

# Seven Steps to Successful Consolidated Reporting

by Robert Huebscher

Wealthy clients tend to have multiple banking and investment relationships, and their advisors face the increasing challenge of meeting client demands and -- most critically -- growing assets under management. Today's sophisticated technology gives advisors the means to collect and process data necessary to offer clients consolidated reporting, yet many advisors still report on only a subset of their clients' assets despite these advancements. Here is a simple game plan to guide you through the complex process of choosing and implementing a successful strategy for consolidated reporting.

## **Step 1: Understand your requirements**

A good first step is to take a survey of your current and prospective clients, and gather some data. You need to know what portion of their assets you currently 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, be careful to include 529 plans, trusts, and other assets that might be held for family members other than your primary contact.

Typically, advisors capture about 60% of their clients' information through their existing automated solution, whether measured by accounts, custodians, or dollars. If you are not reporting on 40% of your clients' assets, then you are a candidate for an automated solution. But even if you are capturing a higher percentage of your clients' assets, there are still plenty of reasons to consider automation. You may find that entering data manually is too costly, too error-prone, or simply not scalable for your operation as you add more clients.

A key parameter to gather, as you survey your requirements, is a list of the custodians where accounts 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, advised accounts, 401k accounts, 529 accounts, etc., each of which could be offered through a separate service. Ideally, you should know how to access the account on-line.

## **Step 2: Understand your options**

The engine behind consolidated reporting is your portfolio accounting system, so begin by contacting this vendor. Provide the vendor with a list of the custodians from whom you need to access account information. The vendor may offer interfaces currently or may have them under development; this is almost always the easiest and most cost-effective solution.

If the vendor does not offer the interfaces you require, then there are two options you can consider (other than manually entering the data yourself): use an outsourced provider to do the manual entry 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. Try to find out what experience you vendor has had with the firms they recommend and, ideally, get the names of other advisors that have used these solutions.

### **Step 3: Evaluate the outsourced alternative**

Outsourcing vendors provide a turnkey solution. 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. (Many outsourcers also provide a full accounting solution – not just the data collection for custodial accounts – and that is covered elsewhere in this magazine.) Turnkey solutions are by nature more expensive. In order to perform the reconciliation task, these vendors often have to research account data and individual transactions to make sure they are properly classified. This can be a labor-intensive process, especially for the outsourcing vendor who is not familiar with the details or nature of the account. Expect to see fees of at least \$200/account/year for such a solution. Many of the outsourcers employ an account aggregation solution to collect their data, and this fee is bundled into your overall fee.

A key consideration is the size of the outsourcing vendor's operation. Some prominent vendors, such as WealthTouch ([www.wealthtouch.com](http://www.wealthtouch.com)) and Etelligent ([www.etelligentconsulting.com](http://www.etelligentconsulting.com)) have large well-established outsourcing operations. But outsourcing extends to a cottage industry of one and two person firms that may not have the track record and stability to suit everyone's needs.

### **Step 4: Research the account aggregation alternative**

For those firms that seek control over the data collection process in a cost-efficient framework, on-line account aggregation is the best solution. Account aggregation is the process of collecting account data (positions and transactions) from on-line sources. It is often mistakenly referred to as 'screen scraping' – which is the parsing of html data from web sites. In fact, most account aggregation vendors rely primarily on pre-packaged data (in formats such as XML) for information gathering; html data accounts for just a small portion of the overall data supply, and the historical problems with html (such as changes in

presentation) have been largely if not completely surmounted by today's technology.

Your portfolio accounting vendor should provide the names of account aggregation firms that have interfaced with your accounting system. If a vendor has not built this interface, and the vendor cannot provide references of other clients that are using this interface, then be careful. You are likely to become what the software industry calls a 'beta client' – you will be the guinea pig for testing this interface.

A list of the major account aggregation firms is provided in the sidebar. Expect to pay about \$50/account/year for a solution that can interface with your portfolio accounting system. You will find solutions that are much less expensive, but they will not offer the required interface.

### **Step 5: Due diligence with an account aggregation vendor**

A word about data quality: there are significant and important differences in data quality among account aggregation firms. Some firms cater to a retail audience, and provide data that might be good if you want a quick snapshot of your current balances. But financial advisors that serve the high- and ultra-high net worth market need much more. All securities must be correctly identified by their symbol and all transactions must be properly normalized and classified. By doing the necessary reference checks, and insuring that the selected vendor has successfully interfaced with similar users of your accounting system, you can be confident that the data will be of sufficient quality.

You also want to insure that the aggregation vendor can support your list of required custodians, so submit this list (without account identification information) to the vendor. Don't be surprised if the vendor does not currently support all your custodians. There are over 20,000 custodians just in the United States, and no vendor offers this level of coverage. The key is how quickly, and at what cost, the vendor can add the required coverage. Expect to pay a few hundred dollars to have a custodian added, and this should not take more than a few weeks. On the other hand, do not be persuaded by a vendor that offers up coverage statistics that appear to dwarf their competitors; typically, these coverage numbers will not reflect the types of accounts held by high- and ultra-high net worth investors.

### **Step 6: Map out the implementation process**

Once you have settled on an account aggregation vendor and have determined the vendor's fees, it is important to plan the implementation process and understand your internal costs. The implementation process should begin with a pilot program. Identify a few of your clients – specifically those that value consolidated reporting, already have on-line access to their account information, and are technology-savvy. Create a controlled program to load the accounts from these clients using the account aggregation vendor into your portfolio accounting system. You will need to get paper statements (which can be faxed

or scanned) from these clients, in order to reconcile and insure that the data is accurate. You should probably go through one or two months of reporting before expanding beyond the pilot program. During the pilot program, measure the amount of time spent reconciling the data and administering the system. But also realize that there is a learning curve, and that these internal costs will decrease, often dramatically, over time.

After the pilot program is complete, the full scale implementation can begin. You should prioritize your clients, based on their needs and how willingly they will adopt an aggregation solution. Don't expect to achieve 100% adoption; some clients will resist setting up on-line 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.

There is one caveat to this advice on implementation. Some advisors and/or their staff may be very familiar with aggregation technology, having deployed it elsewhere during their careers. In these cases, a much more rapid implementation can be undertaken. I know of one case where an advisor implemented 1,200 accounts in four days.

### **Step 7: Measure the Return on Investment (ROI) of Account Aggregation**

As with any strategic decision a business undertakes, it is important to be able to evaluate its payoff in terms of ROI. Account aggregation is no exception, and here is a framework for doing that.

Let's assume that the vendor charges \$50/account/year. In addition to these external costs, there are also internal costs associated with reconciling and monitoring the data, as well as administering the account credentials (insuring that the account numbers, passwords, and PINs are correct and current). If we assume the total cost of aggregation is \$100/account/year, and an advisor earns 150 basis points on an account, then nominally an account must have a minimum size of roughly \$7,000 to pay for the cost of gathering and processing the data. Of course, the advisor will incur other costs associated with the account, so the actual minimum may be larger. But \$7,000 is still a very small account size. More importantly, the cost of on-line aggregation is fixed; it does not vary with the account size, whether measured in terms of dollars or transactional activity. Justifying an aggregation solution becomes increasingly easier as the size of the account grows. For example, with a \$100,000 account, the fee to an advisor is \$1,500/year, and the \$100/year in aggregation cost is only 7% of the fees earned by an advisor.

By contrast, manual aggregation does not have a fixed cost structure. Assume that it takes 30 minutes per month to enter, verify, and reconcile the data for a single account. Based on \$40/hour, the cost of an internal manual solution is \$240/account/year. Because this fee is directly related to the number of positions and transactions in the account, it can be substantially larger for bigger accounts.

Ultimately, the benefits of consolidated reporting must translate to assets under management – attracting new clients, attracting new assets from existing clients, or (in a bad market) keeping the assets already under management. The costs of an on-line aggregation service are not high, particularly in respect to the asset opportunity with a high net worth or ultra-high net worth investor. These investors may have some accounts that fall below the break-even point for an aggregation solution; nevertheless, in the context of the overall relationship, it may behoove you to implement aggregation for all the assets, so as to insure that you are providing a truly comprehensive and automated solution.

In some situations, advisors may charge a reduced fee for assets under advisory supervision, where there is no management or fiduciary responsibility. Typically, these are retirement accounts that may lend themselves to a more passive management style. By charging for advice on these assets, advisors open an important revenue channel and strengthen their position as the trusted advisor. Even if the fee on these assets is just 50 basis points, the use of on-line account aggregation to gather the data is justified for an account as small as \$12,000.

With the overwhelming majority of advisors positioning – or attempting to position – themselves as the trusted advisor, it is increasingly difficult to achieve a competitive advantage through better marketing, positioning, or sales messaging. Advisors can achieve competitive advantages through better service and more efficient operations, which ultimately frees up valuable time and resources to devote to asset management and attracting new assets. Research has shown that disappointing service can prompt a shift in assets under management among wealth managers<sup>1</sup>. The lack of an efficient service and operating model will relegate the advisor to dealing with client service issues and operational problems. On-line account aggregation is an ideal pathway to achieve operational efficiency, and provide the consolidated reporting that is crucial to becoming the trusted advisor.

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<sup>1</sup> Boston Consulting Group “Taking the Client’s Perspective” – September, 2006

## Sidebar

### Major Account Aggregation Firms (listed alphabetically)

ByAllAccounts

[www.byallaccounts.com](http://www.byallaccounts.com)

CashEdge

[www.cashedge.com](http://www.cashedge.com)

Intuit

[www.intuit.com](http://www.intuit.com)

uMonitor

[www.umonitor.com](http://www.umonitor.com)

Yodlee

[www.yodlee.com](http://www.yodlee.com)

### *About the Author*

*Mr. Huebscher is a consultant serving the wealth management industry. With over 25 years of experience in the financial services market, he advises companies on topics such as new business development, strategic partnerships, market size analysis, competitive issues, and marketing tactics. On a functional level, his expertise extends to account aggregation, investment management and accounting, client reporting, reference and market data, corporate actions, and enterprise data management. He can be reached at: [rhuebscher@mba1982.hbs.edu](mailto:rhuebscher@mba1982.hbs.edu).*