Enhancing Service to High Net Worth Clients: Seven Steps to Successful Consolidated Wealth Reporting

A Practical Guide for Advisors, Wealth Managers, and Family Offices

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HNW Reporting: The Opportunity

In today's world of ever increasing competition among investment advisors and greater sophistication of their clients, you need to find innovative ways to keep your competitive edge and grow your business. One way to do so is to have a solid understanding of each client's complete financial picture. This can be achieved with consolidated, holistic reporting. A recent report published by the independent research firm Aite Group noted that, "Providing holistic wealth management is a key differentiator for financial advisors, allowing them to address clients' needs and goals in a holistic manner while establishing a closer relationship with the client."*

You have been selected to advise your clients on a significant percentage of their investable assets. However, wealthy clients tend to have multiple banking and investment relationships. What about their other funds? Where and what are they? Shouldn't these investments be included in the client's asset allocation?

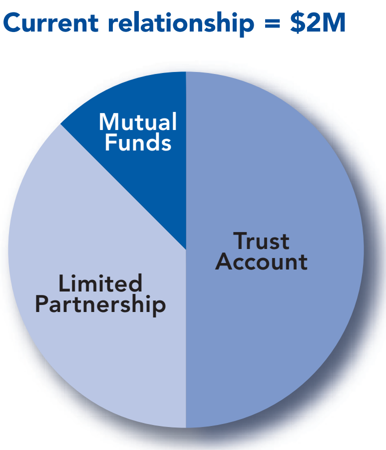
You could move to a new level of "trusted advisor" by providing clients with a complete view of their financial picture.

Clients expect the information they want when they want it in a form that fits their needs. At the same time, you face the challenges of meeting client demands and growing assets under management. The ability to report on the totality of a client's wealth is a critical differentiator for growing an advisory business serving the high and ultra high net worth market. Also noted by Aite, "…the burden of holistic wealth management without the necessary technology support will do more harm than good."* Meaning, without the necessary technology the operational requirements of holistic wealth management could cause your costs to skyrocket. Today's technology gives advisors the means to gather and process the data necessary to offer clients comprehensive, consolidated reporting. Yet many advisors still report on only a subset of their clients' assets despite these advancements.

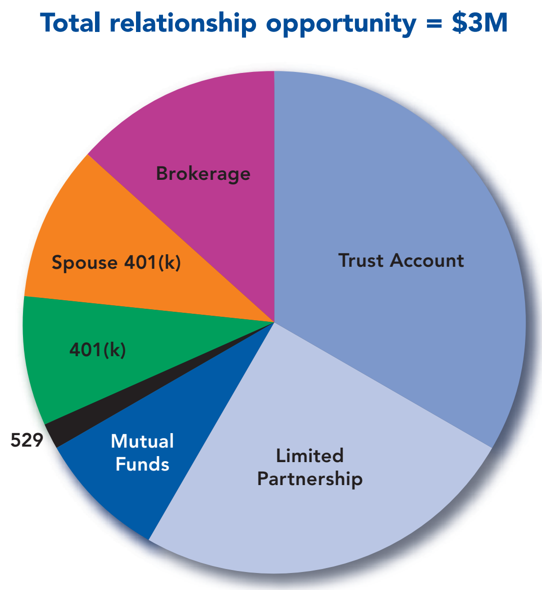
This paper describes consolidated reporting and how it is done today. It examines the business drivers motivating advisors to offer the service, identifies seven steps to successful consolidated reporting, and measures the return on investment for an advisor contemplating the implementation of a solution.

* Aite Group report, "Holistic Wealth Management: Outsourcing Custodial Data Consolidation," December 2007.

Are you looking at your client's complete picture?



You see your client in terms of the total assets you manage which are made of multiple accounts.



With consolidated reporting, you have the opportunity to uncover additional assets and be able to advise on your client's complete financial picture.

Business Drivers for Consolidated Reporting

Investors look to their trusted advisor for proactive, comprehensive advice that covers investment and tax management, cash flow and liquidity planning, trust and estate advice, and risk monitoring. Along with the desired financial information, the advisor must also consider how that information is packaged.

An advisor contemplating a consolidated reporting offering should understand how it applies in all of the following areas.

Asset Allocation. To provide the necessary perspective on the full portfolio of assets held by a client, the advisor must have accurate consolidated reporting to gain the title of 'trusted advisor.' Moreover, the reporting must extend to asset allocation and performance because, without these tools, the advisor would not be positioned to offer advice on important decisions. Asset allocation is essential for maintaining the desired risk/return profile for an investor. While the client may receive statements from different financial institutions, the client would benefit from consolidated reporting that shows overall diversification by asset class, sector, industry, and issuer. With consolidated reporting, all of the client's allocations can be readily assessed and adjusted if necessary. By identifying under- or over-weighted portfolio components, you as the trusted advisor can create scenarios for moving assets to support the client's investment profile.

Performance Measurement. Performance is your calling card. By being able to compare assets within your client relationship to those currently out of your control, you can further demonstrate and enhance your value. Offering comparative performance measurement allows you to identify underperforming assets across the client's entire holdings, thereby establishing the foundation for moving the assets to your control.

Tax Preparation. Tax filing is greatly simplified by consolidated reporting. Without it, the investor must provide individual statements from each financial institution to an accountant. The accountant, in turn, must sift through the data, reconcile any inconsistencies in reporting methodologies, and effectively create a consolidated statement from scratch for tax purposes. Having the investor provide a consolidated report to the accountant is much more efficient and less error prone.

Financial Planning. Financial and estate planning demands consolidated reporting in order to understand the financial needs of all family members. Financial planning entails the matching of the investor's cash flow needs against the returns and cash flow to be provided by the investment portfolio. Often, this is achieved while testing the portfolio against various economic scenarios, such as changes in interest rates or fluctuations in market returns. Without an accurate and timely representation of the consolidated assets held by the investor, this analysis could be incomplete.

Packaging and Distributing Reports. In addition to the drivers listed previously, each client may have specific reporting needs and requests. Generating report packages is time consuming and often based on consolidating multiple sources of data and various steps—running individual reports, printing individual documents and collating the packages accordingly. If the reporting process is scalable and sustainable, it can provide the advisor with a competitive advantage to retain and grow business. If not, it can be labor intensive for the advisor and a source of frustration to all involved. The technology available today can automate many aspects of the period-end reporting processes.

Consolidated Reporting: What It Is and How It Works

Consolidated reporting is the creation of a financial statement for an investor that is based on the custodial data available for multiple investments. This data spans marketable and non-marketable securities, captures all accounts, and provides a clear picture of liquidity through cash and cash equivalents. A typical high net worth investor has brokerage, banking, private banking, insurance/annuity, 401(k), stock options, and alternative assets.

The consolidated financial statement will reflect these assets as of a point in time, show transactions over a period of time, measure the performance of the assets (by account, asset type, and account type), compare these returns to a relevant benchmark, and provide asset allocation information as a key input to the financial planning process.

Behind all consolidated reporting is an accounting, reconciliation, and reporting application. Custodial data is put into the application, reconciled to ensure accuracy, and only then accessed for reporting. Implementing a successful consolidated reporting solution requires that the custodial data be comprehensive and gathered in a cost efficient and reliable manner.

Data gathering is accomplished in one of three ways:

- **Direct feed ("back office") custodial interfaces.** This type of interface is possible when the vendor has an established relationship with your custodian(s).The vendor and custodian(s) will work together to understand the source (custodial) data and the requirements of the destination system. The custodian supplies data directly from their back office system of record and the vendor will transform it to a useable format for their client's applications. These will likely be the most reliable, cost efficient, and robust way to enter the data you need for reporting.
- **Online account aggregation.** If you have accounts that are unavailable through a direct feed, you may consider online account aggregation for complete coverage. Online account aggregation accesses custodian web sites and extracts nightly positions, prices, balances, and transactions in a secure and scalable manner. Account aggregation enables the advisor to achieve the desired balance of comprehensiveness, coverage, and cost efficiency.
- **Manual entry.** Using clients' statements and manually entering the data into your systems can also provide complete coverage, but can cause more problems than it solves. Manual entry introduces a time consuming and error-prone operation that requires additional resources—resulting in disproportionately high costs.

All these methods are viable to a degree and require you to prioritize what you need most, and where you are willing to invest. Depending on your business needs you may find you need to employ more than one tactic to accomplish your goals. You may even decide to outsource some of the functions. For the purposes of this paper, manual entry is considered a fallback option. The rest of this paper will focus on automated solutions.

Seven Steps to Successful Consolidated Reporting

Here is a game plan to guide you through the complex process of choosing and implementing a successful strategy for consolidated reporting.

Step 1: Start with the End in Mind

The first thing to consider is, "What do I want to report?" As discussed earlier, the trusted advisor who can obtain the broadest cross section of client data will have a distinct advantage in creating useful reports. But simply collecting data isn't enough. You need to be able to present the data that tells the story you want to tell, in a way that is meaningful to your client. Your reporting software will play a determining factor in your success and ability to communicate results to your client via regular reports. Think in terms of your reporting package. What belongs in each package? Who receives it? When do you want to send reports to your clients? The customization required for each client needs to be automated so that as your firm grows the reporting is scalable, with minimal time required after initial set-up.

Step 2: Catalog the Sources of Data

Conduct a survey of your current and prospective clients and gather some data. You need to know what portion of their assets you can capture with your existing reporting solution. This can be measured by dollar value, number of accounts, or number of custodians. If you are managing family assets and your client is willing to give you access to accounts you do not manage, be sure to include 529 plans, trusts, and other assets that might be held for family members other than your primary contact. This information will be critical in determining whether to pursue consolidated reporting.

As part of your survey, you might take this opportunity to gather a list of all of your client's accounts and where they are held. Knowing the name of the custodian is often not sufficient. You need to know the specific service where the account is registered. For example, a full service brokerage firm might offer traditional brokerage accounts, 401(k) accounts, and 529 accounts, each of which could be offered through a separate service.

Sample Consolidated Reporting Survey

In an effort to better serve you, <Firm Name> is considering offering statements where you can see all your holdings. To help us determine if this is an appropriate service for our clients, we were hoping you could take the following survey.

NAME

Below, list your investments outside of your relationship with <Firm Name> including banking, brokerage, 401(k), 529, annuities and stock options.

FINANCIAL INSTITUTION	TYPE OF ACCOUNT	ASSETS	ACCOUNT NUMBER	AVAILABLE ONLINE
Best Bank	Brokerage	$125,000	A123456	Yes
Best Bank	401(k)	$125,000	Z654321	Yes

Consolidated Reporting Sample Survey Results

Client information	Asset Information				Data Source
Name	Financial Institution	Account Type	Account Number	Assets (in $1,000s)	Direct Feed (DF); Online Account Aggregation (OAA); Manual (Man)
Jane Smith	Fidelity	SEP IRA	12345	$250	DF
Jane Smith	Janus	Rollover IRA	23456	$150	DF
Jane Smith	Cayman's Bank	Brokerage	34567	$750	DF
Jane Smith	TCB Bank	Savings	45678	$75	Man
Jack Long	TDAmeritrade	Brokerage	90122	$275	DF
Jack Long	Best Bank	Trust	101233	$1,000	OAA
Jack Long	American Century	529	112344	$75	OAA
Kim Lu	Equitable	Annuity	134566	$500	DF
Jack Lu	Schwab	IRA	167899	$275	DF
Mary Jones	Merrill Lynch	401k	212343	$550	DF
Mary Jones	E-Trade	ESOP	223454	$150	DF

You may want to catalog these accounts in a spreadsheet or other database that allows you to note the source of account data.

No. of Accts	Assets	
8	$2,900	Direct Feed
2	$1,075	Online Account Aggregation
1	$75	Manual
11	$4,050	Total

Step 3: Investigate Your Options

Since successful consolidated reporting is dependent upon a strong portfolio accounting and reporting engine, and requires data to flow into that system, it only makes sense to find the most tightly integrated combination of the two. If your portfolio accounting system provides robust reporting functionality and your vendor offers direct feed custodial interfaces, start there. Find out who the vendor interfaces with and if one of your custodians is not on their list, ask if there are plans to develop a relationship—you might actually be able to help them push the project forward.

If you are in the process of looking for a system, find one that offers the reporting functionality you need and can connect you with as many financial institutions as possible. Don't underestimate this point; make sure you partner with a vendor who has a proven track record and will facilitate getting the data you need. If available, receiving data from your vendor's direct feed interfaces will usually be the easiest and most cost-effective solution.

Once you have exhausted efforts with your primary vendor, you may find there are still gaps in what they can provide. If this is the case, you have two options. Use an outsourced provider to handle the data gathering for you, or use an account aggregation firm for a fully automated solution. Your portfolio accounting vendor should be able to recommend vendors in both categories—outsourced solutions and account aggregation firms.

Step 4: Evaluate the Outsourced Alternative

Outsourcing vendors provide a turnkey solution and offer a variety of different services. You provide them with paper statements or the details of the account registrations, and they provide you with fully reconciled data that can be fed back into your accounting system. Some even offer a fully hosted ASP solution so you don't need to install software locally. Many outsourcers also provide a full accounting solution—not just the data collection for custodial accounts.

An outsourced solution will likely cost more than working directly with data vendors. This should, however, lower your labor costs. In order to perform the reconciliation task, outsourcing vendors often have to research account data and individual transactions to make sure they are properly classified. Many of the outsourcers employ direct feed and account aggregation solutions to collect their data, and this fee is bundled into your overall fee. Fees will vary depending on the size and location of the outsourcer as well as the breadth of service they provide.

Step 5: Research the Account Aggregation Alternative

The other option to completing your data coverage is to employ a different technology called account aggregation.

Account aggregation is the process of gathering account data from Internet-accessible services such as websites, file-access portals, FTP servers, and OFX servers. Websites offer data in a variety of formats that can vary greatly in terms of content and quality. A sophisticated aggregator will employ technologies able to handle any format, allowing the aggregator to select on a service-by-service basis whichever format available has the most complete and accurate data. From here, they will be able to translate that data into a format suited to the needs of a specific back office application or business.

Your portfolio accounting vendor should provide the names of account aggregation firms that have interfaced with your accounting system. If the account aggregation firm has not built this interface, and they cannot provide references of other clients that are using this interface, be careful. By doing the necessary reference checks, and ensuring the vendor combination you select is one that has been proven effective with similar users of your portfolio accounting system, you can be confident that the data will be of sufficient quality.

Step 6: Map Out and Test the Implementation Process

At this point you have determined your desired reporting output, settled on a plan to achieve full data coverage and automation, and have determined any vendor's fees. It is now time to plan the implementation process and understand your internal costs. The best way to do this is to start with a phased pilot program.

Phase 1: Start with the clients with whom you can achieve maximum coverage via your direct feed interfaces. Using a handful of accounts you have on a direct feed interface, prepare and test the automation of your consolidated report package. You will need to get paper statements that can be faxed or scanned from these clients in order to reconcile and ensure that the data is accurate.

If you find you also have accounts that are not available through your direct feed interfaces, move to the next phase.

Phase 2: Identify a small number of clients who value consolidated reporting, and also have accounts that are unavailable via direct feed. They should have online access to their account information and be more engaged in the implementation. Create a controlled program to load the accounts from these clients using the account aggregation vendor into your portfolio accounting system.

During the pilot program, measure the amount of time spent reconciling the data and administering the system. Bear in mind, however, that there is a learning curve and that these internal costs will decrease, often dramatically, over time. You should probably go through one or two cycles of reporting before expanding beyond the pilot group.

After the pilot program is complete, the full-scale implementation can begin. You should prioritize your clients based on their needs and how readily they will adopt an aggregation solution. Do not expect to achieve 100 percent adoption; some clients will resist setting up online access to their accounts or will resist using the aggregation technology. Set reasonable goals in terms of clients and accounts implemented and monitor your progress against these goals.

Step 7: Measure Return on Investment (ROI)

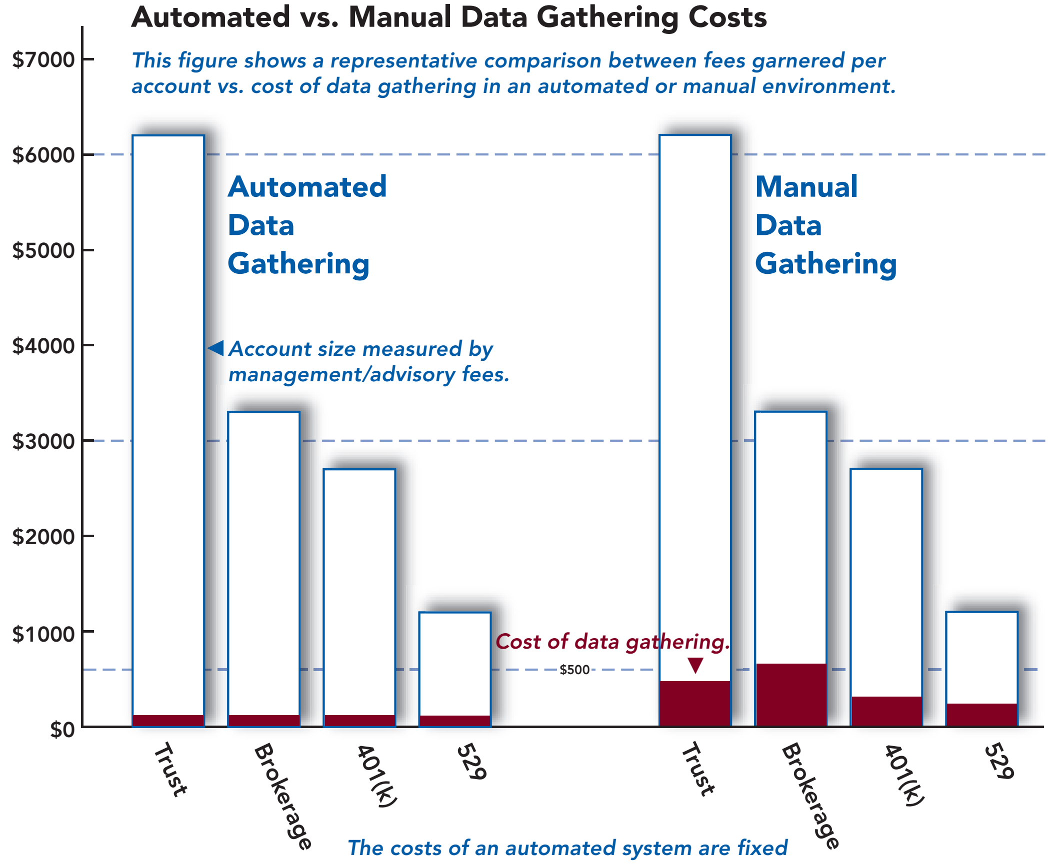
As with any strategic decision a business undertakes, it is important to be able to evaluate its payoff in terms of ROI, and gathering data for consolidated reporting is no exception. Ultimately you should measure the cost of data gathering against the value of your overall client relationship. However, for now it may be easier to think in terms of cost per account. You will probably have different figures to work with whether you are evaluating direct feed or account aggregation, but this will serve as a guide to help you think about your investment.

Start with the per account/year fees from your vendor(s). In addition to these external costs, depending on which approach you choose, there may also be internal costs, including obtaining account holder authorization, administering the account credentials, ensuring that the account numbers, passwords, and PINs are correct and current. Be sure to note, the cost of automated data gathering is fixed; it does not increase with the account size or transaction volume. In fact, in some cases the per account cost actually goes down as you add more accounts to your service.

By contrast, the cost of manual entry is tied to the number of accounts and transaction volume. For example, assume it takes one person 30 minutes per month to enter, verify, and reconcile the data for a single account. If you consider a full time employee at $40/hour, the per account cost of an internal manual solution is $240/year. Because this fee is directly related to the number of positions and transactions in the account, it can be substantially larger for bigger or more active accounts. And, of course, this does not include the opportunity cost of time spent on administrative tasks that could be spent on customer service, analysis, or some other higher value activity.

Automated vs. Manual Data Gathering Costs

This figure shows a representative comparison between fees garnered per account vs. cost of data gathering in an automated or manual environment.



The costs of an automated system are fixed and predictable, while the costs of a manual system tend to be higher and will vary depending on account type and level of activity.

Conclusion: Becoming the Trusted Advisor

Advisors strive to set themselves apart from the others and better marketing isn't enough. You must actually deliver a higher level of service. Offering consolidated holistic reporting will help you do this. By reporting on the assets you manage along with the rest of your client's assets, you will see the full picture and be able to make better decisions on behalf of your client. This view, and this decision making ability will help you to achieve the status of "trusted advisor," which should lead to more assets under management as you gain discretion over accounts, or your client brings more of their family's assets to you for advice. Bear in mind that attempting a holistic wealth management strategy without the necessary technology and forethought can be a risky proposition and lead to increased costs.

Automated data gathering is an ideal pathway to achieve greater operational efficiency and will provide the means for comprehensive, consolidated reporting that is crucial to being a trusted advisor. This data gathering and reporting efficiency means your clients will get the information they want when they want it, and you will have more time to service their needs—and in turn, grow your business.

About Advent Software

Advent Software, Inc., a global firm, has provided trusted solutions to the world's leading financial professionals since 1983. Firms in 60 countries use Advent technology and manage investments totaling US$18 trillion. Advent's quality software, data, services and tools enable financial professionals to improve service and communication to their clients, allowing them to grow their business while controlling costs. Advent is the only financial services software company to be awarded the Service Capability and Performance certification for being a world-class support organization.

About ByAllAccounts

Founded in 1999, ByAllAccounts delivers reconciliation-ready data to investment management, advisory, and outsourcing firms. Using innovative expert system technology, ByAllAccounts provides unparalleled access to financial account data from thousands of custodians and enables efficient and timely account reconciliation, performance analysis, and consolidated reporting. Through its alliance with Advent Software, ByAllAccounts offers Advent clients a means for collecting account information that is not available via data feed. The data can then be loaded into Advent's portfolio management solutions for reconciliation, posting, and reporting.

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