InvestmentNews

2022 ADVISER TECHNOLOGY STUDY

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InvestmentNews is the premier provider of news, data, research and events to the financial advisory industry. Through our newspaper, website, data centers, benchmarking reports, conferences and events, we provide industry-leading tools and resources that allow financial advisers to learn more about their businesses, clients and competition.

InvestmentNews would like to thank the sponsors of the 2022 InvestmentNews Adviser Technology Study — Allianz and Emotomy — for underwriting this important project and providing their invaluable insights and intelligence. InvestmentNews also wishes to acknowledge the work of Director of Research Devin McGinley in developing this Study's questionnaire and for performing the analysis and assessing the key findings that support it.

IN Research

About InvestmentNews Research

The work of InvestmentNews Research, which provides financial advisers with the industry's most informative practice management studies and benchmarking reports, is a prime source of market intelligence for advisory firms and industry partners, including custodians, broker-dealers, service providers and professional organizations. For more information about InvestmentNews Research and its custom research solutions, please contact Devin McGinley at 646-437-7960 and dmcginley@investmentnews.com.

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With Emotomy's powerful portfolio engine, paperless automation, seamless integration with custodians, and management oversight feature, advisors and CIOs are able to spend more time enhancing the client experience and less on administration.

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FOREWORD

We are pleased to present the **2022 InvestmentNews Adviser Technology Study**, which has given an annual look at the industry for more than decade.

While technology spending dipped downward in 2020 at the beginning of the COVID-19 pandemic, spending has returned to an all-time high average of $135,000 per firm. Technology is playing a pivotal role in the advisory process as firms automate processes, respond to the mobile revolution, and overall leverage new technology to create a more efficient, effective and meaningful client experience. The ability to help consumers visualize and personalize their finances can be a key to understanding the value that advisors provide.

Here are a few highlights from the 2022 study:

- Consumers feel better about a financial plan if they see a visualization. The overwhelming majority of respondents (88%) said that the ability to visualize a range of outcomes would provide greater confidence in the financial plan and 92% expect their advisor's tools to help them manage risk.
- Integration is vital to bringing efficiency, profitability and growth opportunities to firms. The majority of respondents (57%) said a lack of integration between core software applications is the top hurdle in their tech process.
- The need to provide consumers with a digital experience is critical – 65% of respondents said the digital client experience is very or extremely important to their success, up from 55% in early 2020.
- With the threat of cybercrime and international risk, cybersecurity remains the top concern of firms. More than half (58%) of firms reported cybersecurity as their top concern. The No. 2 concern was the digital client experience at 52% of respondents.

We would like to thank the 201 advisory firms that participated in this research by completing an online survey questionnaire. The responses from these advisory firms let us share this in-depth look at how the use of technology is changing over time. With more than a decade of data about the needs and desires of firms, we can see how firms have continued to progress and innovate to better serve their clients through better technology.

Heather Kelly
Senior Vice President, Advisory and Strategic Accounts
Allianz Life Insurance Company of North America

FOREWORD

We are proud to present the **InvestmentNews 2022 Advisor Technology Study**, featuring a review of the latest tech research findings. The study provides insights into how independent advisory firms are leveraging technology in their practices and provides a robust picture of the technology landscape across the industry.

First, we would like to thank the many participants in this study for giving their time for the benefit of the industry. In the second year of the pandemic, with remote working arrangements and the digitization of most everything, gaining an accurate and real perspective on where the industry is and how advisors are thinking about technology could not be more important. Studies like this benefit and progress the industry, giving advisors the information they need to make the right decisions for their firm and clients.

Here are a few of the questions that were answered in this year's study:

- How much are advisors spending on technology now?
- Do innovators actually realize any benefit? What technology are they adopting?
- What technology or functionality are your investors asking for?

The 2022 Tech Study provides valuable data points and a comprehensive view of how advisors utilize technology. With participation from advisors and investors, the survey goes beyond the tech stack, providing perspectives from both sides of the table. We would like to thank the participants in this study for spending time on each question, providing the most accurate answers for us to utilize. Studies like this benefit and progress the industry, giving researchers and innovators the insight and tools to enhance future technology.

It is our hope that the information provided helps advisors understand what their peers are doing, what their investors are asking for and to make the technology decisions that will help them grow.

Adam Boyer
SVP, Head of Business Development
Emotomy

EXECUTIVE HIGHLIGHTS

This year's in-depth look at advisory firm technology by InvestmentNews Research builds on more than a decade of findings. It provides not only a comprehensive view of current conditions but also an arc over time that points to future developments. As in the past, our view of how firms of all sizes are managing technology includes a wealth of statistical data, allowing firm managers to benchmark themselves against the competition.

Key takeaways from the current report include:

- **More spending.** In 2021, advisory firms continued to spend more on technology. The median year-over-year increase in tech spending was nearly 15%, to an average of $135,000, an all-time high and the greatest growth since 2018. Also last year, spending on technology was at a record level of revenue, with the median firm dedicating 3.73% of revenue toward tech investments. Overall, tech spending has doubled since 2013.

- **Software is king.** Spending on software grew 12%, and software continued to account for the lion's share of total technology spending. But software's share of total spending slipped slightly to 61.4% from 63.1% a year ago, making room for more spending on hardware, consulting and outsourcing.

- **Fragmentation and frustration.** With 56% of firms saying they select individual components for their tech stack, a similar percentage say the lack of integration among core software applications is the biggest pain point in their tech processes — and little progress is being made.

- **Client focus.** An increasing percentage of advisers — 65%, up from 55% in 2020 — say that enhancing the client experience is central to their efforts. Clients say they want more visualization, personalization and coordination.

- **Cybersecurity concerns.** Even more than providing a robust digital client experience, firms worry about the security of their data and systems. More than half of those surveyed, 58%, said cybersecurity was their greatest concern.

- **Future direction?** As in the past, the tech priorities of innovators – firms spending notably more on technology than others in absolute and relative terms — can provide a glimpse of the future. As a result of their spending, Innovators enjoyed 37.2% greater revenue per employee than other firms.

THE INDUSTRY'S TECHNOLOGY JOURNEY

The road to 2022

In addition to offering a current snapshot of technology usage in the financial advice business, the 2022 InvestmentNews Technology Study draws on insights from previous studies in the series. These insights provide a greater sense of how advisers' attitudes toward technology and its use have evolved to where we are currently. They also may provide possible future directions for advisory firms to pursue.

The early view: Tech as a utility

In 2013, when the first InvestmentNews Tech Study was conducted, most financial advisory firms viewed technology largely as a utility, essentially a necessity to get the job done. Few firms viewed technology as a strategic area of investment or as an essential component of their business strategy that would help them maintain and extend their competitive advantage. Over time, as the variety of available tools grew along with customer demands, that minority view became the majority.

Today's view: Tech as core. Most advisory firms now consider technology essential for the scalability needed to deliver satisfaction for clients and to drive profitability for the enterprise. With technology powering operations, data management and client interactions, advisory firms increasingly have become as much about the technology that drives the business — albeit it in the background — as the human advisers who provide the insights and interaction that clients demand.

Powering the change have been three forces. First is the drive to maximize efficiency by having advisers concentrate on client interaction while almost every other activity is automated to the greatest extent possible. Second has been the mobile revolution, which has transformed the way everyone works, communicates and receives information. The shift to remote work from the outset of the pandemic has only raised client expectations of seamless and flexible communication with their advisers. Finally, there is robo advice. From novelty to perceived threat to now a standard offering of many advisory firms, automated financial and investment advice has embedded the digital experience into virtually every advised relationship and driven advisers to provide value in new ways.

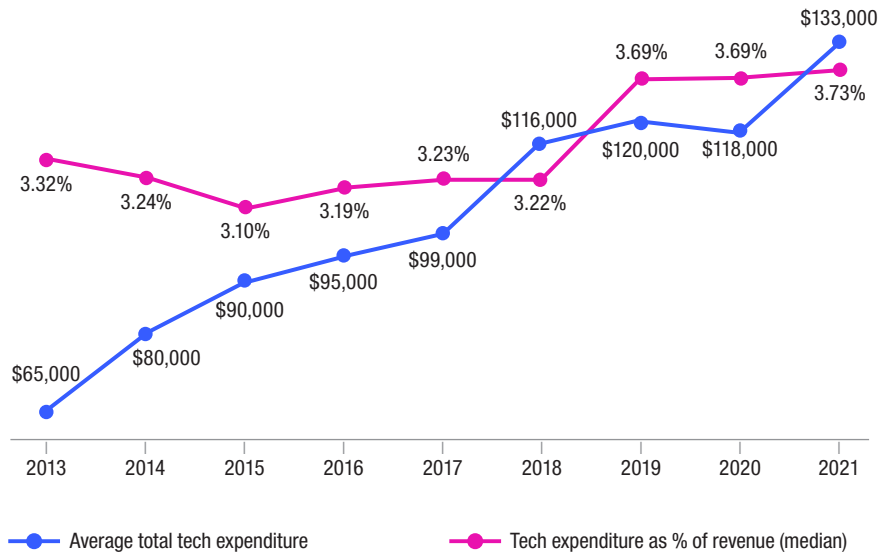
With firms under continuing scalability pressure and "digital always" now the default expectation among advisory firm clients, technology is now central to advisory firm viability and success, and is likely to become even more important in the future.

Technology spending: Continuing to rise

After rising without interruption since the first InvestmentNews Technology Study in 2013, technology spending declined slightly in 2020, to $118,000 from $120,000 in 2019. But tech spending came roaring back in 2021, rising nearly 15% to an average of $135,000. That level of spending represents an all-time high and marks the greatest growth since 2018, when spending leapt 17% year-over-year to $116,000. Since 2013, annual tech spending has more than doubled.

Also last year, technology spending represented a record level of revenue, with the median firm dedicating 3.73% of revenue toward tech investments.

Fig. 1 Tech spending again on the rise



Where the money is being spent now

Why the decline in overall technology spending in 2020 and the strong rise in 2021? The reasons likely relate to the impact of the pandemic. We can infer this from the changes that took place in the relative share size of each component of technology spending as noted in this study and the one conducted in 2020.

Then as now, software tops all categories of technology spending. In 2020, as firms coped with pandemic-related closures by going to remote work, their spending on software rose, on average, to $74,522 from $66,547 in 2019. But, as noted above, overall spending declined in 2020 due cuts in spending on hardware, consulting and outsourcing, perhaps to compensate for the increased spending on software.

In 2021, in contrast, spending in all categories increased. It is likely that budgets were revised in 2021 to reflect the increased technology demand firms were facing, in contrast with 2020 when adjustments were made on the fly. Another possibility is that firms are now spending more on hardware and consulting services as they bring workers back to the office or as they resume the spending plans they put on hold during the pandemic.

Fig. 2 Software driving spending (in dollar terms)

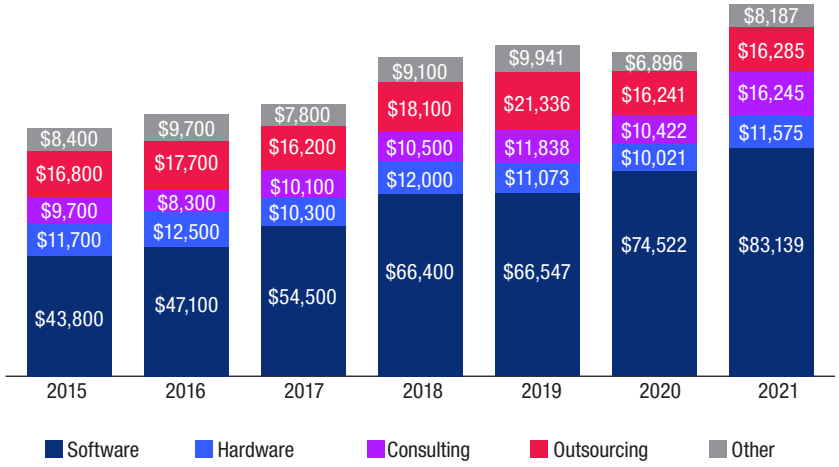
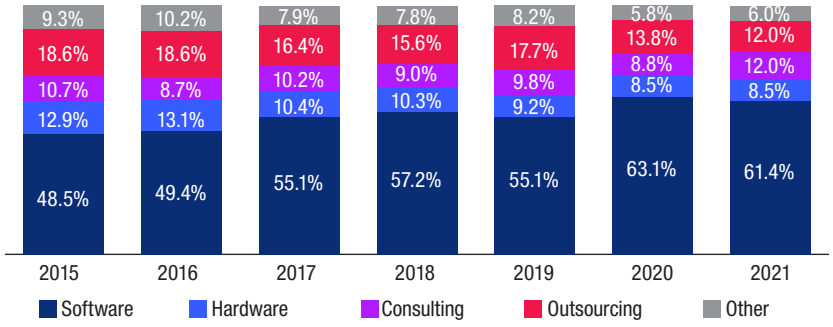


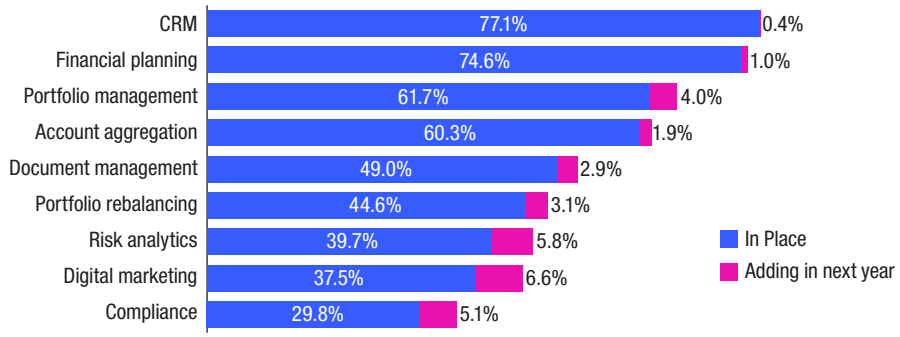
Fig. 3 Software driving spending (in percentage terms)



As a result of this shift, while software spending once again grew by about 12%, jumping from $74,522 to $83,139, that figure represents a slight decline in software's share of total technology spending — to 61.4% from 63.1%. This was because spending in non-software categories (hardware, consulting, outsourcing and other) rebounded.

Driving software spending is an evolution in product usage. At this point in the adoption of adviser technology, client relationship management systems and financial planning software are table stakes for firms. A large majority, 77% of firms, have these solutions in place, and adoption is plateauing, marginally increasing to about 77.5% this year based on our findings. Financial planning software is used by about 75% of firms, and adoption there is expected to rise by a percentage point in 2022.

Fig. 4 Core wealth management solutions in place

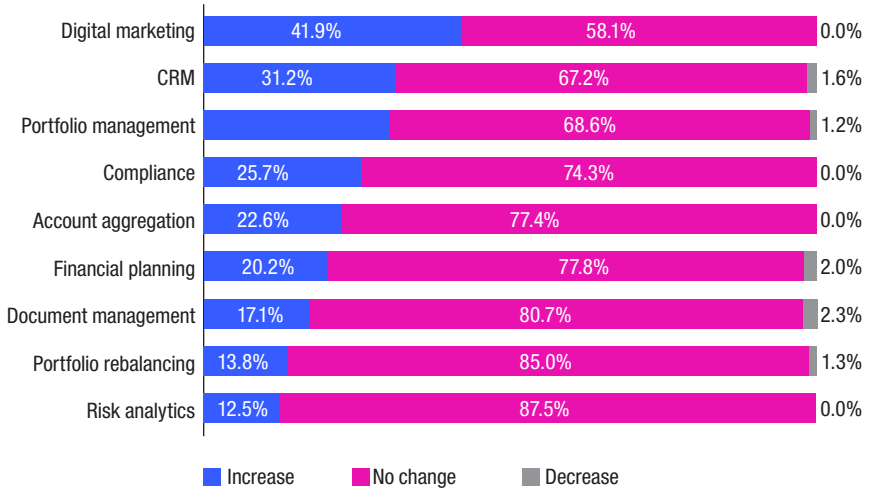


THE INDUSTRY'S TECHNOLOGY JOURNEY

Where tech spending will increase

Two solutions stood out for high levels of planned new adoption: Those involving digital marketing and portfolio management. Among firms not currently employing those solutions, more than 10% plan to add them over the next year. Since portfolio management solutions are already in place at most firms it appears that this will be the next table-stakes software application for advisers. Spending is also increasing for solutions already in place. For example, digital marketing solutions, which was one of the leading solutions being adopted for the first time, is also where current users are most increasing their spending.

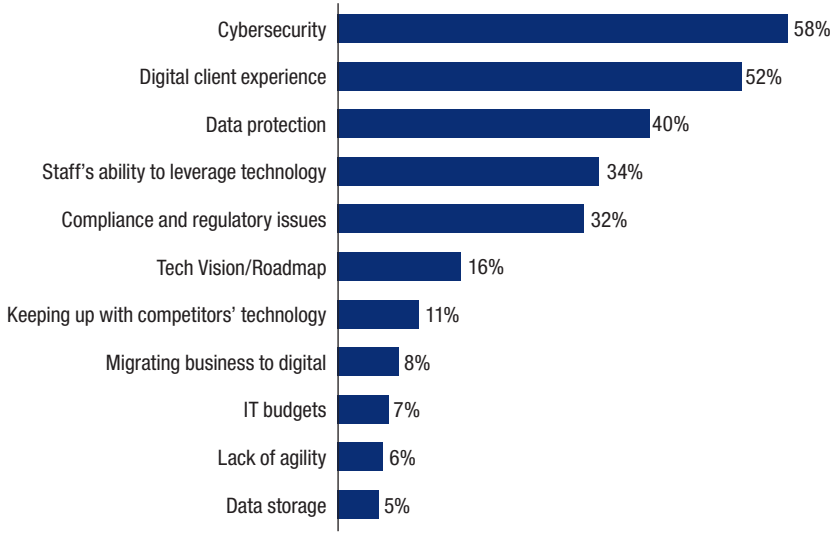
Fig. 5 Spending on existing solutions



CRM and portfolio management software also are seeing high levels of increased spending among existing users. Overall, there are few categories where firms are reducing their spending, and no category where there has not been a net increase in spending.

Noted by 58% and 52% of respondents, respectively, cybersecurity and the digital client experience remain the top two concerns for firms when considering the tech stack. While these concerns do not translate directly into current and future software solution purchases, they do affect total technology spending, especially regarding the use of consultants and outsourced services.

Fig. 6 Majority cite cybersecurity, client experience as top concerns

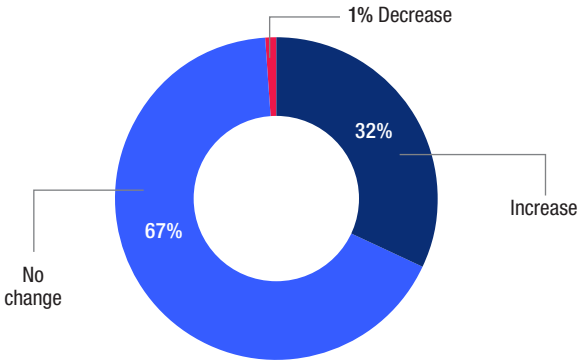


The hierarchy of tech concerns was very similar to 2020, when those were also the top two concerns. In noticeable shifts, however, data protection rose as a concern and staff ability to leverage technology declined as a concern, by about eight percentage points. Since the 2020 survey was conducted when most employees began working from home, there understandably was heightened concern around employees' tech skills at that time, and it's encouraging that those concerns have receded.

A look at vendor relationships

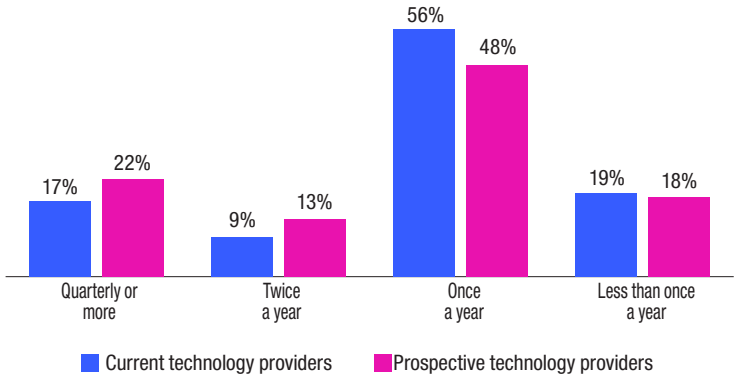
This year, about one in three firms will be adding new vendor relationships. Currently, the typical firm has relationships with five different vendors. Similar to our finding that very few categories are seeing reduced spending, very few firms anticipate they will be using fewer vendors going forward.

Fig. 7 How will the number of firms you work with change this year?



Currently, 56% of firms assess their current tech providers once a year while 48% assess prospective tech providers once a year. Just under one in five firms assess existing and prospective tech providers less than once a year. Only 35% of firms assess prospective vendors more than once a year and 26% assess existing tech product providers with that frequency.

Fig. 8 Frequency of assessment: Current vs. prospective vendors



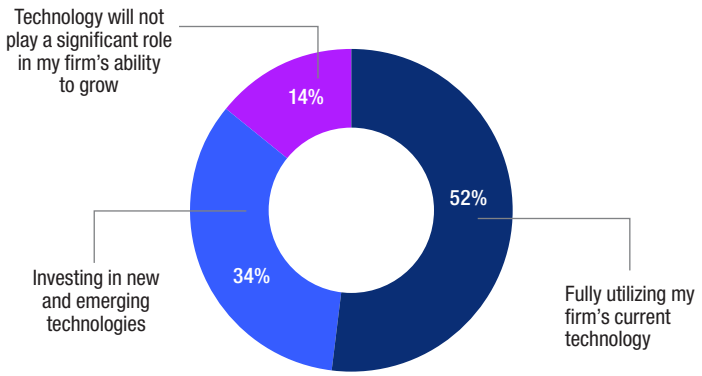
While it makes sense that firms would need to evaluate unfamiliar tech products and services more often than the products with which they are familiar, there is a glaring inconsistency: Only 48% of respondents indicated they were fully satisfied with the foundation of their tech stack. It leads to the question of whether firms should be doing more frequent assessments of their existing tech stack.

THE INDUSTRY'S TECHNOLOGY JOURNEY

Striving for greater integration and efficiency

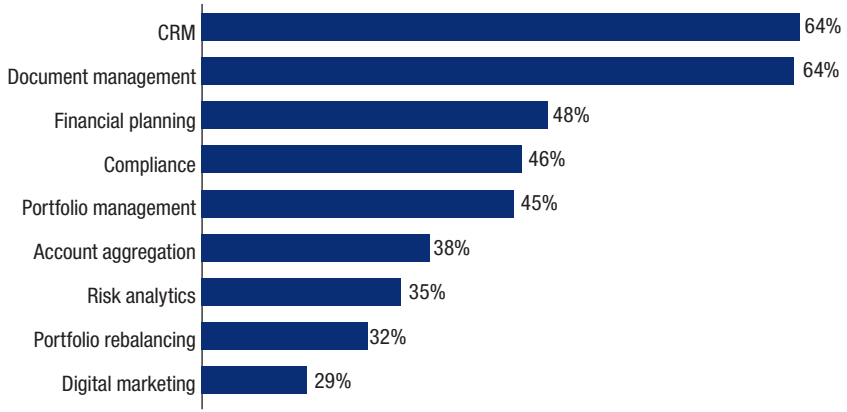
It's probably fair to say there is adviser confusion regarding technology. Overall, 86% of respondents say that tech will play a significant role in their growth and 52% say that maximizing their current tech is most important to growth. Yet only 34% say that growth will be driven by investments in new technology.

Fig. 9 What will be most important to achieving your growth goals?



Clearly, with so many firms already having key tech tools in place, the key is getting more of their people to use them. As our study shows, CRM and document management software are the only solutions adopted by most advisers at most firms that provide the tools. At firms that have CRM, for instance, only 64% say that a majority of their professionals use it.

Fig. 10 Utilization of solutions by most firm professionals



Another problem is that the tech stack at most firms is fragmented. More than three quarters of firms are using open architecture platforms, and 56% select each vendor individually. And since firms are continuing to add vendors, this fragmentation is likely to persist.

Fig. 11 Foundation of firm tech stacks

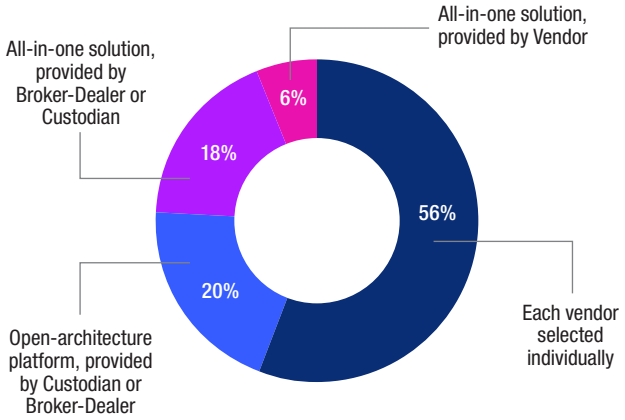


Fig. 12 Top technology pain points

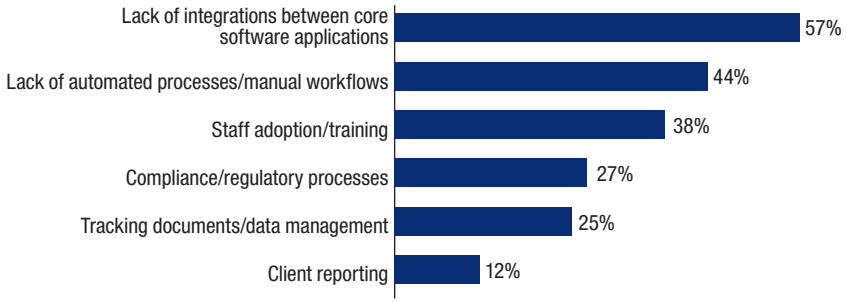
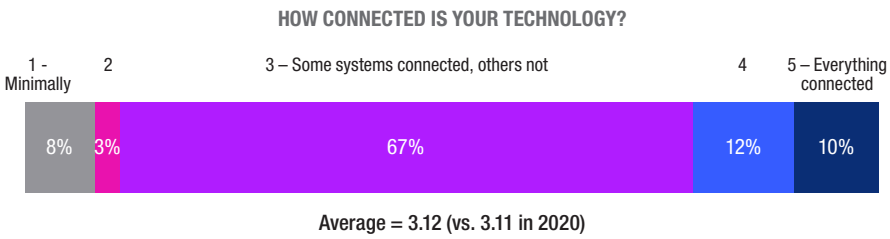


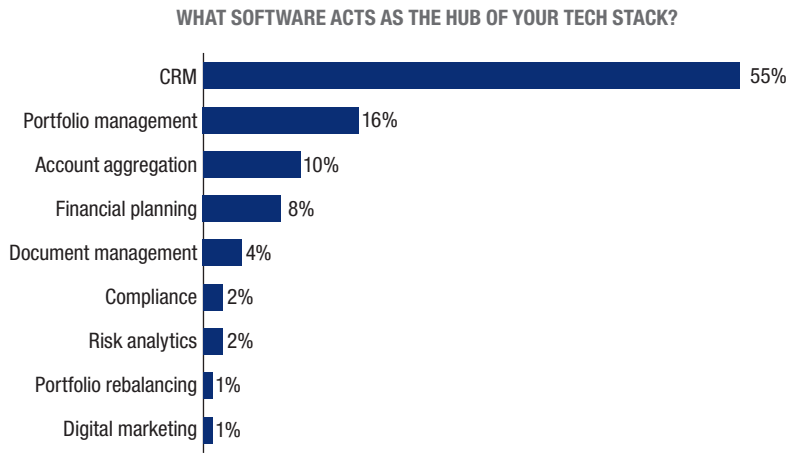
Fig. 13 Integration issues persist

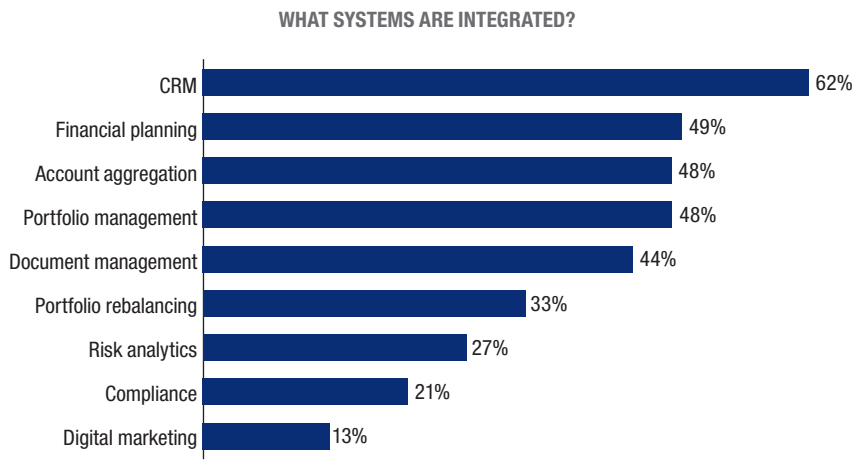


As a result of the tech stack's fragmentation, integration issues have been persistent. More than half of respondents, 57%, said lack of integration between core software applications is the top hurdle in their tech processes. This is the second year in a row that lack of integration was cited by respondents as their top tech obstacle and the third consecutive year in which it was cited by a majority. Yet, there has been little measurable progress in integrating adviser technology. When asked how connected their technology is, most respondents — about two thirds — rated themselves right in the middle on a 1-to-5 scale. Over several studies, there has been little movement in the average level of integration of advisory technology, even though a majority recognizes it as a major pain point.

Unsurprisingly, CRM systems are advisory firms' most integrated solution. For a majority, CRM serves as the foundational block of the tach stack, and among most CRM users it is integrated with other applications. No other solution has emerged as a competing tech stack foundation. But financial planning, account aggregation and portfolio management are all close to being fully integrated among half of users, and we would expect those to be the next areas to gain traction.

Fig. 14 Integrations focus on CRM



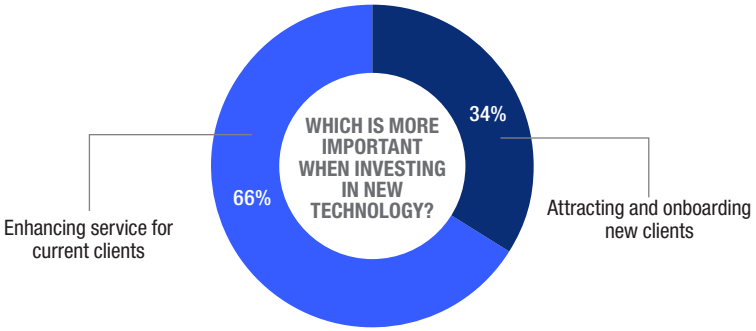


THE INDUSTRY'S TECHNOLOGY JOURNEY

A focus on the client experience

Recognizing the changing ways in which clients interact with their advice providers, 65% of respondents in this year's study said the digital client experience is very or extremely important to their success. That's up from 55% in early 2020.

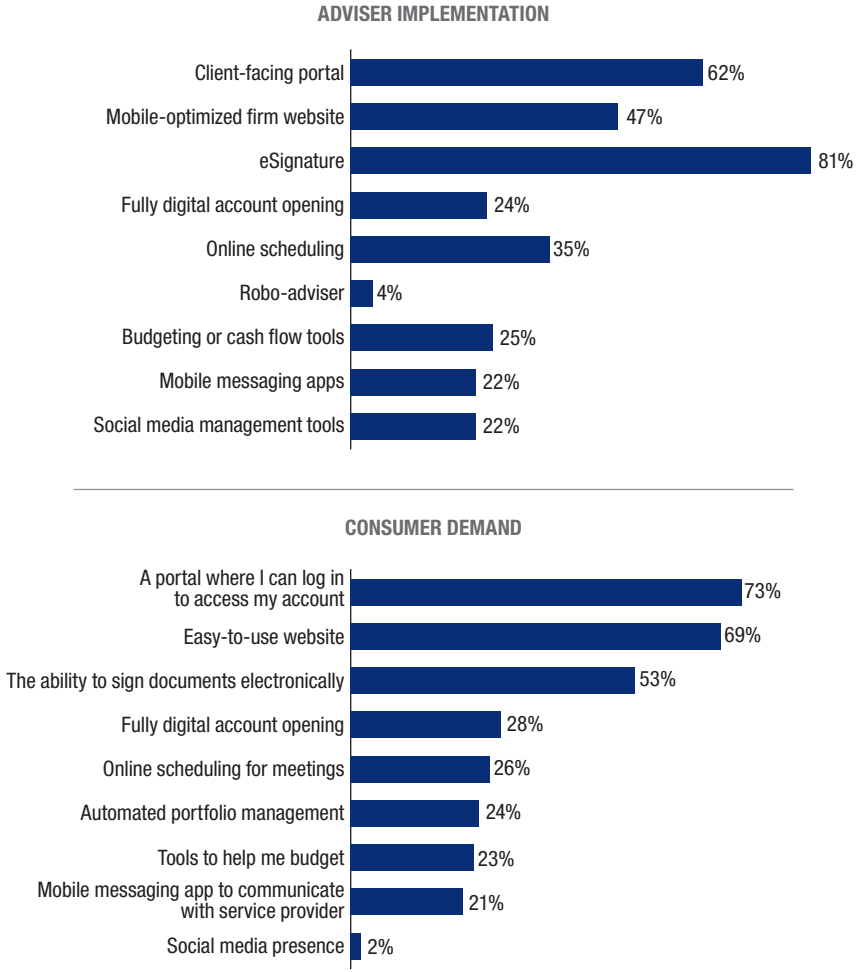
Fig. 15 The focus is on enhancing the current-client experience



The focus seems to be on existing clients. Two thirds of advisers said enhancing the experience for current clients was their focus for new tech investments, as opposed to 34% who said they were primarily concerned with attracting and onboarding new clients.

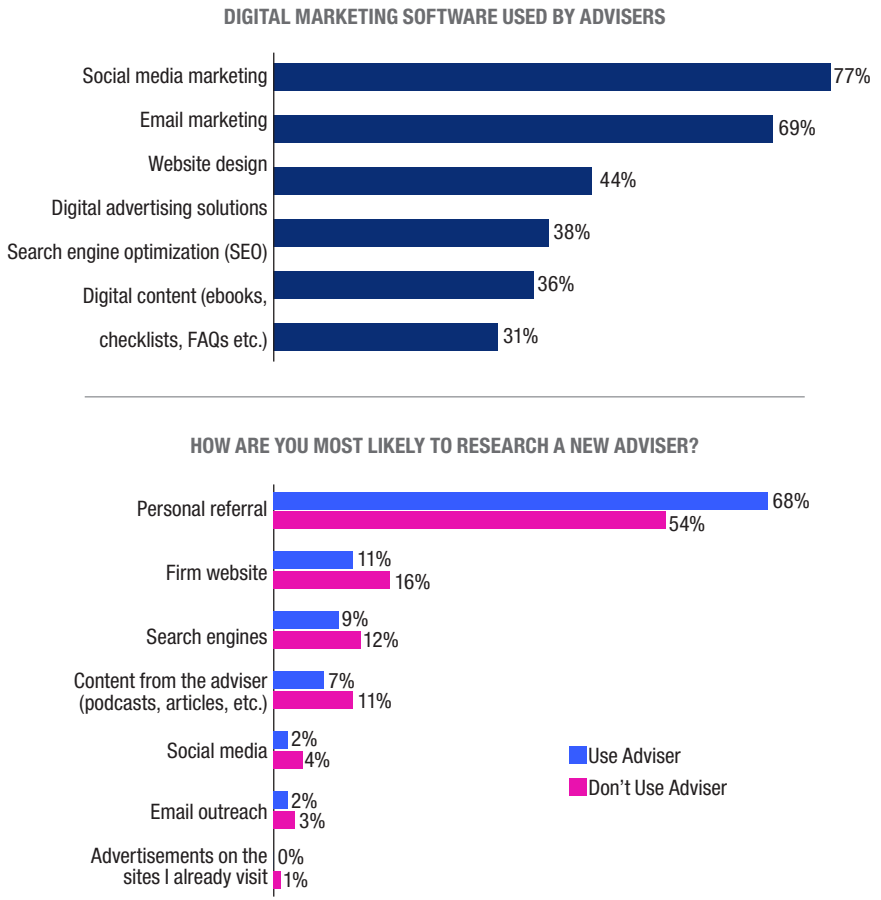
For the most part, the client facing technology that advisory firms have implemented is in line with demand from consumers. For example, 73% of consumers surveyed said they would find value in a portal to access their account, while 62% of the firms that were surveyed offer a client portal. Other client demands also largely have been met by advisory firms.

Fig. 16 Tech implementation vs. client demand



The industry's digital marketing adoption appears a bit less aligned with consumer tastes, and in one area this is particularly problematic. A majority of consumers would prefer to select a new adviser based on personal referrals, especially if they already have experience working with an adviser. Among those advice seekers, and especially among those who don't yet use an adviser, the winning approaches to attract attention and interest are website design, search engine optimization and unique content. But these are not the industry's priorities, as the nearby graphic illustrates.

Fig. 17 Digital marketing solutions less aligned

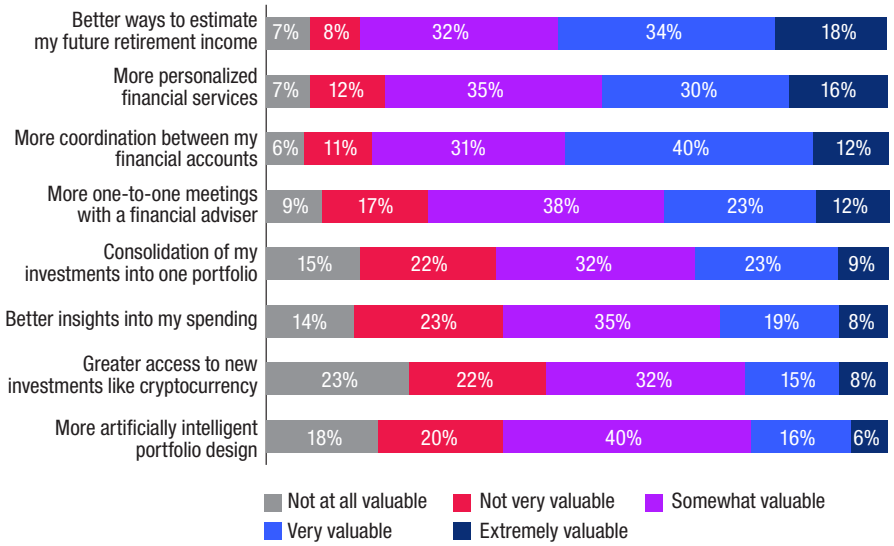


The most used digital marketing tool among advisory firms is social media, which consumers put at the bottom of their list for the way in which they would prefer to reach a new adviser. While social media is an important part of a total communications program, our findings indicate that it is not an especially effective way to bring in a lot of new business.

Other than communication, the key things clients want from fintech over the next few years are better ways to estimate their future income, greater personalization of financial services and more coordination among their accounts. Those were all viewed as more valuable than more facetime with an adviser, and therefore areas where technology is truly a value-add in the client experience. Based on their responses, the use of artificial intelligence to design portfolios and having more access to alternative investments including cryptocurrencies, while getting a lot of buzz, were not very relevant to consumers.

To consumers, the ability to visualize and personalize their finances really demonstrates the value that advisers provide. Almost nine in 10 — 88% — said that the ability to visualize a range of outcomes would provide greater confidence in the financial plan developed by their adviser. An even greater 92% said they expect their advisor's tools to help them manage risk.

Fig. 18 Client fintech priorities



THE INDUSTRY'S TECHNOLOGY JOURNEY

The Innovators

In every group, there are those who stand out and can provide insights to other firms. In previous studies, standout firms have been categorized as Innovators — firms that are in the top half of respondents in growth in tech spending as well as in tech spending as a share of their overall budget.

As in the past, this year's Innovator firms tend to be smaller. The typical Innovator has 45% of the clients, 50% of the AUM and 65% of the revenue of firms generally. But their tech budget is 17% higher and represents a much larger share of overhead. They also have higher revenue growth but lower profitability than their peers, though that is a bit difficult to disentangle from their size.

Fig. 19 Innovators by the numbers

	INNOVATORS	OTHERS
Revenue	$1.1 million	$1.7 million
AUM	$120 million	$242.6 million
Clients	145	320
Revenue growth	19.8%	15.9%
Overhead Expense	$290,000	$320,000
Total Technology Spend	$49,000	$42,000
Operating margin	34%	40%

*median values

Fig. 20 Productivity: Innovators vs. others

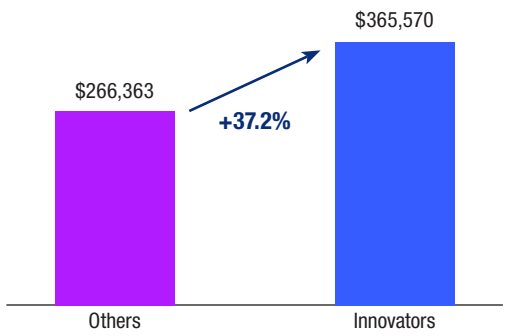
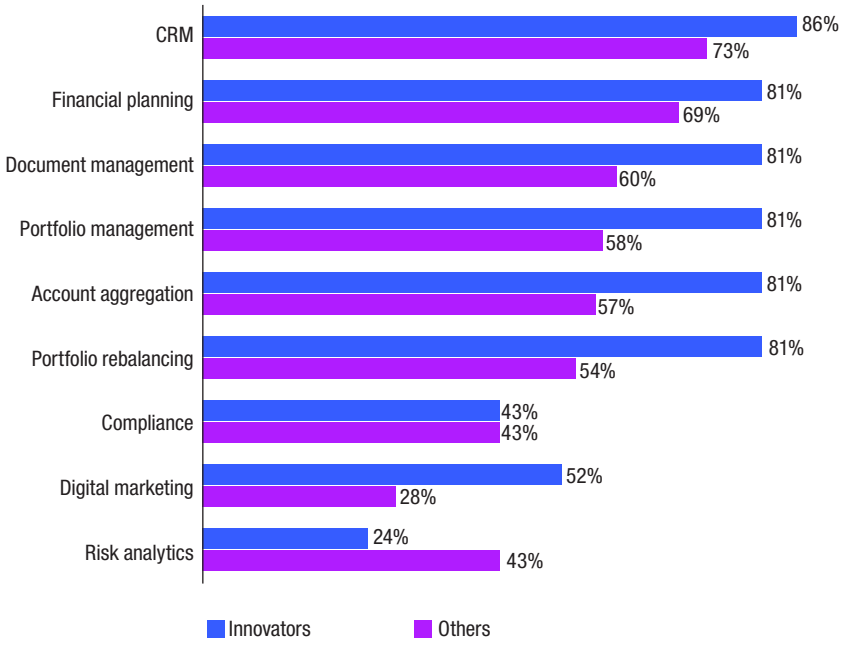


Fig. 21 Tech adoption: Innovators vs. others



Despite their lower profitability, Innovators share one very desirable trait —higher productivity. They generated 37% more revenue per employee than their peers. So, while their higher technology outlays are affecting their profitability today, they also are setting up innovator firms for a very profitable tomorrow. Significantly, their technology investments also are building enterprise value, which in today's fevered market for advisory firms may be the most attention-getting aspect of their focus.

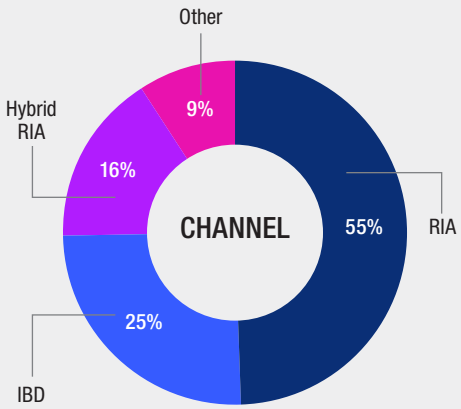
Because of their focus, it stands to reason that Innovators have more of the core wealth management solutions in place than other firms. Across most solutions, innovator firms are ahead of the pack. In fact, the areas in which the gaps are widest are probably those where most firms can take a lesson from Innovators and increase their spending.

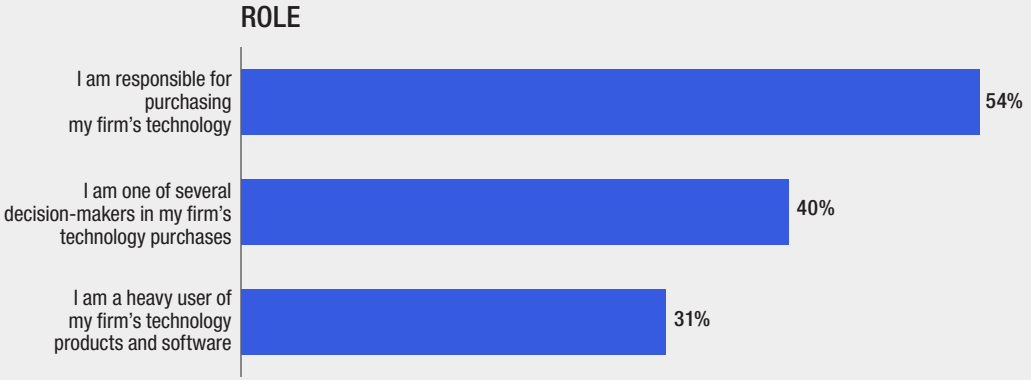
METHODOLOGY

The 2022 InvestmentNews Adviser Technology Study

Between November 2021 and January 2022, an online questionnaire created and distributed by InvestmentNews Research was completed by 201 independent financial advisory firms. Firm respondents included technology decision-makers. Of responding firms, 49% were registered investment advisers, 25% were independent broker-dealers, 16% were hybrid/dually registered firms and 10% were family offices, retirement plan consultants and other wealth management firms.

Fig. 22 Participants by channel and firm technology role





TAKEAWAYS

The following are some suggested courses of action and likely patterns implied by the findings of this year's report:

Utilize existing tools more fully. Core technology infrastructure is largely in place at most advisory firms. The problem is that its utilization rate remains less than optimal. Only with greater adoption and usage among advisers can technology deliver on its promise to provide greater efficiency.

Focus on integration. In addition to greater utilization of each tool in its tech stack, advisory firms should concentrate on integrating their tools. Everyone recognizes the problem and the difficulty of resolving it. But only by eliminating the siloed nature of the tech stack can major scalability and its resultant greater efficiency, profitability and growth be achieved.

Delight consumers. As a result of their interactions with technology in other parts of their life, financial advice clients expect greater visualization, personalization and coordination in the tools they use with their financial advisers. Competition from new and existing providers will punish firms that don't give users what they expect.

Security will become even more important. Firms realize the ever-present danger and existential threat posed by cybercrime. Most are making cybersecurity an ongoing priority, affecting various aspects of firm operations and routines. With international risk mounting, and wars now being fought in cyberspace as well as in the physical world, cybersecurity spending will be an ongoing, and likely increasing, expense for all firms.

Tech budgets will keep increasing. While the standard caveat in investing is that past results are not indicative of future performance, in technology past spending is indeed prologue. As client and adviser expectations rise, and the relentless push for greater efficiency continues, look for advisory firm technology spending to continue its years' long pattern of steady increases.