White Paper

Understanding Data and How to Unlock its Value

Why RIAs Need Access to *Their* Client Data

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The most successful firms in the United States understand the value of data. The top four American brands – Amazon, Apple, Google and Microsoft – all derive much of their value from their mastery of data. Unfortunately, data has seldom been a big concern for advisors.

Advisors spend their days thinking about their clients – who they need to reach out to, what changes they should make to client portfolios, financial plans that need adjustments. Rarely do advisors recognize that data can influence and improve all of these activities. As such, it seems the advisory industry is years behind other industries in the storage, protection, utilization, and monetization of data.

What is Data? Simply put, data is all of your firm's information. Data is client asset information. Data is how frequently clients answer the phone vs. respond to an email. Data is what time investors log into their client portal and check the markets. While data by itself may not seem that useful to an advisor, taking the time to analyze that data can lead to insights that impact everything from investment strategy to client communications.

We will examine several pressing questions on data for advisors throughout this paper, including:

- What is structured and unstructured data for your advisory practice?
- How can advisors view their data more strategically?
- What is the value of data in providing a better client experience?
- How can data drive a higher valuation for your firm?
- Should you consider creating your own data warehouse?
- What help can your custodial service provider offer you?

This paper will dive into the value, use, and practical issues when considering your firm data. Alongside this paper, you will find a worksheet with questions you can bring to your custodian about data. Not all custodial service providers approach client information in the same way, and limitations in how your provider shares data can restrict how your firm can use and analyze that data.

Download Your Data Worksheet

Overview of Data

Broadly speaking, data falls into two categories: structured data and unstructured data.

Structured data is data that has been predefined and formatted into a set structure before being placed in data storage, which is often referred to as schema-on-write. The best example of structured data is the relational database. In a relational database, the data has been formatted into precisely defined fields, such as name, address, spouse name, or birthdate. This organization allows the data to be easily retrieved with a statement, such as a Structured Query Language (SQL) statement.

There are a number of benefits to structured data:

1. **IT CAN EASILY BE USED BY BUSINESS USERS –** That is, it can be used by an average business user with an understanding of the topic to which the data relates. There is no need for the business user to have an in-depth understanding of various different types of data or the relationships of that data. Structured data allows the business user to access and manipulate that data without a deep knowledge of database technology.
2. **IT CAN EASILY BE ANALYZED USING FORMULAS –** Machine learning can be applied to structured data with excellent results. It can produce analysis in seconds that would otherwise take humans significant amounts of time to produce.
3. **COMPUTERS CAN USE MACHINE LEARNING TO LEARN ABOUT STRUCTURED DATA –** Machine learning can uncover patterns that humans would typically miss and can suggest activities that are supported by the underlying data. Many firms are working on these suggestions as part of their Next Best Action initiatives.

Unstructured data is data that exists in its native format. Emails, office documents (Word, Excel, PowerPoint), charts, graphs, webpages, videos, and audio files that advisors store are all unstructured data. The advantage of unstructured data is that it is easy to store and accumulate. The disadvantage is that the ability to manipulate and analyze unstructured data is limited for the vast majority of firms. Advisors are not data analysts, and unless the information is first converted into structured data, advisory firms will struggle to get many usable insights from the data.

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Once advisors have the data, they need a secure way to store that data. Two data storage methods are Data Lakes and Data Warehouses.

Data Lakes offer the ability for firms to store all of their data in a single location, which could include both structured and unstructured data. Data Lakes are huge repositories of data and are not designed for specific purposes.

A Data Warehouse is a repository for structured, filtered data that has already been processed for a specific purpose. Data warehouses use Data Lakes as a source of their information. You may hear technologists discuss the Extract, Transform, and Load process. This process extracts structured and unstructured data from the Data Lake, transforms all of that data into structured data, and then loads that structured data into the Data Warehouse.

Think about your Data Lake as a place for all of your data and your Data Warehouse as a place to perform analysis to answer specific questions.

Advisor Data Today

Much of the data that advisors store today is in an unstructured format. Structured data is typically hosted or managed for the advisor by a third-party vendor. Let's examine the most common structured data that advisors have: customer, risk, transaction, portfolio, and financial planning data.

Advisory firms typically house their customer data in a Customer Relationship Management (CRM) system. This customer data includes critical information that firms can use to segment their clients by net worth, household income, gender, age, and an array of other demographic data.

Popular RIA CRMs:

- Redtail
- Envestnet/Tamarac
- Salesforce Sales Cloud
- Salesforce Financial Services Cloud
- AdvisorEngine/Junxure
- Concenter Services XLR8
- Advyzon
- SmartOffice by Ebix
- Advisors Assistant
- CircleBlack
- Salentica
- ProTracker

Unlike the data held by the advisor's CRM, clients' holdings, trading information, daily positions and balances, and, in some cases, tax lot information are housed by an advisor's trading and custody solutions. These data points can be extremely useful in client conversations and to enable tax loss harvesting.

Financial planning applications, on the other hand, store the information about a client's current portfolio with the advisory firm and the all important history of financial plans for their clients and their households. This provides a roadmap for advisory firms on each of their clients and can provide valuable insights on trends within their client base.

Tax information, proposals, and meeting notes all represent additional unstructured data that advisory firms hold on their clients. Most firms hold this information in client directories within secure cloud-based storage, such as OneDrive, or document management systems.

All of this data from these different sources enables advisory firms to better understand their clients. Further analyzing this data can help advisors provide a more personalized customer experience.

Client Experience Expectations are Evolving

For many years, it appeared that independent financial advisory firms lived in a bubble. The competition was large wirehouses, banks, insurance companies and others. These competitors had large advertising budgets, but they were primarily sales organizations that did not have deep client relationships. Many of these relationships were transaction based, so firms that offered real advice, and had a deeper understanding of their clients' needs, could form more meaningful, longer lasting relationships with clients. This landscape also allowed RIA firms to differentiate themselves from transactional based competitors when prospecting for new business. This one differentiator alone, the ability to act as a true advisor as opposed to a salesperson, was enough of an advantage for many to build highly successful practices.

Essentially, a relatively small number of independent advisory firms were competing against each other. There was more than enough business to go around, and competition was locally based. Because many true advisory firms had all the business they could handle, there was little incentive to invest in newer technologies.

As a result, until a decade ago, most advisory firms had paper-driven workflows that were slow and inefficient. Since most advisory firms had similarly inefficient workflows, and their clients were working with them because they offered real financial advice, the risk to one's business was not high. In addition, client expectations were relatively low. Prospects were led to believe that the onboarding process for a comprehensive financial planning arrangement would be onerous, and it was.

What a difference a decade makes! Today, client expectations have changed considerably. Consumer-facing firms have raised clients' service expectations. Retailers monitor and track your preferences, so they can anticipate your next purchase before you initiate it. Amazon is a great example. Within seconds of you putting something in your cart, Amazon will suggest other products you might like to buy. Prime members are guaranteed delivery of "Prime" products within two days, but many arrive sooner; sometimes within hours. The point is that consumers have come to expect prompt service, when they want it, through the channel they want it.

Data's Role in Creating an Awesome Client Experience

How can data help provide a better client experience? Let's look at a few examples.

At a very basic level, knowing which channel your client prefers to be contacted through creates a better client experience. If the data shows that your client prefers emails over calls, it could change how you reach out to them in the future. Understanding their schedule so you know when best to contact them is also important. If your client has rec-league basketball every Monday afternoon, you'll probably wait to call them until Tuesday. Every advisory firm should be tracking this type of information – some of the most advanced firms track this data directly within their CRM system.

Beyond your firm's storage of data, offering clients a secure, digital method to conduct business with you, instead of having to send paper documents back and forth or play phone tag, can help create a superior client experience. This change provides speed and efficiency to the document review and signature process. Many firms adopt digital signature technologies, such as DocuSign, to send document packages to their clients. While this method provides speed and efficiency, it also increases complexity because the executed documents now exist in a separate document repository and are unstructured sources of data.

An emerging trend in the industry is using information about your client and their financial needs to determine the next best action to take with that client. The next best action goes far beyond knowing that your client likes to review their financial plan with your firm every summer. Scheduling these reviews is simple calendar management using information that you can store in your firm's CRM system. Next best action solutions can now go further by leveraging algorithms and machine learning.

An algorithm is a process or set of rules to be followed in calculations or other problem-solving operations. Algorithms are purpose-built to answer a specific question. Machine learning is a method of data analysis that automates analytical model building. It is a branch of artificial intelligence based on the idea that systems can learn from data, identify patterns and make decisions with minimal human intervention.

Next best action solutions use machine learning and specific algorithms to analyze data about your clients to prompt specific actions the next time you speak with your client. Most advisors have a long list of tasks they need to perform daily. If their custodian or other providers can help prioritize those tasks so that the most pressing and impactful matters are addressed first, the client experience can be elevated. Finally, if a provider can identify the clients most at risk of leaving you in the near future, you can focus on addressing their concerns and hopefully avoid losing them – a level of care that can also lead to an elevated client experience.

The simplest example of a next best action solution is a notice when you start your workday that a client completed their onboarding documents. This helps ensure that you complete an ACATS request for that new client. This is a very high priority task and the next best action solution can prioritize this work near the top of your daily tasks. A medium complexity example of this may be notifying you to propose a life insurance review with your client at age 49 before rate increases normally associated at age 50. This example requires the next best action solution to review customer birthdates each night to identify which clients could benefit from a life insurance review. These next best action solution examples leverage structured data already available in many firm's existing systems.

A complex example of next best action solutions can leverage unstructured data from public sources like LinkedIn to propose an IRA rollover when a client changes jobs. The solution recognizes that the client likely participated in their prior company's 401k plan and may benefit from considering a rollover. Some large firms are experimenting with solutions that can predict when a client is most likely to leave their firm. Using unstructured trend data and client information, the solution can prompt the advisor to increase their communication levels during periods predicted by the algorithms. This example leverages unstructured data from a third-party source to drive the next best action.

Next best action solutions and leveraging unstructured data are capabilities that are currently available to the largest firms – firms that can support the development and maintenance efforts associated with leveraging cutting edge technology. These solutions are still emerging and offer significant promise to the business operations of large firms. Inevitably, this technology will become less expensive as it matures. Firms that leverage their structured data can better understand their client-base and ultimately provide an enhanced client experience.

Data's Role in Increasing Your Firm's Valuation

Providing an outstanding client experience can result in additional referrals for your firm and lead to strong growth in assets under management. Additionally, understanding your client profile and concentration can increase the valuation of your firm with a potential acquirer or investor. Diversification of your client base demonstrates resilience in your business and can indicate strong growth potential.

For example, your firm may leverage client data to build relationships with your client's children. This can provide resilience and avoid assets leaving your firm when those children receive gifted money from their parents. Simply knowing the age demographics of your client base can demonstrate diversification in your clients and position the future of your firm more favorably during investment or exit discussions.

Create a Data Lake or Warehouse?

Several firms are evaluating creating a Data Lake and leveraging that lake to create Data Warehouses. While this approach is excellent for large firms looking to analyze their data, it should be considered fully before firms invest in a data consolidation project. Advisory firms will encounter data stewardship concerns, data consolidation issues, information security concerns, information redundancy, and disaster recovery considerations.

Information Technology Considerations

The firm should first ask itself if it has the IT expertise to create and maintain the Data Lake and the resulting Data Warehouses. This requires database expertise and data stewardship. Data stewardship is a process where a data specialist analyzes all of your data, the frequency of copying your source data into your Data Lake, and what happens when data conflicts. A simple example of this issue is that you copy address information from your custodial service provider and your CRM into your Data Lake. **Which address is considered correct when the addresses are different?**

Designing your Data Lake is not simply copying all of your data into one place. Data stewardship and designing your Data Lake are skills not found in the vast majority of IT teams and should be outsourced to individuals and firms with that expertise.

Information Security Considerations

Mostly, advisory firms are ill-equipped to manage, mine, and protect large amounts of data with the exception of the largest and most technologically savvy firms. Storage is not the issue. Storage is readily available, and it is inexpensive. The challenge is to ensure that the data is secure.

Large technology firms can provide a personalized experience by tracking large amounts of data about their clients. This data can, and often does, contain personally identifiable information, or PII. PII means information that can be used to distinguish or trace an individual's identity, either alone or when combined with other personal or identifying information that is linked or linkable to a specific individual. Any firm that stores PII has a responsibility to protect that data, and there are regulations as to how PII must be protected. These regulations differ by industry and geographic region which can create complications.

The 1999 Gramm-Leach-Bliley Act (GLBA) at the federal level highlighted a significant focus on privacy. States are also enacting their own privacy laws which further complicate the PII compliance landscape.

The state of California has been a leader in terms of enacting comprehensive data protection and privacy regulations in the US. The California Consumer Privacy Act (CCPA) was first introduced in 2018 and enacted in 2020. The CCPA is focused on providing transparency in how companies are using consumer information and on providing consumers with control over how companies collect and use their data. Under the CCPA, consumers have a number of rights, including the right to know what information a company is collecting about them, access to their personal information, the ability to opt out of the sale of their personal information, and to not be discriminated against should they exercise any of their data protection rights.

California passed additional legislation in November 2020 with the California Privacy Rights Act (CPRA). The CPRA highlights the rapidly evolving nature of privacy and data issues and will supplant the CCPA on January 1, 2022. New York and Florida also have legislation under review that focuses on PII protection and required disclosures should PII be exposed.

The failure to protect PII can lead to dire consequences for violators. In August 2021, The SEC cited a number of firms for deficient cybersecurity practices. Fines ranged from $200,000 – $300,000 with additional costs for credit monitoring for the affected clients as well as costs to remediate the issues. While fines can be costly, the loss of client trust can devastate a firm that suffers a large data incident. Large firms may weather such storms, but word of mouth can travel quickly among the clients of small and mid-sized firms.

Redundancy and Disaster Recovery Considerations

Redundancy is another issue that should not be overlooked. Fires, hurricanes, earthquakes, floods, and other disasters can and do impact the operations of financial services firms every year. Every advisory firm registered with the SEC, and most state registered advisors, are required to have and maintain a business continuity plan. Unfortunately, in many cases where a disaster struck, firms found out at the worst possible time that their plans were lacking in one or more areas.

Without geographically dispersed redundancy, it is difficult to ensure operational continuity when disaster strikes. A disaster can significantly affect a firm's business operations and can result in permanent data loss. Many firms fail to test their disaster recovery plans twice a year, as is recommended by many technology experts.

Firms should consider implementing cloud-based storage solutions with encrypted data transfer from their advisory firm to their cloud storage provider. The firm should be well-versed in the security of their data and redundancy of their cloud provider's operations.

Most RIA firms have neither the scale nor the expertise to fully evaluate the data and redundancy risks that can pose a threat to their ongoing operations. Most advisory firms can outsource this function to a third party and would be well-served by taking advantage of their capabilities. The rapid growth of cloud-based advisory tools enables RIAs to take advantage of their technology provider's expertise in data hosting and data security. Advisory firms should complete their due diligence by reviewing the disaster recovery, data security, and encryption practices and plans of any providers with which they work.

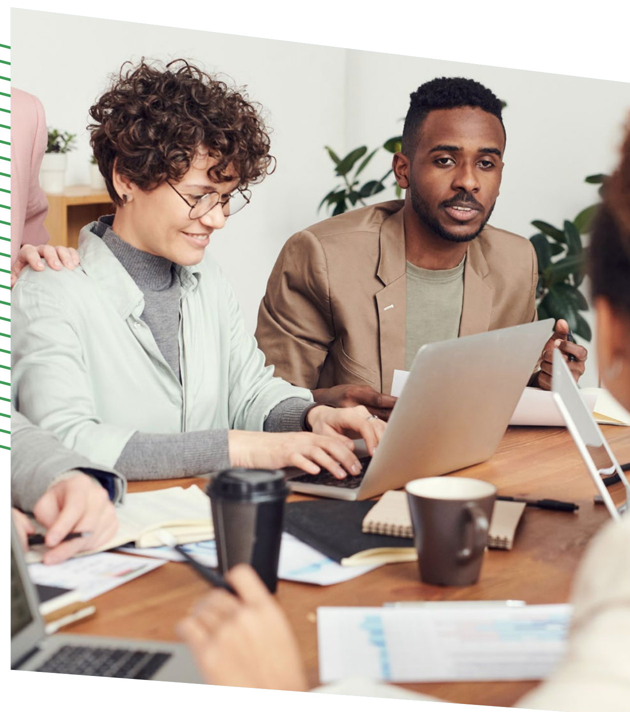
Data Ownership and Access Considerations

Advisory firms encounter challenges when they attempt to consolidate and leverage data from their application vendors. RIA firms often fail to fully evaluate a provider's policies around data ownership and delivery.

Many application vendors limit the amount of data that their customers can transfer on a daily basis or have real limitations in the format that the data can be delivered to the advisory firm. For example, if the vendor will only provide data nightly in a flat file format, does the advisory firm have the expertise to digest the data in that format?

Advisory firms should consider the case of an ownership change for your vendor, a bankruptcy by the vendor, or a failure on the part of the vendor's cloud-hosting provider. In these instances, who is responsible for the impact to your firm, and what remedies are available to you in the case of a default?

Use of your data should be a consideration and you should discuss this with your application vendors. Does your vendor reserve the right to use your data for testing or incident response purposes? In these instances, your clients' PII may be exposed to development teams from your vendor that are in fact consultants to your vendor. What protections does your firm have in the case of a data breach, where individuals working with your clients' PII do not work directly for your vendor? Is your data being sent offshore to your vendor's development partners exposing you to further risk? What indemnification does your agreement provide to you should PII be exposed and a regulator recommend the exposure to their enforcement division?



Data ownership is another large question. Assuming it is the advisor, in what format will the provider deliver the data, in what time frame, and what guarantees are there that the vendor will perform as promised on time?

All advisory firms should review their vendor relationships to determine their exposure and the availability of their firm's data as they consider how to leverage their data in their effort to provide an amazing customer experience.

Not All Providers Are Created Equal

A third-party provider, such as an RIA custodial service provider, has the expertise and scale to help structure much of the data that RIA's interact with. By structuring the data, a custodial service provider can empower advisors to gain valuable business insights, thereby potentially increasing the value of their business. As we discussed earlier, this data enables you to identify your average client age for example. In doing so, your team can better determine the future valuation and prospects for your business.

Third-party providers can help advisory firms achieve a higher level of operational efficiency by offering solutions like operational dashboards and reports. By applying structure to client and prospect data, a provider can help identify who the advisory firm's "ideal clients" are, so that firm can concentrate on attracting more prospects that are the best fit.

While it may appear at first glance that all third-party providers are the same, they are not. Each technology vendor an advisor engages with has its own policies and procedures that dictate everything from how that data will be stored, data redundancy, security protocols, and a host of other things.

TradePMR believes it is differentiated from other custodial service providers for one key reason: the firm believes that the advisor owns their data. They offer the ability for an advisory firm to receive a nightly file with their clients' positions and balances. These files can be imported into a structured database and readily leveraged by the advisory firm for analysis.

Joining the data from TradePMR with the customer data from your CRM can enable you to generate deeper insights into your client base, recognize client demographic concentrations, and analyze your firm's holdings across your entire client base to determine your investment concentration. This provides valuable insights across your firm – enabling you to better understand your clients, with the goal to subsequently deliver an outstanding client experience. For example, the insights that your investment team gains from evaluating your aggregate holdings can help your firm to reduce concentration risk within your client portfolios, ultimately hoping to provide a superior level of service to your clients.

How can you tell where your custodial service provider stands on data? What questions do you ask to make sure you get the most out of your data?

Download your custodian data questions checklist – these questions will help you determine how your provider approaches data, and if they are giving you the information your firm needs to make informed, data-driven decisions.

Download Your Data Worksheet

If you think your custodian may be falling short in their delivery of your data, we should have a conversation. ***Set up a call with our team today*** or email us at **sales@tradepmr.com.**

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