

ADVISOR INSIGHTS

Choosing technology

Full integration is key to advisor success

The right technology can make all the difference when it comes to a financial advisor's success, especially in today's competitive business environment. Recent innovations in financial technology have provided state-of-the-art applications to handle everything from client relationship management to investment modeling to billing and document production.

These solutions have the potential to make your practice more efficient and profitable. The challenge is making sure these different technology applications work together as a seamless whole, providing your business the support and accuracy you require.

Why is technology crucial for your advisory practice? Let's review the benefits:

Technology can make you more efficient. As you know, the process of advising clients, investing their money, and providing necessary documentation and compliance paperwork can be a time-consuming process. In many firms, these processes may account for at least half of weekly staff hours.¹ New technology solutions can handle back-office operations such as billing and record keeping, helping to reduce this commitment of staff time. These solutions, if fully integrated, can also reduce the risks of data-entry mistakes and miscalculations, providing higher levels of productivity, efficiency and accuracy.

Technology frees up more time to focus on clients. Because advisory firms that invest in technology spend

less staff time on back-office processes, they have more time to connect with clients and prospects. This kind of personal touch is more important than ever. A study by Salesforce found that 86% of clients want their financial advisors to be personally involved in their investment management. Yet less than half of the clients in the study felt their advisor took a proactive approach to communication and service (see Chart 1 on the next page).ⁱⁱ More than half of the respondents felt their advisor wouldn't even recognize them if they passed on the street. Advisors who don't distinguish themselves through a high-touch approach risk losing clients to robo-advisors and other competition.

Technology improves client communication. While technology is no substitute for face-to-face client meetings and personal phone calls, the right systems can help support your client outreach and communication efforts. Customer relationship management (CRM) systems can track client contacts and data and can coordinate with email marketing solutions to improve

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overall client communications. This kind of systematic, proactive approach is vital to keeping clients happy.ⁱⁱⁱ

Technology allows you to do more with less. By making your practice more efficient and client-focused, technology can help you grow your business without adding to your team. According to the 2015 Registered Investment Adviser (RIA) Industry Overview Report, RIAs that used at last two technology systems were able to achieve faster growth in assets under management (AUM) without adding staff members. Furthermore, this growth accelerated as the advisors added additional technology systems.^{iv}

Technology boosts AUM and profitability. Because technology helps advisors better serve a larger client base with a smaller staff, firms that leverage technology also boosted their long-term profitability. A study of independent RIAs conducted by Aite Partners found that more technologically-integrated firms earned an additional \$100,000 in annual revenues, as compared to less technologically-savvy competitors with similar staff sizes.^v Additionally, the average client in a more

technology-integrated RIA firm had nearly twice the investable assets compared to clients working with less technologically-advanced firms.^{vi}

Investors are demanding more technologically-connected advisory practices. Clients themselves are also driving technology adoption in the financial services industry. In the 2016 Salesforce survey, 67% of investors reported choosing their financial advisor in part to gain access to modern investment tools such online account access, online investment capabilities, and interactive modeling (see Chart 2 below). In the same survey, 76% of investors wanted the ability to review their accounts on a holistic, real time basis.^{vi} Many clients also want the option to review their account performance from their smartphone or other devices. Yet, only 44% of advisors in the InvestmentNews 2015 Adviser Technology Study had websites that were optimized for mobile devices.^{vii}

New technology solutions have leveled the playing field. Today's marketplace offers a range of state-of-the-art solutions for everything from targeted CRM platforms to investment modeling and performance reporting.

CHART 1:

Which of the following is true for you?

(respondents could select multiple answers)

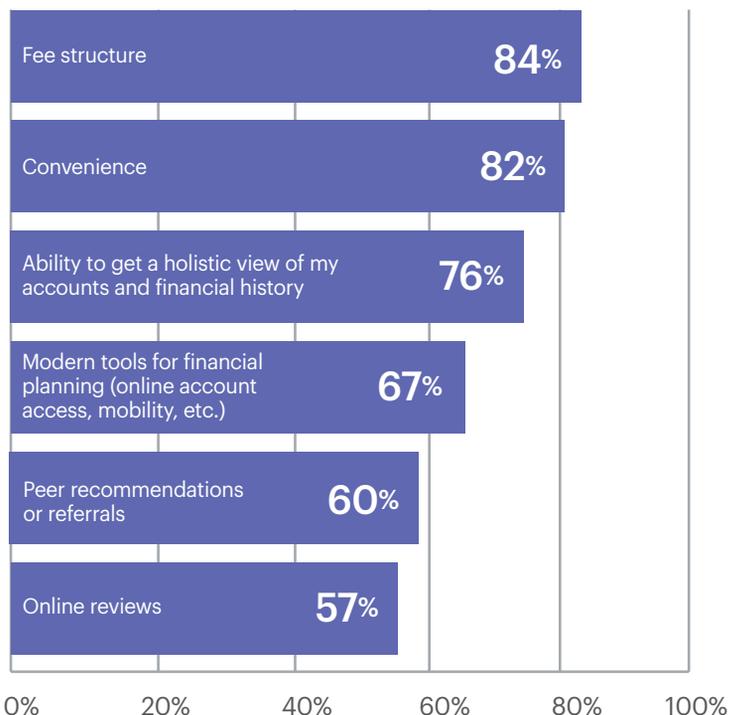


Source: Salesforce Industry Research, 2016

CHART 2:

The following factors are important to me when selecting a financial advisor.

(respondents could select multiple answers)





These systems offer enhanced functionality and are tailored specifically to the financial advisory market. As competition and innovation have helped drive down the prices of these new applications, they have become realistic options for independent investment advisors with smaller IT budgets. In some cases, it's now advisors working for wirehouses and broker-dealers who may feel themselves at a disadvantage, as many are forced to work with legacy systems that may not offer the latest functionality. Indeed, studies have found that 90% of the technology budgets at many firms is spent trying to update, service, and maintain legacy systems, with little money left to invest in new innovations.^{ix} These systems may also lack the latest security enhancements, leaving them at risk for data breaches.^x

SELECTING THE RIGHT TECHNOLOGY FOR YOUR BUSINESS

As technology offerings in the FinTech market continue to multiply, advisors have more choices than ever when it comes to solutions that might advance their businesses. These solutions fall into one of the following categories:

- **Customer relationship management (CRM)** solutions help track and quantify interactions with clients and prospects. These systems help organize client contact information and personal details. Many include call and activity tracking and, in some cases, may be integrated with automated email messaging solutions.
- **Financial planning systems** provide a range of advanced modeling tools to help advisors test specific investment scenarios based on each client's assets, risk tolerance, time line and long-term financial goals.
- **Account aggregation software** provides advisors with a holistic view of each client's account by gathering data from various financial institutions and investment companies where the client has exposure.
- **Portfolio management, rebalancing, and reporting systems** provide various tools for managing individual portfolios, maintaining asset allocation and risk parameters, and tracking and displaying portfolio performance. Some systems also provide client billing support.
- **Document management systems** use cloud-based connections to back up client data while helping advisors share files, manage different document versions and edits, and satisfy compliance documentation requirements.
- **Risk management tools** help quantify risk tolerance and enable advisors to use that data to build suitable portfolios, meet client expectations and win new business.

THE MOST POPULAR TECHNOLOGY APPLICATIONS FOR ADVISORS

A 2014 *InvestmentNews* survey asked more than 1,000 advisors to rank the most popular technology applications in each category (shown in descending order of popularity).^{xi}

CRM	Financial Planning	Account Aggregation	Portfolio Management	Portfolio Rebalancing	Document Management
Redtail	MoneyGuidePro	Albridge Wealth Reporting	Albridge Wealth Reporting	TRX	LaserApp
Salesforce	Finance Logix	ByAllAccounts	Morningstar Office	Advisor Rebalancing	Redtail Imaging
Junxure	eMoney 360	eMoney 360	PortfolioCenter	iRebal	Docupace ePACS
Grendel Online	Morningstar Advisor Workstation		Orion Solutions		Microsoft Office Document Imaging
Microsoft Dynamics CRM			Advent Black Diamond		Laserfiche

According to the 2015 Registered Investment Adviser (RIA) Industry Overview Report from RIA in a Box, 60% of firms that used four or more systems experienced 8% higher AUM growth on average, as well as a 10% average increase in their client bases.^{xii} (See the Table below.)

Number of Technology Solutions Used:

	0	1	2	3	4
Firms Utilizing	25%	22%	19%	19%	16%
Total AUM (millions)	\$47.51	\$25.30	\$61.78	\$72.20	\$74.70
Average AUM Growth	-3.7%	0.8%	5.0%	2.2%	8.4%
Firms with Increased AUM	38%	44%	54%	56%	60%
Firms with Decreased AUM	56%	53%	38%	40%	39%
Average Number of Clients	53	56	62	93	122
Net Client Change	7%	11%	14%	10%	10%
Average Account Size	\$2,597,207	\$1,014,729	\$1,270,523	\$772,064	\$498,769
Average Advisory Fee	1.02%	1.04%	1.01%	0.93%	1.02%

Source: 2015 Registered Investment Adviser (RIA) Industry Overview Report

INTEGRATION IS KEY

While technology may provide a range of benefits for financial advisors, the success of these solutions depends in part on how well these various software applications work with one another in a connected office environment. This depends on their degree of integration. **Integration** refers to the extent to which individual software applications – from billing to CRM to financial reporting – communicate and share data with each other. Not surprisingly, full and deep integration has become a priority for many financial advisors.

While integration has become a watch word in the financial services and financial technology markets, it's important to recognize that the term may mean different things to different people. At its most basic level, integration may refer simply to "single sign-on" (SSO) integration. SSO integration allows users to access different applications without constantly reentering login information and passwords. While SSO integration can be useful, it doesn't guarantee that these individual solutions will share data or automatically update to account for changes to one single program.

Full integration goes much further. It allows different applications to communicate seamlessly with one another – meaning that any changes you make are automatically and securely saved across your systems. At the most advanced levels, it means that changes to asset allocation models or investment performance will automatically inform processes such as trading and performance reporting. It means you can easily shift between modeling and reporting applications during client meetings, offering investors a comprehensive, holistic view of their accounts.

In the real world, this kind of deep integration remains relatively rare. In the *InvestmentNews* 2015 Adviser Study, only about one-fifth of advisor reported that their systems were fully integrated, without requiring any manual data entry or adjustments. More than a quarter reported no real automated integration.^{xiii}

While full integration between technology solutions can be hard to achieve, even partial integration can make a difference in your business. The Aite study found that RIA firms with at least some level of integration were spending only about one-third of total staff time on business operations and processes, compared with 50% of staff time for other firms.^{xiv} Consequently, those firms with technology integration were able to spend 30% more time on client services and prospecting.^{xv}

SOLVING THE INTEGRATION GAPS THROUGH APIS

The good news is that financial advisors have more help than ever in reaching their integration goals. This is thanks to the growth in APIs, or **application programming interfaces**. APIs are specialized software programs that link together different applications to create a seamless experience for end users. To understand how APIs work, imagine each separate software program as

having hooks that interact with the outside environment, taking in data and providing outputs. API programs act like a chain, bolting onto these hooks and helping these different programs communicate with one another.

From an end-user perspective, APIs might be likened to the graphical interface software on your computer. The computer's graphical interface allows you to work with variety of functions without worrying about the inner workings of the hardware or individual software components. You type information into your computer and trust that the data will be stored in the correct place. You can also download and work with variety of software applications from different developers, trusting that in most cases there won't be a conflict. A well-structured API works in much the same way. It allows you to interact with your various software programs, from your CRM platform to your document storage program, and ideally will eliminate the needs for manual data entry or adjustments. A successful API also will allow you to scale, adding new components as your needs change, or as new technology becomes available.

CHOOSING THE RIGHT TECHNOLOGY PARTNERS

Advisors have a wide-range of technology partners to choose from. These may include everything from complete technology platforms provided by custodians to more targeted technology solutions to handle certain functions including CRM (such as Redtail), risk management (such as Riskalyze), financial planning (such as MoneyGuidePro), portfolio reporting (such as Morningstar), and account aggregation (such as Quovo). Your choice of technology platform can have far reaching implications for your business. Yet the very breadth of the playing field has made this decision difficult to navigate. When advisors were asked about barriers to full integration, the most common roadblock they cited was

Advisors with at least some level of integration report spending only about one-third of total staff time on business operations, compared with 50% of staff time for other firms.

insufficient staff time to plan, manage and implement an integration strategy (see Chart 3 below). Nearly 30% advisors also reported difficulties in identifying appropriate solutions. Another 11% reported frustration with keeping pace with new technology options.^{xvi}

BEST PRACTICES FOR INVESTING IN TECHNOLOGY SOLUTIONS

Find out if it's really going to be fully integrated with your system. Some software developers promise fully integrated, comprehensive systems that claim to solve a range of operational needs without integration issues. In such cases, it's first important to get clarification on what the vendor means by "fully integrated." Are they referring to a simple SSO integration or a deep, full integration? Get a commitment up front to what each

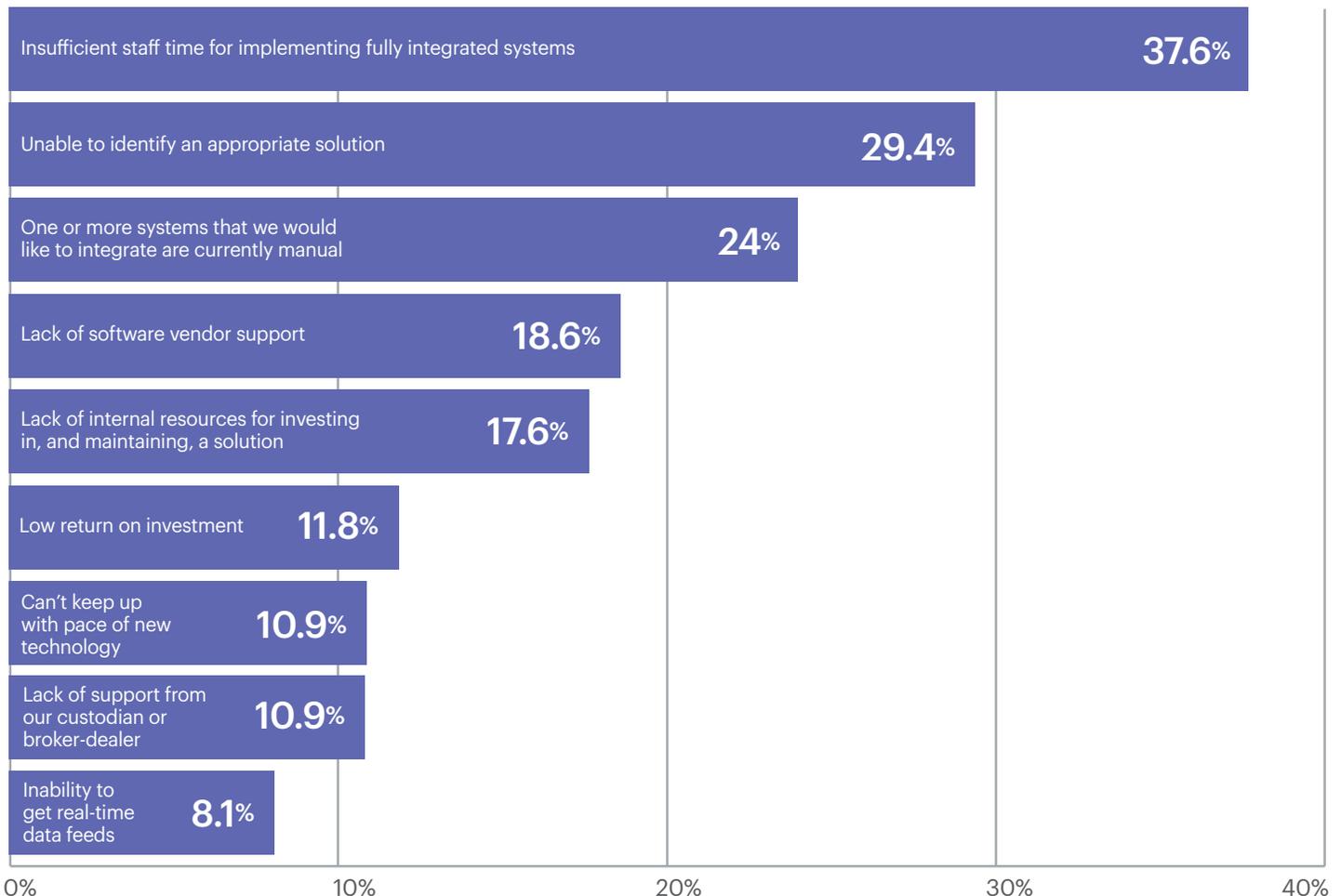
vendor means when they talk about integration. If they promise deep integration, what level of support and up-front testing do they provide to make certain their technology meets this promise in real-world conditions?

Be careful that your approach isn't too fragmented.

Understandably, many advisors desire the best-of-breed solutions for each separate technology need. In a perfect world, these various software programs would be able to communicate effectively with the help of APIs. In practice, this is not always the case. The more vendors you work with, the greater the risk of integration issues. For this reason, it may make sense to select a suite of applications that already work well with one another or that are provided by established vendors that have committed to integration.

CHART 3:

Obstacles limiting the integration of systems (respondents could select multiple answers)



Source: InvestmentNews 2015 Advisor Technology Study

Balance security considerations with open-source innovation. The technology landscape has become a fertile area for innovation in part because of its open-source development environment. An open-source environment enables developers to collaborate and incorporate feedback to speed up innovation and responsiveness. This degree of openness can be off-putting to advisors concerned about securing sensitive client information. For this reason, it can be helpful to work with a technology partner who understands the compliance issues and business concerns of financial advisors. This partner can help balance the need for innovation and integration with the protection of client information.

Prepare for some customization. No matter what vendors claim about the readiness of their product, most firms will require the services of a software developer to help ensure their chosen technology integrates well with their unique needs. Some firms hire independent programmers to help finalize the process. Others work with a technology partner who can help structure an integrated suite of products through targeted solutions.

Think of technology as a life cycle, not a one-time purchase. One advantage of technology is that it can scale as your practice grows, and can be adapted as you decide to upgrade to new technology and capabilities. Consequently, it's important to think of your technology investment less as a one-time capital outlay and more as a recurring expense, since time and resources will be needed to see to periodic updates, and to make certain your systems remain secure, virus-free and compliant.

Capitalize on the cloud. Through cloud computing, advisory firms can use secure broadband connections to access solutions and data securely stored on remote servers. Because this data is stored remotely, advisors can access these data and applications from different locations (such as their home offices) and from a variety of devices, including smart phones and tablets. In many cases, these applications are accessed on a subscription or pay-as-you-go basis. As a result, they require less capital and carry lower investment risks than purchases of software licenses or on-site hardware.

Prepare for a testing period. Deep integration is achieved through an interactive process of trial and error. Developers will need to test APIs and system integration in real-world situations, with typical data loads. This may require some down time for your existing systems, as well as a commitment of staff time for testing and training. While this can be a frustrating process, it is integral to ensuring your systems work effectively.

Solicit feedback from stakeholders. Ask for input from staff members who will be using the technology. Include them in every step of the technology selection process, from goal setting to exploring vendors, testing, and training. Similarly, explore upfront how your best clients like to use technology. Let their preferences help guide your objectives. You can do this through client surveys and face-to-face meetings, positioning your exploration as a way to improve value to the client.

ⁱ RIA Productivity and Profitability: Integration Pays. (2013). Aite Group.
ⁱⁱ 2016 Connected Investor Report: Insights into the Advisor-Investor Relationship. (2016). Salesforce Industry Research: Financial Services.
ⁱⁱⁱ 2016 Connected Investor Report: Insights into the Advisor-Investor Relationship.
^{iv} RIA in a Box. (2016, October 5). RIA Industry Study: Number and Types of Technology Systems Utilized. www.riainabox.com/blog/ria-industry-study-number-and-types-of-technology-systems-utilized.
^v RIA Productivity and Profitability: Integration Pays.
^{vi} Ibid.
^{vii} 2016 Connected Investor Report: Insights into the Advisor-Investor Relationship.
^{viii} InvestmentNews 2015 Adviser Study (2015). www.investmentnews.com/section/specialreport/20150208/TECHSTUDY2015

^{ix} MuleSoft. (n.d.). Future of Financial Services The Connected Bank.
^x Ibid.
^{xi} Top 25 technology products used by advisers (28 July 2014). InvestmentNews. www.investmentnews.com/article/20140728/CHART02/140729920/top-25-technology-products-used-by-advisers.
^{xii} RIA Industry Study: Number and Types of Technology Systems Utilized.
^{xiii} InvestmentNews 2015 Adviser Study
^{xiv} RIA Productivity and Profitability: Integration Pays.
^{xv} Ibid.
^{xvi} InvestmentNews 2015 Adviser Study

E*TRADE Advisor Services understands the value of deep integration

In this often-complex landscape for technology investment, many advisory firms have found success partnering with E*TRADE Advisor Services. E*TRADE Advisor Services is a leader in the technology space, and has a long track record of helping advisors select the best technology solutions for their business. We provide comprehensive, responsive technology solutions that we continue to customize to meet the needs of our clients.

Full-service options to meet the needs of your business

We offer fully integrated technology that fits the strategic needs of your business. These solutions can help you to better serve your clients, while improving your office efficiency, freeing up your time and improving your profitability.

We are committed to working with you to make sure our solutions are well integrated into your existing operations.

We provide:

- A single platform solution with built-in technology that eliminates the need for a lot of integrations, including fee billing, performance and RMD reports, automated cash management and model-level investment management.
- Lengthy beta testing to anticipate and resolve integration issues.
- A steady, ongoing process of innovation to provide new functionality.
- A responsive roadmap that continuously incorporates client feedback into our evolving suite of technology solutions.



At E*TRADE Advisor Services, we never stop thinking of new ways to help you grow your business and truly serve your clients.

To learn how our integrated technology solutions can help you better serve your clients and create more time for yourself, email advisorservices@etrade.com, call 800-955-7808 or visit etrade.com/advisorservices.

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