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How should you implement your digital advice strategy?

Jasen Yang

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Executive Summary

Wealth management firms of all types are moving to implement robo-advisor solutions. Conventionally, there are three choices in implementing them: build your own, buy your own, and renting. The best choice requires an honest evaluation of your organization's goals, capabilities, and weaknesses.

Jasen Yang
CEO, Polly Portfolio
Visiting Fellow,
NRI America

The robo-advisory revolution is, by my count, roughly 5 years old now (since Wealthfront and Betterment both saw their growth rapidly accelerate in 2013). Today, wealth management firms of all types-- whether brokerage, wealth manager, or investment manager-- are moving to implement digital investment advice services. In addition to increasing client demand for portfolio advice services, brokerages around the world are also responding to regulatory imperatives as well. Wealth managers have accepted those clients, young and old, who want to be serviced digitally, whether instead of or in addition to traditional face-to-face or telephone conversations with their advisors. And investment managers see opportunities to monetize their strategic expertise and brand recognition with clients without building out a traditional wealth management practice by providing digital portfolio management services.

However, once you have made the strategic decision to implement digital investment advice, what is the best approach? Conventionally, there are three choices: build your own, buy your own, and renting. The best choice requires an honest evaluation of your organization's goals, capabilities, and weaknesses.

Building your own

The work Charles Schwab did to launch what is now a suite of digital advice platforms-- Schwab Intelligent Portfolios for retail digital-only robo-advice, Schwab Intelligent Advisory for a retail hybrid (human/digital) advisory experience, and Institutional Intelligent Portfolios for financial advisory practices-- is a prototype of what organically building a platform looks like.

As a firm with a long history of excellence in building retail digital experiences (historically primarily for brokerage), they were able to assemble an internal team to manage the product vision and implement their solution. They also control proprietary operational systems with which their digital advice solution needs to interact, most notably brokerage/custodial infrastructure, portfolio accounting, and client information management.

Finally, a unique business model which includes a proprietary line of investment vehicles-- mutual funds, ETFs, and managed accounts-- means that their strategy over time will likely look very different than the average wealth manager or brokerage firm.

This example highlights the three factors that suggest rolling your own digital solution makes the most sense.

In addition to Charles Schwab, many of the other largest and vertically integrated incumbents-- to date, including Vanguard, Morgan Stanley and Merrill Lynch-- have built their own digital investing experiences.

Buying Capabilities

In contrast, it's helpful to consider what motivates a firm to acquire a smaller digital wealth technology firm instead. Consider BlackRock's acquisition of FutureAdvisor in 2015 for a reported $152 million. Despite BlackRock's extensive capabilities in investment strategy, marketing, and technology, they had minimal experience building digital experiences for retail investors, or even financial advisory professionals, other than their marketing website. Their BlackRock Solutions division primarily served institutional investment professionals and had a reputation for complexity even among that audience.

Moreover, they have quite public about their belief that providing digital experiences to intermediaries would be key to the growth of their retail strategy. In 2017, Larry Fink told attendees at a Morningstar conference that, "We need to be closer to the clients, and for us that means closer to the advisor… [Aladdin] will become bigger component of our clients' desktop. It's a very large opportunity."

In fact, rather than provide their own digital advice solution to retail clients, their strategy would be to deepen their relationship with intermediaries like financial advisors by providing more and more of the tools those advisors used every day, ranging from portfolio analytics to digital wealth management.

As a result, it made a lot of sense for them to gain the capabilities of a fairly large team focused on digital portfolio management experiences to accelerate their efforts on this front. Licensing robo-advice technology would only have required a tiny percentage of the acquisition price, but would have defeated the purpose. Ownership of the product roadmap to be able to realize integration with their other strategic assets, especially Aladdin but potentially also, at some point, investment content and investment products, was critical to realize a strategy of being an everyday presence in the lives of financial intermediaries.

The majority of the other acquisitions to date have been examples of other investment managers creatively building digital capabilities to serve financial intermediaries, including Invesco's acquisition of Jemstep, WisdomTree's investment in AdvisorEngine, or TIAA's acquisition of MyVest.

Renting

As digital investing has gone from a "disruptive" technology to table stakes for serving the modern investing client, many wealth management firms are simply seeking a solution that works with them. Firms that are focused on serving their clients and growing their businesses no longer necessarily need to also be technologists or venture capitalists. Instead, perhaps the goal is simply to be able to communicate and interact with clients digitally as well as traditionally, ideally without uprooting the existing systems already used to run their businesses, primarily brokerage/custody, portfolio accounting/reporting, and CRM.

To the extent that your firm utilizes a fairly market-standard solution for all three of those functions, it increases the likelihood that there are off-the-shelf software

Objective		**Build**	**Buy**	**Rent**
Unique synergy with firm strategy/capabilities	e.g. large scale investment managers can use digital to build new distribution channels	+	+	−
Need market standard capabilities	many wealth managers prefer a robo that just works over differentiated capabilities			+
In-house digital product development capabilities	need the right people AND the right processes to build and manage digital	++	+	
Accelerate learning about how to deploy digital	building up new digital product development capabilities is a priority		++*	+
Speed to market	picking up an existing team or product is the fastest path to market	−	+	+
Examples		Schweb; Vanguard	BlackRock & FutureAdvisor; Invesco & Jemstep	SigFig & UBS; FutureAdvior & US Bank

*Learning from technology acquisitions still requires the right corporate strategy & culture at the acquirer.
Source: Policy Portfolio

packages that can provide web applications and mobile apps that allow you to digitally interact with your clients. And most of those solutions should also provide or accommodate at least some automated portfolio management capabilities should you want to take that step.

Obviously, not all digital platforms for financial advisors are the same-- some firms focus on full-service and/or independent advisors, others have focused on allowing firms to build digital-only wealth management channels, and yet others are optimized for banking organizations that want to add to their product offerings. But in 2018, the good news is that there are increasingly moderately mature solutions for all type of requirements, and in many geographies around the world.

What can go wrong?

All that said, it doesn't mean that there's a turnkey solution for you tomorrow.

The first challenge many wealth management organizations face was mentioned above-- using a broadly adopted market solution for brokerage/custody, portfolio accounting/reporting, and CRM means that an integration with a digital wealth solution should be reasonably straightforward. But that doesn't describe most firms. Instead, many firms utilize manual processes or legacy systems (anything implemented more than 7 years ago is likely considered 'legacy') to perform at least one of those three functions. If that is the case, it's often the case that a platform migration for that function is a necessary prerequisite to rolling out a digital wealth experience.

The second challenge that many firms face are the range of workflows that their advisory teams utilize. Variances as simple as some advisors who tend to manage portfolios at the household level while other advisors manage portfolios for individual clients can introduce complexity into the implementation process.

The third challenge is the staffing model. A firm that migrates from manual onboarding and portfolio management processes to a digital advice platform can expect a significant decrease in the administrative paperwork burden, but some increase in the need to provide technical assistance to their clients. It is not always the case that the same professionals are able to perform both sets of functions, so supporting a change in service model may also require some change in staffing.

Of course, these challenges notwithstanding, not providing, or even emphasizing, digital as a client service model is hardly an option. Many clients no longer even have paper filing cabinets in their homes, as their entire lives now exist digitally. Indeed, contrary to the initial traction of robo-advisors among younger and lower-net worth clients, today, studies show that the wealthiest clients are the least tolerant of not having digital service options (even as they still desire access to the flexibility of a traditional advisor as well).

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Inquiries to : Business Planning & Financial IT Marketing Department
Nomura Research Institute, Ltd.
Otemachi Financial City Grand Cube,
1-9-2 Otemachi, Chiyoda-ku, Tokyo 100-0004, Japan
E-mail : kyara@nri.co.jp

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