fin-sight
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Sameer Kamath, Chief Financial Officer

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- Motilal Oswal Securities won the 'Best Research as Research Showcase Partner' at Research Bytes IC Awards 2014
- Institutional Equities conducted the 10th Annual Global Investor Conference in Mumbai
- Following commencement of operations in May 2014, Aspire Home Finance has already disbursed 558 applications amounting to ~₹507.1 million
- During this year, Motilal Oswal Capital Markets (Hong Kong) Private Ltd received Type-4 License from SFC, Hong Kong

- **Meet our Management:** Please email us at investorrelations@motilaloswal.com or sourajit.aiyer@motilaloswal.com; or call **Sourajit Aiyer** on +91 22 3982 5510 if you want to schedule a meeting to discuss this sector, its long-term opportunity and the company's strategy

Delivering effective advisory value to customers: Learning from US wealth firms

Introduction: challenges and imperatives…

Wealth management may not require much financial capital, in the true sense, to make a scalable business. The bigger challenge for scalability (and firm profitability) is to optimize advisor productivity. Post-2008, the business has become tougher. Sales cycle is longer due to a more knowledgeable investor, which means more time for service and want extra attention to understand portfolios during uncertain markets. Changes in client preferences and the ability to add value to portfolios in volatile markets are critical challenges. In such an environment, many wealth firms are struggling to stay afloat. Being a people-intensive business. It is imperative to invest into attracting/retaining the best advisors.

At such times, it is imperative to optimize advisor productivity by deepening the client-advisor relationship. Relationships can be deepened only by increasing the time available to service clients and the time to attract new clients. That would enable increasing the long-term, higher-margin assets in the advisor's book, and moving non-managed assets of the client. Low productivity is often due to disproportionate time on admin tasks and non-integration of customer and investment platforms, which has to decrease. Technological integration contributes significantly to bringing in efficiency in the advisor's planning, servicing and monitoring functions, apart from admin tasks. These can help increase client satisfaction, and chances of more assets, more high-value clients and more referrals.

➢ ***This note looks at areas in the Advisory Value-Chain, where US wealth firms have concentrated their productivity improvement initiatives.***

Any advisor productivity initiative needs to keep in mind that advisors differ in their traits, skills and competencies…

While all advisors do the same things, they do them differently. All advisors acquire clients, deepen existing relationships, service clients, monitor the markets and manage their books. But since they all do these differently, it creates different advisor-types. Firms need to note this, since areas for productivity improvement will differ based on each advisor's unique traits and skills.

Advisor-type matrix based on client acquisition and asset gathering

"Slow-starters" Low in client acquisition and Low in fee income/assets ratio	*"Steady-earners"* Low in client acquisition, but High in fee income/assets ratio
"Steady-acquirers" High in client acquisition, but Low in fee income/assets ratio	*"High-fliers"* High in client acquisition and High in fee income/assets ratio

This matrix above implies that the mature advisers should ideally move to the high-fliers or steady-earners, as they become more productive. The firm faces a challenge if that does not happen. Looking at the advisor-types specifically, slow-starters need mentors, periodic reviews and discussions of problem areas. Steady-acquirers need support in planning and servicing. Or they can pass their clients to steady-earners/high-fliers for better servicing if sharing terms are acceptable. They can be involved in training programmes for acquisition skills. Steady-earners are good at building long-term relationships. That helps protect the firms' long-term annuity income. Firms need to leverage their strengths in servicing. High-fliers have to be supported with admin and servicing back-ups, so that they can spend more time in client-interfacing activities.

Areas along the Advisory Value-Chain which have seen initiatives for advisor productivity improvement

The advisory value-chain can be a useful framework to categorize the advisors' activities, and understand where US firms have concentrated their efforts for productivity improvement. Findings from a Capgemini/PWC survey in 2009-10 showed that advisors spent 2/3rd of their week in client-facing activities, (meeting clients, prospecting, portfolio management), 29% time in admin tasks (operations, compliance and reporting) and 4% time in training. The basic premise to improve advisor productivity has to be reduction of the time spent in redundant and admin tasks.

Components of the Advisory Value-Chain ➤ **Client prospecting and onboarding** ➤ **Client segmenting and directed financial planning** ➤ **Client servicing and portfolio monitoring** ➤ **Reporting and administrative functions** ➤ **Training, team structure and succession planning**

Client prospecting and onboarding activities:

There is no predictable system to acquire clients. Investors vary in behaviors and objectives. It takes multiple interactions to secure trust. Technology can enable communication, but it cannot improve its substance. That needs deep understanding, and its spontaneous application.

Targeted prospecting:

- This includes attending AGMs and trade conferences, and targeting single-parents who need financial guidance
- Using 'spheres-of-influence' like lawyers, accountants and consultants, who can give valuable inputs on the prospect. They are prospects too
- Retirement planning is often-used. This gives clients a feeling that their most personal needs are being addressed
- Referrals from existing clients are another focus area. Referral model is also used to tap other employees within the client's own company
- Advisors are targeting both the asset and liability side, by pitching insurance solutions for the risks to which clients were exposed
- Targeting B2B accounts, as that can create bulk accounts if the client consolidates more assets. For example: Stratos Wealth Partners in B2B

Prospect tools to integrate Contact and Lead systems:

- To bring in efficient relationship management, firms are now integrating Lead and Contact Management systems
- This incorporates reports on the usage of the leads by the advisor, including meetings, conversation notes, action items and correspondence, as well as historic client data which helps in better understanding his investing behavior and goals
- It also supports Customer Analytics to identify opportunities for products according to each prospect – for a more directed approach
- It can also incorporate an alert mechanism for advisors to track leads

Prospect seminars:

- Using pre-prepared/canned material instead of developing own material – the time saved is better utilized for planning the interactions

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Prospect tools to integrate Contact and Lead systems:

- Advisors' original process of manually entering information is being replaced by unified account opening tool which pre-fills existing client information and reflects consistent data across multiple systems. It also automatically pre-populates the financial planning tool with this client data – thus integrating CRM and financial planning platforms resulting in faster turnaround, real-time account opening, removing duplicity, transparency of the opening process and cost reductions
- Worldsource Securities' e-account opening system allows pre-populated details, tailored questions based on client/account type selected
- FolioDynamix created a common dashboard that can pull multi-custodial accounts, which allows better management at the household level

Client segmenting and directed financial planning:

Holistic profiling questionnaires:

- Adviser's time is better spent on building relationships, rather than on studying forms to bring out profile insights. Hence, US wealth firms are increasingly using online profiling questionnaires to save time for the advisors, while enabling a more holistic client information
- Apart from assets, these questionnaires take into account risk appetite, sources of wealth, return expectations and objectives for the money

Dedicated product teams, a shared-service to deliver product expertise effectively:

- Centralized advisory teams are made with product specialists, who prepare financial planning/asset allocation plans for the advisors to use
- Advisors get more time to devote to client-facing work, while clients are better served as it leverages a wealth of specialized knowledge

Planning tools to integrate CRM and Planning platforms:

- Financial planning tools in many firms have been applications silos with no link to account information or scenario analysis tools
- Integration of client information with the financial planning platform saves the advisors' time from the need for navigating multiple applications, while giving him directed pieces of information that he needs for making sales
- The interface should allow access to client records, history and goals, as well as scenario analysis tools for portfolios and risk assessment

Product planning:

- Most US firms prefer multi-product and multi-asset class architecture, to address the various investment demands for retaining the client
- Sales of BAML's banking products to the legacy clients of Merrill Lynch helped increase client balances. UBS Wealth, which has the highest productivity, focused on securities-backed lending, mortgages, credit cards. The productive advisors sell more investments than insurance
- It also included outsourcing the investment management, which meant better utilization of time and better/consistent investment expertise

Portfolio trading tools to improve productivity:

- Specialized trading platforms have been implemented for senior advisors, who typically also have the largest books
- Merrill Lynch's Portfolio+, a discretionary trading platform, connects asset allocation, portfolio construction, portfolio-drifts and cash management tools into a trade processing platform. As of Jan 2014, about 25% of Merrill Lynch's 17,000 financial advisers were using this

Client servicing and portfolio monitoring activities:

Automated monitoring of stocks based on 80-20 Rule:

- Advisors spent disproportionate time monitoring the markets. Technology has now enabled real-time data and alerts to bring in efficiency
- Automated monitoring via alerts help identify which clients to call within quick time of an event, by identifying stocks impacted by that event
- Alerts may be on asset allocation/sector imbalance, financial plan deviation, earnings estimates, bottom quintile mutual funds, etc
- To reduce the stocks to manageable levels, advisors follow the Pareto Rule. Typically, ~80% of their equity portfolio would be of 100-150 stocks and ~20% of clients represent their 'A' book. Advisors start with stocks that represent these clients' books, and then expand the list
- Knowing that their advisors are monitoring their portfolios gives clients a comfort factor. As per a study by Merrill Lynch, clients who were contacted on timely basis were more likely to move more assets to those advisors or give referrals

Removing low-yield clients to gain time for deeper servicing/engagement with meaningful clients:

- Advisors need to give more time to top clients, but the smaller clients often take up valuable time. US advisors found approx 1/3rd clients yield less than 10% of revenue, and they are now letting go of less-lucrative clients who may never scale up despite efforts
- This also impacted new client addition, due to the time freed. Advisors still held onto a few clients who had certain intangible benefits
- Advisors could now spend more time with clients who mattered. These clients got the value they deserved. Deepening the engagement meant more trust and hopefully, of more high-margin assets and client referrals
- Advisors are still reluctant to hand over clients, due to the perception that they might yield revenue in future. But adding non-ideal clients impacts the attention they can devote to clients who could scale up, which may also not materialize if he is unable to devote adequate time
- Handing over of low-yield clients was done on an incremental basis, so that the advisor's revenue was not impacted. The least profitable clients were dropped only when a new client was acquired who could replace the revenue lost

Trading and rebalancing tools:

- LPL Financial's enhanced trading and rebalancing platform saved time by simultaneously managing portfolio trading across multiple client accounts. Scivantage's advanced rebalancing capability automated the monitoring and rebalancing of hundreds of accounts against models
- Cetera Financial's SmartWorks helped faster portfolio responsiveness. Time for rebalancing reduced from hours to minutes, which meant more time with clients. TD Ameritrade used integrations of CRM, planning and portfolio applications with Veo, its integration analyzer tool

Tools for faster service delivery:

- Schwab's Pega ACE service management platform reduced the time to market and improved how customer requests were managed
- Tablets enabled advisors to input trades and service requests away from the office, thus allowing faster responses to clients

Virtual Advisors:

- Some clients increasingly prefer self-driven investment portals. 'Virtual' advisors make them feel they have a more control over their assets

Reporting and administrative functions through automations:

- Automation of admin tasks enables faster turnaround, lower opex, lower human error and better governance of the process stages
- Repetitive activities like regulatory filings, consolidated reporting documents, etc can be automated. E-document solutions are being used
- A comprehensive reporting solution that generates a consolidated statement across accounts, instead of multiple statements
- This also includes outsourcing of admin tasks. LPL Financial used third-party partners to process admin tasks faster and accurately

Training, team structure and succession planning:

Using advisor team, instead of single advisor:

- As per a US Survey, 1/5th of all advisors have started to use teaming instead of a single, experienced advisor to each client. While single advisors can serve ~25-40 top clients, advisors teaming with junior advisor/client associate can serve more than double of that

- While this talent is cheaper, it requires an institutionalized training plan. Merrill Lynch's Team Financial Advisor program provided trainees with specialized skills in business development, planning, investments, relationship management or management. Advisor teams can choose the trainees based on skill set alignment, and this helps succession planning by enabling new advisors to work with senior advisors
- The challenge is to ensure enough work to keep them occupied, as well as realizing higher value as compared to training costs/attrition
- Mapping of junior advisors to senior advisors has to ensure their methods of working are matched, as that can impact the team's efficiency

Acquiring a team works better than acquiring a firm:

- Acquiring firms has not been effective in creating scale. The better option for acquisition is to lift-out the advisor team from the other firms

Ideation, Consulting support and Benchmarking to help advisors grow:

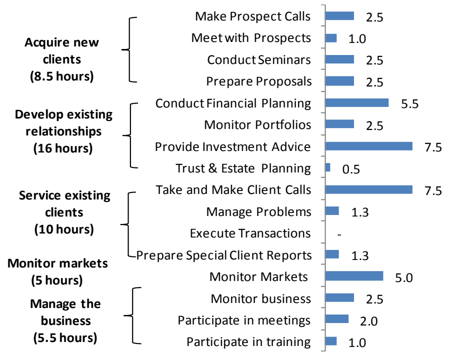
- LPL Financial uses 'Innovation Days' to spur ideas. LPL also partnered with IDEO, an innovation consulting company, to guide service levels
- TD Ameritrade assists its advisors with business consulting tools like profitability, benchmarking, and program growth reports
- Nationwide's Benchmarking support searches for gaps and inefficiencies that prevent the advisors from realizing their best practice
- Charles Schwab's 'Insight to Action' practice management consulting program offers its RIAs support, guidance and actionable solutions

Conclusion:

Delivering effective advisory value add to clients necessitates increasing client-facing time, to deepen relationships with existing clients or search prospects. Capturing of non-managed assets and moving assets into higher-yielding products can happen only by deepening client-engagement. That means the time spent on redundant and operational tasks has to reduce.

The sample time-allocation shown in the chart is from an article of a certain US advisor. It gives an idea on how the average advisor spends his weekly time across various activities. Each advisor spends his time differently, based on traits and skills. Areas of productivity improvement will differ based on each advisor-type. The objective has to be to minimize the time spent on non-productive tasks within these activities across the advisory value-chain, and increase the time allocated to income-generating client activities. Only then can advisor productivity move north, and the firm can achieve scalability (and profitability).

Sample time-allocation in a 45 hour week



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