MAXIMIZING TECHNOLOGY

What You Need to Know

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No matter where you sit, technology is a major part of our lives, both personal and professional. Decisions about what we use and how we use it vary widely, but more and more financial advisors recognize how critical these decisions are to their businesses. Choosing which platforms to use and which solutions to purchase, however, can be daunting.

Advisors view technology as a way to make their practices more efficient and profitable, but they acknowledge that clients are the prime beneficiaries of technology improvements. According to research conducted in 2018 by InvestmentNews for the special report “Digital DNA 2.0: How Advisors Can Maximize Trends in Advisory Technology,” advisors say the top benefits they seek to achieve when adding more technology are improved client-facing service and interactions and more efficient and impactful reporting.

According to additional research conducted by IN Research and powered by Crain IQ in 2017 and summarized in “An Advisor’s Guide to Understanding Investors’ Digital DNA,” account aggregation ranks highest among investors who were asked to rate a selection of online account features in terms of “making saving easier and improving overall experience with the provider.” Advisors also ranked account aggregation highest when asked “which online account features improve their overall experience with their clients.”

Sometimes, there seems to be a disconnect between what advisors and clients value most when it comes to technology. In the 2019 T3/Inside Information advisor technology survey, for instance, advisors placed little value on front-office tools (e.g., account aggregation, risk tolerance, and document management), focusing more on customer relationship management as their most valuable business software. Account aggregation was not even a choice on that survey.

Of course, business models and sentiment vary among advisors, but for those at the forefront of technology investment—sometimes dubbed the “tech accelerators”—the top consideration is “improved outcome for clients.” Importantly, these accelerators are investing more in technology and they are growing faster than those who are not. Furthermore, when examining the technology stacks of accelerators compared with other advisors, there is a clear separation in the use of client portals (77 percent versus 56 percent, according to the Digital DNA 2.0 report). The accelerators are committed to leveraging more client-facing tools to provide improved services and delivery of advice to their clients.

Not all firms can or want to be tech accelerators, but they would do well to think about which technology they need in order to stay profitable—and the value of any technology investments to their clients. This is a shift from thinking about forcing new software into current operations. That holdover mindset also has advisors considering technology investments as a cost-benefit analysis in terms of productivity and efficiency. And then there is the critical issue of adoption. Too many advisors purchase software solutions only to find that it gets underutilized. It is not uncommon to hear advisors say that they use only a fraction of the capabilities available in an expensive technology investment.

To complicate things, advisors are experiencing margin compression. All firms are being hit with changing consumer demands (more, better, and digital coupled with price sensitivity) and increased costs for compliance and regulatory issues. Every dollar spent on unused, needless, or redundant technology only hurts the bottom line. Efficient and economical technology likely can help advisors—especially those who work under an assets under management model—weather the next market correction.

NOW IS THE TIME TO REASSESS AND THINK AHEAD

The time to think about these very serious threats is now. Here are three tips to help advisors navigate this complicated landscape:

CLOSE THE DIGITAL DIVIDE WITH YOUR CLIENTS

There is a gap, or digital divide, between individuals’ frequent use of technology in their lives generally and their relatively infrequent use of technology in their financial lives. The good news is that demand for advice is strong, whether it is delivered through human, digital, or hybrid channels. The majority of individuals surveyed in the 2017 Digital DNA survey say they value—and need—some form of professional
financial opportunities exist for advisors who make access to advice easier.

Advisors are missing an opportunity to materialize at the fingertips of clients and potential new clients. With 93 percent of individuals indicating they are engaged with social media at least weekly, it is surprising to see that only 25 percent of advisors said they interact with their clients via social media, 14 percent with webinars or recorded videos, and 12 percent with blog posts. Many advisors think that their 55-64-year-old clients are not using the internet for financial matters—or not using the internet much at all. But research in the initial Digital DNA report shows that this demographic spends on average more than five hours per day online.

In practical terms, this means advisors need to consolidate, communicate, and customize. Creating the optimal digital client experience involves aggregating client data, communicating the value and usefulness of that information to the client, and making sure the delivery of that information suits clients’ needs and preferences. Taking these steps can help to close the digital divide.

REVISIT YOUR BUSINESS PROCESSES AND CLIENT EXPERIENCE

Delivering financial planning and investment management services is a process-driven business and many advisors build their tech stacks based on the processes they use to scale their practices. This is necessary, of course, but all too often the workflow is based exclusively on how the advisor wants the business to run and the technology is selected to facilitate that and that alone. Typically, it’s scalability, client segmentation, and other considerations that help ensure efficiency.

Start the process analysis with the client and the client journey, not with what the firm needs to deliver to scale and efficiently grow, to help shift the focus from good service to a truly meaningful client experience.

Investors choose advisors based on one or more of the following:

- They want a personalized relationship, not simply a check-off on the standard quarterly calendar.
- They want a higher level of service than they are getting from their current situation.
- They want customization that goes beyond the selection of a portfolio from model A, B, or C.

Virtually all client demographics report consistent online activity and client expectations that are set largely by experiences with businesses such as Amazon and Uber, so evaluate your technology with this in mind. If you look hard at your firm’s client experience (or better yet, survey clients to determine what they really want), might you need to concede that your firm is delivering a cookie-cutter, clunky, or annoying experience to clients? More importantly, would you make changes in your technology and workflows to improve it?

THINK FLEXIBILITY WHEN IT COMES TO YOUR TECH STACK

Think about these questions for a few minutes: Do you know precisely where your business will be in five to seven years? Do you have any idea where consumer technology will be in that timeframe? Does anybody?

The point is, change is constant and happens at an ever-increasing pace. Maintaining flexibility, especially when it comes to technology, is extremely important to your ability to be nimble and respond to changing client needs and demands. You don’t want to be locked into long-term contracts and therefore at the mercy of any tech provider’s future plans.

Think of your tech stack like a stack of pancakes. Now ask yourself: Do I have the right technology, not just for today but as the future evolves? Is it easy enough to use so that my team and I are getting the benefit of all the bells and whistles? Do we even need all the features? How can we lift up and pull out that middle pancake without creating a big mess? Are there free or low-cost solutions that might provide the benefits we need—and how can we pull those solutions in as part of our unique client experience and potentially create a shorter and healthier stack?

The point here is this: The measure of whether you are a savvy consumer of financial technology is not how much you spend on it, but how well you leverage it to better serve your clients (and thus your business). In addition, the old adage, “you get what you pay for,” may no longer be true.

With digital tools becoming ubiquitous in all aspects of everyday life, and with investors of all ages increasing their reliance on these tools, their use in the advisory business must keep pace. Simple steps to improve technology, such as aggregating account data and customizing client communication, can provide a more relevant and seamless digital experience. Advisory firms that adopt and promote user-friendly digital interfaces and services will be the ones that gain market share and prosper in the years ahead.

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ENDNOTES

2. See https://www.investmentnews.com/assets/docs/C110971629.PDF.