



interactive
ADVISORY SOFTWARE

**Buyers Guide to
Wealth Management Software**

*Five Steps to Making the Right
Integration Decision*

An IAS White Paper, 2011

Introduction

The onset of advanced technology has dramatically increased the ability of financial advisors to provide increasing levels of value for their clients. It has also created a nightmare.

A multitude of factors have combined to create the current and very real dynamic in the retail financial services industry. The ability to effectively compete in the financial advice market is no longer simply a function of providing good financial advice within the context of a client relationship. As the cost of acquiring and servicing investment and insurance clients continues to rise, the need to efficiently manage products, services and client information has become an additional and essential element in driving practice growth. At the same time, client demands for transparency and “currency of information” continues to intensify.

In the short span of less than a decade, the need for systems that effectively integrate client data, transaction processing and performance reporting has gone from the status of “nice to have” to “must have now.” The question that remains is how to slay this dragon. Many solution providers in this market have unique and deeply vested interests in solving this issue. Many widely divergent “paths to prosperity” have been suggested. The result is a tremendous amount of confusion in the marketplace.

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What is undeniably the case, and what we can now determine with certainty, is that there is no panacea that will solve the needs of all financial advice practices. On the other hand, given the experience of the world over the last ten years, there are certain fundamentals that must be considered before good decisions can be made. Here are our recommendations.

Step One

Solving for the Problem

In today’s complex world, the need to define the opportunity or problem, in advance of divining the solution, has never been more critical. In the time-starved and information over-loaded world we now inhabit, making the right buying decision with respect to all technology solutions requires a diligent and

disciplined review of the question, “What problem are we attempting to solve?” Alternatively, “What specific opportunity are we seeking to capture?”

Within retail financial service organizations both large and small, the issue remains the same. And yet solution providers in the industry have a tendency to skip right past those core questions. What is often heard in the marketplace is a version of “Here is

your problem, and here is the (our) solution!” It is obvious that if we let the solutions providers define our problems, we will often miss the mark. The equally apparent (and equally difficult) alternative is to begin the buying process with a definition. This definition then forms the basis for making the right decision.

A partial list of the definitions is as follows:

With our proposed purchase of software to better integrate our client data, transaction processing and information reporting, we are fundamentally attempting to...

- 1 More effectively acquire new and profitable clients.
- 2 More cost-efficiently serve our existing clients.
- 3 Significantly improve the customer experience of our clients.
- 4 Create markedly better client outcomes.
- 5 Grow the franchise value of our advice practice.
- 6 Reduce the overall risk profile of our practice.

Each of these factors is an important input into the selection of a solution that meets the information integration needs within the retail financial advice business. More important still is the recognition that many solutions available in the market today address this list either very partially, or in a piecemeal fashion. Many, in fact, make no claim to solve for other than a narrow slice of the overall picture. This provides for myriad choices, and a confusing set of options.

The imperative is to spend the time needed to define the exact nature of the problem that is being solved. Otherwise, in the midst of the purchase process, any number of alternatives may look and feel very "right," but may well prove disappointing over time. Spending the time and energy to define the nature of the problem being solved, and the

opportunity being addressed, is the critical first step in making the right software decision. As a practical matter, ranking these items in order of importance is a positive and instructive initial step.

Step Two

The Strategic Options

The retail financial services industry has been investing in an "advisor workstation" for nearly three decades. Within the "employee" world of the major financial services firms, including those that used to be called the "wirehouses," the workstation has advanced to a high level of sophistication. The workstation generally integrates the functions of client relationship management (CRM), transaction processing (including portfolio rebalancing), financial planning and all the related information and performance reporting needs of both the advisor and the client.

The situation is different, however, within the "independent" advisor portion of the industry. Independent advisors encounter a very different technology platform situation. The independents are generally required to assemble a technology platform that begins with their broker-dealers' clearing platform. It is then largely up to the advisor as to what technology to "wrap around" the capabilities of the clearing firm platform. An entirely new software industry has been built around the need to uniquely augment the capabilities of the assorted core clearing platforms.

Within the independent market segment there exist three distinct solutions to the integration question.

Option One – Best-of-Breed: The first of these solutions is the so-called best-of-breed strategy which requires the independent advisor to assemble a unique configuration of technology components to meet the needs of the practice and their clients. This solution requires the selection of four or five functional systems (in addition to the core clearing system) to accommodate the needs for financial planning, CRM, portfolio management, data aggregation, performance reporting and compliance.

Option Two – Clearing Firm: The second of these solutions is simply a variation on the first. For the last several years the broker-dealer clearing firms have been creating interfaces to a large number of these functional systems into their core offering. The systems being attached to the clearing platforms are the same as those listed in Option One.

Option Three - Holistic: The last of the strategic options is a solution that integrates the entire collection of functional systems around a separate unified database and then interfaces with the core custody clearing system. In this environment, the center of the technology universe is not the clearing system, but rather the client database, and by extension, the advisor's business.

Each of these solutions comes with "the story" as to why it is the best solution for the independent advisor. And each of these stories is largely, in the context of the product(s) being offered, true. At the same time, the implications for the retail financial advisor and their advice practice could not be more dramatic. The differences in the overall cost of operating each of these strategic choices, the absolute value provided to clients, and the relative complexity of administering the various offerings are all critical in making the right integration decision.

Step Three

The Integration Challenge

Everyone in the industry agrees with the notion that "The systems must be integrated to provide real value." The differences of opinion come in the form that the integration takes and the challenges attached to maintaining data on multiple sets of systems. If there were ever a situation where "the devil is in the details," it is in the integration of disparate technology systems.

In selecting an integration platform, it is critical to establish an understanding of the approaches and challenges associated with integrating the complexities of the financial services environment.

Ultimately, success in the integration of data-rich technology systems comes in two elements. The first of these elements is in the ability of the systems to pass data between themselves. The second is in the maintenance of a common repository for the applicable data. As importantly, the success of the systems integration comes in terms of keeping those interfaces working effectively, and maintaining a consistent and error-free database.

When selecting a solution, it is critical that the integration challenges are addressed. It has been continually observed over the last ten years that the integration challenges associated with many available alternatives have not only failed to provide an optimal solution, but have actually done tremendous damage to many financial advice practices.

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Step Four

The Decision Process - Part One

Within any decision to acquire software, the decision is ultimately predicated either on 1) how much money the "software acquisition" will create in operational efficiencies and cost savings, or 2) how much value and associated revenue the software purchase will create. The selection of integration platforms naturally creates implications on both the revenue and expense sides of the practice's ledger. All highly-effective decision processes focus on an assessment of the value,

and associated revenue expectations, created by the software solution -- from the perspective of the client.

The creation of repeatable, yet customizable, processes that allow the practice to build higher productivity, improve revenues, enhance client satisfaction and create enhanced new client acquisition possibilities is central to the software acquisition decision. Making the right decision continues with addressing a series of these core value questions:

- 1** What are clients expecting from our financial advisory practice?
- 2** Where will our clients perceive increased value in the overall offering of the practice?
- 3** How much more often will our clients refer the services of the practice within their circles of influence?

Upon answering these questions, it is then possible to align the capabilities of the software with the interests and needs of the client base. Make no mistake...these are challenging questions to both ask and answer. They are also invaluable in growing a profitable financial advice business through the selection of the right supporting tools and systems.

Step Four

The Decision Process - Part Two

The second critical element in the decision process is a determination as to how the software selection improves the franchise value of the practice. Whether the practice is operating as a sole practitioner, or as a large group of advisors, the value of the practice is determined by the long-term sustainability of the business model. Said differently, the question of franchise value is determined by the ability of a new owner to come in and effectively "run the shop" without the props provided by the prior owners. This requires both a

degree of simplicity and a degree of replicability that is often lacking in financial advice practices.

The operating and client service platform that provides for the effective transfer of ownership is also the platform that operates with the most efficiency. These models are easier to train to, and easier to manage as a function of having "scaled the learning curve." Each new client within the financial advice business should create a new set of planning and advice challenges and opportunities. The new client must not create a new set of operating and administrative challenges.

The questions you must ask to create a platform that will build and enhance franchise value include:

- 1** How will the integrated software decision simplify the client management process?
- 2** How will the business processes within the practice be standardized to improve the productivity of the practice?
- 3** What impact will the software decision have on the ultimate valuation of the practice in the event of its sale?

The alignment of thinking that comes from looking at meeting the needs of the clients, along with meeting the practices' need for enhancing franchise value are the bookends between which the best software decision can be made. There are clearly simpler approaches to answering these same questions. Unfortunately, those less-taxing approaches usually provide less-than-desirable consequences.

Step Five

Controlling Your Future

If you have successfully answered the questions posed thus far, the actual selection of software has largely been made. What remains is to very specifically match the attributes and costs of the available options

with what is available, among the three options. Additionally, the software must be available to “test-drive” before any purchase decision can be made.

The balance of the process of making the right integration decision is related to the vendors who supply the integration options. It also includes an awareness of some of what is not being said, but nonetheless critical to the decision.

Questions to Ask the Integration Vendors:

Does the integration platform allow the practice to spend more time with clients and less time with the challenges presented by integrating the technology platforms? Can you provide our organization with evidence of that fact?

Does the integration platform come with a price tag that allows the practice to create acceptable margins? More specifically, was your platform designed with the needs of practices like ours in mind, and can you demonstrate that phenomenon?

What resources are required by the practice in the short term and in the long term to support the integration? What are other unintended strategic consequences of a decision to purchase your offering?

In asking these questions, it will be quickly determined whether the vendor truly understands the nature of the challenges faced by their prospective customers, and more likely then to continue to meet those needs in the future.

What the “Best of Breed” providers will not tell you:

“We are very challenged to support the open architecture models deployed in the industry, given that the changes are coming so rapidly.”

The key to the successful purchase of software is always the work done in advance to critically and dispassionately assess the needs of the organization...both today and tomorrow.

“The clearing firms are very difficult for us to work with technically, financially and operationally.”

What the Clearing Firms will not tell you:

“We have invested a ton of money in this integration effort, and we are going to charge you plenty to recoup our investment.”

“We see the rest of our business being commoditized, so this is the area where we are going to charge a lot of money and make all our future profits.”

The key to the successful purchase of software is always the work done in advance to critically and dispassionately assess the needs of the organization... both today and tomorrow. Credible solutions exist in the marketplace. Getting the right one for your practice ranks among the most critical decisions a financial advice practice must make.

About Interactive Advisory Software

Interactive Advisory Software is the developer and distributor of Solution 360°, a wealth management software application focused on serving the needs of Registered Investment Advisors (RIAs) and Independent Financial Advisors. The company provides an integrated wealth management software application that allows advisors to deliver a holistic level of service to their clients from a single client database. The single application combines Portfolio Management, Financial Planning, Customer Relationship Management (CRM), Client Access Portals, Rebalancing and Back Office Services/Reconciliation.

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