RIAs Use Tech to Solve Small Business Woes

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In the past, the fear of not being able to provide the same level of resources to clients may have kept financial advisors from leaving positions at major wirehouses or broker-dealer firms to work for smaller firms. Today, technology is rendering this concern obsolete.
As interest in fintech continues to grow and financial planning software becomes more widely available and cost-efficient, many advisors are making the decision to leave wirehouse firms and become registered investment advisors (RIAs), independent broker-dealers (IBDs) or, in some cases, start their own RIA firms.

In addition to the usual research and portfolio management software, the transition from working at a large institution is facilitated by new technology intended to help small businesses streamline their back-office operations. David Ruedi RICP®, financial advisor at Ruedi Wealth Management in Champaign, Ill. says that when starting a business, "...there’s definitely still going to be an increase," in the amount of non client-facing work that has to be done. However, "technology has drastically reduced the challenges of operating a firm, making it feasible for someone to run a small firm profitably.”

Many times entrepreneurs don’t realize how hard and expensive it is to coordinate and integrate all of their backend operations, like HR, payroll, compliance and employee benefits. While a full suite of advisor technology can be expensive, in the long run, the time that is freed up to spend on client-facing activities has the potential to make up for the upfront costs of the software.

The Digital Client Experience

Craig Stuvland is the CEO and president and Craig Butler is a managing partner at tru Independence in Tigard, Oregon. The firm's goal is to, “Empower investment professionals with the tools and support they need to create successful independent investment advisory and wealth management firms.” The two entrepreneurs see technology as a game changer for enhancing client experiences. In addition to sophisticated portfolio management tools, many of the full suites of technology that advisory firms can purchase have portals where clients can log-in and have significant digital experiences.

From communicating with healthcare providers via an online portal, to completing transfers, cashing checks and other transactions electronically, many consumers expect a digital experience any time they are rendered services from a service provider. Large wirehouses that struggle to update their platforms or train all of their employees on new capabilities because of their large infrastructure stand to lose business. As fintech changes the wealth management industry, the ability to adapt quickly to the latest advancements in technology is critical in order to be able to satisfy client expectations, and small and/or independent advisory firms often times have an advantage.

Beyond Portfolio Management

In the past, advisors either had to manage all operational details themselves – compliance, payroll, employee benefits and business insurance – or they had to hire a legion of CPAs, insurance agents and outside firms to manage their back office for them. Not only is establishing such relationships time-consuming and slow, but outsourcing so many functions can be expensive. According to SCORE, a small business nonprofit, a majority of small business owners spend 41 hours (or more) on tax preparation each year. Costs vary, but most business owners incur costs of at least $1,000 annually on these services, with 16% spending $20,000 or more. Performing payroll duties in-house takes up another 1 to 2 hours per month for the majority, with monthly costs ranging from $50 to $5,000.

The advent of small business technology means that advisors don't have to wear all of the hats of a small business owner, acting as an accountant, or an entire Human Resources department. Ruedi says, "In the past, starting an RIA was a daunting task because leaving a wirehouse or BD meant you would have to do a lot manually, taking time away from client-facing and growth activities."

At Ruedi Wealth Management, they use software for billing, reporting, portfolio rebalancing, account aggregation and compliance operations, among others.The advantages of using tools to manage some of these aspects of an advisory firm are obvious.But for something like taking client notes, the value-add may not be immediately apparent, especially when you can just take notes by hand. According to David Ruedi, "Entering information in a Customer Relationship Management (CRM) system might seem time-consuming in the beginning, but it will save you time in the long-run by reducing errors and allowing you quick access to past notes before client meetings."

Freedom to Choose Custom Reporting Tools

An additional advantage of leaving a large institution and working as an independent advisor is that advisors have the freedom to choose what software they want to use based on what will actually benefit their clients. Lauren Podnos CFP®, is a financial planner at Wealth Care LLC New York, NY. Podnos says that as an advisor at a larger institution, she "was forced to give clients 70 page reports [that] overwhelmed and confused clients." Now that she has the chance to choose her own reporting tools, Lauren gives her clients, "... concise, easy to understand reports makes them feel more comfortable."

Stuvland says that it can be challenging to learn how to optimize the full range of features of a new software program. Advisors can feel like they are "drinking from a firehouse." However, technology has the power to make a firm competitive, and it is important to take advantage of it in order to enhance the client experience.