FinancialPlanning

Finding innovation in fee-based and digital trends

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The advisory industry has been evolving and two trends are clear: The future is fee-based, and advisers are technology-obsessed.

Where these two trends intersect, innovation happens.

As the Department of Labor fiduciary ruling heightens the demand to serve clients with greater transparency and greater value, the next big debate in the years ahead will likely revolve around this fundamental question: How can technology help create value for a practice while also helping an adviser serve client's best interest and maintain a fiduciary standard?

The fee-based future is coming. The advisory industry has been moving from commission-based sales to fee-based and fee-only advice, and the pace is accelerating.

Assets under management managed by RIAs and fee-based advisers will increase more than 60 % from $4.1 trillion in 2015 to $6.6 trillion in 2019, and RIA and fee-based adviser headcount will expand from 59,000 to 67,000, according to Cerulli.

As more advisers shift to the fee-based and fee-only model, an increasing number of manufacturers and distributors are developing and adopting no-load and fee-based products to fit the way they work.

The tech obsession is growing.

Studies such as Jefferson National's *Advisor Authority* show that the most successful RIAs and fee-based advisers -- those who earn more and manage more AUM -- adopt technology into their practice at twice the rate of the typical adviser. They use more technology -- and spend more on technology -- to make their practices more seamless, more efficient and more scalable.

For the most successful advisers, the only thing more expensive than adding technology is not adding technology.

FEE-BASED MOMENTUM

Technology has tremendous power to disrupt, disintermediate and disaggregate at every point in the investing and advising process.

Technology helped millions of consumers build more wealth. And as their wealth grows, so does their need for guided advice.

Today, technology continues driving a secular transformation of the industry, shifting control from manufacturing and distribution directly into the hands of the consumer. It changes the way products are priced, bought and sold.

It creates greater transparency. And as consumers continue to become better informed in an increasingly complex market, they not only seek guided advice, they seek unbiased advisers who put their best interests first.

According to a recent Financial Engines survey of more than 1,000 American investors, 77% say that they support legally requiring all advisers to put their clients' best interests first when providing retirement investment advice, and 73% say is it is very important that all advisers be legally required to meet this standard.

As evidenced by the momentum of the fee-based and fee-only channel, a growing number of advisers recognize that putting clients' best interest first can be good business. And technology provides a clear advantage for these advisers, helping them re-engineer their practices, enhance investing and advising capabilities, and ultimately achieve greater scale so that they can serve more clients at every end of the investing spectrum more efficiently and more profitably.

"Going independent was the right choice for our firm, and there was no way to make the move without investing in technology," says Justin Young, chief executive of BCJ Financial Group, an RIA firm that broke away from AXA last year and serves more than 700 clients with more $500 million in AUM.

"Technology has transformed our business operations by driving efficiencies, increasing revenue and enhancing profits, and it has transformed the client experience, making the relationship more integrated, interactive and truly three-dimensional. From our perspective, there is no question that combining unbiased human advice with smart technology can result in better client outcomes," Young says.

All advisers can streamline basic operations and automate more functions across their entire book of clients with off-the-shelf technology.

They can work with different generations of clients exactly the way they want, from boomers who prefer more face-to-face to millennials who prefer more mobile applications and social media. They can mine data to understand the state of a client's assets more accurately than ever before and optimize client portfolios with more sophisticated investing strategies, specialized portfolio construction and advanced risk management techniques.

ROLE FOR ROBOS

There is also the role that robos can play. Although robos alone aren't the answer, robos combined with guided advice can help advisers efficiently serve multiple clients across their book of business.

Many critics of the DoL ruling have argued that smaller accounts will be ignored because managing them would be cost prohibitive.

They suggest that smaller accounts aren't profitable enough to justify the workload or the legal liability, and they suggest that commissions paid by product providers to advisers help subsidize the cost of managing small-balance accounts. But both independent RIAs and fee-based advisers at many of the most innovative broker-dealers are integrating robos into their practice as a natural solution for efficiently and competitively serving these smaller-balance accounts.

And, quite unexpectedly, we learned through *Advisor Authority* that the majority of early adopters are using robos for their wealthier clients.

Of advisers using robos, 52% reported that they most often use them for clients with more than $1 million in investable assets, and a full 20% say that they use them most often for clients with more than $10 million in investable assets. As advisers have told us, in addition to enhancing the user experience on the front end, these digital advisory solutions can create greater scale on the back end for the low-cost and passively managed portion of any investor's portfolio — large or small.

"It's not a question of good or bad. You need to be a digital adviser, and robo advice is one sleeve of that," says Kenny Landgraf, president and chief investment officer of Kenjol Capital Management, a fee-only RIA firm providing services primarily to affluent and high-net-worth individuals and institutions.

"It can complement your practice, but it's no replacement for financial advice," he says.

"As clients build more assets, as their situation becomes more complex, they will want to work with an adviser. In the end, people still want to talk to people," Landgraf says.

The rapidly emerging online distribution channel is attracting serious venture capital, while "do-it-yourself" firms with combined delivery mechanisms will be a "smart bet" going forward. See the list.

Robos also allow advisers to innovate within the confines of an increasingly regulatory world. This move is already taking place on many fronts.

Manufacturers such as BlackRock and Invesco have recently acquired digital-delivery platforms, in part to help comply with DoL policy. Innovative cloud-based solutions such as InvestCloud help advisers build their own fully compliant robo solutions and can be customized with fully integrated modules for portfolio management, document management, client communications and customer relationship management.

By providing digital proof points to track the advice that they deliver, robos can help enhance transparency and ease the cost of compliance. This is a massive challenge as the industry estimates that compliance with the DoL fiduciary rule will cost anywhere from $1.1 billion to $2.4 billion.

As I have seen throughout my career, it is always at the intersection of prevailing trends where the most interesting opportunities for innovation arise.

Combine the new DoL fiduciary ruling and the growing demand for guided advice with the rapid adoption of more financial technology and the rapid growth of robo advice. This will lead to more innovation among manufacturers, distributors and tech providers, all of which benefits advisers and clients.

As advances in FinTech continue, one thing remains clear: Nothing can replace the value of guided advice and holistic unbiased financial planning. As important financial reforms continue to reshape our industry and more advisers move to independence, technology isn't the enemy but the ally that can help advisers sit on the same side as clients.

Combine the power of financial technology and the convenience of robo with a human adviser playing by fiduciary rules and an adviser has the best chance to remain relevant to clients and the best chance to remain competitive in an industry where the only constant is change.

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