CELENT

BATTLE FOR THE BANK

HOW DIGITAL INVESTMENT TECH IS RESHAPING WEALTH MANAGEMENT

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EXECUTIVE SUMMARY

KEY RESEARCH QUESTIONS

1 *Why have banks struggled to roll out digital advice platforms?*	**2** *What explains the poor track record of bank and B2C robo advisor partnerships?*	**3** *What makes B2B or enterprise platforms most effective in the bank environment?*

Bank wealth managers' slow start in the digital advice business can be explained partly in terms of implementation challenges. These have ranged from role based access and permissioning issues to deeper architectural conflict. As usual, the success of digital and other front end initiatives has tended to reflect the state of connectivity to the back office, with the management of data a core issue.

The need to meet the layered integration requirements of digital advice is one reason why some large banks have built their platforms from the ground up. Others have engaged robo advisory firms like SigFig and FutureAdvisor. To date, attempts by these robo advisors to pivot from B2C to B2B (or enterprise) models have proven problematic, above all for their institutional clients. Direct to consumer propositions built off one data access platform were never designed to integrate with the multiple and overlapping systems characteristic of banks.

B2B platforms designed for the enterprise, like InvestCloud, Robust Wealth and Trizic, enjoy a strategic advantage in that they are able to serve all the lines of business within a financial institution, rather than just the needs of the private bank. Specifically, the ability to sync with the discrete back end systems that exist within the bank environment allows each business unit to sustain its own user experience, portfolio models and permissioning protocols. This report explores the value propositions of each of these three pioneering firms and highlights the differences in approach that color their applicability to banks.

INTRODUCTION

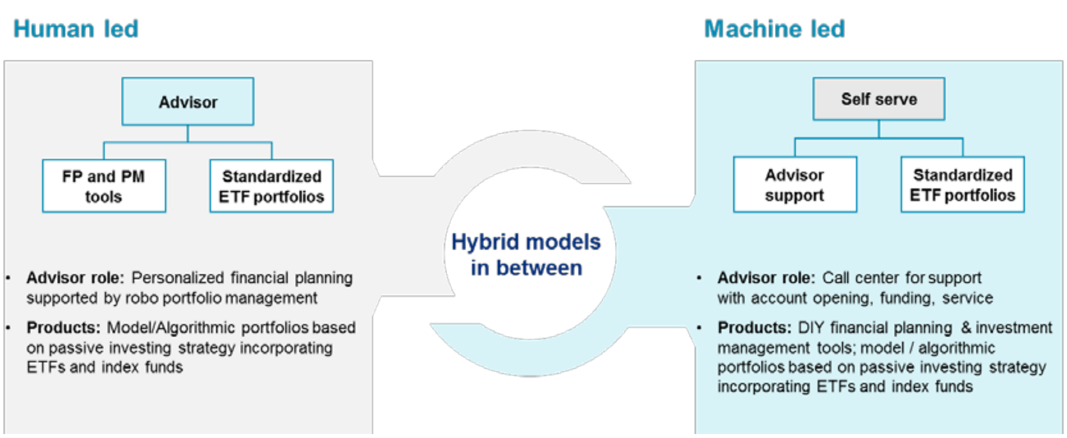
Over the last five years, wealth managers facing a perfect storm of fee compression, rising operating costs and regulatory burdens have embraced the digital revolution. At the vanguard of this revolution has been the robo advisor.

In its pure form, robo advice presumes the delivery of automated investments advice (and specifically, portfolio construction and maintenance) without the intervention of an advisor. The end client may source this advice from a self-standing portal such as a Wealthfront or Betterment or via an online brokerage (e.g., eTrade), bank (e.g., Ally Bank) or other legacy interface. Where it exists, human contact is limited to a call center providing technical or other troubleshooting-centered support.

CONVERGENCE OF DELIVERY MODELS

The antithesis of robo advice is of course, the traditional face to face delivery model. Human led distribution drives greater levels of client engagement, but at greater dollar cost to the provider. This report explores the extent to which these distinct models are converging in the bank business, as per Figure 1. It proceeds to assess the extent to which various forms of hybrid delivery can break tradeoffs between personalized service and scale.

Figure 1: Human vs Machine Led Advice



Source: Celent, Oliver Wyman

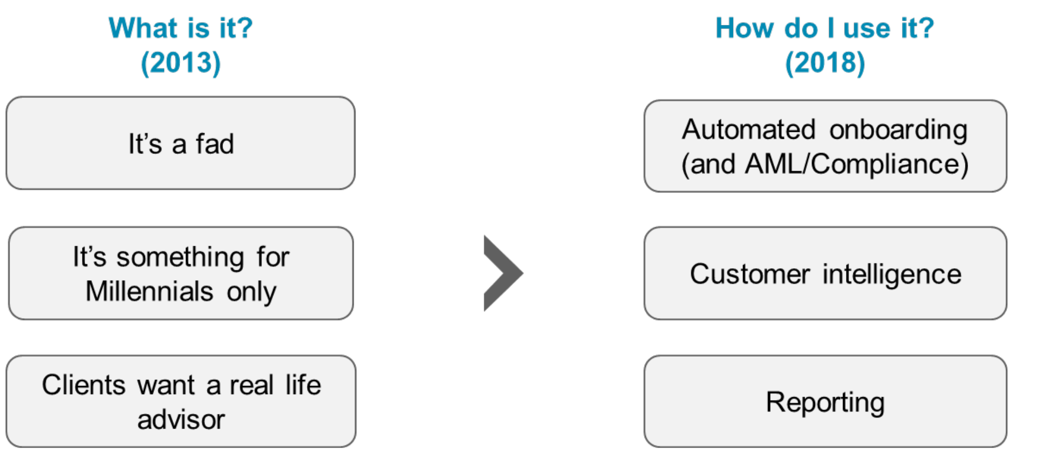
FROM ROBO TO DIGITAL WEALTH

As discussed in previous reports, Celent believes the lasting legacy of the robo advisor will not center on the increasingly commoditized portfolio management process but on client touchpoints like onboarding and the embedded compliance function. Insofar as onboarding represents a “digital welcome mat” for clients, analytics are another benefit.

Evolving Perceptions Of Robo Advice

Figure 2 illustrates the extent to which industry appreciation of the robo advisory contribution has evolved over the last half decade.

Figure 2: From Robo Rejection to Enthusiasm



Source: Celent

Even old school advisors now acknowledge the extent to which robo advisors have raised the bar in terms of delivery and user experience. Firms of all sizes are looking to digital advice platforms as a way to augment their advisor-centered value propositions.

The most pressing drivers of action include:

- The desire to become more efficient. This means lowering the costs of service delivery, eliminating manual processing and uncovering opportunities to sell more.
- Addressing the demands of time thirsty clients for access to digital tools.
- The need for a generalized de-risking strategy that comprises compliance and client risk profiling, and that employs automation to eliminate errors.

Of course, in a hybrid model, the advisor needs to use the tools for them to be relevant. Shifts in advisor stance from resistance to enthusiasm should not presume technical facility. Training is needed to optimize the use of digital tools in a task based context.

WE ARE DIFFERENT BECAUSE WE ARE BANKS

The evolution of advisor perception belies the fact that many financial institution leaders, consciously or not, still view the benefits of advice automation through a defensive lens. They appreciate onboarding in terms of cost and risk, for example, rather than as an inflection point in client development. This mindset extends to critical budget decisions, particularly in the case of robo advice platforms, where the economics are inherently challenging.

Bank Budget Blues

Since early days, the desire for greater fee income from investments has been tempered by fear of cannibalizing existing accounts. On the bank side, competing internal priorities often mean that as much attention is paid to keeping deposit only customers onboard as to cross selling them. This fear of attrition has negative implications from a funding standpoint. Initiatives (such as robo advice) without rocket ship growth potential may find themselves lacking boosters. In the words of one bank director, “it is hard to get budget for slow vs grow.”

Politics, Politics

Decision making power within the organization is diluted further when as it must take place under the patronage of a single stakeholder, such as the private bank. Conflicting compensation schemes between retail banking, brokerage and wealth management divisions may also be an issue. Indeed, the marketing of the first North American bank robo advisor, BMO SmartFolio, has foundered under the weight of such conflicts.

Looming over all decisions, of course, are the shifting clouds of regulation, as well as the technical challenges to be discussed in the following section. The need to meet the layered integration requirements of digital advice is one reason why some firms, like Merrill Lynch, have built their platforms from the ground up. To launch a robo advisor independent of a overarching digital strategy is sheer folly.

Brokerage

Brokerage firms, like banks, must also grapple with organizational and regulatory complexity, as well as challenges related to evolving (e.g., from transaction to fee based) revenue models and pricing. Even independent broker deals with a unified back end system may still maintain multiple operating models, e.g. distinct employee and franchise based distribution channels.

Registered Investment Advisor

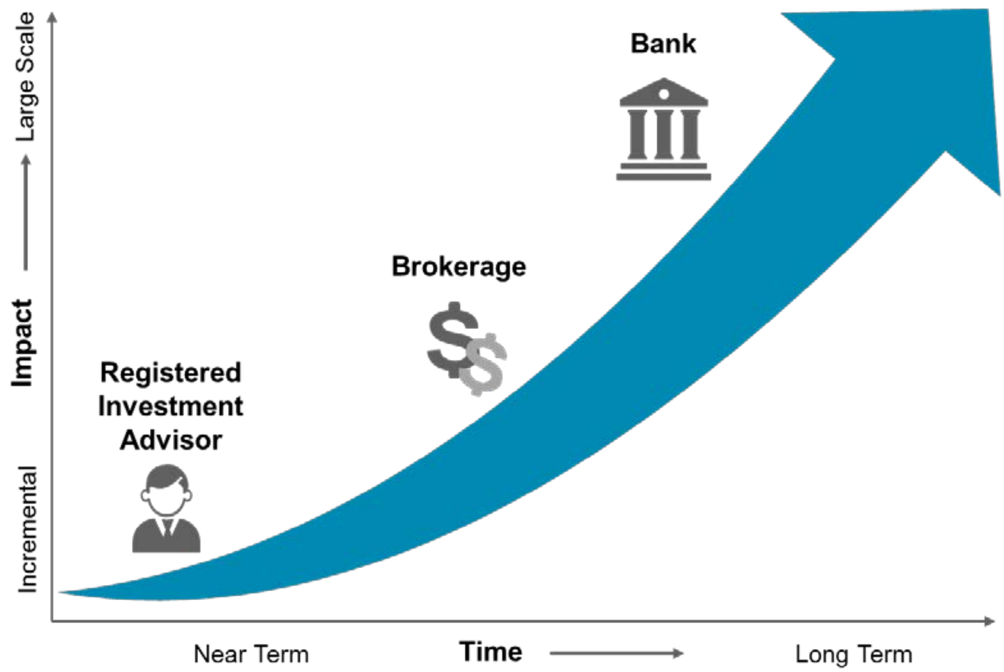
RIAs, on the other hand, represent a compelling test case for digital advice, in that their needs are focused on the front end. Beyond onboarding and compliance, these needs include rebalancing, around which the digital platforms like Robust Wealth, InvestCloud and Trizic offer an alternative to established vendors such as SS&C Advent and Orion. Part of the appeal of the RIA to these challenger vendors lies in the fact that often there is there is no need to work around legacy architecture. As such there is an opportunity to demonstrate operational alpha.

A Riddle Wrapped In an Enigma

Complexity does much to explain why banks represent something of a final frontier for digital advice platforms, as shown in Figure 2. Unlike financial planning technology, which has been widely embraced by bank advisors, digital platforms cannot not be bolted on.

Yet while challenges abound, those firms that consider integration from a pricing, channel, segment and technology perspective will be positioned to harvest the benefits. The impact, in other words, will be commensurate with the effort involved.

Figure 3: Banks as the Final Frontier for Integrated Digital Advice



Source: Celent

BATTLE FOR THE BANK

For all the challenges noted in the section above, banks would seem obvious candidates to deploy automated investment platforms. First, robo advice appeals to their mass affluent customer base. A second motivator for banks is that two decades of low rates have made fee income the Holy Grail for most banks. Robo advice also offers a means to respond to regulatory insistence on consistent advice delivery across channels. From a technology standpoint, it promises a way to short circuit issues of legacy technology and channel conflict.

To date, however, the marriage of banks and robos has been characterized by false starts and mistrust. Rumored tie ups (e.g., SigFig and Bank of the West, Motif Advisors and U.S. Bank) have failed to take hold, and partnerships (such as between US based RBC Wealth Management and FutureAdvisor) have fallen apart. There is irony in the fact that the first bank to cross the North American robo finish line was Toronto based BMO.

Bank wealth managers' slow start in the digital advice business also can be explained as a function of implementation problems. These have ranged from role based access and permissioning hiccups to deeper architectural conflict. As usual, the success of digital advice and other front end centered initiatives has tended to reflect the state of the back office, with data management a core issue.

Key Research Question

1

Why have banks struggled to roll out digital advice platforms?

Bank wealth managers' slow start in the digital advice business…can be explained as a function of implementation. The success of digital advice and other front end initiatives has tended to reflect the state of the back office, with data management a core issue.

ROBO OR BUST

Banks and other large organizations seeking to roll out digital advice platforms have three broad choices. They can build platforms (e.g., BMO SmartFolio, Schwab Intelligent Portfolios), buy them (e.g., BlackRock/FutureAdvisor, Invesco/Jemstep, Goldman Sachs/Honest Dollar) or partner with digital upstarts. Building offers advantages from a brand and control standpoint but can be expensive and messy to implement. Buying presents its own risks, not least to the careers of the organizations' decision makers. Indeed, the spectacle of Lloyd Blankfein (Goldman Sachs), Larry Fink (BlackRock) and other Masters of the Universe paying court to Millennial run startups has provoked industry mirth and scepticism.

Odd Bedfellows

These purchases were always strategic gambles given the difficulty of evaluating immature business that appear consigned to lose money. In hindsight, however, errors in judgement relate less to attempts to time the trajectory of the robo advisory model, or its appeal to advisors, but to the difficulty of deploying robo advice in an institutional context.

Divot in the Pivot

Enterprise or B2B propositions have become the focus of first generation robo advisors like SigFig and FutureAdvisor. Attempts by these robo advisors (and others chastened by the high cost of retail customer acquisition) to pivot from B2C to B2B have proven problematic, however. Direct to consumer propositions built off one data access platform were never designed to integrate with the multiple and overlapping systems characteristic of banks and other large organizations.

***Key Research Question* 2**

What explains the poor track record of bank and B2C robo advisor partnerships?

Direct to consumer propositions built off one data access platform were never designed to integrate with the multiple systems characteristic of banks and other large organizations.

The implications of such misalignment for a robo advisor and its bank client can be severe. Functionality may be constrained in operational terms or limited to a bank vertical or silo. For the robo advisor, the lack of middleware or other software to map or abstract an institution's back office may render the robo advisor dependent (in both data and strategic terms) on that institution's custodian.

A Different Type of Custodian

One firm smoothing the digital path for robo advisors and B2B technology platforms has been Dallas based Apex. Since rising from the ashes of the Penson Worldwide scandal in the early 2010s, the firm has emerged as the custodian of choice for a new generation of digital aspirants.

Predefined Economics

Apex exercises significant market power in the digital advice space thanks to a robust API stack that enables the account opening and compliance functions in real time. The value proposition extends beyond KYC and the lack of a multiday hold period, however.

Apex provides institutional clients, be they technology vendors or financial institutions, with a predefined set of economics. There are no integrations to execute, since all data is transmitted via API. Rather, the client sources Apex account management tools and technology as needed. This self serve approach mirrors the ethos of the digital advice business generally and that of robo advisors (whereby investors initiate sourcing of investments advice) specifically.

Money Transfer as Secret Sauce

Apex recently signed an agreement with account aggregation provider Quovo to enhance its strategic position in the marketplace. The objective is to reduce friction around asset transfer, in particular those held away. A tie in to a Quovo API enables funds held with banks and other incumbent wealth managers to be instantly routed into digital accounts. Here again, Apex's gift to the robo advisor extends beyond speeding up the ACATS process and reducing NIGO (not in good order) rates. Rather, it functions as an accelerant, providing robo advisors the means to scale and threaten large incumbents.

DATE TO THE DANCE

From a cost standpoint, the lack of complexity and manual intervention requirements allows Apex RIA clients to open investor accounts for $5000 or less. This facility is driving the growth efforts of digital platforms like Trizic, RobustWealth and (to a lesser extent) InvestCloud, all of whom are Apex partners.

Trizic vs. Robust Wealth

For Apex, of course, these firms represent Apex's date to the advisory dance. While InvestCloud markets its highly customizable platform to larger institutional clients, Trizic and RobustWealth offer a light architectural footprint designed to get an RIA up and running in weeks. There are fundamental differences between the two firms: Trizic is a technology only platform designed to work around legacy architecture, with Ux and functional customization achieved through the deployment of documented APIs. Robust Wealth functions as a highly streamlined, turnkey asset management provider (TAMP), offering a full stack digital solution plus a Franklin Templeton driven investments platform.

InvestCloud

Yet another proposition is put forth by InvestCloud, which seeks to supplant the hard-coded application model of development via its Programs Writing Programs (PWP) process. PWP is designed to enable on-the-go development of software functionality by business users and other non-technical types, thus rendering most coding redundant.

InvestCloud enables the ability of its institutional clients to customize and control through an app store offering more than 200 front to back office applications. The emphasis on customization is reflected in the platform's relatively steep price point, as well as the institutional clients it targets, which range from global banks to outsourced CIO services to family offices and institutional asset managers.

THE UNIFIED DIGITAL PLATFORM

These three firms, details around which are set out in Table 1, are among really the only market providers that can offer a unified or full stack digital platform. Envestnet *should* be able to do so, but has struggled to solve the last mile problem of automated (robo) distribution. SEI offers an integrated digital platform for advisors but has made a conscious decision to steer clear of offering automated advice.

Table 1: B2B Robo Platforms

	InvestCloud	Robust Wealth	Trizic
SNAPSHOT	Bespoke app based platform	Digital TAMP	Tech + APIs
FOUNDED	2010	2015	2012
CEO	John Wise	Michael Kerins	Drew Sievers
HQ	Los Angeles	New York	San Francisco
SAMPLE CLIENTS	Bank (JP MorganChase), Asset Manager (Capital Group), Trust/Family Office (Glenmede)	100+ RIAs, TAMP (XY Network), Banks to be added 2018	RIA (Level Four), Insurance/Brokerage (John Hancock *My Portfolio*), Banks to be added 2018
PROPOSITION	Full stack platform (front end; portfolio management & rebalancing; trading & accounting) offering >200 apps. Data managed via customized “applets” inserted into client architecture.	Integrated white label platform. Risk profiling, glide path, portfolio models consisting of Franklin Templeton and bespoke funds. Volatility and tax rebalancing at account, goal and household level.	Full stack tech platform with modular and API driven deployment capabilities. Focus on information security and integration into core banking systems. FIS (SunGard) partnership offers sales channel to credit union and bank trust business.
CUSTOMIZATION	Embedded apps	Configuration settings	Documented APIs
CUSTODIAL RELATIONSHIPS	Apex, many others	TD Ameritrade, Apex	TD Ameritrade, Apex, Charles Schwab (2018)

Source: Celent, firm websites

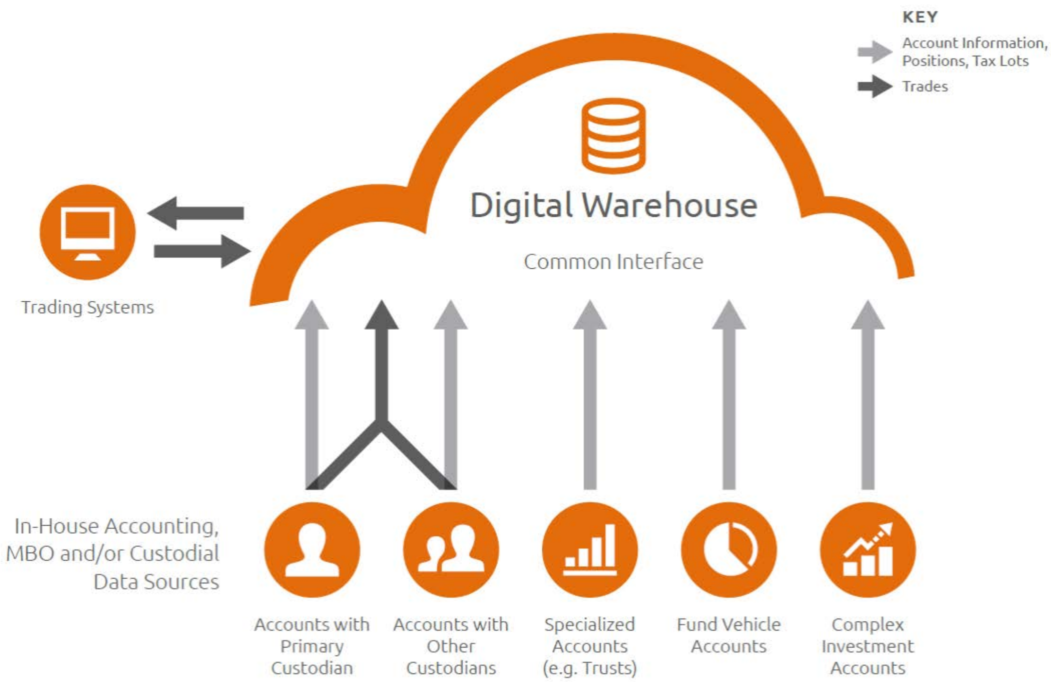
FROM STRATEGY TO PRACTICE

Making a B2B digital wealth platform operational requires back office legwork, and InvestCloud has done much of the labor already. Interestingly for a firm that decries hard coded applications, the firm is effectively attempting to hard wire the custodial ecosystem, i.e. it has engineered feeds to several dozen custodians to serve its more than 600 institutional clients worldwide. As such, the firm enjoys a head start on other platforms, who will generally build links to custodians only once they have a contract in hand. InvestCloud is also more easily able to support clients who use more than one custodian.

Of course, the more diverse and extensive the information inputs, the more complicated data management becomes. InvestCloud strives for data hygiene and accuracy through what it calls Information Centric Open Architecture as shown in Figure 4.

At the core of this concept is a consolidated data warehouse that draws in normalized account and trade data from multiple vendors and custodians. The idea is to create a golden record (or single source of truth) that can serve as a basis for the daily trading function. A secondary benefit might be reduced client dependence on any single custodian. Arguably, however, dependence is not reduced but shifted, in that the client must now rely on data sifting and analysis from InvestCloud itself.

Figure 4: The InvestCloud Digital Warehouse



Source: InvestCloud

WHO WILL WIN?

The use of B2B digital technology in the bank space is in early days. Until recently, deposit dependent banks and automated investment advisors seemed headed for open conflict, with Betterment (via its SmartDeposit account sweep function) and micro investing firms like Stash raiding retail bank accounts.

Now, of course, the partnership of Quovo and Apex threatens to accelerate asset transfer. At the same time, North American banks like BMO and Wells Fargo have managed to crack the robo code. With these inroads and greater appreciation of the opportunity before them, the objectives of the banks and B2B digital technology providers like InvestCloud, Robust Wealth and Trizic have shifted into alignment.

FOOTRACE TO THE FINISH

B2B platforms like the above that are designed for the enterprise enjoy a strategic advantage in that they are able to serve all the lines of business within a financial institution, rather than just the needs of the private bank. Their ability to connect to the discrete back end systems that exist within the bank environment enables each business unit to sustain its own user experience, portfolio models and permissioning protocols.

***Key Research Question* 3**

What makes B2B or enterprise platforms most effective in the bank environment?

Their ability to connect to the discrete back end systems that exist within the bank environment enables each business unit to sustain its own user experience, portfolio models and permissioning protocols.

To date, custodian TD Ameritrade has served as a growth lever for Trizic and Robust Wealth. Indeed, these firms have used the exclusive nature of the partnership to constrain (or channel) RIA decision making. A breakaway broker or new RIA will be forced to use TD Ameritrade, that is, or go elsewhere. Of course, this approach also has the potential to alienate advisors who may not want to use TD Ameritrade at all.

Partnership with Apex represents for these firms a means of expanding the digital funnel beyond the RIA space to tackle the complex needs of banks. Keys to success now relate to business model and user perception of value. Will banks pay for the turnkey platform offered by RobustWealth? Or will they look to the flexible, tech centric approach of Trizic? For InvestCloud, the question is execution: can it harness its expanding universe of front, middle and back applications to deliver results on time and under budget?

The ability to integrate with financial planning, CRM and other third party technology systems will be critical going forward, as will tie ups with industry gatekeepers. Trizic is well positioned to gain traction in light of its partnership with FIS, which last year supplemented its presence in the technology challenged trust business with the purchase of SunGard. Trizic's use of documented APIs represents a further inflection point, in that it permits the firm to match the degree of customization promised by InvestCloud while offering an alternative to the streamlined or turnkey approach offered by Robust Wealth.

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Typical projects we support related to wealth management include:

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We provide services that help you refine your product and service offerings. Examples include:

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