Institutional Investor

Fintech for RIAs: Elevating Client Experience

Making the Most of Technology to Acquire and Serve Advisory Clients

FRANKLIN TEMPLETON

AdvisorEngine

CONTENTS

FINTECH FOR RIAS: A CHANGE FOR THE BETTER

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"We're in the midst of the fourth industrial revolution, and technological advances are reshaping how financial solutions are delivered."

- Jenny Johnson
President and CEO of Franklin Templeton

The list of business demands facing RIAs can seem endless – but thanks to new financial technologies designed to help you operate more efficiently and serve clients more effectively, that list should soon be getting shorter.

At Franklin Templeton, we appreciate the value that these technologies bring to the table and have consistently demonstrated our commitment to the RIA market through custom research, value-added programs, and practice management services. Our commitment has never been stronger. It was a key factor in our May 2020 acquisition of AdvisorEngine, a digital wealth platform and technology service provider that currently serves more than 1,100 US financial advisory firms.

We're eager to learn more about how RIAs view the potential benefits, and how they can be most helpful in terms of growing their business and achieving better outcomes. To that end, we worked with our partners at Institutional Investor to survey a select group of more than 150 RIAs about what they see as most important in this space.

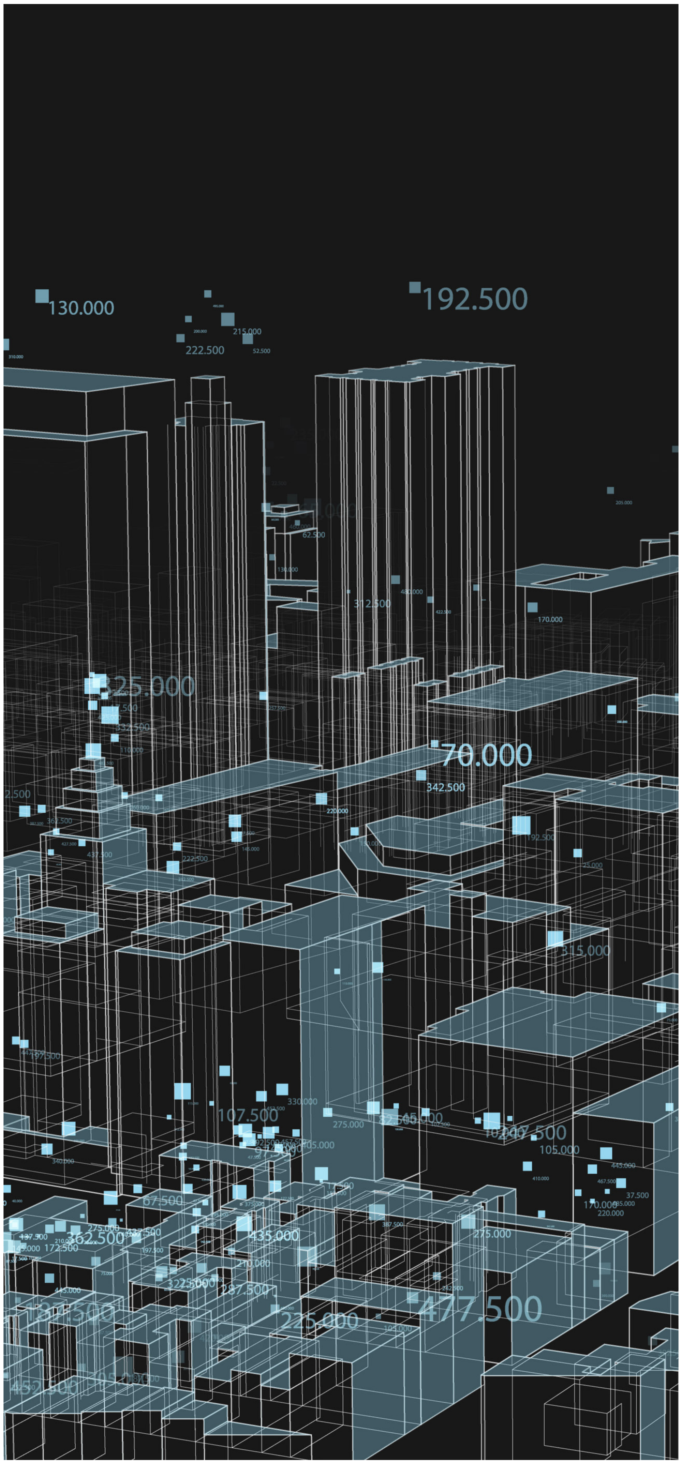
What did we learn?

- First, digital technology is a critical tool to meet current client demands, recruit top talent, and capture business from Gen-X and Millennial clients.
- What's more, we found RIAs believe that the greatest ROI is captured through technologies that enhance client-centric activities such as on-boarding and client communications. They also see great value in systems that facilitate aggregated views of client holdings.
- RIAs appear eager to invest in technologies over the next two years that aim to enhance a variety of business functions.
- However, concern over data security represents a potential barrier to adoption – understandably, given its tremendous importance to meeting regulatory standards, building client trust, and the fulfilling the special needs of RIAs as fiduciaries. Technology firms seeking to partner with RIAs must be prepared to share their security protocols if they want to secure business.

As an RIA, you have both the privilege and challenge of making business decisions that go well beyond investment selection. We welcome the opportunity to share these technology insights and related practice solutions with you in collaboration with AdvisorEngine. Please reach out with any feedback about both the survey findings and our offerings in general.

J. Kingery

EXECUTIVE SUMMARY



Amid a massive transfer of wealth and increase in the use of digital technology, RIA firms have an opportunity to deploy information technology in ways that will help them acquire clients more efficiently and serve them more effectively. This research program among more than 150 RIAs at US firms finds broad enthusiasm for new technology among investment advisors – especially for systems that brings greater discipline to the information-intensive dimensions of acquiring and managing complex, diverse client accounts.

Topline findings from the survey of RIAs include the following:

- RIA clients expect firms to have digital technology in place for communicating and making investment decisions with their advisors. Similarly, prospective employees expect firms to have the tools and platforms they need to acquire and serve advisory clients.
- A great digital experience differentiates RIA firms from their less tech-savvy peers and competitors.
- Digital infrastructure gives firms the ability to meet regulatory and reporting requirements more efficiently and can increase firm valuation.
- RIAs are most interested in functionality that helps them acquire, on-board, and serve advisory clients.
- Concern about data security is RIAs' most formidable barrier to adopting new technology.

However, RIAs believe this technology should be deployed to deepen their engagement with clients, rather than to replace them as trusted advisors on an increasingly broad range of investment and financial planning decisions.

I. TECHNOLOGY ADOPTION AMID MASSIVE WEALTH TRANSFER

As 2022 begins, two broad trends are converging on registered investment advisors and their firms in ways that may recast the financial advisory business over the next several years. First, the prosperous baby-boom generation born between 1946 and 1964 is well on its way toward the transfer of its massive pool of assets to younger generations. Second, digital technology has become embedded in our day-to-day commercial, professional, and social lives as never before, spurred in large part by nearly two years of remote work, limited face-to-face engagement, and shutdowns throughout the economy.

Amid this massive transfer of wealth and spike in the use of digital technology, RIA firms have an opportunity – perhaps a mandate – to deploy information technology in ways that will help them acquire clients more efficiently and serve them more effectively. This research program among more than 150 RIAs at firms in North America finds broad enthusiasm for new technology among investment advisors. However, RIAs believe this technology should be deployed to deepen their engagement with clients, rather than to replace them as trusted advisors on an increasingly broad range of investment and financial planning decisions.

"We're seeing people becoming much more comfortable with interacting digitally in virtually settings, and I think it's definitely here to stay," says the leader of a national RIA firm.

The looming wealth transfer is hardly a surprise. Americans age 70 or older have an estimated $35 trillion in assets, according to the US Federal Reserve, nearly all of which will be passed onto heirs in the years ahead. Indeed, approximately $70 trillion in assets will be transferred to younger generations over the next twenty years, according to estimates from Cerulli Associates.

Less predictable has been the pandemic and its role as a catalyst for technology adoption. As the Covid-19 pandemic enters its third year, the integral components of the nation's economy – such as its large and small firms, households, and individual professionals – have shown encouraging resilience in adopting new technology throughout most aspects of economic life. Companies and their employees, suppliers, and customers have accelerated their use of digital technology to communicate and conduct transactions. Sources interviewed for this study consistently cite pandemic-related disruptions as a catalyst to digital adoption and engagement among RIAs and their clients. And there's little reason to expect technology to play a lesser role in the future. According to one senior leader at a national advisory firm, there will still be a place for in-person meetings and physical interactions, but "we're seeing people becoming much more comfortable with interacting digitally in virtual settings, and I think it's definitely here to stay."

These two trends – the looming transfer of wealth and the accelerated adoption of technology – are now converging on RIAs and the households they serve. RIA firms seeking to expand their businesses in the years ahead can look forward to substantial opportunities to acquire new accounts, often by preserving and extending their relationships with current client households. RIAs that hope to serve their clients more effectively and efficiently have opportunities to do so using new technology that brings greater order and velocity to the mechanical, information-intensive dimensions of managing complex, diverse client accounts. Accomplishing this, say interview sources, calls for striking a balance between providing first-rate, "high-touch" service to advisory clients and taking appropriate advantage of digital technology that increasingly automates how we communicate, collaborate, and transact with one another.

II. RIA FIRMS SEEK GROWTH AMONG CURRENT CLIENTELE

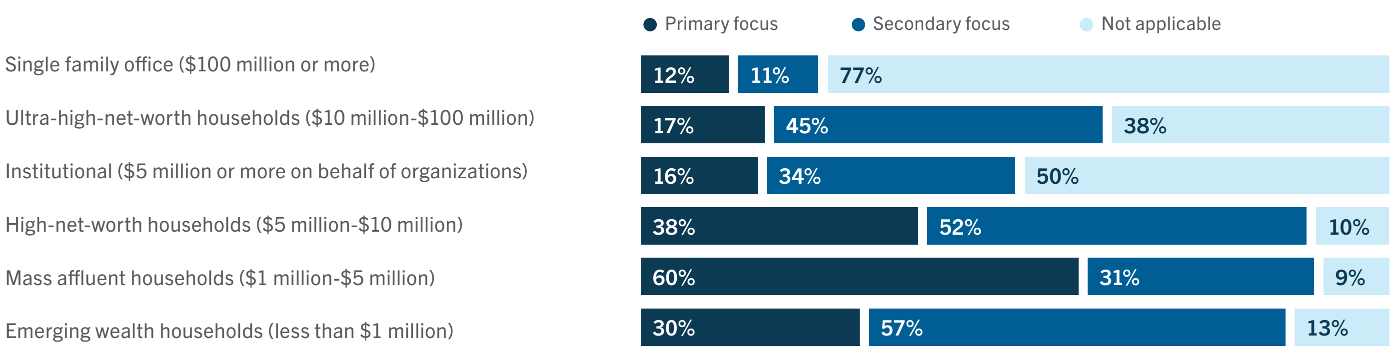
The business of giving financial advice has two principal components: Developing a base of clients who need and value professional help in managing their assets, and serving these clients with good advice, transaction support, and documentation of their financial affairs. These two activities – business development and client service/operations – form the backbone of any RIA practice.

With this in mind, we asked more than 150 registered investment advisors about their current clientele, their aspirations for attracting clients in the years ahead, and the business processes they use to serve the households and institutions under their care.

By a healthy margin, RIAs participating in this study serve clients in the mass affluent, high net worth, and emerging wealth segments. Fully 60% of respondents in this survey say their firms are most likely to identify mass affluent households – those with $1 million to $5 million in investable assets – as a primary focus of their firm (see figure 1). More than one-third of respondents identify high-net-worth households as a primary market segment, and 30% cite emerging wealth accounts as one of their primary client groups.

Figure 1. Respondents focus on serving mass affluent and high-net-worth clients

Which of the following client segments are the primary focus of your firm? Which are secondary? (n=152)

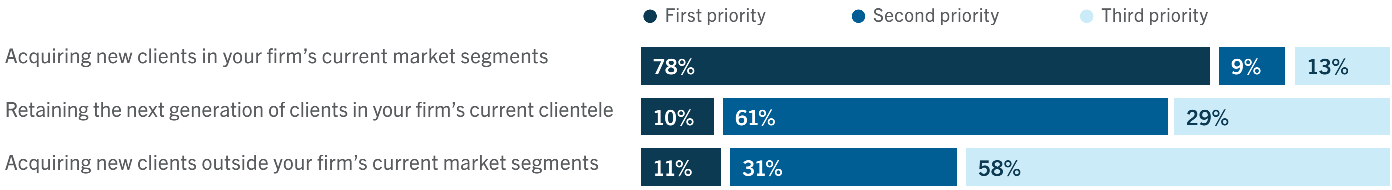


RIA firms are committed to building on their business development success. As they look to the future, respondents are especially likely to pursue new relationships with households similar to their current clients. Nearly 80% of respondents see acquiring new clients in their firm's current segments as their highest priority in business development (see figure 2).

Sustaining and expanding relationships across generations is top of mind among RIAs in this study, as more than 70% of respondents see retaining the next generation of clients from their firm's current clientele as their primary or secondary business development target. And notably few respondents see expansion into new segments as a source of new clients and assets to manage.

Figure 2. Respondents seek to focus business development on current client segments and their descendants

Please rank the following business-development objectives for your firm over the next 3-5 years. (n=151)



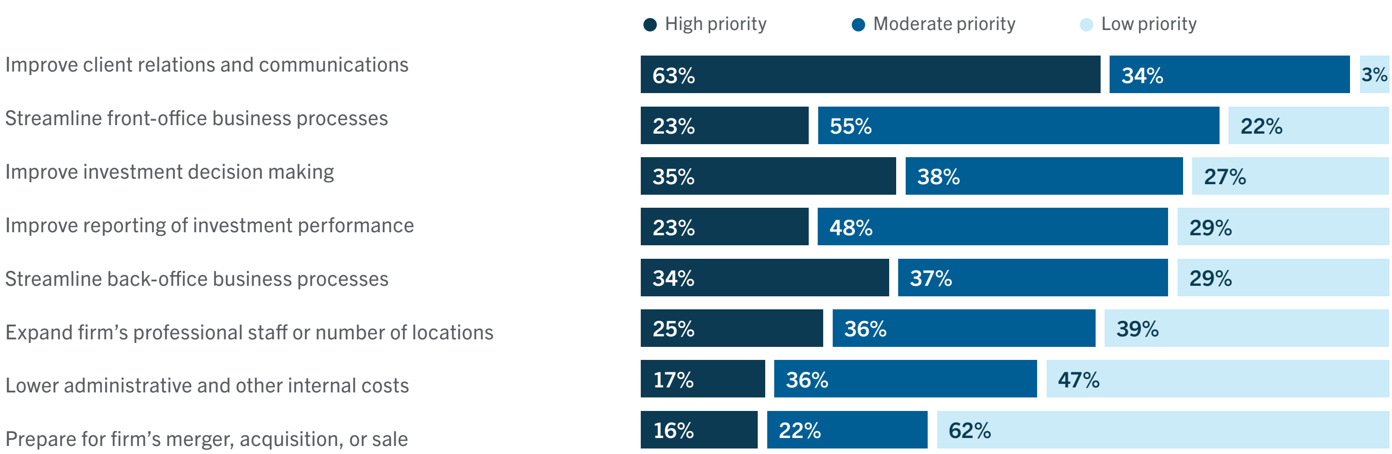
RIAs seek to take full advantage of their experience, expertise, and incumbency in their business development activities in the next 3-5 years. How? Most often, by acquiring more clients like those they serve now and by extending their relationships with families across generations. Viewed more broadly, the next 3-5 years are likely to see firms further develop their ability to communicate and interact with clients. Nearly all respondents (97%) selected client relations and communications as a high or moderate priority for improvement in the years ahead (see figure 3). Similarly, more than three in four respondents seek to streamline front-office business processes, which by definition are highly visible components of the client experience.

Firms are also likely to take steps to improve other dimensions of their businesses according to their particular needs. Notably, more than 70% of respondents say they will prioritize improving investment decision making (73%), performance reporting (71%), and back-office processes (71%). Firms are less likely to say they will make direct efforts to build their teams and expand their physical presence (61%), lower costs (53%), or prepare for mergers, acquisitions, or sale (38%).

RIAs say they're most likely to focus their business-development activities on their current market segments and on the next generation of their current clientele.

Figure 3. Client relations and front-office processes are highest priorities for improvement

Which of the following objectives are especially high priorities for your firm over the next 3-5 years? Which are less so? (n=152)



III. CLIENTS' DIGITAL EXPERIENCE IS A SOURCE OF COMPETITIVE ADVANTAGE

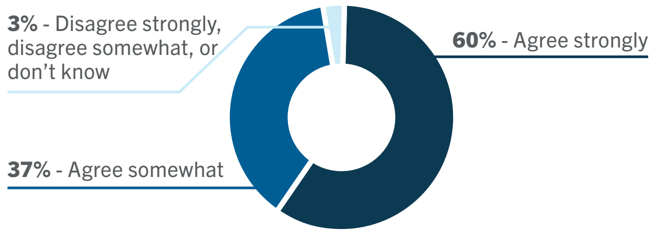
The smart application of new information technology lies at the heart of respondents' business development and operating objectives for the next several years. And based on survey responses and interviews, it's clear that RIAs are increasingly aware of just how important the right technology is to the future of their businesses. We posed a series of agree/disagree questions on the importance of digital technology to RIAs and found strong support for the use of wealth management fintech across nearly all dimensions of the investment advisory business.

Younger clients expect a high-quality digital experience. Sixty percent of respondents strongly agree with the statement, "Gen-X and millennial clients are likely to expect investment advisors to provide digital technology for communicating and making investment decisions with their RIAs." (See figure 4.) As well-heeled baby-boomers give way to the next generation of prosperity, Gen-Xers (born between 1965 and 1980) and their younger millennial peers (born between 1981 and 1996) are an increasingly important segment of investment advisory clients. They're likely to inherit some or all of older generations' wealth, and they've built companies and careers during an extended period of economic growth, turmoil, and increasingly sophisticated and complex financial offerings. These generations have grown up with ubiquitous technology – first with PCs, then then internet, and now smartphones, tablets, and more. They are fluent in the use of technology in nearly all aspects of life such as employment, socializing, romance, health, shopping, and, of course, managing their financial affairs. They have high expectations for technology that supports both their day-to-day activities and their long-term plans.

Vendors and service providers that provide a digital experience that is reliable, secure, insightful, and easy to use enjoy a competitive advantage over those offering piecemeal or partial solutions to users' problems.

Figure 4. Gen-X and Millennials expect new technology

"Gen-X and Millennial clients are likely to expect investment advisors to provide digital technology for communicating and making investment decisions with their RIAs."



"Clients today – especially tech savvy professionals in their 40s – certainly expect advisors to have a strong technology presence," says one advisor on the West Coast whose clients typically have $2 million or more in assets under management. "Having the ability to share information with clients in real time, securely, and use it to provide the level of service they expect is essential." In her view, millennial clients are more fluent in technology, rely less on paper documents, and "have no patience with a firm without technology." She says, however, "in our experience, younger clients want and need the human touch. They're looking for real advisors who are perhaps older and wiser about markets and planning for a strong financial future."

Great digital experience yields competitive advantage. Forty-five percent of RIAs surveyed agree strongly that "the ability to provide a high-quality digital experience for clients is an important competitive differentiator for RIA firms." (See figure 5.) While technology is increasingly embedded in day-to-day life, it often remains a source of difficulty and frustration for many. Vendors and service providers that provide a digital experience that is reliable, secure, insightful, and easy to use enjoy a competitive advantage over those offering piecemeal or partial solutions to users' problems. And sources are adamant that RIA firms' digital experience for clients will be not only a matter of "table stakes" required for market participation but also a source of competitive advantage over their less tech-savvy peers in the years ahead.

Figure 5. From table stakes to competitive advantage

"The ability to provide a high-quality digital experience for clients is an important competitive differentiator for RIA firms."

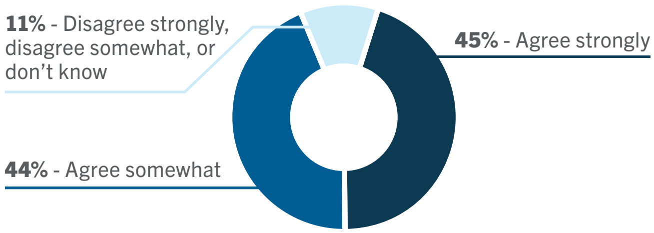
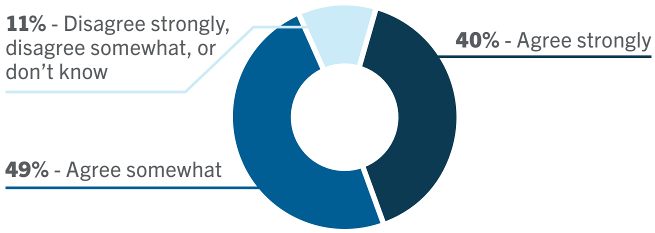


Figure 6. Regulation, reporting, and technology

"RIA firms are likely to have increasing difficulty complying with regulatory and reporting requirements without digital infrastructure."



"I think a robust digital presence is rapidly becoming a fundamental part of the process for a couple of reasons," says a senior executive from a large advisory firm. "On the acquisition side, cold calling and referrals have worked really well in this industry in the past, and referrals will always work well, too. But increasingly we've found that being digitally present on the right social platforms and having a strong digital presence of our own allows us to project ourselves and our value to the market."

He cautions, however, that having a good website – "a slick digital brochure" – is widely expected and a "foundational capability." Competitive advantage flows from "providing value to clients with content that stimulates engagement" with his or her advisor. He continues, "You can come up with a lot of cool stuff, but if people aren't going to use it or it doesn't address what they actually need, then it's not that useful."

Regulation and reporting requirements increase the need for good digital infrastructure. Forty percent of respondents agree strongly that "RIA firms are likely to have increasing difficulty complying with regulatory and reporting requirements without digital infrastructure." (See figure 6.) As digitization sweeps through the financial services industry, the volume of digital information to be reported to regulators, taxing authorities, RIA clients, and clients' other service providers has exploded. So too have client expectations for ready access to information about their finances. Indeed, says an RIA based in the Midwest, "it'd be nearly impossible to manage even a modest portfolio without a single source of the truth and the ability to prepare accurate reports in the right formats for the client, his or her tax people, and the federal and state tax services."

And while dealing with regulation and compliance requirements is often seen as a hassle and a cost of doing business, sources interviewed for this study are circumspect about regulation and its implied value. "Personally, I've always believed it's a good thing that this industry is highly regulated because you really do want to make sure you keep people safe – even from themselves," says an executive at a large firm in New York. "And there's now a lot more access to different ways to invest for a lot more people, and that's a good thing – as long as you've got all the right regulation, controls, and technology around it."

"We've found that being digitally present on the right social platforms and having a strong digital presence of our own allows us to project ourselves and our value to the market."

First-rate talent expects first-rate technology. Fully 41% of survey respondents strongly agree that "an RIA firm's digital infrastructure is increasingly important in hiring and retaining first-rate professional talent." (See figure 7.) Amid a tight labor market, current and prospective employees have greater market power to demand the right tools for to do their jobs effectively. "For us, new hires typically come from an advisory background, so they're familiar with what's available and the problems they'll face when working with our clients," says a practice leader in the Midwest. "In fact, when bringing on two managing directors recently, one of the questions that came up right away was, 'Here's what I'm used to. What do you guys offer? Oh, good – that technology dovetails nicely with what we're used to,' and this common understanding of the client platform and reporting capabilities really opened up the conversation."

Figure 7. Technology attracts and retains talent

"An RIA firm's digital infrastructure is increasingly important in hiring and retaining first-rate professional talent."

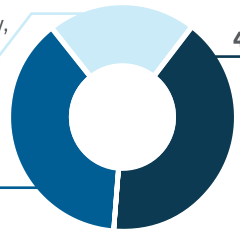
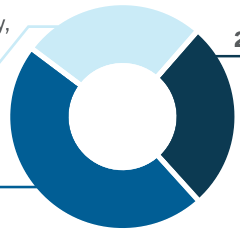


Figure 8. Strong digital technology supports firm valuation

"An RIA firm's digital infrastructure is an increasingly important consideration in when valuing firms during mergers and acquisitions."



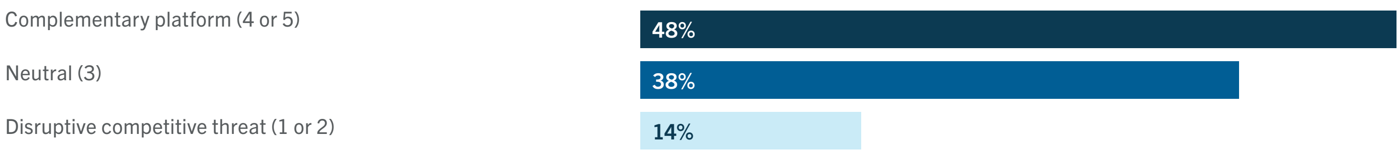
Good digital infrastructure improves firm valuation. More than one in four respondents strongly agree that "an RIA firm's digital infrastructure is an increasingly important consideration in when valuing firms during mergers and acquisitions." (See figure 8.) Sources interviewed for this study say that valuations are driven primarily by a firm's size in assets under management and the profitability of the business. But "good technology is a hallmark of a well-built, well-run firm, and I expect due diligence will frown on firms that don't have their technology in good order," according to one RIA interviewed for this report.

RIAs in this study are more than three times as likely to view the next generation of investment management technology as a complement to their current ways of serving clients rather than as a disruptive threat to their practices.

Do these sanguine views on technology mean that investment advice and wealth management will become primarily a technological business? Will applications and algorithms replace the spry response and thoughtful advice of a seasoned investment advisor? Survey data and executive interviews say no, decidedly. RIAs in this study are more than three times as likely to view the next generation of investment management technology as a complementary platform to their current ways of serving clients rather than as a disruptive threat to their professional practice (see figure 9). And while a near majority (48%) see robo-advisors and similar tools as a complement to their current business models, the jury is out on this matter among the 38% of survey respondents who selected neutral on the question posed in figure 9. These respondents may see such technology as equal parts opportunity and threat – or perhaps are undecided on the long-term outlook for robo-advisors and tools driven by artificial intelligence.

Figure 9. Robo-advisors and AI are complements, not competitors, to RIAs' business models

On a scale of 1 to 5, do you view robo-advisors and investment tools driven by artificial intelligence more as a disruptive competitive threat or a low-cost, complementary platform for your practice? (n=151.)



"We've looked at robo-advisor technology and frankly didn't think was all that great," says a practice leader on the West Coast. "It is certainly possible, eventually, I suppose, but in my view it's most applicable to the low end of the market – new accounts with, say, less than a $1 million in assets. So I don't really see it as a threat, and there's so much need for real human oversight." She continues, "For every client we have, we're looking after their life savings and we cannot compromise the best interests of the client." In due course, such technology might become more mature, she says, at which point her firm may integrate it into its offerings.

A senior executive at a nationwide advisory firm sees a brighter near-term future for robo-advisors and fintech applications. "Initially I definitely saw it as more of a threat because it's something new and there's a lot of excitement around it," he reveals. "It has opened a whole new way of investing. I think over time, what's happened in the world of financial advice is people have realized that those offerings can and will coexist [with conventional advisory services]." There's always going to be a need for financial advice, but there will always be room for robo-driven solutions as well because some clients prefer them. Such technology-driven solutions, says this source, are often complementary to his firm's practice as a source of new and sophisticated clients. "We have a reasonable percentage of clients who actually have money in a robo-solution, and we've found that sometimes it's play money on the side, but it's also a really good way we found to talk to clients and to help them educate their kids about investing," he adds.

Other sources confirm this use of robo-advisors as an entry level offering to their firms. "The folks who tend to use robo-advising believe that they can do it on their own," says a practice leader at a large national firm. "They say, 'It's not so difficult; I'm going to learn this way and then maybe someday I'll get an advisor.'" In his experience, that day often comes sooner rather than later. "We have found that lot of people, in fact, do graduate to an advisor, and we do a pretty darn good job of graduating people. And we see that progression of people who see the value in actually having an advisor versus trying to do things yourself."

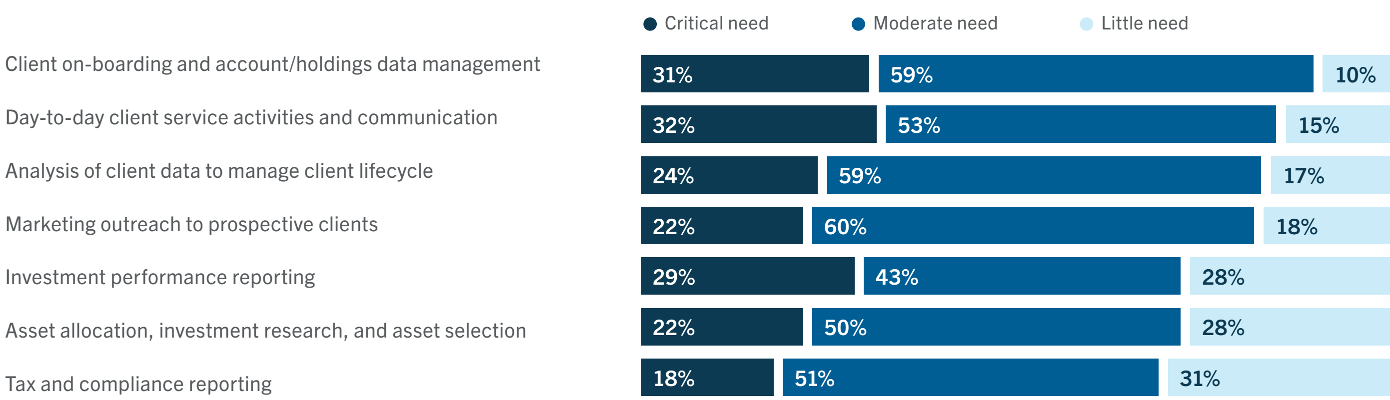
IV. RIAS CALL FOR CLIENT-CENTRIC TECHNOLOGY

Investment advisors recognize the need for a high-quality digital experience and new technology. Current and prospective clients demand it, peers and competitors increasingly provide it, and employees expect it. Further, firms need the technological capabilities to manage the vast amounts of data and analysis required by regulators, taxing authorities, and others. This research program finds that RIAs are most eager to apply technology to their most client-centric processes, which often included the mechanical, error-prone, time-consuming activities that are in clear view of their clients.

When queried on the business activities that are most in need of technology at their firms, more than 80% of survey respondents see a critical or moderate need for automation support for four processes: client on-boarding, day-to-day client service, analysis of data through the client lifecycle, and marketing and business development outreach to tomorrow's clients. (See figure 10.)

Figure 10. More than 80% of respondents see a need for client-centric technology investment

Which of the following client-related activities would benefit from the application of new technology at your firm? (n=152)



What would such technology specifically do for RIA firms and their clients? How would RIAs like to bring technology to their firms and clients? Survey data reveals that RIAs are most interested in client-facing technology. Their interest in technology stems more from their desire to serve clients more fully, completely, and responsively than from eagerness to avoid or offload drudgework and administration or to dazzle clients with technology for its own sake.

Survey data and interview sources identify advisors' earliest conversations with new clients as an especially important application of technology. The practice leader for a multi-billion-dollar advisory firm says, "traditionally in this business client on-boarding has been a source of friction due to lot of manual processes. This is the one time with clients when, candidly, you simply cannot have things go wrong. On-boarding a new relationship is a projection of the kind of experience that a client is going to have with us." He explains that an advisor or someone on the advisor's team will prepopulate various forms in the on-boarding application with a client's personal and account information. Thereafter, the advisor meets with the client – in person, or more likely through a screen-sharing teleconference – to confirm the information's accuracy and then move onto a more consultative and higher-value discussion of the client's preferences, aspirations, and goals.

Such on-boarding activities used to take seven or more days, he says, but now he and his colleagues are able to complete them in a day or two. Speed alone isn't the only benefit, says the practice leader. "It's digital, and there's an audit trail. It's a lot more secure, so when you digitally attest [as the client] and I attest as the advisor, all of the attestations are in the system, and as a result, we actually have a way to go back to them when we need to. On-boarding been a huge milestone and I think in this industry it will continue to be a big area of focus because it's been one of the most inefficient, time-consuming process historically. Technology can play a huge role in getting this right digitally."

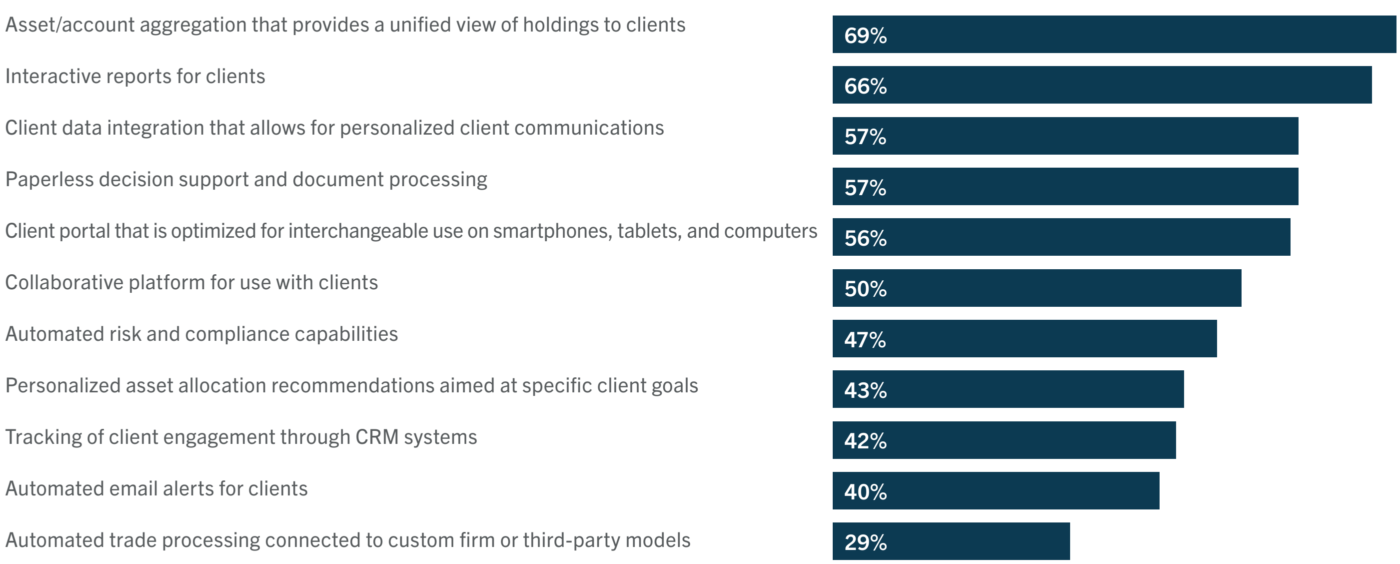
Advisor-client relationships that start with a complete, accurate, and well-documented on-boarding process are well positioned to yield a satisfying experience for both clients and their financial advisors. By pulling together an expansive view of client holdings – including statements from retirement plans, managed accounts, real estate, and other holdings, along with liabilities – advisors are able to embrace their role as "the quarterback of the overall relationship, the family's chief financial officer," in the words of one practice leader based in St. Louis.

Survey data in this study further reveal the value of this expansive view of a client's financial position. Two-thirds or more of survey respondents say they'd see greatest value in a unified view of client holdings across accounts and asset classes (69%) and the ability to provide interactive reports to clients (66%), as shown in figure 11. Bringing greater clarity, order, and discipline to the communication and interaction with clients is especially important to RIAs in this study. Indeed, capabilities that support RIAs' in-the-moment conversations with clients – including paperless decision support, document processing and a platform for collaboration with clients – are cited as most valuable by a solid majority in the survey.

Especially notable is the strong support for a "client portal that is optimized for interchangeable use on smartphones, tablets, and computers," which is cited as very valuable by 56% of respondents. "A website portal that's truly responsive – one that renders perfectly on a phone, a tablet, or a computer – works really well because it's so efficient," says an RIA, "[and] it allows us to provide reports and engage with clients with less back and forth" about the substance of client-advisor conversations.

Figure 11. Technology to integrate data and collaborate directly with clients

Which of the following digital capabilities would you find most valuable in serving your clients? (n=145)



Capabilities that garner support from less than a majority of respondents are undoubtedly important but also, in many cases, less visible to clients. Respondents clearly see value in technology that automates risk and compliance activities, tracks client engagement, and automates trade processing. However, they save their greatest affection for client-facing technology that allows them to take full advantage of clients' time and attention. In the words of one advisor, "Yes, technology is crucially important, but long term it's a tool for client service, not a substitute for it. I come in every day and look at my list of clients and say to myself and my team, 'Who is most likely to leave us? Who needs us? What are we doing about getting in front of our people?' This is by far the clearest way to hold onto and build strong relationships."

This commitment to client service is echoed by Joel Bruckenstein, a well-known consultant to financial advisors on technology and business issues. "According to *Financial Advisor* magazine, the number-one reason that clients fire their advisor is failure to communicate (72%), and another 44% said failure to promptly return phone calls," says Bruckenstein. With this in mind, he encourages RIA firms to focus their technology investments in ways that directly support a satisfying client experience. "Since client communication is key," he says, "it is essential that firms deploy and properly implement customer relationship management systems. At a minimum, firms need to track client communications preferences so they can respond to them through the medium they desire at the times and frequencies they desire."

The need to return phone calls promptly can also be addressed through technology. Bruckenstein recommends "logging calls into a CRM system and generating a 'to-do' for the advisor to return the call." He continues, "to help set expectations with clients, a scheduling application may be appropriate. These apps allow clients to schedule a time on the advisor's calendar and have it digitally confirmed in writing."

"Yes, technology is crucially important, but long term it's a tool for client service, not a substitute for it."

V. THE TECHNOLOGY INVESTMENT DECISION

New technology can be a costly, disruptive, and threatening proposition. When implementing new IT, firms must wrestle with decisions about which systems and vendors to evaluate and eventually use, along with concerns about cost, returns on investment, interruption, adoption, and the long-term impact of new systems on their businesses.

RIAs in this study voice the anxiety one might expect about technology investments: They are held back by concerns about data security, the cost and disruption of adopting new systems, and their ability to comply with regulation and other requirements. However, RIAs in this study seldom voice concern about the eventual benefit and return on their investments in technology for acquiring and serving clients.

Survey data reveals that when RIAs consider adopting new technology to support their practices, they are most concerned about data security, the cost and disruption of new IT systems, and how such systems will affect their ability to comply with regulations on behalf of their clients. As figure 12 shows, 66% of respondents cite data security as a formidable barrier to adoption of new technology, perhaps because data security is "the concern of our age," in the words of one RIA – regardless of the actual risk of a material data breach. "What's interesting is that a lot of technological solutions today are in fact more secure than sending snail mail around all over the place," he continues. "I guarantee you that your statements will be accessible to you digitally more securely than if I put them into the post and hope for the best that they reach you at some point in time."

Nearly one-half of respondents cite the cost and disruption of complex IT projects as a barrier, and 41% are especially concerned about regulatory and compliance matters in the wake of new technology systems.

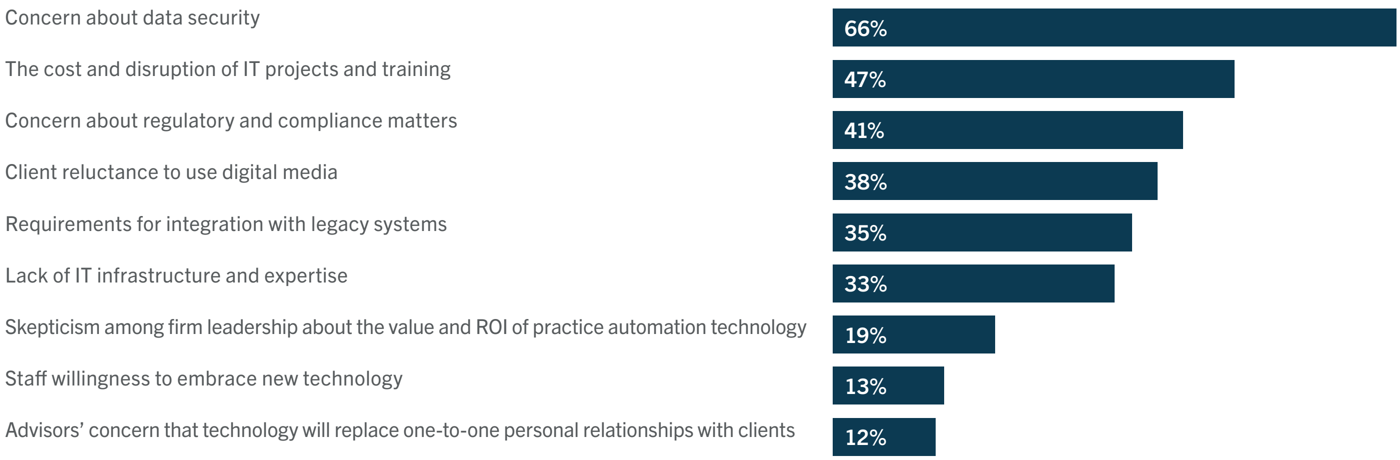
More than one-third of respondents voice concern about client willingness to use digital media (38%), and similar proportions are concerned about integrating new technology with current systems (35%) and their current IT infrastructure and in-house expertise (33%).

Less than 20% of RIAs in this study see skepticism among firm leadership about the value of practice automation technology as a barrier to investment. RIA firms are seldom spendthrifts, and their willingness to spend on IT to acquire and serve their clients is poignant confirmation of the value and need for such systems. "Our client servicing portal is one of our major expenses – it offers something like 530 different reports," says an RIA firm's practice leader. "We get data downloads from more than thirty custodians every night. We can look at account holdings, position, performance, bond maturities, dividends, and everything else. And without it, we'd be out of business. It's a huge expense for us, but it's also hugely worthwhile. Not only do we have a portal where clients can get a lot of information. We have a portal that clients can access themselves if they have way too much free time and want to log on every night and look at performance."

RIAs are also reluctant to voice concern about the impact of new technology on staff and their professional role as advisors. As figure 12 demonstrates, only 13% of respondents cite staff willingness to embrace new technology as a formidable barrier to investment. Similarly, only 12% sense some concern in their firm that advisors will be supplanted by technology.

Figure 12. Security, cost/disruption, and compliance limit technology adoption

Which of the following items are the most formidable barriers to your firm's adoption of new technology for acquiring and serving investment clients? (n=149)

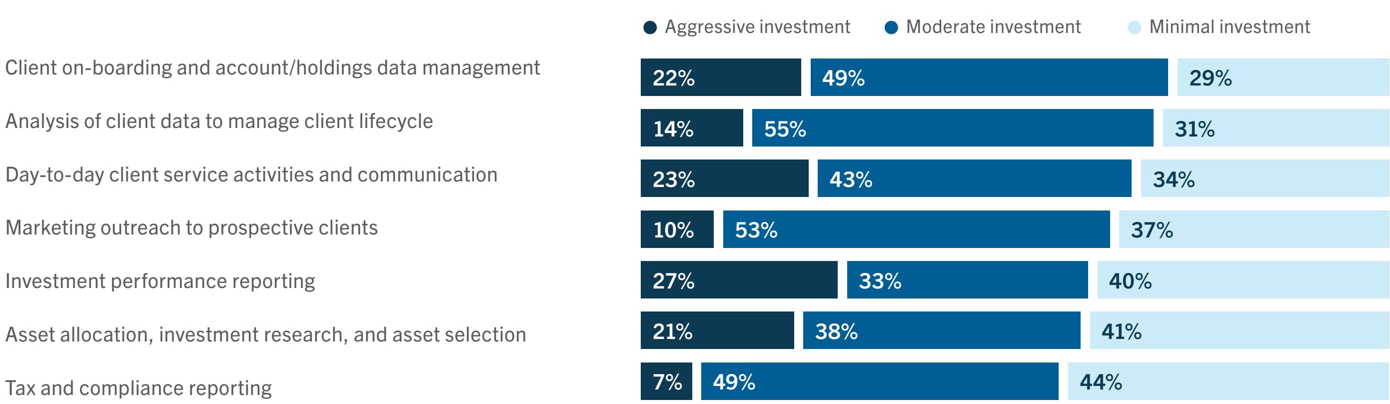


Looking to the near-term future, RIAs say they're most eager to invest aggressively or moderately in technology that supports their on-boarding of new clients (71%), data analysis across the client lifecycle (69%), and day-to-day client support and communication (66%). Marketing automation, say 63% of respondents, warrants aggressive or moderate investment as well.

As figure 13 shows, RIAs are eager to invest in technology, but they temper their enthusiasm for technology investment with a clear-eyed view of clients' expectations for personal interaction with their advisors. The principal of a small firm says, "My clients know from the beginning that I have a much greater emphasis on communication and hand holding then a lot of advisors do, and it would be off-putting to them if all of a sudden they were dealing more with technology than with me." Nonetheless, he says, "improving my on-boarding process is a 2022 project." He sees his current process as time consuming, cluttered with "a lot of back-and-forth emails with clients answering a lot of the same questions, so automating this would be a good thing in 2022." He envisions a system that "helps clients understand what the planning process covers, scheduling, and document checklist automation to let them know what I still need, rather than manually reminding them that I haven't received certain documents or decisions."

Figure 13. More than 60% of respondents expect technology investment to focus on client-focused activities

To what extent do you anticipate your firm will invest in technology for the following activities over the next two years? (n=152)



VI. THE ROAD AHEAD

RIAs and their firms are increasingly interested in adopting new technology to automate certain dimensions of their business development, as well as some client-service activities and processes. They see a high-quality digital experience as “table-stakes” and a “ticket to entry” to the financial advisory business, and in many cases as a source of competitive differentiation. This research program finds that client-facing technology is highly desirable among RIAs, especially when such systems automate the aggregation of client data and provide ready access to a clear view of client holdings across diverse asset classes and custodial relationships. They remain committed – often adamantly – to the value of thoughtful counsel from professional advisors, but seldom see technology as a replacement for the trustworthy guidance they provide.

It seems clear that technology will play a greater role in financial advisory practices in the years ahead, “but there are going to be some big changes in the future,” says a practice leader who is approaching the end of her advising career. “Planners and advisors will retire, and the next generation is coming into an established industry that we’ve built.” She anticipates “wider diversity in the services provided to the market,” and accordingly, “there’s no guarantee that things will stay the same.” She cites younger generations’ aversion to insurance as an example of how the thinking of clients and advisors has shifted in recent years, and she wonders if the younger cohort of RIAs “will know the right answers to clients’ needs.” Nonetheless, she says, “as long as personal service and advice are in place, we’ll all be better off.”

ABOUT THIS RESEARCH

This report examines the views of Registered Investment Advisors in the United States on the utility of and outlook for investment in information technology focused on acquiring, serving, and supporting investment advisory clients. Institutional Investor's Custom Research Lab composed a questionnaire with Franklin Templeton and interviewed eight well-informed sources at RIA firms. The questionnaire was fielded in September 2021 and includes responses from 152 RIAs at North American RIA firms.

The demographic highlights of the survey are provided below.

Region in the United States	
Northeast	34%
South	31%
West	30%
Midwest	5%

Respondent titles	
Principal, partner, or equivalent	34%
Chief executive officer or equivalent	23%
Financial advisor or equivalent	11%
Chief investment officer or equivalent	9%
Managing director or equivalent	7%
Portfolio manager or equivalent	7%
Other	4%
Head of administration/operations	3%
Head of research	2%

Assets under management	
$25 billion or more	2%
$5 billion to $25 billion	3%
$1 billion to $5 billion	16%
$500 million to $1 billion	27%
$250 million to $500 million	29%
$100 million to $250 million	21%
Less than $100 million	2%

Firm ownership	
Sole proprietorship	45%
Boutique firm with several equity holders	43%
Large, well-established firm owned by a corporate parent, private equity, or public market	9%
Other	3%

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