



What is Account Aggregation?

On-line account aggregation, the process of collecting positions, balances, and transactions from web sites and on-line sources for multiple accounts, and presenting the combined statement through a web-based application, became part of the financial services landscape around 1999, and since then has adopted different roles based on the needs of a diverse audience. In the retail market, account aggregation has been a disappointment, leaving a trail of unfilled promises and missed expectations. But for wealth managers, account aggregation has been a tool that has helped practitioners acquire a sustainable competitive advantage that could not have been achieved in any other cost-efficient way. The institutional market has followed a similar pattern to the wealth management market, with account aggregation serving as a valuable complement to traditional direct feeds. We will examine the history of account aggregation, including its failures and successes, and look at how potential users of account aggregation can select the best solution for their needs.

The Retail Market

Yodlee introduced account aggregation in the late 1990s, and developed a business model that attracted a host of other firms with similar offerings: CashEdge, uMonitor, Teknowledge (now part of Intuit), and Adhesion (no longer in the market). These firms shared a common vision of the role of account aggregation: it was a tool for retail consumers to track their own assets. Major banks and brokerage firms were quickly sold on the idea that this would be a good way to attract retail customers to their sites. Account aggregation vendors provided technology solutions to major financial service players, who in turn deployed the technology on their sites, offering account aggregation – usually for free – ultimately to be a loss leader to make their sites more appealing. Account aggregation consisted of the data plus the application, which was private-labeled to reflect the branding of the financial service provider.

The Yodlee model began with the premise that account aggregation would solve the problem faced by consumers with multiple brokerage, savings, checking, and retirement accounts, and want to see their investments in a consolidated view. Consumers often did their own statement consolidation (manually), or paid to have it done by their investment advisor or accountant. Account aggregation offered a way to automate this process, and – more importantly – an opportunity for the consumer to bypass the middleman and do the consolidation on their own. The result was a ‘client-centric’ solution – the client (the investor) was responsible for setting up and administering the aggregation of their assets. Information about the assets was gathered from web sites, using credentials (account numbers, PINs and passwords) that were maintained by the client. The consolidated statement has been the common theme throughout the lifespan of account aggregation.

At the peak of the Internet frenzy, financial institutions were determined to make their sites the primary source for their clients’ financial information and ideally their home page. Institutions developed portals to display a wide variety of information, and account aggregation was a natural way to extend beyond financial assets into the world of ‘life style aggregation.’ Suddenly, aggregators were providing technology to consolidate frequent flier mileage, rewards programs, email, and eBay auction results. No longer was the goal a consolidated financial statement. Now consumers were being provided with a personal web page, encapsulating the mundane details of their complex lives. Online account aggregators targeting retail clients were pushed to expand in this direction, with little or no concern about the depth of data content.

Ultimately, account aggregators that targeted the retail audience failed to deliver on their promises, particularly with respect to consolidated financial statements. It turns out that data quality – accuracy of positions and transactions – really matters, and the technology to provide truly accurate data from a vast universe of institutions is very costly to deliver to a retail audience not willing to pay for the solution. Lack of data quality led to lack of usage, and the retail model never caught on.

Direct Feeds for the Wealth Management Market

Not all account aggregators catered to the retail audience. Increased trading activity, highly volatile markets, assets diversified across a growing number of financial institutions, and the availability of more timely information from web sites combined to create opportunities for aggregation in the wealth management market. In contrast to the retail market, where investors need just at-a-glance balance information, wealth managers demand holding details, exact security identification, transaction details, and alerts tied to more than just market activity. On-line account aggregators in this space were driven to get deeper, more granular, and more accurate financial data.

A group of providers, including Advent, Schwab, and Albridge (originally StatementOne) targeted financial advisors. Advent, through its ACD (Advent Custodial Data) and ATN (Advent Trusted Network) offerings, responded to the needs of Registered Investment Advisors (RIAs), who in turn provided services to individuals, typically high net worth or ultra-high net worth investors. Unlike the retail market, investors were mostly insulated from the account aggregation process and the underlying technology; the investors only saw the end result – a consolidated statement. In Advent’s case, their clients were users of their flagship portfolio accounting software – Axys. Schwab, through its Performance Technology subsidiary, had a similar

offering for users of their Centerpiece (now Performance Center) offering. Albridge's accounting solution targeted independent broker/dealers. Advent, Schwab, and Albridge relied on direct feeds for their data, rather than web site access. Relationships were established with the institutions where the accounts were custodied, who provided secure, direct feeds to the vendors.

Account aggregation had taken on at least three different meanings: a consolidated statement, provided via a financial service intermediary; a personal web page, provided through the same channel, but capturing life style details as well; and a consolidated statement that was provided by a portfolio accounting vendor. Each catered to different audiences and solved different business problems.

On-line Aggregation for the Wealth Management Market

Wealth managers began to experience pressure in their traditional service offerings: annual or semi-annual analysis, quarterly reconciliations and reports, and month-end statements were often too few, too late, and incomplete in their account coverage. The direct feed models, which work well with high account volumes concentrated in a limited number of institutions, can typically gather about 60% of the asset information for the high net worth and ultra-high net worth clients served by RIAs. Because of imposing engineering requirements, the other 40%, where account volumes are distributed over a large number of institutions, are not good candidates for direct feeds. They must be entered manually (from paper statements) or must be ignored. The time to deploy a new direct feed interface is typically 6-12 months, preventing advisors from implementing new clients in a timely manner.

RIAs strive to be positioned as the trusted advisor, the gatekeeper of the relationship that the investor relies on for their most critical decisions. Being the trusted advisor demands having a clear view of all the assets held by the investor, and is unachievable with just the 60% captured by direct feeds.

Manual account aggregation was the traditional solution for gathering assets not available via direct feeds. But manual aggregation is costly, error-prone, and does not deliver timely results. On-line account aggregators, such as ByAllAccounts, introduced solutions for providing broad coverage of institutions, combined with timely and highly accurate data that is 'reconciliation-ready' to be processed by a portfolio accounting system. These solutions rely primarily on on-line aggregation, but are supplemented by direct feeds, and operate in an 'advisor-centric' model, where the advisor is responsible for setting up and administering the accounts.

On-line account aggregation solutions have allowed RIA and family office clients to capture information for nearly 100% of their clients' assets, in a cost-efficient manner, and use this technology as the key tool to position themselves as the trusted advisor, achieving a competitive advantage that was not available in any other way.

A fourth meaning emerged for account aggregation: providing a data-only solution that supports a central portfolio accounting platform, to gather custodial data for advisors that seek a fully-automated solution for gathering information on all of their clients' assets.

Institutional Applications

Another class of account aggregation solutions allows institutional investors and custodians to communicate position, balance, and transaction information with one another to ensure that their respective books-of-records are reconciled. Direct feeds provide the backbone for this communication, but suffer from the same issues as in the wealth management market – primarily that managers and custodians must enter into business relationships to establish a feed. Vendors such as Evare and Electra offer solutions that serve as data hubs for consolidating direct feeds, alleviating some of the operational infrastructure that would otherwise be required, effectively outsourcing the feed engineering and operations. But direct feeds cannot provide the necessary coverage for all institutional applications, and because of their cost and lengthy deployment time, on-line aggregators, such as ByAllAccounts, have begun providing solutions in this market.

The scenario experienced in the wealth management market is being replayed in the institutional market, with on-line aggregators filling in the gaps left by direct feed vendors.

The Market Landscape Today

Account aggregation solutions now fall into three broad categories, shown in figure 1. Some clear trends have emerged, notably the success of on-line account aggregation in the wealth management markets. By complementing direct feeds, aggregation has become a proven technology that has enabled advisors to collect data electronically for virtually all of their clients' assets, and to position themselves as the trusted advisor. A parallel trend has taken place in the institutional market, where aggregation has provided a solution that dramatically expands the universe of available sources, at the same time meeting the demanding needs of this market with respect to timeliness, granularity, and depth of coverage. In the retail market, it remains to be seen whether institutions will make the required investment to elevate the quality of financial data to the point where it will gain significant adoption rates, particularly in the mass affluent market.

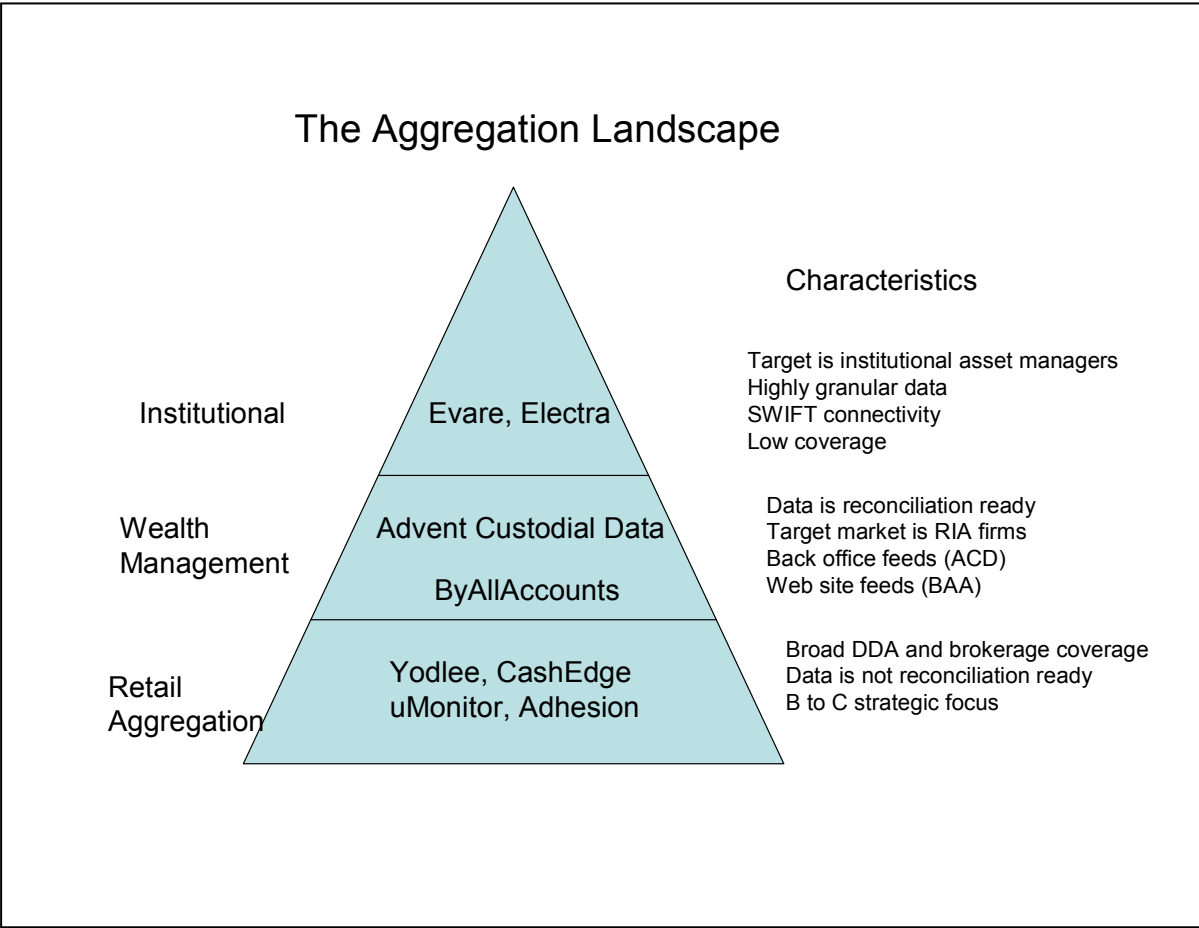


Figure 1 – The Aggregation Landscape

Different target audiences drive different underlying value propositions. The nature of the solution (direct feed versus web site access, client-centric versus advisor-centric, data versus application) is tailored to meet the needs of the audience and provide value to the end consumer. Paramount is the need to understand the end user requirements before embarking on a search for an account aggregation solution:

1. Who is the target audience (retail, high net worth, RIA, institutional)?
2. Do you need an application or just data? How will the data be integrated into your other applications?
3. Do you envision an advisor- or client-centric model?
4. What is your account volume and your institution volume, and to what degree are your accounts concentrated in a limited number of institutions?
5. How important is data accuracy, and how much are you willing to pay for better data?

Answers to these questions will define a solution category and may narrow down your choice of vendors. The companion paper (Choosing the Best Account Aggregation Solution?) will help you choose the exact solution to meet your needs.

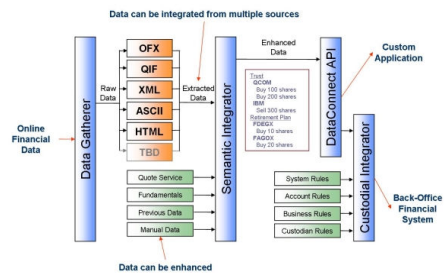
Other Considerations

Through direct feed interfaces supported by their account system vendors, RIAs and family offices can typically gather about 60% of the account data they need for high net worth and ultra-high net worth clients. These clients invest in a broad array of vehicles for marketable securities, including private banks, separately managed accounts, trust funds, and retirement accounts. There are tens of thousands of institutions holding the assets for these account types, and investment accounting vendors will support only a small percentage of the universe. You can try to aggregate these assets manually, but you will find that a manual solution is costly, error-prone, and fails to deliver timely data. The only electronic solution for gathering the other 40% of assets is on-line aggregation, through vendors such as ByAllAccounts.

Successfully implementing an account aggregation solution demands that you begin with a careful examination of your needs, following by measuring how well various aggregation solutions meet those needs. Through this process, you will be able to discern whether a data-only solution is appropriate, or whether you need data plus an application, where the application is responsible for displaying the consolidated statement and providing alerts and ancillary functions. If your needs command a data-only account aggregation solution, you need to carefully consider how this data will be integrated into your other enterprise applications. For most RIAs and family offices – at least those that run a central portfolio management platform – the account aggregation data must integrate seamlessly with this platform.

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.



Contribution Type	Transaction Type	Activity Type	Amount	Price	# of Units or Shares
Esop Leveraged Shares	Dividends/Capital Gains	Cash Receipts	\$17.80	\$0.000	0.000
Esop Leveraged Shares	Dividends/Capital Gains	Purchase	(\$17.80)	\$36.063	0.494
Employee Deferral	Contributions	Cash Disbursement	(\$332.06)	\$1.000	0.000
Employee Deferral	Contributions	Sale	\$332.06	\$40.300	(8.240)
Employee Deferral	Contributions	Cash Receipts	\$50.00	\$1.000	0.000
Employee Deferral	Contributions	Purchase	(\$50.00)	\$39.280	1.273

