spent on tasks and increases efficiency and client service.

Account aggregation puts this into practice. In its basic form, account aggregation solutions automatically pull a client's financial information from various account sources and present it within a single view. The time savings are significant as the advisor is relieved of having to manually collect, enter, and maintain a client's financial information. Advisors can spend more time building relationships and creating personalized financial plans.

With an aggregation platform, RIAs can quickly onboard a new client and evaluate the client's financial situation. What's more, the information is automatically updated daily, allowing advisors to deliver the most appropriate advice—a key fiduciary requirement.

Importantly, as these account aggregation systems become more advanced, they can work with a broader array of inputs to present a more complete view of a client's financial picture. Advisors can take this information to deliver more in-depth and holistic planning. For instance, some tools can capture all household assets including bank and savings accounts, specialized accounts (health savings accounts or college savings accounts), and other asset types such as real estate investments. Others can also aggregate all client cash inflows and outflows and track the household balance sheet. These typically categorize transactions and show exactly where a client's money is coming from—and where it's being spent. Such an approach gives the advisor a highly granular and nuanced view of a client's financial situation, allowing them to provide—in real time—more effective advice and thorough answers to clients' questions.

Sourcing Data

The use of account aggregation is growing among firms: The adoption rate increased from 53 percent in 2013 to 68 percent in 2019.[8,7]

There are two methods to aggregate data: screen-scraping and APIs.

A less reliable process, a screen-scraping service reads the screens of a client's financial institution and extracts the data, field by field. APIs, which are custom-built solutions that create a direct connection between the aggregation service and the financial institution, are becoming more prevalent. The benefits of these data feeds include higher levels of security, real-time updates to account information, and more accurate views of the client's financial situation. When selecting an aggregation provider, it's important to understand this methodology and consider whether the process is flexible enough to evolve with future regulatory and market trends.

The efficient collection of financial data is only the first step to improving the client experience, however. New RIAs and their advisors also need tools that help them analyze and draw meaningful insights from the data.

Benefits of Account Aggregation Technology

- Automate the input of client account information
- Eliminate manual processes to free up time to build client relationships
- View a client's entire financial picture from a single interface
- Perform more in-depth and meaningful planning in real time
- Gain insight into held-away assets to identify opportunities to expand services
- Promote a continuous planning experience with financial information that is regularly updated
- Meet advisor fiduciary requirements

Streamlining Compliance and Mitigating Risk

Although technology can improve service offerings and deepen client relationships, some of the most important and useful tools are not client facing. Nowhere is this more evident than in compliance and reporting. Managing a new regulatory environment can be challenging for breakaway advisors, many of whom will have to adhere to a fiduciary standard for the first time.

Eighty-three percent of independent advisors consider compliance to be a major or moderate challenge.[1]

Compliance is an issue for hybrid RIAs, which can face potential conflicts of interest and tend to experience additional regulatory scrutiny.

Per SEC and FINRA regulations, advisors must record all electronic communications, including email and text. As a result, RIAs need sophisticated IT systems that can automatically archive all client-advisor communications. Secure document storage, including records of deleted documents with version control, is also necessary, as is the ability to demonstrate compliance through turnkey reporting. And by opting for a third-party platform that evolves with the regulatory environment, RIAs insulate themselves from the expense of readdressing compliance needs in the future.

Securing Sensitive Financial Information

It is not just regulatory compliance that RIAs must be concerned with, however. Advisors must also be vigilant about data breaches that target clients' sensitive personal and financial information. When selecting a technology vendor, advisors should carefully vet the vendor's data security credentials. As well as having secure data transmission protocols and network protection, it is important that the vendor practices comprehensive physical security measures to prevent on-site breaches.

In their 2019 Thales Data Threat Report, IDC noted that 60 percent of organizations stated they have been breached.[9]

If in doubt, consider a site visit to understand your software vendor's security protocols.

Nine Security Features to Consider When Selecting a Partner

When dealing with highly sensitive financial data, it is essential that your software provider ensures:

1. Secure data transmission and sessions
2. Guaranteed network protection
3. Reliable disaster recovery and data backup protocols
4. Robust building access control and physical security protocols
5. Environmental controls in the data center
6. Fire detection and suppression systems
7. Protected power source and backup systems
8. Comprehensive background checks on key personnel
9. Annual third-party assessments, including a SOC 2 audit

Integration, Implementation, and Training: An Important Consideration

Although implementing a tech-stack for a new RIA can seem daunting, it doesn't need to be. The key is to plan early, ideally 12 months before going independent, and to have a well thought out strategy.

One option is to partner with a company that offers a suite of solutions and that can work closely with you to configure them to your specific needs. Ensure the tech solutions are seamlessly integrated and, where possible, include features like single sign-on and multiple deep data feeds within the applications. In fact, recent research has shown that RIAs with an integrated tech stack spend 19 percent more time on client-facing activities, such as creating financial plans or holding meetings with customers.[10]

It's also important for an RIA to choose a platform that aligns with their long-term technology roadmap and integrates new or enhanced capabilities as the business grows and tech needs evolve. Be sure to review your vendor's services, including training, support, and professional services to maximize your investment.

Regardless of which solution is selected, advisor onboarding and on-going staff training is critical for success. The best vendors will create extensive and customized programs, offering live training, self-guided learning systems, and robust internal communication and marketing resources to mitigate issues and ensure that staff are maximizing the firm's investment in the technology.

Start Early and Have a Plan

Technology Planning Timeline

12 Months Out

- Conduct technology needs assessment
- Research technology vendors

9 Months Out

- Select vendor and discuss software configuration options, including:
  - Infrastructure requirements
  - Customization
  - Integrations
- Develop a plan for implementation
- Define training expectations

3–6 Months Out

- Complete hardware installation
- Begin staging and testing of software
- Develop workflows

Launch RIA

- Train staff

1–3 Months Post-launch

- Troubleshoot and resolve issues
- Develop plan for continuing training and implementing best practices

Conclusion

In recent years, the RIA sector has been one of the most dynamic and exciting in the financial services industry, and we expect advisors to continue to break away. However, making the transition from a wirehouse or broker-dealer to an RIA has its challenges. Breakaway advisors need to consider how technology can support their prospective businesses. If executed well, technology can drive success, helping even small firms win against much larger competitors.

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