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WHAT ADVISORS NEED TO KNOW ABOUT TECHNOLOGY TRENDS

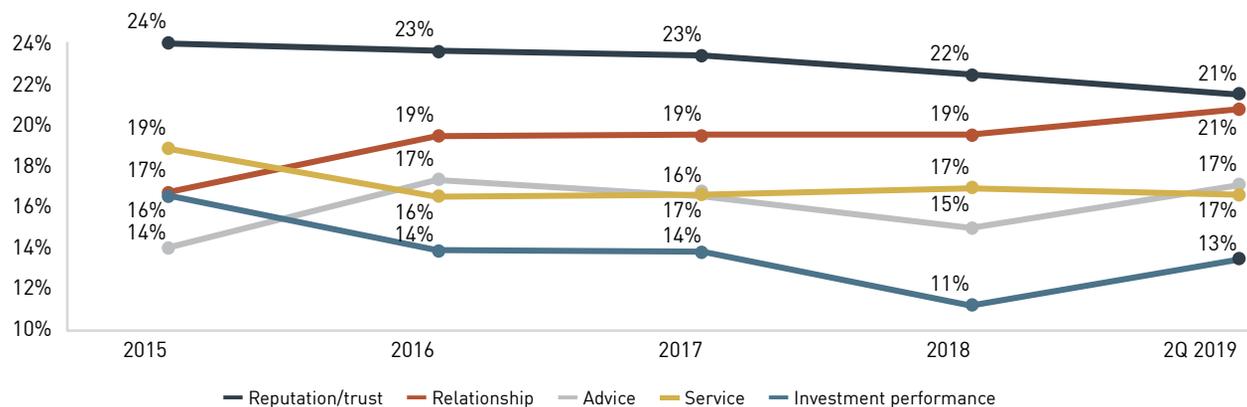
By Ed Louis and Stephen Caruso, Cerulli Associates

In this edition of *Investments & Wealth Research*, Cerulli Associates examines the implications of the growing use of technology in advisor practices. To do this, a proprietary scoring system was used to group practices based on their reported use of technology across various categories (e.g., customer relationship management [CRM], financial planning,

rebalancing, account aggregation), adjusting for practices that continually upgrade their technology. This allows Cerulli Associates to determine the impact of technology on advisor productivity and processes, identify key practice attributes of high versus low adopters, and uncover barriers to increasing adoption.

Although the latest generation of technology tools are still making their way across the industry, advisors should consider the impact these tools will have on their practices before implementing them. The ripple effects ideally create deeper client experiences, but advisors need to beware of potential points of friction that could arise as well.

FIGURE 1
REASON FOR SATISFACTION LEVEL WITH PRIMARY ADVISOR, 2011–Q2 2019



Sources: Phoenix Marketing International, Cerulli Associates

FIGURE 1 HIGHLIGHTS: The quality of the overall advisor-client relationship has risen in importance gradually as a factor in client satisfaction from 2015–2019.

KEY IMPLICATIONS: Advances in financial technology have enabled services such as basic asset management to become more affordable outside of formal advice

relationships, shifting advisor attention to advice areas better covered through personal contact. In the words of a senior manager at a major broker-dealer (B/D),

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the best financial advisors are the ones who are there “when money can’t fix the problem.” The value proposition of an advisory relationship will matter more than just the costs of investment. Digital tools can free up more advisor time to

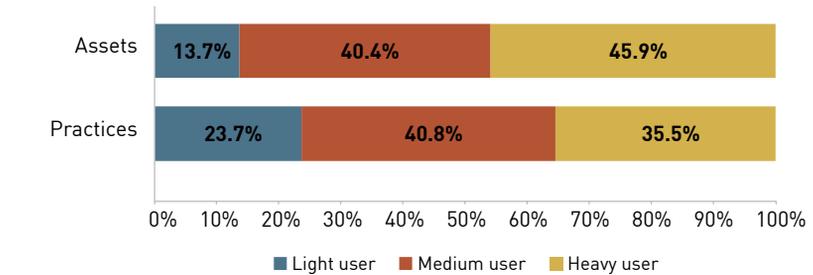
discuss other areas of financial wellness with clients, which can bolster advisor-client relationships while also increasing one’s reputation for delivering quality financial advice. As one technology executive noted, however: “What one client prefers

(in terms of digital engagement, level of involvement in the planning process) can vary drastically. It forces the firms and advisors to personalize their service model to the needs of the client and be flexible.”

FIGURE 2
ADVISOR TECHNOLOGY USER SIZING, 2018

FIGURE 2 HIGHLIGHTS: Heavy technology users have more than three times (45.9 percent) the share of market assets compared to light users (13.7 percent).

KEY IMPLICATIONS: Advisors fall along a spectrum of technology use—some practices incorporate a range of technology solutions to digitize their processes, but others rely only on several key tools. Although technology has not necessarily been the genesis for high-growth practices, practices that utilize technology more actively are generally larger. More than half (52 percent) of heavy-use practices have more than \$500 million in assets under



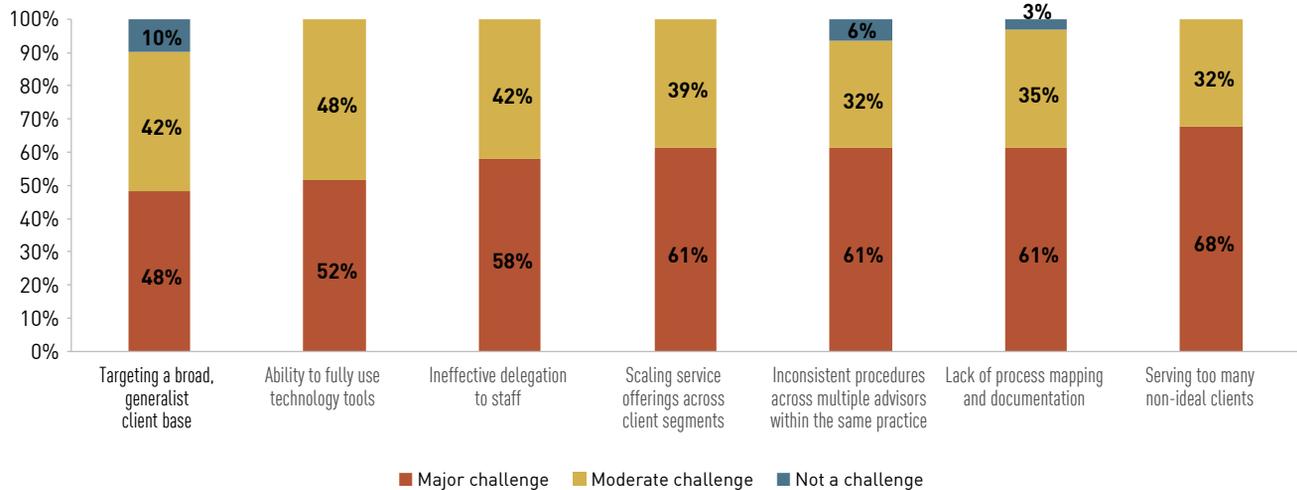
Sources: Cerulli Associates, in partnership with Investments & Wealth Institute and the Financial Planning Association® (FPA®)

management and they collectively account for \$5.5 trillion.* Heavy users leverage the widest range of technology, digitizing nearly all aspects of their operations, including

document management, e-signature, and marketing/prospecting solutions.

*Datapoint is not shown in figure 2.

FIGURE 3
TOP ADVISOR PRODUCTIVITY CHALLENGES, 2019



Analyst Note: Data is based on survey responses from practice management professionals.

Sources: Cerulli Associates, in partnership with Investments & Wealth Institute and the Financial Planning Association

FIGURE 3 HIGHLIGHTS: Serving too many non-ideal clients (68 percent), lack of process mapping and documentation (61 percent), and inconsistent procedures

across multiple advisors within the same practice (61 percent) are advisors’ top-three productivity challenges, according to practice management professionals.

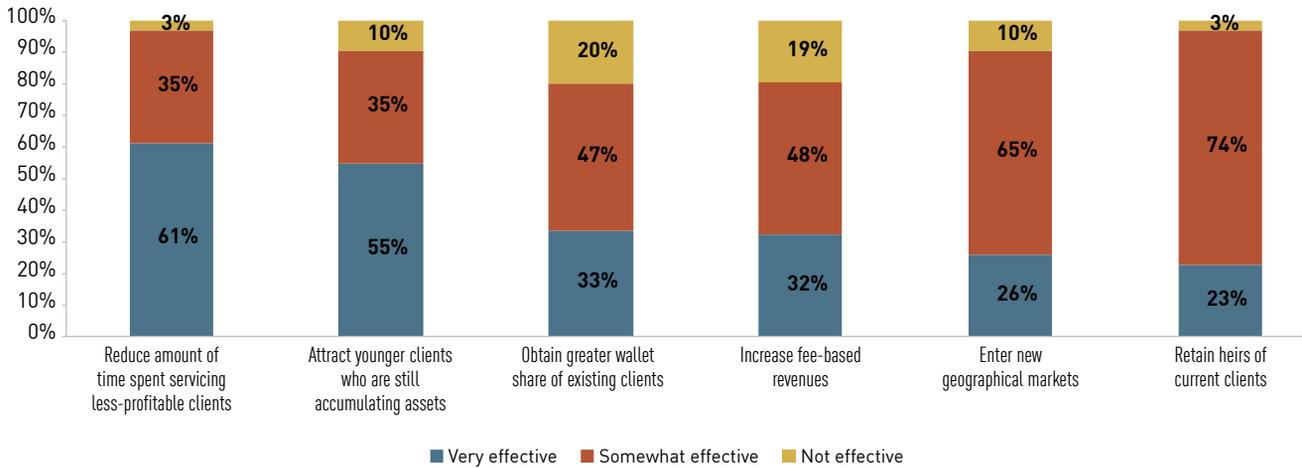
KEY IMPLICATIONS: In today’s increasingly digital world, an integrated technology stack can improve advisors’ productivity and create efficiencies by eliminating data entry

redundancies, automating workflows, and streamlining processes. Although complete integration can be elusive, especially for independent advisors, achieving 100-percent

integration is typically not the primary obstacle—more frequently, advisors need to better understand how to fully leverage their existing technology. Just more than

half (52 percent) of practice management professionals believe that underutilization of technology tools is a major productivity challenge for advisors.

FIGURE 4
DIGITAL ADVICE STRATEGIES, 2019



Analyst Note: Responses are from practice management professionals.

Sources: Cerulli Associates, in partnership with Investments & Wealth Institute and the Financial Planning Association

FIGURE 4 HIGHLIGHTS: Practice management professionals believe that digital advice programs are most effective at helping advisors reduce the amount of time spent servicing less-profitable clients (61 percent) and attracting younger clients who are still accumulating assets (55 percent).

KEY IMPLICATIONS: Advisors can create value for their practices by leveraging digital advice platforms and their efficiencies, thereby expanding the range of clients they serve. Established advisors

often struggle to attract younger investors (e.g., clients’ children, emerging affluent), who typically have fewer investable assets, embrace technology-oriented services at higher rates, and do not yet have an existing traditional advisor relationship. Digital advice tools can reduce advisors’ time spent servicing less-profitable clients with less-complex financial needs, opening new client markets for advisors through scalability. Recognizing the opportunity, firms of all sizes are investing in new digital advice capabilities that can broaden advisors’ addressable markets.

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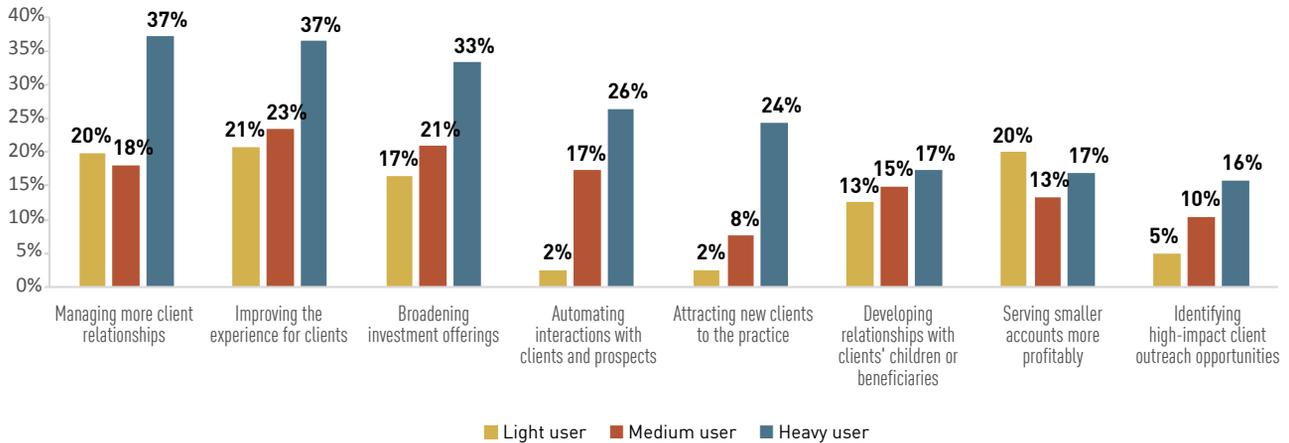
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FIGURE 5
EFFECTIVENESS OF ADVISOR TECHNOLOGY BY USER TYPE, 2019



Analyst Note: Figure 5 represents the percentage of advisors who report that their practices' technology is very effective at achieving the following objectives. Sources: Cerulli Associates, in partnership with Investments & Wealth Institute and the Financial Planning Association

FIGURE 5 HIGHLIGHTS: Just 16 percent of heavy users and 5 percent of light users feel they are very effective at using technology to identify high-impact client outreach opportunities.

KEY IMPLICATIONS: Across all advisors, 86 percent consider their practices' technology at least somewhat effective in improving

clients' experiences.* Heavy technology users are far more likely than medium or light users to be very effective at leveraging technology to manage more client relationships, improve the client experience, broaden investment offerings, automate interactions with investors, and attract new clients to the practice. However, certain benefits elude even the most ardent technology adopters,

such as using technology to develop relationships with clients' children and beneficiaries or serving smaller accounts more profitably. Advisors who face losing assets through wealth transfer or shrinking prospect pools should take the time to consider how best to implement technology to create client experiences that best address their problem areas.

**Datapoint is not shown in figure 5.*

TABLE 1
TIME ALLOCATION BY ADVISOR TECHNOLOGY USE, 2019

TABLE 1 HIGHLIGHTS: On average, heavy users spend less time resolving client service issues than all advisors (5.1 percent versus 7.7 percent).

KEY IMPLICATIONS: By reducing time spent resolving client service problems and managing investments (trading and rebalancing client accounts), advisors gain back time to focus on their clients and their businesses. As advisors face increasing pressure to expand their service menus and deliver more nonfinancial impact, the ability to spend more time on those softer services is a competitive advantage. Advisors should recognize that even though technology solutions have their benefits, especially to client experiences, they are not a one-stop shop to save

Advisor Activity	All Advisors	Heavy Users
Client-facing activities	56.2%	55.0%
Client meetings	19.6%	20.9%
Preparing for client meetings	9.8%	12.3%
Prospecting for new clients	9.5%	7.3%
Financial planning (e.g., plan creation)	9.5%	9.4%
Client service problems	7.7%	5.1%
Administrative	22.4%	24.7%
Investment management	16.7%	15.4%
Professional development	4.7%	5.0%

Analyst Note: Practice management includes activities such as business planning, staff development, and marketing.

Sources: Cerulli Associates, in partnership with Investments & Wealth Institute and the Financial Planning Association

time within your practice. Heavy-use advisors are still spending the same amount of time on financial planning as other advisors, and although planning

tools can streamline data gathering and entry, each plan is inherently customized and only applicable to a single client or family.

TABLE 2
ADVISOR TECHNOLOGY CHALLENGES, 2019

TABLE 2 HIGHLIGHTS: Inadequate resources and training from their B/Ds or custodians (52 percent) and lack of support staff (54 percent) pose a challenge for more than half of advisors.

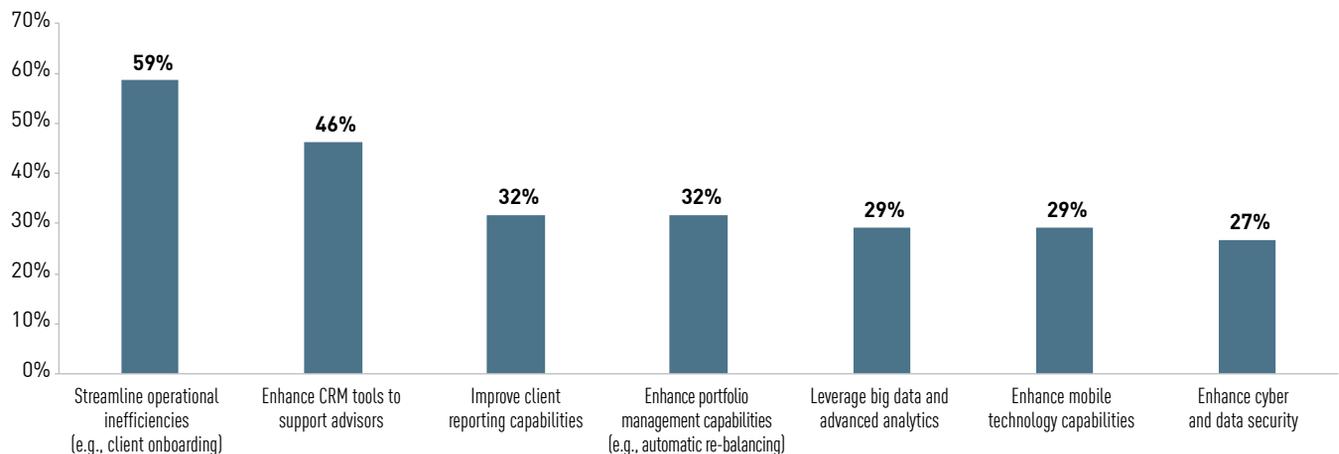
KEY IMPLICATIONS: A major limiting factor on technology use is advisors' time. Close to 70 percent of advisors cite insufficient time as a challenge to effectively using technology—the top challenge for all advisors. Caught between competing priorities, advisors' most precious resource is their time. Most advisors would prefer to focus on client-facing activities, investment management, and financial planning—not mastering their technology systems. As a result, not much time remains for advisors to learn and implement new technology tools.

Challenge	All Advisors
Insufficient time to learn and implement	68%
Compliance restrictions	64%
High associated costs	57%
Lack of support staff	54%
Inadequate resources and training from B/D or custodian	52%
Data security risks of third-party providers	50%
Low return on investment	49%
Legacy systems are incompatible	47%
Negative feedback from clients	29%

Analyst Note: Table 2 represents the percentage of advisors who consider the factor a moderate or major challenge to effectively using technology.

Sources: Cerulli Associates, in partnership with Investments & Wealth Institute and the Financial Planning Association

FIGURE 6
HNW PRACTICES: MOST IMPORTANT TECHNOLOGY INITIATIVES, 2019



Analyst Note: Respondents were allowed to select up to three initiatives. Other responses included: "Update components of legacy operating systems," "Adapt systems to meet compliance and regulatory demands," "Document management system," and "Upgrade accounting software."

Source: Cerulli Associates

FIGURE 6 HIGHLIGHTS: The top technology initiatives among high-net-worth (HNW) practices are to streamline operational inefficiencies (e.g., client onboarding) (59 percent), enhance CRM systems (46 percent), and improve client reporting capabilities (32 percent).

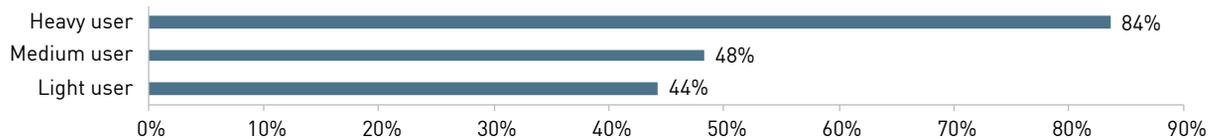
KEY IMPLICATIONS: Technological innovation is driving change and playing a more important role within the HNW landscape. In response to changing service expectations, many firms have looked to incorporate technology in order to streamline operational inefficiencies, enhance client communications, and improve

portfolio reporting. Operational functions such as portfolio reporting are increasingly automated, with more tools that can effectively track and monitor alternative or held-away assets, saving time for clients and advisory practices to focus on more differentiated services.

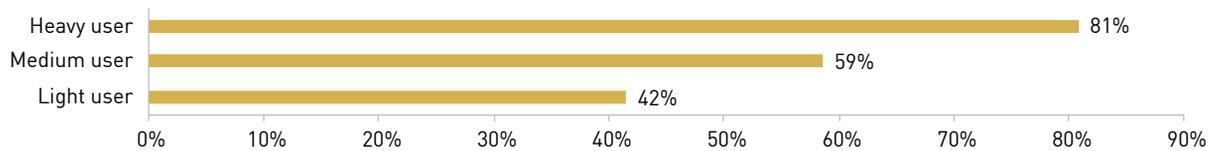
Although there is no one-size-fits-all approach, advisory practices must adapt to evolving demands by investing the proper resources and time in their technology systems. HNW practices should look to technology as a differentiator and continue to explore new technology systems that allow for greater control and transparency, while simultaneously reinforcing their relationships with HNW clients.

FIGURE 7
CLIENT VALUE OF TECHNOLOGY, 2019

My clients value access to their accounts on mobile devices.



My clients value access to a robust technology platform.



Analyst Note: Figure 7 represents the percentage of advisors who agree or strongly agree with the statements: “My clients value access to their accounts on mobile devices” and “My clients value access to a robust technology platform.”

Sources: Cerulli Associates, in partnership with Investments & Wealth Institute and the Financial Planning Association

FIGURE 7 HIGHLIGHTS: More than four-fifths of heavy-use advisors believe that their clients value mobile account access or a robust technology platform.

KEY IMPLICATIONS: Interactive client-facing functionalities deepen client engagement. Financial planning technology providers are embracing the concept of co-planning by incorporating more features

that enable advisors to involve the client throughout the planning process, from data gathering to delivery. Collaboration tools improve the portability of the financial planning process, rendering geographic location irrelevant and broadening an advisor’s reach beyond a geographic region. Cerulli Associates recommends that advisors consider the impact on both their clients and their internal processes before

adding new technology. If clients cannot access the tools you’re implementing in an easy manner, they probably will not utilize the tools enough to justify the expense. Internally, if a client-facing tool is too cumbersome to use or update, you and your staff may find yourself spending too much time trying to use it, which decreases the amount of time you have to work on other aspects of your practice.

TABLE 3
PORTFOLIO DISCRETION, 2019 VS. 2021E

TABLE 3 HIGHLIGHTS: Across all B/D channels, advisors plan to decrease their allocations to brokerage programs from 27 percent to 21 percent by the end of 2021.

KEY IMPLICATIONS: Advisors plan to move more of their assets from brokerage platforms to fee-based programs. However, advisory firms should actively consider the types of fees that clients are most comfortable with when deciding which type of program or fee structure to implement. A commission-based model remains the most-popular pricing structure for all

Program Type	All B/D Advisors	
	2019	2021E
Brokerage	27%	21%
Mutual fund advisory (advisor discretion)	23%	24%
Rep as portfolio manager (RPM)	13%	15%
Rep as advisor	11%	10%
Separate accounts	8%	9%
Third-party strategist portfolios	8%	9%
Mutual fund advisory (home-office discretion)	7%	7%
Unified managed accounts	4%	5%

Analyst Note: Independent registered investment advisors are excluded. Portfolio discretion data is self-reported by advisors.

Sources: Cerulli Associates, in partnership with Investments & Wealth Institute and the Financial Planning Association

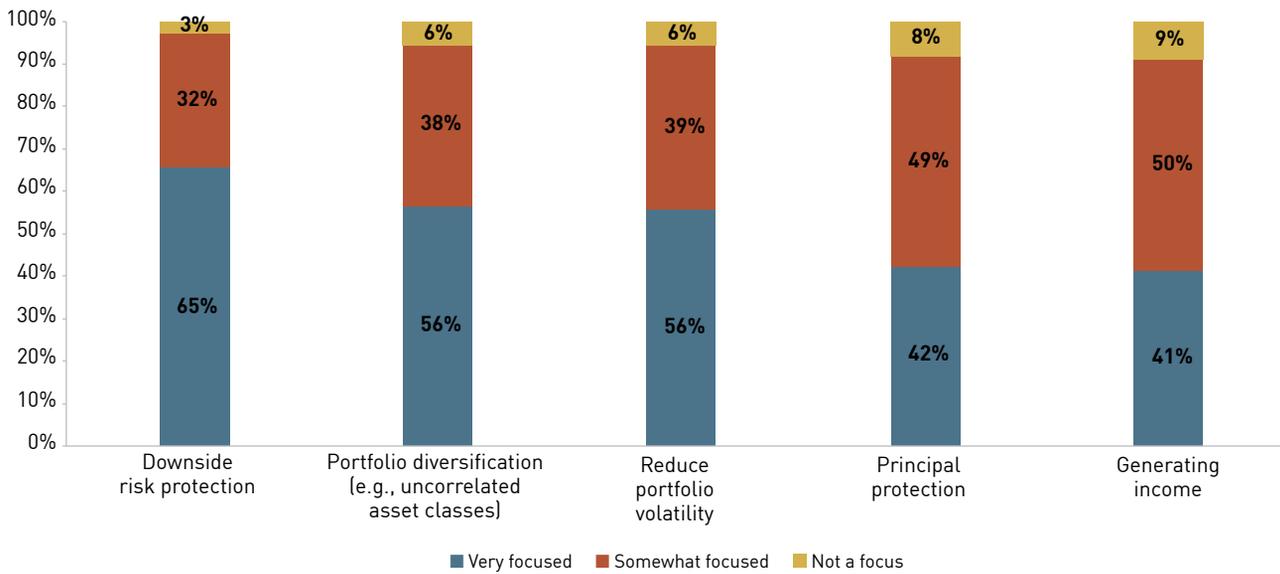
households with 39 percent of investors reporting that they prefer commission-based pricing.* Although fee-based models may be more in vogue and offer advisors protection against churning and conflict-of-interest

accusations, firms should not assume that clients are completely opposed to paying commissions. Advisors who work with clients around a preferred fee structure, or a mix of fee structures, especially for

affluent and HNW clients, stand to build deeper relationships and stronger client retention.

*Datapoint is not shown in table 3.

FIGURE 8
FINANCIAL ADVISORS' TOP PORTFOLIO OBJECTIVES OVER THE NEXT 12 MONTHS, 2019



Sources: Cerulli Associates

FIGURE 8 HIGHLIGHTS: Downside risk protection (65 percent), diversification (56 percent), and reducing volatility (56 percent) remain advisors' top portfolio objectives.

KEY IMPLICATIONS: Advisors' focus on portfolio objectives tends to be aligned with the market environment they are operating in. This is evident from the 56 percent of

advisors who are very focused on reducing portfolio volatility. In late 2018 and 2019, when this survey was conducted, equity markets were experiencing turbulence. Worries related to the trade war between the United States and China, the implications of Brexit, and general concerns over a global economic slowdown continue. When combined with an environment of increased regulatory scrutiny, advisors' focus on

risk mitigation is unlikely to fade. As more baby boomer clients near or move into retirement, however, generating income will continue to grow in importance as advisors seek to meet their needs. A growing number of technology providers are working to provide advisors with tools that can help clients better visualize and plan what their retirement income streams will look like. ●

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