Wealth Management EDGE

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Tech Insights: Navigating the Future of Wealth Management

Insights from industry leaders on the dynamic technology landscape of wealth management

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Introduction

Wealth management technology leaders do not always have deep technical backgrounds, nor do they always have a Chief Technology Officer title. Nevertheless, they are accountable for developing the technology roadmap for their firms. They select technologies, implement, integrate, and interface with their firm's service providers. They are accountable to make their advisor and client facing technologies work together to drive advisor productivity and new asset growth.

WealthManagement.com has elevated this initiative with strategic partners in 2023 to bring c-suite executives accountable for their firm's technology decisions together. We called these forums the Chief Technology Officer Think Tanks.

The format of a CTO Think Tank is collaborative and conversational where c-suite executives can share their current projects, discuss what keeps them up at night, and discuss technology trends that they are following that may influence their technology initiatives. Our inaugural cohort of 12 attendees met at the 2023 WealthManagement Edge conference and our second cohort of 21 attendees met at the inaugural 2023 WealthManagement Edge West conference.

There has been a major shift post-pandemic, especially as firms redefine themselves, and we're seeing tech strategy become intertwined with business strategy, and CTOs understand the art of what's possible. The ascent of the CTO is radically influencing a stronger sense of responsibility around technology decisions, the speed of innovation, and discovery of new solutions.

Shannon Rosic,
Director of WealthStack Content and Solutions, Informa Connect

This white paper discusses the observations from the sessions with the 33 executives, including:

- **Increasing Client Retention and Growth**
- **Digital Workflow Automation**
- **Cybersecurity**
- **Owning and Leveraging Data**

Client Retention

Amid a prosperous period up to July, the S&P 500 demonstrated an impressive rise of 20.65%. However, the following three months witnessed a significant reversal, wiping out nearly half of the gains achieved. The situation escalated in late October when the index briefly dipped into market correction territory when accumulated losses reflected a 10% downturn from July's market high. The S&P 500 is up 11.85% for the year through November 1. However, the market volatility has driven investor uncertainty.

It's not surprising that **client retention and growth** is top of mind for technology leaders. One issue that keeps the CTO Think Tank attendees up at night is the ability to quickly provide critical information to advisors who address questions from client calls. Many of our attendees turn to their advisor portal technologies to answer these questions. A key trend in this space is the integration of Customer Relationship Management (CRM) systems with Portfolio Management systems. This innovative approach is driven by the quest for a comprehensive, 360-degree client view.

The integration of these two systems provides wealth managers with crucial insights into their clients' needs, behaviors, and preferences. It allows them to tailor their services more effectively, aligning their offerings with clients' expectations and thereby enhancing client satisfaction and retention. Several of our CTO Think Tank participants discussed initiatives to eliminate the 'swivel chair' issue where financial advisors need to review client information in their CRM separately from their Portfolio Management solutions.

This integration is difficult to achieve. Several of our large firm participants are developing their own integration capabilities with custom fields in their CRM solutions to bring portfolio management information into the CRM to facilitate a comprehensive view of their households, clients, and accounts. This integration helps financial advisors to answer questions for clients faster.

Smaller firms are using the information within their CRM to facilitate more communication with their existing clients in the form of email newsletters and personalized celebrations such as birthdays and anniversaries. Many financial advisor studies show that frequent and personalized communication with existing clients increases client retention.

By adopting this integrated approach, wealth management firms can optimize their operations, enhance their decision-making processes, and ultimately drive superior client outcomes. The benefits are clear: improved client satisfaction, increased operational efficiency, and a competitive edge in the market.

CRM systems already serve as a repository of customer data, now many firm's also leveraging CRM as an operational platform" says Michelle Feinstein, VP and GM, Wealth & Asset Management at Salesforce.
"The ability for CRM to be the connector of multiple systems and offer a single user experience to access customer information can offer an attractive, streamlined path to a comprehensive digital solution for wealth managers."

Michelle Feinstein,
General Manager /
Vice President of Wealth & Asset Management
Salesforce

Finding Growth
With Investment Portfolio Management Software

Many firms in the room noted that as the financial industry increasingly relies on technology to optimize their operations and grow their businesses, investment portfolio management software has become a game changer for financial advisors and technology decision makers alike. This software enables firms to manage their clients' investment portfolios with greater precision and efficiency, while also providing real-time tracking, analysis, and reporting. This software can effectively help your firm tackle advisor experience, portfolio construction, and keep your data clean across your tech stack – with the bonus of cost-effective implementation.

As financial markets become more complex and clients increasingly seek tailored investment strategies, financial advisors are adopting investment portfolio management software to address these challenges efficiently. Investment portfolio management software offers an advanced level of automation and scalability that was previously unavailable to advisors. With this solution, firms can streamline their workflows and reduce costs, allowing them to focus on cultivating stronger relationships with their clients.

In today's market, investment portfolio management software is no longer just an option, but a necessary tool to maximize your firm's growth potential and remain competitive in the ever-changing landscape of wealthtech.

CAIA, CTFA, Managing Director - Strategic Partnerships

It was also noted that portfolio management software provides open API integration capabilities, enabling firms to enhance their technology solutions and attain increased functionality without requiring extra systems. These open APIs facilitate connections with various partners, streamlining the process of synchronizing data throughout the firm's complete technology infrastructure.

> **The Fintech landscape can be overwhelming but ensuring you have a tech strategy allows for firms without CTOs to understand a particular component of Fintech, like reporting or workflow solutions, and then designating an internal champion to help implement.**
>
> **Andree Mohr,**
> *Chief Implementation Officer, Integrated Partners*

> **By leveraging the latest technologies, firms can meet the growing demands of their clients such as personalized portfolios at scale while also staying ahead of their competitors.**
>
> **Rusty Sommer,**
> *Head of Strategic Partnerships at FlyerFT*

Service Provider Cybersecurity
for Large Firms

As the technology leaders at wealth management firms grapple with the increasing sophistication of cyber threats, there is a growing need to ensure that their service providers are secure. Service provider security was a universal concern for the technology leaders in attendance.

Many large firms request a Service Organization Control Type 2 (SOC 2) audit opinion from their cloud service providers. SOC 2 is a cybersecurity compliance framework developed by the American Institute of Certified Public Accountants (AICPA). The primary purpose of SOC 2 is to ensure that service providers store and process client data in a secure manner. SOC 2 audits are based on general objectives or criteria that give service providers more flexibility in how they choose to achieve compliance. It is important to note that SOC 2 is not a certification, but a report that outlines the opinion of the auditor of the service provider's ability to satisfy the SOC 2 guidelines.

The 2023 MOVEit data breach involved Progress Software who had a SOC 2 audit opinion for their MOVEit products. Many financial services firms plan to defend class action lawsuits brought by investors whose information was exposed in the MOVEit data breach. The financial services firms who are defendants in these cases did not build the MOVEit software. They were customers of Progress and consumers of the MOVEit software. These lawsuits raise new concerns for wealth management executives because a breach at one of their vendors may result in the legal fees to defend against a lawsuit, the reputational damage of a class action lawsuit from their investors, and, more importantly, the loss of clients.

Large firms are considering how they can perform their own due diligence of their service providers and what to include in that service provider due diligence process.

The realization of the breadth and depth of the MOVEit breach was a huge eye opening from the ThinkTank event. For compliance and operational functional owners at an RIA, their systems and processes need to be designed in a way to presume client information and data could be faked by a fraudster - everything must be double checked.

Jonathan Freeman,
Chief Operating Officer, Center Wealth Advisory

Cybersecurity should be a major concern and focus for all firms, especially as it relates to AI. As we are exploring and learning how to leverage AI to find efficiencies for the better, the bad players are also figuring out to use AI for purposes of exploitation. The weakest link in any firm are our employees. It is imperative for all employees to be trained on how to remain vigilant to spot and avoid potential cybersecurity breaches.

Alia Wagenhoffer,
CFP®, SVP, Head of Advisory Technology, Wealthspire Advisors

Service Provider Cybersecurity
for Small Firms

Many emerging firms with under $2 billion in Assets Under Management (AUM) lack the internal information technology staff to implement their cybersecurity program. Technology leaders in these firms outsource their cybersecurity monitoring to information technology and cybersecurity service providers.

However, these firms often lack the technical prowess necessary to validate the security measures implemented by their service providers. This presents a significant risk, as unverified security can lead to vulnerabilities, data breaches, and non-compliance with industry regulations.

Surprisingly, most small firms do not meet with their IT and cybersecurity service providers on a quarterly basis. Such meetings are the best practice in the industry and provide an opportunity for firms to confirm their service provider's security measures, identify potential vulnerabilities, and discuss plans for improvement. It is difficult to assess your service provider's status or progress in maintaining the wealth management firm's cybersecurity policies without these periodic meetings.

As we look ahead, adopting this best practice is not just an option but a necessity. With regulatory bodies increasingly focusing on vendor security as part of their compliance checks, firms that neglect to ensure their vendor's cybersecurity standards risk falling foul of future regulations.

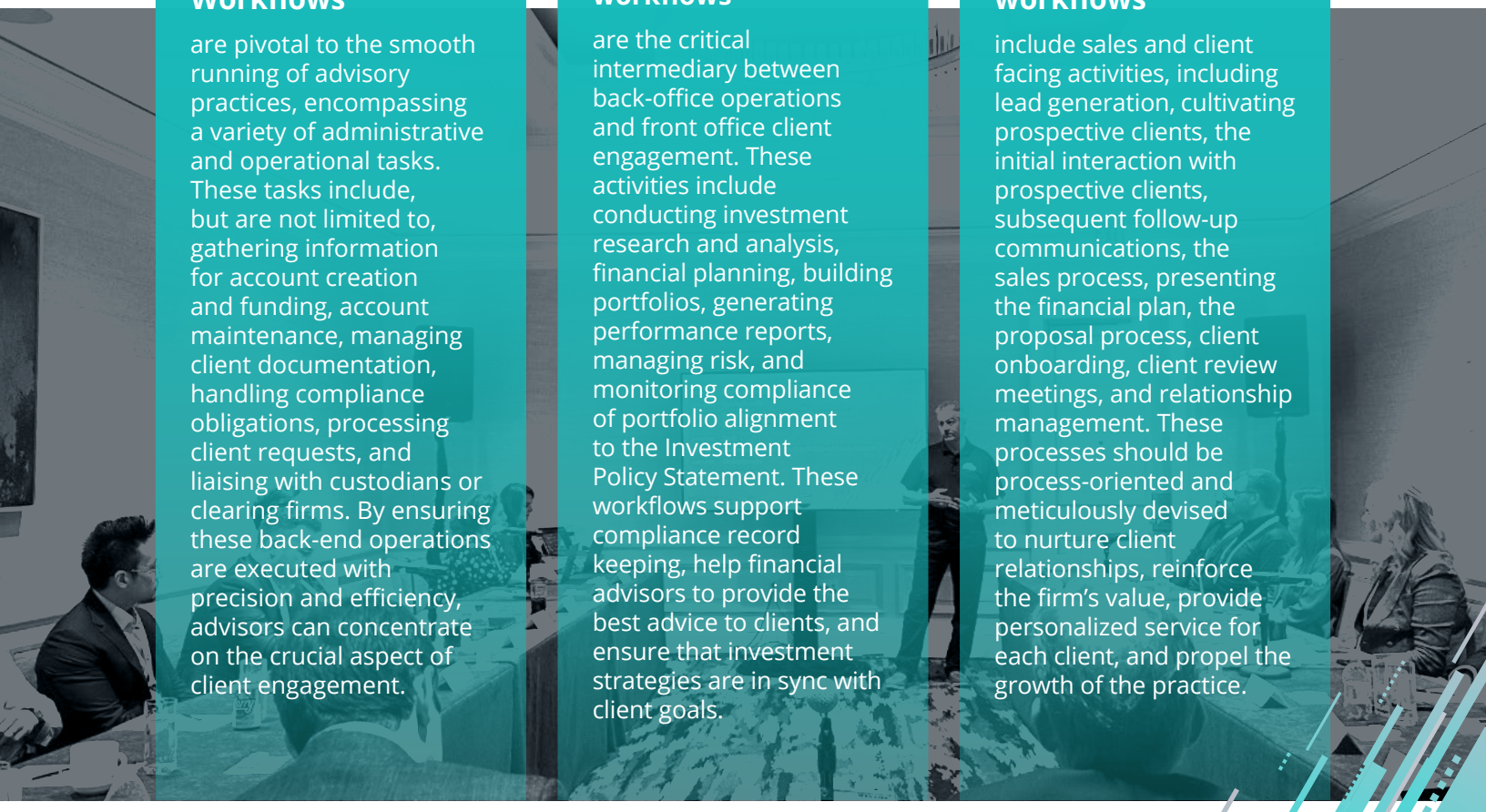
In conclusion, wealth management firms, regardless of their size, must prioritize vendor security. This can be achieved by regular meetings with service providers and equipping their internal teams with the skills necessary to verify that the service providers are achieving the wealth management firm's expectations. Wealth management firms also need to develop software service provider due diligence processes to assess the security measures of their software service providers. Failure to do so could have serious implications - not only for the firm's compliance status but also for the trust and confidence placed in them by their clients.

Digital Workflow Automation

In an era where efficiency and customer satisfaction are paramount, it's abundantly clear that the traditional client onboarding process employed by most wealth management firms is ripe for refinement. Riddled with friction points and notorious for its reliance on extensive paperwork, this outdated approach leaves much to be desired.

Large firms find that there are pockets of excellence within their operations teams where tribal knowledge of short cuts and best practices travel like arcing electricity between team members. Emerging firms struggle with the flight risk associated with key team members who, based on experience, simply know how to complete critical client onboarding tasks.

Many of the technology leaders who attended the CTO Think Tank imagine a process where data is imported directly and used across various functions throughout the customer lifecycle. All the cohort attendees agree that the key to achieving this image starts with digital workflow automation. Wealth management workflows can be defined across three broad collections of tasks: front office, middle office, and back office.



Back Office Workflows

are pivotal to the smooth running of advisory practices, encompassing a variety of administrative and operational tasks. These tasks include, but are not limited to, gathering information for account creation and funding, account maintenance, managing client documentation, handling compliance obligations, processing client requests, and liaising with custodians or clearing firms. By ensuring these back-end operations are executed with precision and efficiency, advisors can concentrate on the crucial aspect of client engagement.

Middle office workflows

are the critical intermediary between back-office operations and front office client engagement. These activities include conducting investment research and analysis, financial planning, building portfolios, generating performance reports, managing risk, and monitoring compliance of portfolio alignment to the Investment Policy Statement. These workflows support compliance record keeping, help financial advisors to provide the best advice to clients, and ensure that investment strategies are in sync with client goals.

Front office workflows

include sales and client facing activities, including lead generation, cultivating prospective clients, the initial interaction with prospective clients, subsequent follow-up communications, the sales process, presenting the financial plan, the proposal process, client onboarding, client review meetings, and relationship management. These processes should be process-oriented and meticulously devised to nurture client relationships, reinforce the firm's value, provide personalized service for each client, and propel the growth of the practice.

The cohort attendees all found deficiencies in the workflow capabilities of their current wealth management technology providers. The deficiencies included:

Lack of out of the box processes to facilitate product implementation.

Existing technologies do not offer the capability to easily configure or customize workflows.

Customizing workflows in many cases requires the assistance of the technology provider. This makes it difficult to update workflows as the business evolves.

None of the current vendors support workflow portability.

Several of the cohort members are implementing workflow management solutions such as Hubly, Docupace, and Conga to overcome the lack of workflow capabilities within their CRM solutions. All these solutions have limited integrations with CRM service providers with each workflow management provider integrating with 2-3 CRM providers.

Many of the cohort members cited the lack of workflow portability as a significant pain point. Workflows created in one CRM today are not portable to another CRM. For example, workflows created in RedTail are not portable to another CRM. A workflow management solution offers the ability to unplug one CRM in favor of another without recreating all the firm's workflows in the new CRM.

All the workflow management solutions also lack the integration needed with Investment and Portfolio Management solutions and custodian platforms to be highly effective in providing digital account opening. The solutions will help a wealth management firm to model their business processes and the activities required.

However, they will not eliminate the copy and paste or swivel chair issues that we discussed earlier because they do not have the data integrations to other applications within the advisor technology ecosystem. Despite these limitations, the cohort members are turning away from limited CRM workflow capabilities and towards workflow management solutions.

Enterprise organizations can look beyond wealth management technology solutions to Business Process Management Systems (BPMS) and Business Process Automation (BPA) solutions such as Nintex, Webmethods, and Oracle BPM. These solutions come with a broad range of capabilities and can leverage application programming interface (API) integrations, but the maintenance of those API integrations will fall to the wealth management firm. Enterprise firms with dedicated IT and development teams should consider these solutions to develop a competitive advantage.

Owning and Leveraging Data

In the bustling world of financial services, the wealth management sector trails behind in the race to incorporate data into critical decision-making processes. This disparity is not merely a matter of falling in step with the industry's digital transformation trend - it's about unlocking the untapped power of data to enhance client experiences and drive firm growth.

> **Consolidating and centralizing data from multiple systems is a critical dependency for using that data in downstream processes and business reporting. We cannot rely on, or wait for, our disparate platform vendors to do this for us.**
>
> **Trevor Hicks,**
> *CTO, Laird Norton Wealth Management and Wetherby Asset Management*

One of the key areas where data can play a pivotal role is in advising the 'next best actions' for advisors. With the right data insights, advisors can be equipped with the precise tools needed to drive insightful conversations with their clients. Predictive analytics can transform the way advisors work, empowering them to make data-backed decisions and offer personalized advice to clients. This can significantly improve client relationships and trust, leading to better client retention. The question is no longer about having vast amounts of data, but about harnessing that data to identify actionable insights and make more informed, strategic decisions.

The wealth management sector also stands to gain immensely from the personalization capabilities that data analytics bring to the table. Implementing personalization strategies that are aligned with the client's life stages and goals can lead to highly relevant and client-centric services. Data can make this possible by providing insights into client behaviors, needs, and preferences.

Wealth management firms are increasingly recognizing the importance of a robust data strategy and are gearing up to invest more in this area in the coming year. This move underscores a broader industry trend that focuses on harnessing the potential of data to drive business growth and deliver enhanced customer experiences.

A pivotal component of this strategy is to gain complete control over their data. The impending emergence of data warehouses signals an exciting phase for many wealth management businesses. A data warehouse acts as a central repository for all data, offering a single source of truth that aids in accurate reporting and analysis. It also streamlines the data management process, thereby improving efficiency and reducing the scope for errors.

Capturing different types of data, including trading data, tax lots, and performance data, is high on the list of priorities for these firms. With a comprehensive view of all these data types, firms can gain a deeper understanding of their operations, investment performance, and market trends. This wealth of information can fuel informed strategic planning and execution, ultimately leading to improved business outcomes.

By owning their data, large firms are effectively positioning themselves to leverage artificial intelligence (AI) technologies. AI can process vast amounts of data at an exceptional speed and provide insights to help firms make data-driven decisions, optimize operations, and identify investment opportunities before they become apparent to the competition. In conclusion, the increased investment in data strategy by wealth management firms signals a new era in the industry. Many of the cohort members who are laying the foundation now to own and leverage their data recognize that this is a long-term strategy that will position their firms as leaders in the market segment. Competitors will be forced into playing a catchup race that will be more costly.

Artificial Intelligence

Our first cohort boasted all 12 firms piloting an Artificial Intelligence (AI) project. Our second cohort had 3 of the 21 firms piloting an artificial intelligence project. The incredible acceleration in AI technologies has already revolutionized other industry sectors. The importance of AI in wealth management is being increasingly recognized, offering unprecedented opportunities for efficiency, accuracy, and client service.

AI-powered tools can analyze vast amounts of data at lightning speed, enabling wealth managers to make faster, more informed decisions. They can help identify trends, provide personalized investment advice, and provide next best action recommendations to a degree of accuracy that was unimaginable just a few years ago.

> **In our world, AI is less about deep insights and more about liberating our talented staff and professionals to devote their time to client interactions, investment strategy and thoughtful planning exercises.**
>
> **Joseph A. Walker,**
> *Chief Operations Officer, Bradley, Foster & Sargent, Inc.*

Firms that prioritize a robust data strategy today are positioning themselves for a future where AI will be not just advantageous, but a necessity. They are investing in data collection, storage, and analytics capabilities, providing a solid foundation for the implementation of future AI initiatives. This strategic investment will yield significant dividends down the line, providing a competitive edge in a rapidly evolving marketplace.

However, the transformative potential of AI is not without its challenges. Many firms are adopting a wait-and-see approach, particularly given the evolving regulatory environment surrounding the use of AI. It's clear that regulators will play a key role in shaping the future of AI in wealth management. However, firms that wait for full regulatory clarity risk falling behind their more forward-thinking competitors.

The large firms in our CTO Think Tank cohort are all amid data strategy projects to collect their data in data lakes. They are creating the common language around their data elements so that they have a common view across different data sources for common wealth management data elements, such as households, clients, accounts, and holdings data. They plan to build data warehouses and AI capabilities on top of their data lakes. A few already have pilot AI projects underway.

AI represents a monumental shift in wealth management, promising a new era of efficiency, precision, and personalized service. While regulatory uncertainties may cause hesitation, firms that embrace a proactive AI strategy are likely to reap substantial rewards in the competitive landscape of tomorrow. It is time for wealth management firms to strategically embrace AI or risk being left behind in the race towards a smarter, more agile future.

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