Effectively Managing Change in the Trust Technology Universe

Strategies for harnessing mobile data delivery, cloud storage, open architecture and front to back integration

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Introduction: A Tale of Two Systems

A generation ago, financial intermediaries could afford to treat the back office as a utility: essential to their day-to-day operations but ultimately interchangeable with every other system on the market. Strip away variations in pricing and delivery, and what remained – or so the theory went – was a commodity product that may have had an incremental impact on operating margins if you could only buy it cheaply enough and a necessary drag otherwise.

The theory may have held up a generation ago, but times have changed.

Today's financial technologies have evolved to add value on top of the utility processing functions every brokerage, bank, wealth manager and trust company needs to support simply to be viable in the marketplace. A great system can generate strategic operational efficiencies, enable transformative business model shifts or simply liberate resources that would otherwise be wasted tying antiquated legacy applications together. A merely adequate system simply performs the tasks it was originally created to perform, keeping the back office running but not getting much better from update to update.

And sometimes a firm decides to make the leap from adequate to great when it's time to renew the licenses. The old system may be outdated, perhaps requiring in-house staff to input a lot of data by hand on a daily basis. Maybe it doesn't interface well with the more modern compliance, document management and client reporting tools that have become essential in the last few years. Perhaps a truly open investment architecture has become a necessity for a firm that now works extensively with alternative asset classes that not only go beyond traditional stocks and bonds, but keep evolving to keep ahead of the markets. And perhaps the old software's capabilities simply didn't grow as fast as your business, so what was once a comfortable fit is now a resource-draining stranglehold.

The next few pages will help you determine whether you're already squeezing maximum value out of your back office platform and, if so, how to evaluate potential replacements. In a competitive environment where even utility functions can be managed for success or failure, being able to recognize when improving your back office processes will help and when you need to make an evolutionary leap is crucial. Having best practices in place can let you know it's time to move.

1. Stay Ahead of Growing Pains

Unconscious loyalty to legacy systems can smother an IT department and ultimately a world-class financial institution. Whatever your firm's specific business model happens to be – full-spectrum wealth management to specialized niche – you probably aren't starting from zero. Every established business comes wrapped in multiple layers of legacy applications, data storage formats and other technology accumulated over years if not decades.

When it works, it works well enough. But the pace of innovation in the IT world ensures that things can always get better. An actively supported application will keep evolving as its development team incorporates new features, refreshes the interface, keeps the underlying infrastructure compliant with modern standards. Every incremental update clears away some obsolete code and adds a fresh veneer of functionality, and everything stays relatively current.

In practice, however, it's easier for software developers to add than it is to clear away, so a lot of legacy code builds up behind the upgrades, effectively clogging your back office processes and acting as a drag on day-to-day operations. Every new procedure, every keystroke, every additional login screen adds up to real time. Think of the apocryphal story of Steve Jobs telling the Apple design team to shave 10 seconds off the time it took his computers to boot. An extra 10 seconds here and there is not a lifetime, but multiply by each of your accounts and each of your regular processing cycles and you can see that the tools that once saved time and effort can start having the opposite effect. Complexity creates diminishing returns.

And sooner or later, every legacy system hits a wall in terms of the added value that tinkering with it can create. Evolution has its own dead ends.

Whenever you can – but at least once a quarter, and especially in the year before any long-term software license is up for renewal – ask yourself the following questions about every application on your back office platform:

Does it scale? Are you getting more productivity out of the application as you grow and the software evolves, or is the ROI curve flattening out? The more accounts your back office processes, the more time that additional 10-second login wastes. If the benefits are linear (1:1) at best, odds are good your economies of scale are as good as they'll ever get, and there's a non-trivial chance they will get worse.

Does it extend? Bolting on functionality here and there is always a possibility, but if you are already using most of the standard capabilities of the application, you are probably close to outgrowing it. Room to grow is often better than a snug fit. As we've all learned in the last few years, your business may have to change rapidly in order to keep up with external factors, much less seize the opportunities as they arise. Can your current technology support that kind of change without serious tinkering?

Does it integrate? A typical wealth manager will famously spend 11% of the IT dollars available simply trying to make the applications already on the desktop talk to each other. Keep that figure in mind as you weigh the ROI that your platform collectively provides versus the amount of labor each tool in isolation can theoretically conserve. To borrow a term from the asset managers, not all of the "alpha" that technology generates is going to be "portable." It's the sum of the parts – and the ease or difficulty with which you can get things to that level – that matters. If your applications are becoming more estranged from each other instead of more closely integrated, consider strategic alternatives.

As you continually review your back office processes, you will probably find ways to incrementally raise productivity. Your staff has probably invented any number of informal short cuts to get the job done more efficiently, even if it means using your technology in ways the developers didn't expect. Still, there's always room for transformation.

Remember, **the goal is not to cobble together a pretty good platform out of the legacy tools available. The goal is to have a great platform.** Knowing when your team has gone as far as they can with the platform they have is the first step to unlocking the real productivity gains.

2. Build the Foundation on Actual Bedrock

The main reason a lot of financial technology is bought – and sold – on a commodity basis is because every company that manages money has to support more or less the same set of basic business processes, so every application that addresses that need will provide more or less the same solution.

As a result, many technology providers are happy to compete on a pure pricing proposition, finding ways to squeeze their own margins to offer the generic "good enough" solution set at the lowest overall client cost. But let's face it: from your perspective, their margins don't matter. Your margins are the only ones that matter when it comes to your back office.

However, as far as your margins go, it's important to recognize the basic truth that the core solution set is going to be good enough for your everyday operation no matter who you buy it from, and it will be priced more or less on those terms. When you evaluate the core platform, you may find that one system offers slightly better reliability or slightly more attractive pricing, but the real decision drivers will have to come down to external factors.

In other words, the "generic" side of your back office lives or dies according to how much value it adds above and beyond the commodity level.

For example, some of the first financial technology providers to recognize this paradoxical development came out of one of the most commodity-driven segments of all: accounting and trade processing. A modern "accounting" platform is now something of an oxymoron, simply because to compete these companies have integrated so many added functions onto the bookkeeping core that for all practical purposes these are now full-spectrum wealth management engines. And while the most advanced of these platforms were historically sold as "trust" accounting systems, other organizations – foundations, RIAs, family offices – are rapidly crossing the industry silos to install them as the heart of their own operations.

At this point, the technologies have converged to a level where the accounting system becomes a viable foundation for enterprise-level books & records, reporting, compliance and even client-facing CRM environment. The trust officers who started using these applications first needed absolute reliability and extremely detail-oriented solutions in order to meet their professional and regulatory standards. Even a purpose-built exception needed to work every single time, and while margins in the trust services world are not razor-thin, fee structures are still compressed enough to encourage principals to automate as many exceptions as they can in order to conserve resources.

If you are evaluating your back office on anything like commodity terms, that kind of absolute confidence in the platform is essential. And even once you start searching for value-added flexibility, the core has got to be solid before any consideration of bolting further capabilities onto the platform, much less trusting the system to automate work your well-trained team already does.

No matter what the asking price, even a no-frills platform needs to give you the ability to run at least these processes with as close to 100% uptime and reliability as the math will allow:

Automated Cash Management. Make adjustments according to rule-based or alert-driven protocols in order to ensure that all accounts are liquid when they need to be without interruption or waste. Automation ensures that transactions are both efficient and secure.

Income Accruals. Post and verify receivables according to source to comply with mandatory and preferred recognition methods.

Income and Corporate Action Maps. Monitor looming and past dividend and interest payments in order to provide optimal client outcomes – and demonstrate to regulators that every client received the best possible treatment.

Principal & Income Segregation. Famously ignored by conventional wealth management software, the unique requirements of trusts have made this analytic model a necessity for tax-sensitive planning and other advanced applications.

Reporting and Custom Query Capabilities. You and your team need to be able to diagnose and resolve discrepancies as they emerge as well as generate custom analytics for special purposes.

Trade Date and Settlement Date Accounting. As processing and settlement rules evolve, your platform needs to be able to move with them while supporting your preferred practices in the here and now.

Multiple Taxlot Accounting Methods. Bookkeeping standards vary but a good system needs to be able to handle them all across large numbers of transactions while keeping the focus on the household or institutional client.

Tax Withholding / NRA and Processing. Automate recurring tasks and integrate the process into your cash management desk while ensuring that all AML provisions are not only satisfied but documented.

Amortization & Accretion. Adjust cost basis of even difficult-to-evaluate assets on an as-needed or automatic basis.

Configurable General Ledger Posting Rules. Eliminating redundant and net zero transactions is only the tip of the iceberg here. The more your system runs on rules that you define or alter as needed, the less manual input and correction your staff has to do.

Robust Reconciliation Functionality. At a minimum, the platform needs to be able to accept third-party statements electronically to reduce processing time and errors. Log queries to evaluate trading partner execution, patterns of discrepancy and overall compliance effectiveness.

Providing you with the ability to complete all these tasks on an automated or automation-supported basis is only the minimum bar to entry in this space. Don't ask vendors "if" they can do it. Ask how flawlessly the technology executes. Get numbers. Everything should be logged for the regulators anyway, so the metrics should be readily available when you want to see them.

3. Now Reach for the "Cloud"

Once you have the utility end of your back office nailed down, you're in good shape to bring those efficiencies toward the front of your firm – and investigate some state-of-the-art innovations that can continue the transformation of your operation. These are those often-nebulous value adds that competitive technology providers put forward as ways to differentiate themselves and their systems. Odds are good that the firms they work with turn them around to differentiate themselves in prospective clients' eyes as well.

Differentiation is critical to any business that wants to compete as anything more than a race-to-the-bottom commodity player. Seek out the functions that make you unique in clients' eyes and let you communicate value.

Unfortunately, the race to differentiate means the cutting edge of the technology industry will always be a breeding ground for jargon that may sound exotic but rarely succeeds in communicating precisely what makes these capabilities so exciting to the companies that can pierce the veil and put them to work.

Chief among them is **the nebulous "cloud"** that has caught fire on Wall Street but really just boils down to moving the software and the account data from a box in your office to the technology company's server farm. Understood on that level, the value proposition becomes transparent: cloud-based systems liberate users from having to buy and maintain their own high-powered hardware, creating obvious advantages in terms of budget outlay and accessibility from any computer or mobile device that can access the Web.

At its core, cloud delivery is nothing more exotic than software sold as a service – like Morningstar or a Wall Street Journal subscription – and not as a product that lives in your computer.

While the cloud is only the most prevalent "must have" sizzle that financial technology providers have embraced in recent years, plenty of other game-changing features have emerged in its shadow. Industry nomenclature varies widely, but on a pure functional basis, a few of the more intriguing developments from a wealth management perspective include:

Common Trust Fund Processing. Creating unique investment products that reflect your expertise is an obvious differentiator. Your clients will feel like part of an exclusive club, while the structural benefits of these vehicles can help your firm operate more efficiently and generate appreciably lower fee drag on their behalf.

IRA and ERISA Processing Features. The qualified plan space represents the next untapped frontier for everyone in the advisory industry, but fiduciary and custody requirements can be complex – and on the self-directed IRA side in particular, flexibility is absolutely essential.

Charitable / Not-for-Profit Functionality. As with employer-sponsored accounts, foundations, religious organizations and other non-profit entities require specialized handling to make sure donations are tracked accurately and that all necessary tax reporting happens on schedule. Look for a platform that can support everything from a charitable trust to a university endowment.

Flexible Fee Schedules and Billing Capabilities. While you may consider your own paycheck secondary to the day-to-day operational needs of running your firm, having the ability to break out costs that need to be passed on to clients – transaction fees, third-party management and custody – as well as your own bill cannot be underestimated.

Custom Client Statements and Reporting. This is where the back office moves all the way to the front. Integrating the client account portal and reporting tools into the core of the account itself creates obvious benefits in terms of less brute import and export from one application to another, especially when data security constraints make it impossible to outsource the task of generating attractive client-facing documents to an outside partner.

Account & Contact Management. Another of the technology's favorite themes, this is really just the famous CRM under a plain English wrapper. Again, the difference is that the more closely the CRM can interact with the accounts themselves, the easier it will be to automatically populate fields in both applications and the less work your team will have to duplicate to keep all databases up to date.

Portfolio Management and Analysis Features. The variety of assets that conventional accounting programs need to track has given them the framework they need to evolve into portfolio management systems in their own right. Add analytics to match, and a workable planning platform takes shape.

Trade Order Management Controls. Connecting to a transaction engine is a necessity for any financial intermediary that accesses the markets to buy or sell client assets. Reconciliation, risk management and employee disclosure tools help to maintain compliance and even automate many of the most tedious back office duties.

Alternative Asset Processing. Stocks and bonds are no longer enough for sophisticated investors and, increasingly, street-level 401(k) participants alike. Whether your clients demand non-traded instruments, foreign-currency-denominated securities or complex derivative products, it's important to find a system that can stretch as far as their needs.

Document Management. Too many firms still generate too much paper that then needs to be scanned, shredded and stored in electronic form or else simply boxed and stored off-site. Next-generation platforms eliminate both the paper trail and manual data entry, smoothing the automation process while maintaining plenty of documentation for the regulators.

Even a glance at that list of capabilities should give an ambitious wealth manager ideas for expanding the business, but as the last few years have taught us, the industry has a way of creating unexpected opportunities as well as challenges. You don't know where your firm will be in three years. Your clients may be clamoring for assets that barely exist in retail form today. They may require planning techniques that offer little upside or require too much effort to deliver effectively today. And the regulators will undoubtedly keep moving the goalposts on all aspects of operational compliance.

Firms that are already hitting the limits of a "good enough" platform have less room to maneuver, but everyone who wants to remain relevant even in the near future needs flexibility.

Alternative Assets Hit the Core

The explosive growth of alternative asset classes in retail investment portfolios is a perfect example of the way the industry can pivot overnight and why wealth managers need technology in place that can move along with it. In the last five years, mutual funds that focus on commodities, private equity and other "exotic" assets have swelled from near zero to well over $230 billion in aggregate assets. Over the next decade, Cerulli thinks alternative funds will expand their share of the 40 Act market by 600% as new funds launch and advisors become comfortable with the choices available. Combine with ETFs, futures and vehicles that let retail investors get exposure to non-liquid assets and the growth is clearly explosive. Where will the next "alternatives" emerge? Nobody knows, but the wealth manager with the back office support to hit the ground running will be ahead of the curve.

4. The ROI Equations

From back to front, every piece of technology on your platform carries its share of fixed, variable and opportunity costs. If it doesn't earn back that expense, it's dead weight. And even if it delivers return on the money and time you've invested in it, quantifying the results is still the only way to determine whether you've made the right choice.

If calculating the ROI is the way your clients can measure their progress toward their financial goals, it is equally important when it comes to your business and its own profitability.

Despite the overriding importance of weighing the metrics, many of your competitors are surprisingly new to the practice of applying it to their own operations. We're a long way from the days when 70% of all IT managers could get away without saying whether their programs were delivering value to the balance sheet or not – because they weren't tracking the cost/benefit side of what they were buying.

Where wealth managers are concerned, the reluctance to clarify ROI is compounded by the way many of your competitors view technology as a marketing tool. They want email newsletters, social media, tablet computer reporting systems, a stickier client portal and the account aggregation tools to support it. They want a better website and they're at least vaguely aware they need a more sophisticated CRM – even if they aren't really clear on what a "customer relationship management" platform really entails.

That's fine. But if you're looking for systems that extend your working week, make it possible for you to serve the added clients all that marketing brings to the door, you need to start digging into the numbers.

Monetary costs are easy. You know how much every subscription fee and support contract costs you on a monthly or annual basis. But if you don't have a pinpoint sense of how many hours a year every member of your staff spends wrestling with every single application on their screens, it's time to find out, because working with that technology is a huge part of what you pay those people to do. Start with a typical week, then add monthly, quarterly and annual processes to get a sense of what running the CRM, for example, really costs in a hypothetical year.

For many firms, the truly hard part is estimating how much time it would take your staff to remember how to do each task that the technology now performs more or less by hand if that system failed or was unavailable. It's tempting to skip this part and only focus on what future technology acquisition can save you, but in areas of your operation where a piece of software feels expensive and doesn't seem to make a huge impact on the business, it's nice to know whether you need it at all.

This kind of technology audit sounds like a lot of work, but firms that want to grow will incorporate it into their overall operations manuals in order to balance HR with IT. And if someday you want to sell the business, knowing how the technology investment adds to enterprise value will go a long way to impress potential buyers.

Remember, keep the calculations tied to each cost center in your IT budget. You don't need to micro-manage every minute in the year or map every facet of the wealth management landscape. If there's no cost, there's no ROI.

The results themselves may surprise you. The average "technology-driven" advisory firm thinks it spends about $20,000 a year on technology: $10,000 on software, $4,000 on computers and another $4,000 on IT support. But when the real numbers emerge, it turns out that the average RIA is actually spending $30,000 on software subscriptions alone.

Are you spending more than you think? Should you cut back, or is every penny of that allocation saving you money on payroll and contractor fees?

When you know the answers, you can decide how to allocate resources to grow. Once again, the back office drives the front office. Efficiency lays the groundwork for a well-oiled marketing push.

5. It Starts on Day Zero

Many firms are willing to extend a "honeymoon period" to any new investment in technology: staff need to get comfortable with the application, integration with legacy tools and processes will take time, learning curves are steep.

Transitions are rarely perfectly smooth, but it's still important to start gauging ROI from the moment you sign the contract. Some applications actually start paying back immediately.

Ask a potential vendor for success stories as well as incidents where the installation didn't go as planned. This data should help your team manage expectations for best- and worst-case scenarios. Migration costs need to be considered here as well: most firms are understandably skittish about "disruption," but the real concern is how much disruption a change will create, which functions will be disrupted and how long the disruption will last. A learning curve of two days on a new CRM is probably going to be manageable. Asking your accounting team to post every transaction twice for six months while your new system comes online is going to strain resources and relationships alike.

Weighed against value, some technology acquisitions actually start paying off on the first day. Firms that move to the cloud, for example, can cancel their IT service contracts and sell unneeded servers back to recoup fixed investment. Power and cooling costs decline. Employee productivity may take a little longer to come around, but it shouldn't take forever to start seeing your team volunteer for new projects simply because their old duties now take up less of their time to complete.

Managing a substantial technology migration can occupy 6 to 8 months, with especially complex conversions dragging on for about a year. Service contracts can easily lock in a choice for another 4 to 5 years. These are weighty decisions that represent tens if not hundreds of thousands of dollars for a typical wealth management firm. With that kind of meter running, you can't afford to ignore ROI for weeks or even months. Every vendor that wants to work with you needs to know this. Get scenarios and metrics.

A serious company that works with serious people should already have numbers on how previous installations performed. It may even have models to run for you.

Finally, any conversation with a potential long-term partner needs to at least touch on risk management. Are there former customers that were such a bad fit that they jumped during their initial contract period or even before the conversion process itself was done? What went wrong? Some financial technology vendors brag about near-perfect retention rates for a very good reason: barring a merger or other event-driven reversal, their customers never switch again.

If the disruptions that new technology presents are such an unnerving prospect in the financial services world, then it's only logical that managers will want to minimize the number of big migrations they make over the course of their tenure. Making a 6- to 8-month move every five years is probably not an attractive prospect, unless of course you can get some assurance that this move may truly be the last.

5.5 Make Processing Serve Your Processes

Technology is a tool that makes business easier. It is never an end in itself. Subordinate tools to business processes and much of what we've talked about here should become intuitive for you as operations get more efficient and ROI is obvious.

However, for this to be true, you need to open up your processes to let the technology work. If a task like account reconciliation has been automated, you need to find something else for your staff to do in those hours that have been liberated. If you have a powerful new CRM on your platform, you can finally put the ancient Rolodex in cold storage – and actually use the scheduling tools to structure your client communications calendar.

Mobile data, rules-based alerts, integrated compliance support and other technologies are transforming the way the wealth management front office works. Big data on the back office is the key to margin expansion and scalable growth. But unless that power gets into the hands of your people, bridging back to front, all those big wheels are just spinning.

About the Sponsor

Innovest is a leading provider of financial technology solutions delivered to forward thinking trust, wealth management, and retirement professionals. Innovest offers its clients a secure and integrated trust accounting and wealth management technology platform, payment solutions, and related fulfillment services delivered in a Software as a Service (SaaS) environment. Innovest has over $425 billion in assets under administration on its trust and wealth management platform, processes more than 4 million payments annually and provides fulfillment services for more than 10 million documents including checks, advices, and tax forms each year. For more information about Innovest, visit *www.innovestsystems.com*.

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