RIA Productivity and Profitability: Integration Pays

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IMPACT POINTS

- When comparing registered investment advisor (RIA) practices that have similar team sizes, practices with some level of technology integration have, on average, more than double the amount of client assets had by practices without technology integration. Similarly, clients of RIAs that have some integration have close to twice the amount of investable assets had by clients of RIAs that lack integration. On average, this equates to approximately US$90 million more in client assets per practice.

- Despite having virtually identically sized teams, practices with some technology integration produce an average of US$100,000 more revenue annually than do practices that lack technology integration.

- Primary advisors affiliated with an independent RIA that has some technology integration also earn more in take-home pay than do primary advisors whose firms have no technology integration. Advisors at firms that have some integration earn approximately 20% more in annual income than do their peers at firms that lack integration.

- Staffs at firms that boast some level of integration spend 32% less time on operations processes than do staffs at firms that lack integration, despite having similar team sizes. For each staff member, this frees up close to 40 work days annually that can be dedicated to other more value-added activities such as client prospecting and management.

- RIAs indicate that increasing the level of integration is their top priority in a proposed technology budget.

- More than 30% of RIAs surveyed reveal that their firm has no technology integration among business applications. Only 7% indicate that technology applications have cross-product functionality.

- Case study: In the three years since Etesian Wealth Advisors first adopted a fully integrated solution from Tamarac, its client assets have grown by close to 400%, yet its staff increased by only 20%.

- Case study: Since commencing its relationship with Tamarac, Marin Financial Advisors has seen its business double in terms of assets under management (AUM) and the number of households served increase by 60%, all while adding only one additional employee. The firm has also realized higher quality control in its operating environment, which manifests in far fewer issues that fall through the cracks.

INTRODUCTION

The U.S. RIA industry landscape is a microcosm of the larger U.S. wealth management industry in that it is heavily populated by small firms and dominated in terms of AUM by relatively few large RIAs. According to a 2011 analysis by the Investment Adviser Association and National Regulatory Services of all U.S.-based RIAs registered with the Securities and Exchange Commission, more than 81% of RIA firms manage less than US$1 billion in client assets. Additionally, nearly 70% of all RIA firms have fewer than 10 non-clerical employees.

RIAs of all sizes must implement the processes to support the core activities involved with managing client portfolios. Increasingly, this involves constructing model portfolios managed at the household level and then periodically rebalancing the portfolio based on predetermined conditions.

Published by Envestnet | Tamarac and produced by Aite Group, this study examines the impact that technology integration can have on an independent RIAs' practice in terms of economic benefits and efficiency. This study also presents a set of case studies of Tamarac clients.

METHODOLOGY

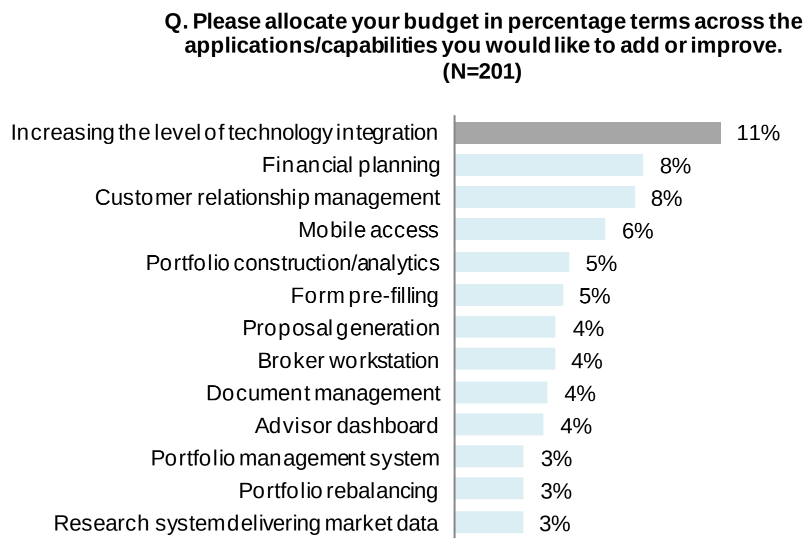
The analysis for this report is based an online survey of 201 primary financial advisors at independent RIAs fielded by Aite Group in March 2012. In order to target independent RIAs of similar size, this study focused on a subset of the 201 independent RIAs surveyed that have between four and 16 team members (inclusive of the primary advisor, other client-facing advisors, and support staff). The margin of error for the full sample is 7 points at the 95% level of confidence. Data from firms with some versus no integration provide good directional indication of conditions in the market. For the case studies, Aite Group interviewed executives at each firm via phone.

RIAS: THE NEED FOR INTEGRATION

The independent RIA landscape is dominated by small firms that generally have fewer than 10 employees. Unlike their brethren in the wirehouse world that are supported by large technology budgets and dedicated technology staffs, the typical independent RIA firm has been built from the ground up. Over time, these small RIAs tend to source individual technology components directly from vendors and also acquire technology from their custodian(s)—oftentimes, the result is a collection of disparate applications that, while very functional on a stand-alone level, do not integrate well or at all with each other. This lack of integration may not only add time to carrying out operational tasks but can serve as a deterrent for business flexibility and growth.

When asked to prioritize technology spending in areas they would like to improve, independent RIAs cite increasing the level of technology integration across their platform as the top item to which they would dedicate part of a proposed technology budget (they would dedicate 11% of the budget). Figure 1 displays technology spending priorities for independent RIAs, the diversity of which further highlights the complexity of achieving higher levels of integration.

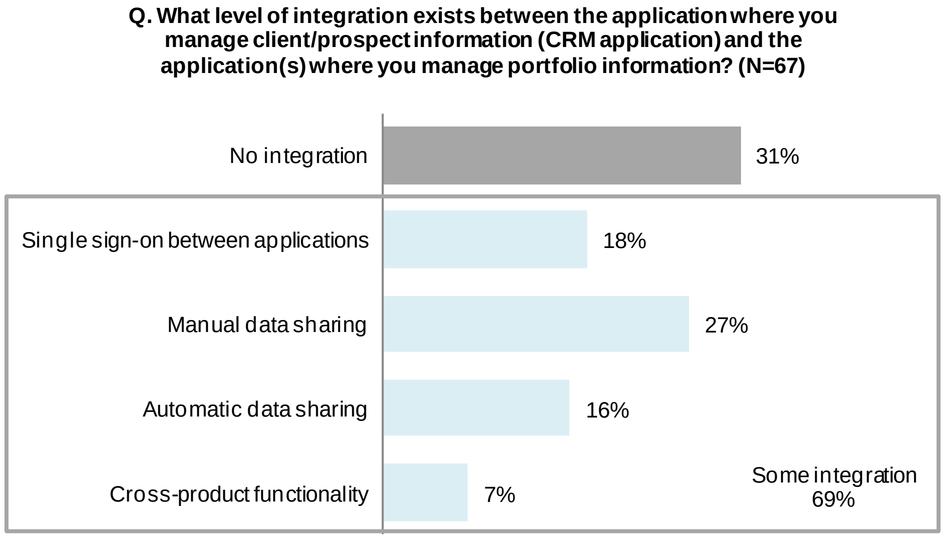
Figure 1: Technology Spending Priorities for RIAs



Source: Q1 2012 Aite Group survey of 201financial advisors

Given that the independent RIA landscape is dominated by small firms, it is of little surprise that the level of integration across business applications is low. More than 30% of respondents indicate that their business applications have no integration (Figure 2). Furthermore, the overall level of integration for those with some integration is not overly sophisticated—the majority has access to single sign-on and/or manual data sharing between applications. A scant 7% characterize the level of integration in their technology setup as having cross-product functionality (i.e., deep and meaningful integration).

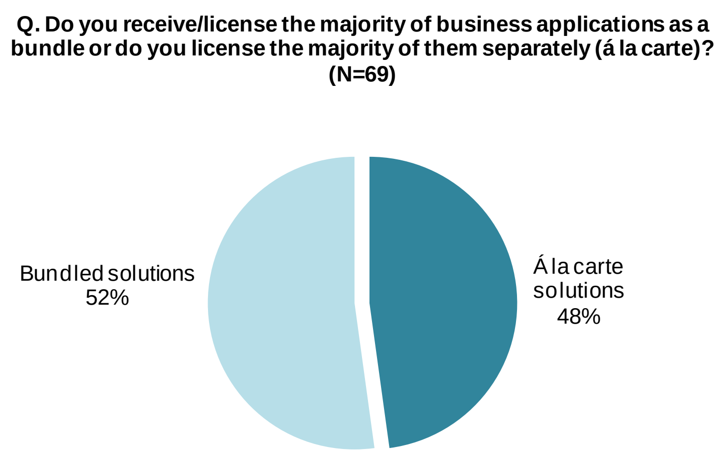
Figure 2: Level of Integration Across Business Applications



Source: Q1 2012 Aite Group survey of 201financial advisors

Approximately half of RIAs license business applications on an *à la carte* basis (Figure 3), which means that these advisors choose tools that deliver specific functionality as opposed to licensing more comprehensive, pre-integrated platforms that cover most or all of their application needs. The *à la carte* approach results in a larger set of vendors that need to be managed and will require a greater effort to integrate applications.

Figure 3: Approach for Sourcing Business Applications



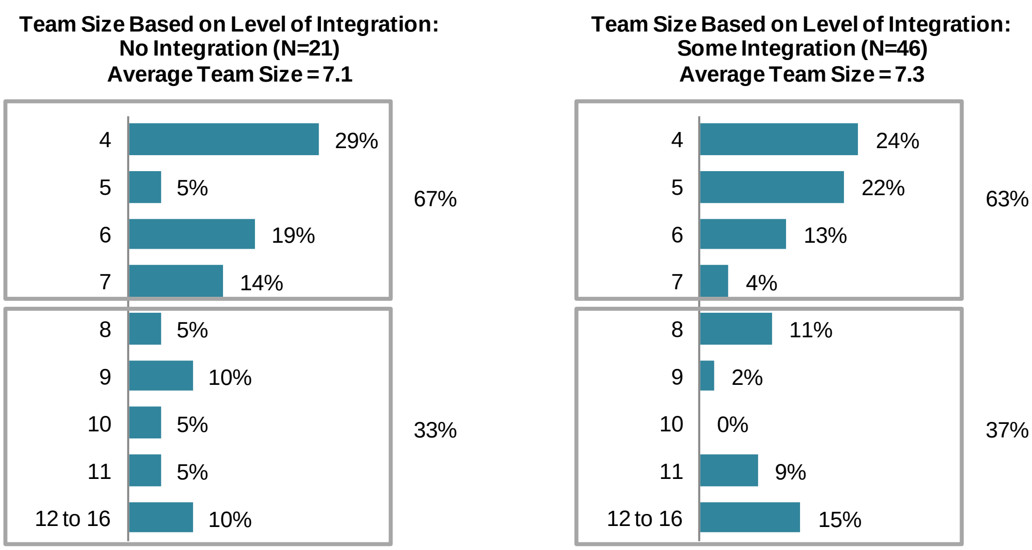
Source: Q1 2012 Aite Group survey of 201financial advisors

BENEFITS OF AN INTEGRATED PLATFORM

As shown in Figure 1, financial advisors see increasing the level of technology integration as a high priority. This section aims to quantify the benefits of an integrated technology platform. For this purpose, Aite Group compares RIAs that lack technology integration with those that have some level of technology integration (Figure 2).

The average size of independent RIAs surveyed, as measured by number of team members, is virtually identical for those two groups of RIAs, at slightly over seven team members. Furthermore, the distribution of RIAs by team size is similar among those that lack integration and those that have some integration. Approximately two-thirds of RIAs have between four and seven team members, with the remaining one-third employing between eight and 16 team members (Figure 4).

Figure 4: Distribution of Independent RIAs by Team Size and Level of Integration



Source: Q1 2012 Aite Group survey of 201financial advisors

OPERATIONAL BENEFITS

The role of technology in wealth management is to aid financial advisors and their staffs in becoming more efficient. Efficiency is often measured in terms of accurately completed tasks (as measured by error rates) as well as the amount of person hours required to perform a task. Performing operations processes using disparate systems is rife with operational risk, a result of toggling back and forth between applications and manually keying in data. Inherently, it also takes more time to complete operations processes using disparate systems than using fully integrated systems, which necessitates increased headcount as practices grow and operations staffs become overloaded (which leads to even more errors).

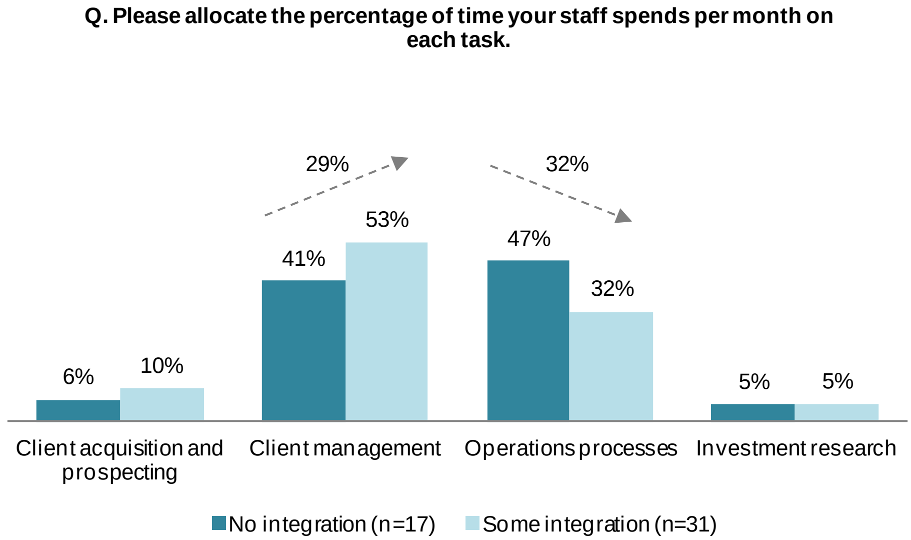
The survey analyzed the roles the primary financial advisor and employees other than the primary financial advisor (staff) play and the activities performed by them. For this purpose, we have defined four major activity categories:

- **Client acquisition and prospecting** activities are aimed at growing the book of business by adding clients.
- **Client management** includes all activities along the investment management process that are mostly performed for existing clients. Financial planning, proposal generation, ongoing monitoring, portfolio rebalancing, and trading are some of the tasks in this category.
- **Operational process** tasks such as data reconciliation, performance reporting, fee billing, and general administration do not relate to any one client case or prospect. Most of them are performed on a regular basis (e.g., monthly, quarterly).
- **Investment research** includes all tasks related to following market events and identifying investment opportunities.

Primary advisors allocate their time very similarly regardless of the level of technology integration among business applications used by their practices. Primary advisors indicate spending more than half their time on client management tasks such as financial planning, portfolio maintenance, and portfolio rebalancing.

Time allocation for employees other than the primary advisor differs from primary advisor time allocation. Taking into consideration the similar team sizes for practices that lack integration and those that have some integration, staffs at practices with some integration operate more efficiently compared with staffs at practices that lack integration. As shown in Figure 5, staffs at firms that have some level of integration spend 32% less time on operations processes than do staffs at firms that lack integration. Taking an example of one staff member, the time saved on operations processes equates to more than 37 business days annually (the equivalent of close to two months) that can be dedicated toward other, more value-added activities. To this end, staffs at RIAs that have some level of integration are able to spend roughly 30% more time on client management activities than are staffs at firms that lack integration. They also show a greater propensity to spend more time on client acquisition and prospecting.

Figure 5: Effect of Technology Integration on Time Allocation of RIA Staff

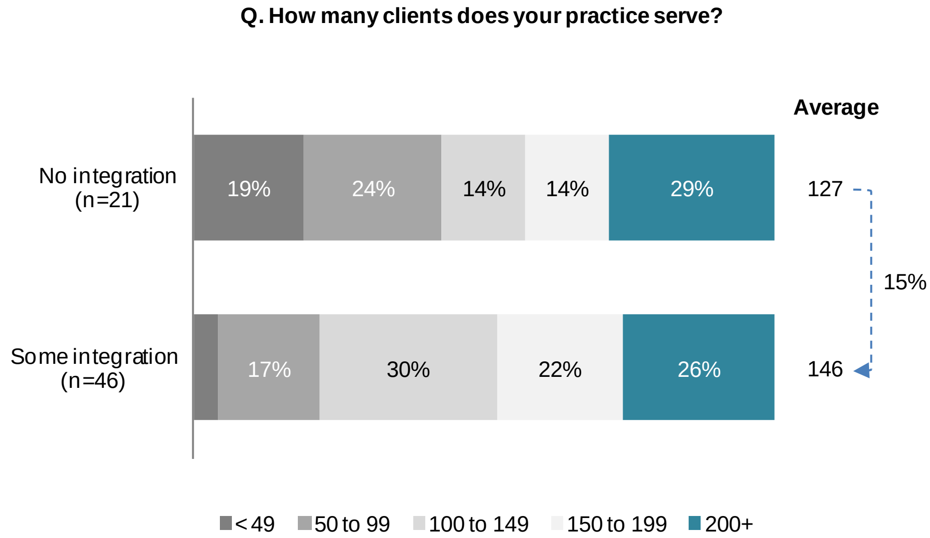


Source: Q1 2012 Aite Group survey of 201financial advisors

ECONOMIC BENEFITS

RIA practices with some level of technology integration show a greater ability to add scale to their business in the form of serving more clients. Taking into consideration that practices with some integration have an equivalent number of team members to those practices that lack integration, practices with some integration serve approximately 15% more clients than practices that lack integration (Figure 6). The result is a higher client-to-staff ratio at practices with some integration compared to those without integration, and this sets the stage for further business growth while better containing personnel expenses.

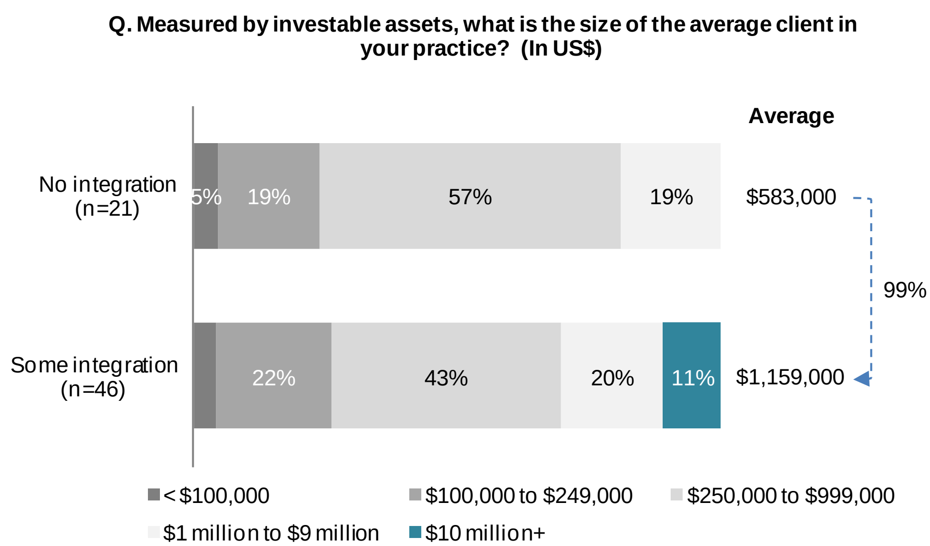
Figure 6: Number of Clients



Source: Q1 2012 Aite Group survey of 201financial advisors

A closer look at clients of RIAs that have some technology integration reveals that they have close to double the investible assets on average compared to clients of RIAs that lack technology integration. The difference is magnified when comparing ultra-high-net-worth clients; more than 10% of clients of RIAs with some integration have investable assets of at least US$10 million (Figure 7).

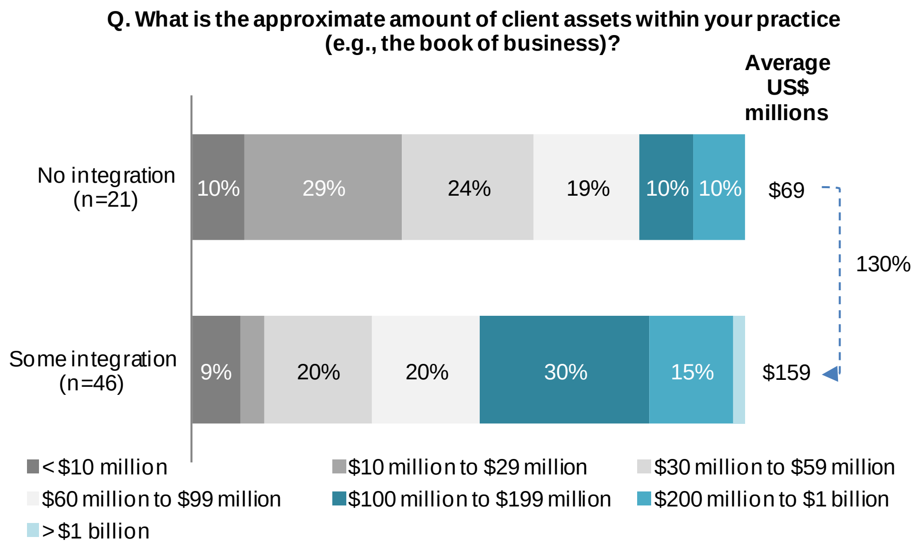
Figure 7: Average Client Size



Source: Q1 2012 Aite Group survey of 201financial advisors

Although team size is strikingly similar, the average practice size as measured by client assets is more than twice as large for those RIAs with some level of technology integration as for those that lack technology integration. Practices with some integration outpace their peers without integration by an average of US$90 million in client assets. Roughly half of practices that have some integration have a book size exceeding US$100 million compared with 20% of practices that lack integration (Figure 8).

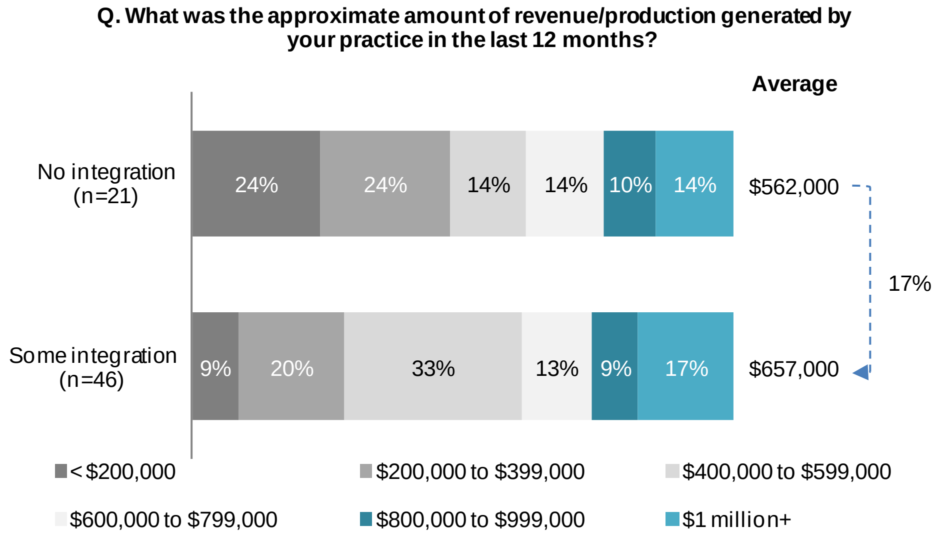
Figure 8: Practice Size by Client Assets



Source: Q1 2012 Aite Group survey of 201financial advisors

RIA practices that have some level of technology integration generate more revenue annually than do their peers that lack integration. Despite having virtually identically sized teams, practices with some integration produce an average of US$100,000 more in revenue annually compared to those practices without integration (Figure 9).

Figure 9: Practice Revenue

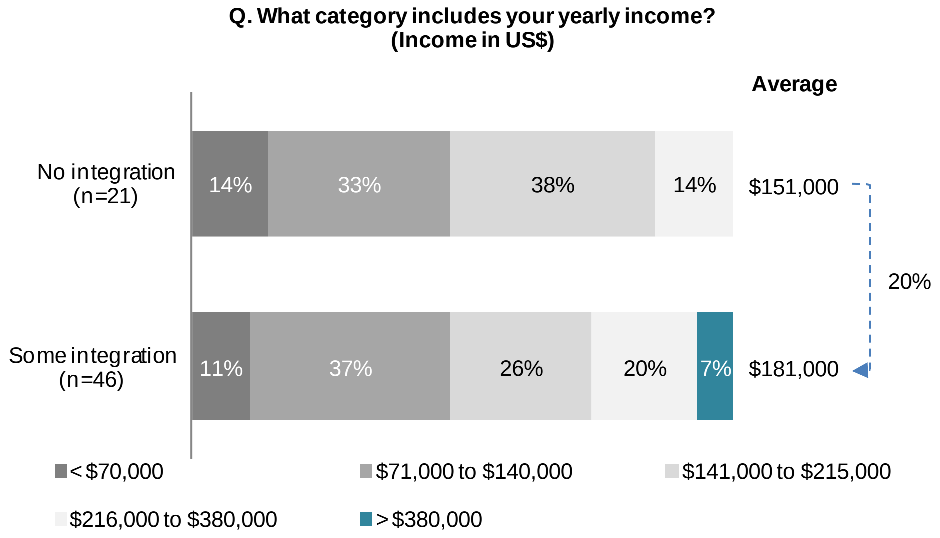


Source: Q1 2012 Aite Group survey of 201financial advisors

Primary advisors affiliated with an independent RIA that has some integration also earn more in take-home pay than do primary advisors whose firms lack technology integration. Advisors with firms that have some integration earn approximately 20% more than advisors with firms that have no technology integration, which equates to an additional US$30,000 annually (

Figure 10). Primary advisors whose firms have some technology integration are also more likely to be top earners than those whose firms that lack integration altogether; 27% of primary advisors at firms with some integration earn US$216,000 or more compared with 14% of primary advisors at firms that lack integration.

Figure 10: Advisor Annual Income



Source: Q1 2012 Aite Group survey of 201financial advisors

CASE STUDIES OF TAMARAC CLIENTS

Aite Group interviewed two Tamarac clients and obtained the following feedback.

CASE ONE: ETESIAN WEALTH ADVISORS

Impact point: In the three years since Etesian Wealth Advisors first adopted a fully integrated solution from Tamarac, its client assets have grown by close to 400%, yet its staff increased by only 20%.

Founded in 2009, Etesian Wealth Advisors is an independent registered investment adviser firm with offices in Lake Oswego, Oregon, and Spokane, Washington. The firm provides asset management services to high-net-worth and mass-affluent client households in conjunction with tax planning and estate planning services. Financial planning is a hallmark of the firm, and all clients are required to have a financial plan that incorporates tax and estate planning. In addition to serving individual clients, the firm also advises corporate retirement plan sponsors. Etesian Wealth Advisors serves approximately 120 client households and 25 retirement plans, representing US$290 million in client assets and supported by seven employees. All client portfolios are customized using individual equities and bonds, with a focus on preserving capital and keeping investment costs low, and supported by an in-house research analyst.

Etesian Wealth Advisors commenced working with Tamarac in 2010 and is believed to be the first firm to take on the entire suite of Tamarac applications and services, including data reconciliation, portfolio accounting, portfolio rebalancing, fee management and billing, customer relationship management (CRM), and performance calculation and reporting. The firm was seeking tighter integration among desktop applications as opposed to the *à la carte* approach of adding disparate solutions across the technology stack. The firm also solely uses Apple technology to access the desktop, as each employee has devices including an iPad, iPhone, and MacBook Air to support his or her mobility needs.

The fully integrated capabilities of the Tamarac applications have significantly curtailed the effort needed to complete such tasks as portfolio rebalancing and fee billing, and the firm estimates that it would have needed to add three to four full-time equivalents (FTEs) without its implementation of Tamarac. In the three years since Etesian Wealth Advisors first adopted a fully integrated solution from Tamarac, client assets have grown by close to 400%, yet its staff increased by only 20%.

In addition, the tight integration between applications has enriched the experience of performing tasks such as rebalancing: An example is the integration between the rebalancer and CRM, which helps circumvent the need to toggle back and forth between applications. While the firm believes it could piece its technology infrastructure together in an *à la carte* fashion at a reduced expense, the value of the integration between Tamarac applications and services is far greater than any tangible cost savings.

CASE TWO: MARIN FINANCIAL ADVISORS

Impact point: Since commencing its relationship with Tamarac, Marin Financial Advisors has seen its business double in terms of AUM and the number of households served increase by 60%, all while adding only one additional employee. The firm has also realized higher quality control in its operating environment, which manifests in far fewer issues that fall through the cracks.

Marin Financial Advisors is an independent registered investment adviser firm located in Larkspur, California. It was founded in 2005, although the roots of the firm date to 1988 as a sole proprietorship. The firm comprises two principals, two support staff members, and one retirement plan advisor. It judiciously utilizes outside contractors and outsources a variety of functions including bookkeeping, compliance, and long-term care planning, which enables it to keep staffing levels low. Marin Financial Advisors serves approximately 200 client households representing client assets under management of US$230 million. The firm primarily targets high-net-worth individuals with an average account of US$1 million to US$2 million, including a number of clients who work in the financial services industry. Marin Financial Advisors does not publicly advertise, and it gains new clients mainly through referrals. Its investment philosophy involves making strategic allocations to model portfolios through the use of exchange-traded funds (ETFs) and Dimensional Fund Advisor funds.

Marin Financial Advisors started working with Tamarac in 2009. The firm was looking for an alternative to a portfolio rebalancing application it had been using for a few months, as that application was not meeting its needs. Determined not to go back to using spreadsheets and manually rebalancing portfolios, Marin started using Tamarac's portfolio rebalancing application. The firm has particularly valued the capabilities of the portfolio rebalancer, especially its ability to analyze rebalancing opportunities in the context of the greatest tax efficiency and minimum number of transactions necessary to complete the rebalancing. The application has allowed the firm to resume rebalancing portfolios at a household level as opposed to at an account level.

Marin Financial Advisors has taken a phased approach to rolling out additional Tamarac applications and services, adding new components annually since first adopting the portfolio rebalancing application. In subsequent years, the firm added portfolio accounting, client Web portal access, and data reconciliation. Additionally, over the last year, Marin has started using ByAllAccounts for aggregating held-away account information, and the integration between Tamarac and ByAllAccounts has made the process seamless. By leveraging ByAllAccounts, Marin has been able to capture a higher share of wallet among its existing clients as well as offer an option to monitor accounts held away, which has gained popularity with its clients. In the coming year, Marin Financial plans to port over to Tamarac's hosted CRM application.

Since commencing its relationship with Tamarac, Marin Financial Advisors has seen its business double in terms of assets under management, all while only adding one additional employee. Additionally, Marin has increased the number of households served by over 60%. Prior to using Tamarac solutions, the process of aggregating data for quarterly client reviews caused great stress among employees; since implementing Tamarac, the firm has been able to access reports updated daily with greater context, and stress has abated. The firm attributes its ability to scale operations to its implementation of Tamarac solutions. It credits the transparency of the Tamarac solutions with making its business more valuable as an entity as well as streamlining the process of acquiring other advisory firms in transition. The use of integrated technology has also led to higher quality control in the firm's operating environment, which manifests in far fewer issues that fall through the cracks, and facilitates overall higher productivity per employee.

CONCLUSION

Advisors and staff at U.S. independent RIA firms are at an inherent disadvantage with regard to sourcing technology compared to large firms that are supported by substantial technology budgets and expertise. The vast majority of RIAs are small as measured by number of employees, with 70% of RIAs employing fewer than 10 people. When they start, they dedicate a minimal amount of budget to acquiring point solutions, and then they subsequently add other components to their setup as they grow. This incremental process leads to an array of stand-alone applications that do not integrate well, which portends decreased operational efficiency, increased headcount, and increased operational risk and which acts as a deterrent to business growth.

The current state of technology integration among RIAs is tepid at best, evidenced by the more than 30% of RIAs that completely lack integration and the only 7% claiming to have a deep and meaningful level of integration. Slightly less than half of RIAs have unsophisticated integration, including single sign-on and/or manual data sharing. The good news is that RIAs recognize the need for integrated technology, pegging this as the top spending item in a proposed technology budget.

The business advantages of integrated technology are clear. RIA practices that have some level of integration boast double the amount of client assets per practice, on average, compared with those RIA practices that lack technology integration. Practices with some integration generate approximately US$100,000 more in revenue annually than do those practices that lack integration, and the primary advisors earn roughly 20% more in take-home pay than do advisors whose practices have no integration. Additionally, the average investable assets for clients of RIAs that have some integration are roughly twice the amount of clients of RIAs that lack integration. In short, advisors using integrated technology have more and wealthier clients, higher revenue, and higher take-home pay.

In addition, the benefits of integration are evident throughout an RIA's practice structure. Major beneficiaries of integrated technology platforms include employees as well as primary advisors. Staff members at RIA practices that have some level of integration allocate 32% less time toward operations processes than staffers at practices that lack technology integration, and they further allocate 29% more time toward client management than do those that lack integration. The greater efficiency exhibited by staff whose practice has some technology integration is manifested in the ability of their firm to achieve greater scale: Compared with practices that lack integration and equivalent team sizes, those practices that have some technology integration serve approximately 15% more clients.

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