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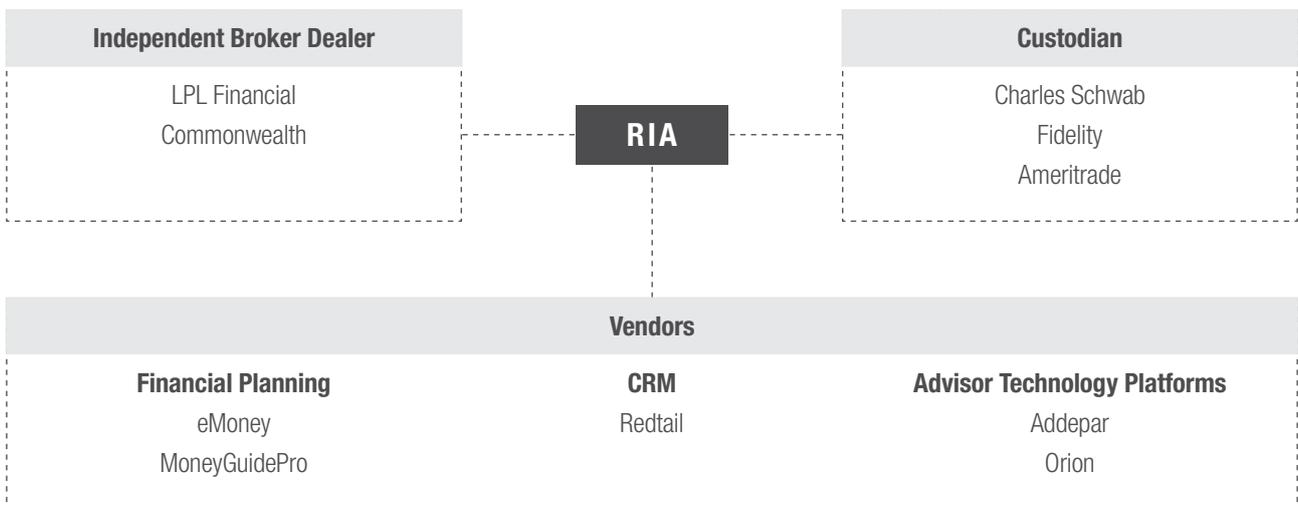
THE RIA ECOSYSTEM



OVERVIEW

The wealth management industry has experienced a monumental shift over the last decade with the introduction of a fee-based model and the Registered Investment Advisor (RIA) industry, gaining increasing popularity. Technology advancement and easy access to financial products and services have created a shift in expectations¹. Clients are becoming more sophisticated, and needs are getting more complex, resulting in the need for higher personalization and customization. Advisors are trying to adapt to this evolving mindset and have welcomed the independent model, which allows them the flexibility to show their entrepreneurial spirit and use their creativity to offer tailored products and services to cater to their client needs. This flexibility and

creativity, however, are only possible through building a network of strategic partnerships with platform providers and third-party vendors that allow the advisor to create this unique value proposition for their targeted clientele. The world of services for RIAs has proliferated - whether it's a custodian simply holding assets or a third-party vendor providing financial planning technology - these providers offer basic and advanced support for almost every aspect of the RIA business. All these providers together constitute the 'RIA ecosystem,' providing RIAs the opportunity to make that choice based on need and requirements and where each partner plays a crucial and distinctive role in supporting the advisor and helping to grow their business.



CUSTODIAL AND AFFILIATE BROKER-DEALER SERVICES

Under the custody rule of the Investment Adviser Act of 1940, RIAs must use a 'qualified custodian' to custody the firm's assets². The selection process to identify a suitable custodian is a critical decision that RIAs need to make. Custodians are typically selected based on reputation and the additional services that will provide value to the firm³. Historically, services offered by custodians include processing securities transactions, deducting advisory fees, compiling and delivering account statements, selection of investments, and banking products. The traditional responsibilities of a custodian have evolved beyond just the safekeeping of assets. Custodians today are expected to provide an expansive suite of offerings, including robust internal technology platforms and the ability to integrate with third-party technology vendors. New age custodians are also adding value-

added services like providing cybersecurity resources, consulting services, and business development introductions to distinguish themselves from the rest.

In addition to custodian selection, RIAs would typically also select a broker-dealer depending on the model the firm adopts. The broker-dealer usually is selected based on legacy products serviced by the firm or specific commission or insurance products sold and managed by the advisors. For example, RIAs that have a substantial insurance or alternative investment business will require the broker-dealer to offer a robust technology platform and associated services to support and manage such complex investments⁴.

TECHNOLOGY AND OPERATIONAL SOLUTIONS

In addition to custodial services, the majority of network providers offer extensive support to other business functions, including client management, financial planning, practice management, compliance and marketing. Many custodians also provide comprehensive technology platforms where the RIA can conduct holistic business activities.

a) Advisor Platforms

One of the most popular network providers, LPL Financial, has created an advisor platform called ClientWorks, which offers a centralized platform to access client data and accounts as well as process ongoing business requests such as new account openings, trading instructions, transaction management and

varied types of client reporting⁵. Another good example is the platform offered by Commonwealth Financial Network called Client360°, which provides services comparable to ClientWorks but includes financial planning tools as well as a client portal for clients to log on to view their entire financial situation⁶. Such platforms help advisors create an enriched client experience and aid them in managing their day-to-day business activities. Most network providers also provide ongoing support for operational and technical needs and are readily accessible for advisors as and when needed. Customized service centers, specialized support teams, and immediate technical support allow the advisor to outsource the administrative tasks and focus on their single most important task - building and managing their core clientele.

TECHNOLOGY AND OPERATIONAL SOLUTIONS (CONTINUED)

b) Regulatory and Compliance Support

Ever-changing rules and regulations within the financial services industry require firms to keep abreast of new developments and always be compliant by the stipulated period. To support RIAs with meeting these requirements, custodians have also started providing a team of experts and access to a comprehensive risk and compliance management platform to navigate this complex regulatory environment. This includes tracking of new rules and regulations, central supervision activities, local and field supervision responsibilities, risk control self-assessment (RCSA) as well as complex products supervision. Firm-wide compliance procedures are also put in place to monitor securities transactions, an employee's outside business activities, and marketing materials that may need to be compliant with changing legal and regulatory requirements.

c) Marketing

One of the most significant advantages of being an RIA is the flexibility and creativity offered in establishing your unique brand. Choosing the right partner(s) allows the RIA to avail of the benefits of the partners' teams and use their associated services to build a robust personalized brand in the market. Firms also provide business analysis services like analyzing the target client segment and demographics, defining the firm's core capabilities, and keeping in touch with the latest market trends to help the RIA create this unique market proposition. RIAs can also access comprehensive marketing and business planning services to guide them on how to best connect and engage with clients through social media and other communication channels.

d) Market Research

Easy access to research reports and market commentary is another significant advantage for advisors when partnering

with custodians and broker-dealers. Investors expect advisors to monitor market news and activity closely, and the quick availability of such information helps educate advisors and also provides them the opportunity to have client conversations in a timely fashion. As an example, Commonwealth provides weekly and monthly overviews on current market events, index performance and insights on impact of current events in the market⁷. This material can be posted on the firm's website or emailed to clients and prospects. Advisors can also provide clients with economic summaries and themes that emerged during the last review period, which would only lead to increased client confidence levels, trust and experience. Some network providers also allow advisors to create custom videos to deliver market updates and educational messages. Discounted subscriptions to platforms like Morningstar AdvisorWorkstation, Broadridge/Forefield, Argus, and Value Line are also available for use by many.

e) Other practice management services

Other practice management services that some partner firms offer are tracking metrics and KPIs, which help keep the firm's goals and objectives on track. Some of the critical areas of focus for RIAs include tracking of advisor metrics such as AUM and revenue targets as well as firm-wide metrics like client segments and demographics. As an example, Commonwealth Financial Services provides financial benchmarking to show how the firm's financial performance stacks up against the rest of the industry. They also generate revenue and cost analyses to compare the firm's growth and cost structure with other firms within the Commonwealth community and across the industry⁸. Firm-wide dashboards are also becoming popular, which can track intraday commissions, revenues, and net new assets. The data within these dashboards can be customized and filtered to identify gaps, trending insights and monitor daily activity.

THIRD-PARTY TECHNOLOGY PARTNERSHIPS

Third-party technology vendors arguably make up the most complex and exciting part of the RIA ecosystem. Depending on the firm's value proposition and client profile, RIAs can choose from hundreds of integrations and combinations to provide a unique solution. Some of the most recommended integrated solutions that RIAs look to offer are financial planning, CRMs and advisor platforms. To attract more market share, certain fintech firms have established themselves as dominant players within these spaces. For example, eMoney (now acquired by Fidelity) and MoneyGuidePro provide comprehensive financial planning

software to the majority of the RIA market. For CRM, Redtail has established itself as an essential solution that syncs client information directly with the RIAs custodian, broker-dealer and additional third parties. Advisor platform solutions are becoming highly attractive and serve as an excellent add on that can consistently aggregate data between the broker-dealers and custodians to allow the advisor to run their practice out of the third party platform directly. Such strategic partnerships provide the flexibility to RIAs in creating a unique value proposition for the client and differentiates them from the other market players.

IN SUMMARY

With the industry shifting towards the independent model, the competition between network providers is starting to increase and business models are beginning to overlap. Custodians and broker-dealers have come to realize that if they want to remain competitive, they need to invest in technology and partner with third-party providers to provide a holistic offering and solution. There have been a series of acquisitions in the last few years and a sudden rise in the FinTech space allowing firms to be creative and risky all at the same time. In February 2015, Fidelity acquired eMoney for \$250 million to boost its financial planning technology market share in the RIA space⁹. This very quickly gave them an edge over their competitors and provided them with access to a wide range of financial services providers.

RIAs have come to realize that they can only benefit from engaging the surrounding universe rather than sustaining in a silo. Finding the right partners that complement their business model is the need for the future. Adding more touchpoints and opening the architecture will allow more real-time integrations, providing the flexibility to work with multiple providers. It is however, also important to remember that with complexity comes unlimited opportunities and consequences. The way of doing business has changed – with clients now driving the firm's value proposition. And firms must realize this evolution and tactfully leverage the situation to be successful in this fast-changing dynamic environment.

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