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Subtract, Add, Multiply – The Formula to Efficiency

Optimizing Advisor Productivity Through Technology

Executive Summary

Wealth management providers are experiencing an increased demand for comprehensive advice while their most productive advisors approach retirement. Overcoming these constraints will require the deployment and adoption of enhanced wealth management technology platforms.

Key Points

- A pivot to holistic advice offers advisors the ability to deepen their understanding of their clients' concerns and identify additional solutions that can substantially improve clients' outcomes, thereby creating a mutually beneficial feedback loop.
- Technology will transform the basis of advisory relationships from being centered on accounts and products to being focused on managing progress from the clients' perspective. Clients' most valued aspect of their wealth management experience is personalized advice from a trusted partner.
- The most addressable opportunity to free advisor time is the creation of workflows to delegate standardized procedures within an advisory practice.
- By providing extensive portfolio guidance options through a robust unified managed account (UMA) platform, firms are able to share their established best practices while allowing discretion to remain at the practice level.

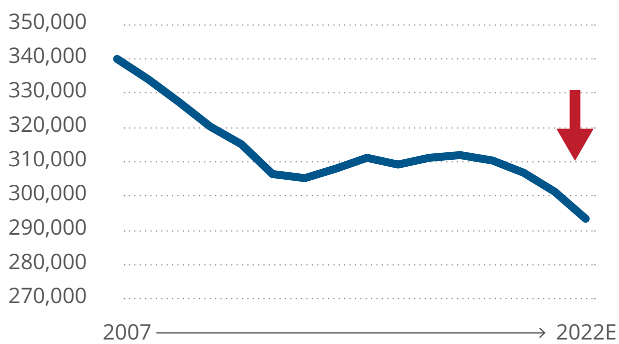
Key Implications

- Instead of existing at distinct points along a digital-to-human-advice continuum, provider firms will need to offer platforms that allow their advisors and clients to choose which parts of their relationships will be digitally enabled.
- By optimizing platforms to assume or streamline managerial and process-driven activities, firms can more than double the time advisors are able to spend on their most valuable functions.
- To maximize their value, integrated wealth management platforms must be designed with the goal of improving workflows from day one, but also with built-in capacities to be developed to address evolving client needs.
- By showcasing successful use cases, firms can create an incentive for practices that experience the same challenges to devote resources to engaging with the new platform. With enough momentum, the platform should become the core delivery element of the firm's client service model, and, ultimately, its culture.

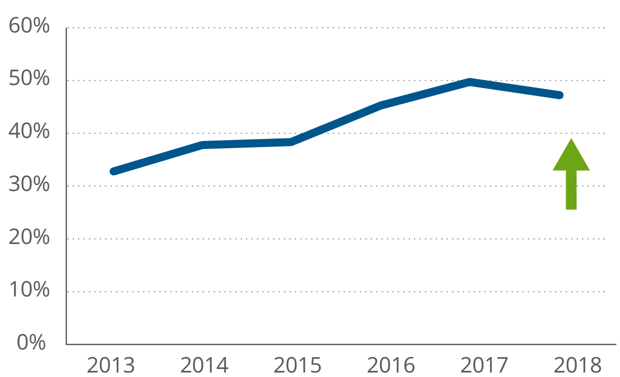
The Perfect Storm of Advisor Capacity Challenges

Demographic realities and investor preferences are combining to create a crucial inflection point for the evolution of the traditional financial advice market.

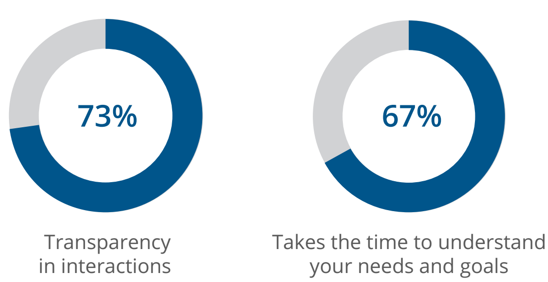
Advisor Headcount, 2007–2022E



Comprehensive Ongoing Planning Advice, 2013–2018



Top Factors in Choosing an Advisor, 2Q 2018



Since 2007, the headcount of full-service financial advisors serving U.S. investors has fallen more than 8% from nearly 340,000 in 2007 to 311,000 by year-end 2017. Cerulli projects the continued attrition of experienced advisors will drive this number below 300,000 by 2022, as the average advisor age is now more than 50 years old. Unfortunately, the departure of these advisors is highly correlated to the retirement of their clients, which only increases the depth of demand for advice on the vital financial decisions facing them as they enter the next stage of their lives. Instead of investing in growth initiatives, advisors frequently struggle to service their existing client base.

At the same time, advisory practices are facing the threat of commoditization of their services and have widely embraced financial planning as means to emphasize their value. Since 2013, Cerulli's advisor survey has found the proportion of advisors' clients receiving comprehensive ongoing advice has grown from 33% to 47% in 2017. This pivot to holistic advice offers advisors the ability to deepen their understanding of their clients' concerns and identify additional solutions that can substantially improve clients' outcomes, thereby creating a mutually beneficial feedback loop.

This pivot toward planning has the added benefit of aligning advisors with the preferences of prospective clients. When asked what factors are most important to them when seeking a new advisor, transparency (73%) and an advisor's willingness to spend the time necessary to understand their needs and goals (67%) are the leading responses. Investors simply want to be confident that their advisors are listening to them and then crafting a plan to help them achieve their personal financial goals.

Addressing an increased demand for elevated advice in the face of falling advisor headcount is a primary obstacle facing firms in the financial services segment. Delivering truly customized holistic advice has proven resistant to scaling for a variety of reasons. At the practice level, leading firms are adding younger staff members to take on advisors' administrative tasks, but this frequently leads to increased complexity, which ultimately offsets targeted productivity gains. To succeed in this market, provider firms must substantially increase their ability to provide technology that allows advisors to implement processes to serve the increasing advice needs of clients more efficiently.

Subtract, Add, Multiply – The Formula to Efficiency

Over the last decade, the emergence of digital advice capabilities has created an industry-wide debate about the advantages of "robo-advisors" and the emergence of "hybrid" platforms that pair digital platforms and human advisors. However, Cerulli believes that this is something of a false construct. Instead of existing at distinct points along a digital-to-human-advice continuum, **provider firms will need to offer platforms that allow their advisors and clients to choose which parts of their relationships will be digitally enabled.** Rather than a distinct hybrid segment, virtually every advisory practice will operate as a hybrid by necessity, leveraging both digital and human elements to best align with each client's preferences.

Implementing and then continuously enhancing flexible technology platforms that allow advisors to maximize their client engagement levels and practice-level efficiency will increasingly become a primary differentiator for provider firms. Cerulli's 2018 survey of high-net-worth platform providers reinforced this concept with technology-focused efficiency gains and improved client experience ranking behind the required regulatory updates and the vital protection of a firm's reputation as crucial strategic initiatives in the short term.

When asked for the precise goals of increased technology spending, platform providers first focused on the importance of strengthening their overall competitive position (94%), before drilling down on the specifics of enhanced client (81%) and advisor (75%) engagement. Provider firms have clearly recognized both the challenges their advisorforces are facing and the opportunity to differentiate themselves by delivering exceptional platforms to connect clients and advisors in a mutually advantageous environment.

EXHIBIT 1

Top Strategic Initiatives for Wealth Management Providers, 2018

Source: Cerulli Associates

- Manage compliance and regulatory requirements
- Manage reputation or cultural risk
- Gain efficiencies through greater technology adoption
- Implement digital capabilities to improve client experience

Providers can substantially increase the value of their platforms by focusing on three core objectives:

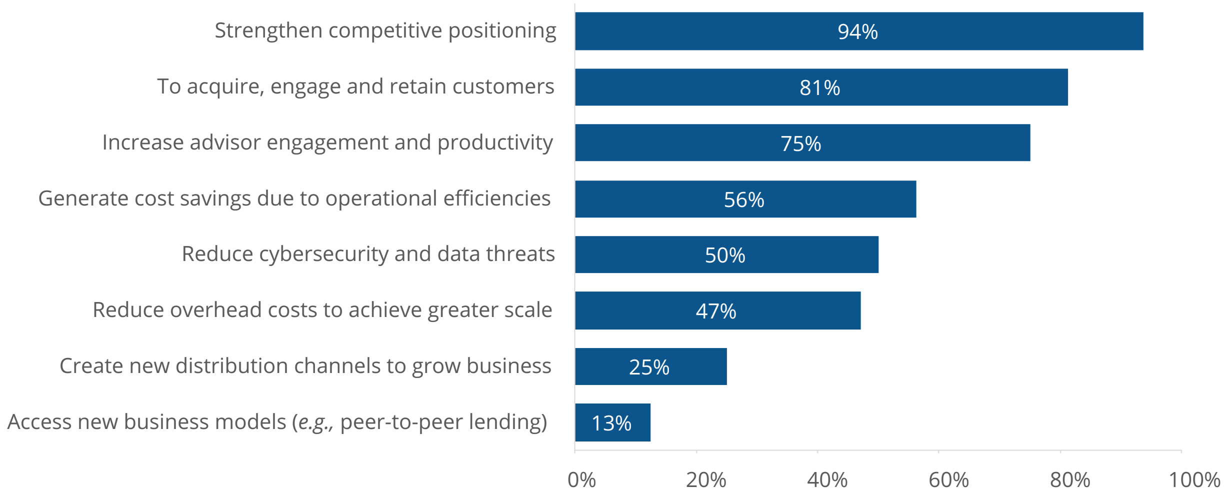
1. **Subtracting** responsibilities from client-facing advisors
2. **Adding** data connectivity between advisors and clients
3. **Multiplying** the userbase to become a core of the firm's service model

EXHIBIT 2

Reasons for Increasing Wealth Management Technology Budgets, 2018

Source: Cerulli Associates

Analyst Note: Figures reflect percentage of respondents who considered an option "Very Important."



Subtract – Responsibilities

Technology solutions' primary objective must be freeing advisors to spend more time on core client-facing activity.

Recently, many stakeholders in the financial services segment have been greatly concerned by the threat of disruption by new market entrants. **The real opportunity in this segment is in the power of incumbent providers using their accumulated data, knowledge, and experience to reinvent themselves to better serve advisors and investors.** Identifying the key impediments to advisor productivity is the first step in this restructuring process.

When Cerulli queried practice management professionals about the specific burdens limiting advisor productivity, the dominant theme was an inefficient use of available resources within practices. Ineffective delegation, weak process mapping, inconsistent procedures, and an inability to optimally use their technology platforms combine to comprise a definitive watchlist of worst-case scenarios for advisory practices. Fortunately, potential impact of each of these threats can be substantially reduced with the thorough implementation of a fully integrated front-to-back wealth management solution.

EXHIBIT 3

Top Advisor Productivity Challenges, 2017

Source: Cerulli Associates

- Serving too many non-ideal clients
- Ineffective delegation to staff
- Lack of process mapping and documentation
- Inconsistent procedures within the same practice
- Inability to fully use technology tools
- Scaling services offerings across client segments
- Limited integration of technology platforms

True disruption is best found in simplicity. The initial success of firms such as Amazon and Uber was not attributable to completely reimagining their segments, but in making it ludicrously simple for consumers to do things they were already doing—using a few clicks to buy a book or call a cab. By focusing their wealth management platforms on the same goal, providers can empower advisors to focus their efforts on the clients' most valued aspects of their wealth management experience: personalized advice from a dedicated advisor.

Streamlining the Process

Currently, advisors report spending just 44% of their available time on what Cerulli considers core activities of maximum value to the practice: prospecting, preparing, and holding client meetings, and professional development. Though each practice is entitled to determine its own allocation of resources, Cerulli has consistently found that the amount of time an advisor is able to allocate to client-facing activity is highly correlated to the practice's success. As such, wealth management technology platforms should be designed with the ultimate goal of facilitating increased advisor- client interaction both in person and digitally.

These platforms should allow advisors to focus on where they add the greatest value, building client relationships, not keying in data or other rote activities. By optimizing platforms to assume or streamline managerial and process-driven activities, firms have the opportunity to more than double the time advisors are able to spend on their most valuable functions.

The most addressable opportunity to free advisor time is the creation of workflows to delegate standardized procedures with an advisory practice.

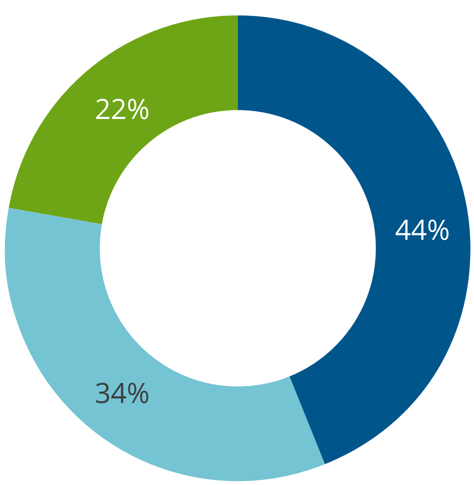
While every financial plan and portfolio should be finalized in accordance with clients' preferences, a practice's technology workflows should seamlessly integrate all possible known client data as the starting point of an advisor's work, rather than the outcome of initial meetings. In a best-case scenario, this data should include aggregation of clients' held-away assets, including not just securities, but also real estate and business interests to provide advisors with a consolidated view of clients' comprehensive financial situations.

Within high-performing advisory practices, fine-tuning the collection of this initial data and its linkage to aggregation tools is frequently assigned to junior advisors, which allows them to build rapport with incoming clients, providing an additional communication option for future client service inquiries. Aggregation tools play an integral part in tracking clients' progress, but have proven challenging to implement for clients, which can undermine their value if a senior advisor is tasked with service support. Adding a technology-oriented staff member to serve as a digital concierge can both greatly enhance the level of service clients receive and serve as a valuable entry point for the next generation of advisors.

EXHIBIT 4

Advisors' Time Allocation, 2018

Source: Cerulli Associates



Core Activities

- 20% Client meetings
- 10% Preparing for client meetings
- 9% Prospecting for new clients
- 5% Professional development

Process-Dependent Activities

- 17% Investment research and trading
- 9% Financial plan creation
- 7% Client service problems

Managerial

- 10% Managing day-to-day operations and administration
- 7% Practice management (*e.g.,* business planning, staff development, marketing)
- 5% Compliance and other

Portfolio Support

Investment portfolio oversight and maintenance also presents an outstanding option for leveraging an enhanced wealth management platform. **Many advisors have positioned themselves to clients as skilled portfolio managers, but Cerulli's review of performance data consistently finds this a dubious claim at best.** Acknowledging this potential deficiency, many provider firms have stepped in to offer enhanced investment management support, including greater access to portfolios managed through home-office discretion.

Though firms generally would prefer that their advisors cede portfolio discretion to a centralized unit, few are willing to jeopardize their advisor relationships on such a sensitive subject. Instead, by providing extensive guidance options through a robust unified managed account (UMA) platform, firms are able to share their established best practices while allowing discretion to remain at the practice level. UMA platforms that can support a blend of centralized and advisor discretion are best suited for this approach, as advisors may want to remain in control of certain asset classes within which they feel most confident.

When examining these options, it should be noted that investors are increasingly recognizing the benefits of centralized portfolio management. In 2013, 47% of affluent investors said that their personal advisors were best suited to run their portfolios, while 27% identified a centralized resource as better suited for the job. By 2017, preference for a dedicated home-office team had grown to 34%, while confidence in individual advisors had dropped to 33%. While this change would not likely cause an investment-focused practice to restructure its service model, it could help the advisors to accept incorporating centralized support into their process, streamlining their process and potentially leading to enhanced portfolio outcomes.

EXHIBIT 5

Household Perception of Investment Expertise, 2013 vs. 2017

Sources: Phoenix Marketing International, Cerulli Associates

Analyst Note: Investors were asked, "Who do you believe has the highest level of investment expertise?"

Add – Capabilities

Connectivity is the key to increased productivity.

For firms that aim to grow their marketshare in the wealth management segment, becoming the central hub of their clients' financial lives must be a principal goal. As hundreds of financial services providers broaden their scope, any of a client's financial needs an advisor is not addressing becomes an opportunity for a competitor. As a result, transforming from portfolio managers into comprehensive wealth management providers has become a priority across the segment. Unfortunately, in many cases, the capabilities of technology platforms frequently lag behind a firm's aspirations.

To succeed in this transformation, wealth management platforms will need to use the data at their disposal to simplify and improve the lives of advisors and clients. While the numerous benefits of more holistic advice relationships are well documented, the challenges of time and effort needed to integrate data across platforms still limit adoption of the model. Optimizing advisor productivity in this model will require platforms that effortlessly integrate a variety of data sources, with the ultimate goal of a single hub to monitor and manage clients' entire financial profile from investments to banking to insurance. In some cases, underlying products could be provided by strategic partners, but will be seamlessly presented to clients through a consolidated app or web portal.

EXHIBIT 6

Top Challenges Delivering Comprehensive Advice, 2017

Source: Cerulli Associates

- Process is too time-consuming for clients
- Preparing a new plan is long and tedious
- Integration with external systems
- Planning technology is cumbersome
- Integration with internal systems

EXHIBIT 7

Deterrents to Initiating Holistic Advice, 2017

Source: Cerulli Associates

Challenge	Moderate or Major Challenge
Lack of integration across technology platforms	79%
Complexity of planning process	64%
Unrealistic expectations for time frames or volume	61%
Quality of financial planning tools	57%
Inconsistent processes	57%
Volume of financial planning requests	54%

Technology will transform the basis of advisory relationships from being centered on accounts and products to being focused on managing progress from the clients' perspective. No longer will financial planning be a distinct event producing a 100-page plan document, but an ongoing process in which advisors and clients will continuously collaborate with a variety of entry points and focus areas to be used based on clients' immediate concerns.

Platform providers will be able to optimize their advisors' productivity in this model by using their internal data more strategically to help better identify opportunities and prompt action. Initially, this could be implemented through customized dashboards to help advisors visualize their client bases and identify opportunities to drive revenue growth and client satisfaction, by explicitly linking actions to outcomes. The system could identify those clients who had yet to engage in comprehensive planning, then track the incremental growth of the relationship based on the specific actions the advisors pursued in each scenario. This would allow the firm to fine-tune its recommended courses of action and provide advisors with specific outcomes they could expect by escalating their scope of engagement for each client.

Eventually, these systems will have acquired enough actionable data to move into the realm of machine learning and allow advisors to anticipate clients' needs rather than just reacting. For example, in the case of a day marked by particularly heavy market volatility, the platform could automatically analyze each advisor's client base to prioritize a list of individuals who may be most concerned with specific data points of interest to each. This technology would be intended to amplify rather than replace human intelligence. While the system can create the list, the true value in the relationship comes from the advisor's ability to master empathy. Investors need to hear what this type of event means to them and their progress from their trusted advisor.

Multiply – Userbase

Technology platform adoption must become a core part of a firm's culture.

The single greatest limitation to the success of an enhanced wealth management platform is advisor adoption. **Advisory practices already have access to a variety of powerful technology options, but rarely embrace their full capabilities.** In a recent Cerulli survey, more than 70% of advisors acknowledge that this is the case within their own practices. No matter how powerful a provider's wealth management platform is, it cannot be a success without thorough advisor adoption.

Meaningfully involving advisors as partners throughout a new platform's development cycle is essential to ensuring maximal adoption. Too frequently advisors are brought into these projects in late-stage development, well after significant decisions have been made. Instead, providers should seek out engaged and enthusiastic leaders within their advisorforce to provide continuous feedback on the platform's evolution. Skilled advisors rarely have a surfeit of time, so participation in the process needs to be perceived as an honor rather than a burden.

If the actual needs of advisory practices are not put at the forefront of the platform's design, it will be operating at a handicap from day one. In previous iterations, many providers' platforms were built through the approach of taking existing solutions and applying just enough patches and enhancements to make them serviceable in the current situation. Unfortunately, this process regularly led to platforms that created as many challenges as they solved.

To optimize advisors' capacity, integrated wealth management platforms must be designed with the goal of improving workflows from day one, but also with built-in capacities to be developed to address evolving client needs. **By engaging advisory practices in a continuous feedback process, providers can assess which potential enhancements offer the greatest rewards from an advisor's perspective.** In addition, by keeping a careful eye on actual use patterns within the platform, the providers can identify operational bottlenecks that users may not even be aware of. In a best-case scenario, the platform could

EXHIBIT 8

Percent of Advisors who Believe they Underuse Existing Technology Tools, 2017

Source: Cerulli Associates

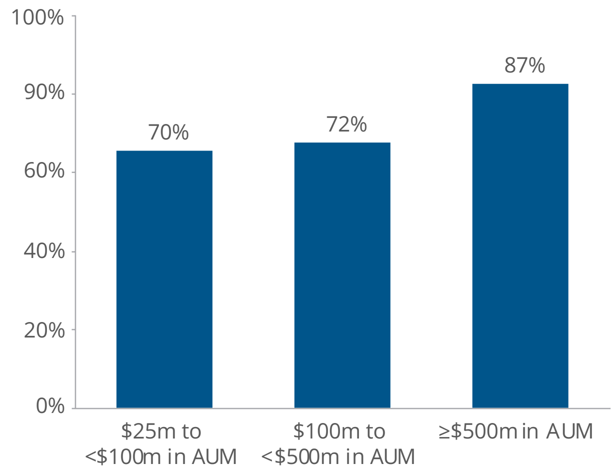


EXHIBIT 9

Obstacles to Optimal Technology Adoption, 2018

Source: Cerulli Associates

- Incompatible legacy systems
- Insufficient time to implement
- High costs
- Lack of support staff
- Advisors' limited experience or knowledge

be adjusted in real time, among a beta testing group, to assess the potential impact of proposed solutions as problems arise. This type of dynamic development can significantly increase engagement as users can quickly grasp the impact their feedback has on the development of the platforms they use every day.

From an adoption perspective, providers must understand the potential impact on each member of an advisory practice when implementing an enhanced platform and create training sessions focused on roles rather than the entirety of the platform. Even when every member of a practice is using a platform, specific functions will naturally be of greater interest to some. As a baseline, team members should feel comfortable exploring their own profiles from a client perspective to get an overall feel for the system and its capabilities. Users must understand exactly what clients are seeing across their profiles to assure alignment between the in-person and digital experiences being delivered.

Once this overall familiarity has been established, each user group can begin training on the modules of the platform most applicable to their daily duties. **Instead of focusing on universal adoption, firms should focus on optimizing use by early adopters.** Less tenured advisors and support personnel are a natural market for initial engagement. These younger advisors are already frequently tasked with handling practices technology needs and are less likely to have great devotion to legacy platforms. In many cases, these advisors are searching for their opportunity to make a positive impact on their practices, and leading a technology upgrade initiative is an excellent opportunity to do so. Once these users have explored how the new platform could positively impact the practice, they can then begin the implementations they believe will have the most impact.

The most crucial factor in driving a new platform's broad adoption is highlighting the successes of early adopters. Describing features and benefits in marketing and training is helpful, but many potential users need to see how a platform is being practically used by their peers before they will commit to making it a core part of their operation. By showcasing these successful use cases, firms can create an incentive for practices that experience the same challenges to devote resources to engaging with the new platform. **With enough momentum, the platform should become the core delivery element of the firm's client service model, and, ultimately, its culture.**

EXHIBIT 10

Rookie Advisor Responsibilities, 2017

Source: Cerulli Associates

Analyst Note: Respondents include rookie advisors across all channels with three years or less of experience in an advisory role.

Responsibilities in Current Role	Rookie Advisors
Managing practice's technology needs	54%
Helping a senior advisor manage large-balance clients	43%
Financial plan creation for other advisors	43%
Investment research and analysis for other advisors	42%
Acting as a specialized product expert	38%
Managing practice's social media presence	38%
Managing small-balance clients for a senior advisor	36%
Client service support for other advisors	33%
Marketing and client communications	26%
Monitoring and rebalancing client portfolios	25%
Operations support for a senior advisor	19%

INSIGHT

The biggest challenge in platform implementation is acknowledging and addressing shortcomings as they arise. Left unaddressed, even relatively minor issues can undermine the credibility of a new platform's installation. Users are frequently reluctant to embrace change, and any ongoing deficiency of an enhanced platform can allow skepticism to fester.

Embracing a Digital Future

Despite facing demographic challenges, the traditional advisory model is poised to take a transformative step forward. **By implementing enhanced technology platforms that fit the requirements of both advisors and clients, provider firms have the opportunity to become indispensable for both segments.** The biggest challenges in this process will be ensuring the platforms are truly designed around the needs of the users, and that once in place, the adoption of the resources is optimized.

Within this framework, digital tools will complement, not replace advisors, by freeing them to focus on their most valued activities—connecting with clients and prospects to help guide them toward attaining their financial goals. Instead of feeling threatened by the rise of digital tools, advisory practices should embrace them to help clients better understand the potential breadth of their advice engagement. Educating clients about the features and benefits of a practice's digital offerings will become a progressively important part of client engagement strategy.

In an era of increased connectivity, practices that do not seize the chance to become the focal point of their clients' holistic wealth management services are ceding the opportunity to their competition. Not every client will take advantage of these options, but each one who does is likely to be more satisfied and secure than they were previously. By making their digital platforms a true differentiation point, wealth management providers can transform themselves into essential conduits enabling mutually beneficial advisor/client relationships.

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