Patpatia & Associates, Inc.

The Fiduciary Standard is Here to Stay:

Putting long-term business sustainability over short-term profits

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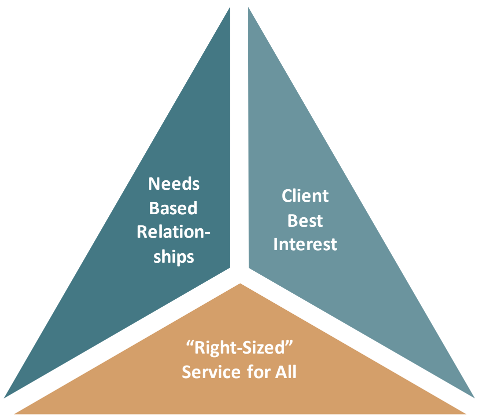
ADVICE PROVIDERS' FIDUCIARY RESPONSIBILITY



THE FIDUCIARY BUSINESS MODEL

Retirement accounts, such as 401(k)s and IRAs, often represent the majority of an individual's life savings. Given the responsibility managing this money presents, the market is not going to stop moving towards a fiduciary standard. To serve these investors for the long-term, firms and advisors will have to adopt fiduciary business models. This isn't a bad thing – it is an opportunity for advice providers to make changes that improve the quality of the business, and the provider's reputation, regardless of the regulatory environment.

People don't need securities, they need retirement income, and a down payment for a house, and tuition. Even lower net worth investors have unique situations that advisors would benefit from learning about before making recommendations. An understanding competing financial goals, personal concerns, debt, and other factors is necessary for both providing good advice, and forming a long-term, productive relationship.

While most advisors mean well, "bad actors" have regularly pushed high-commission products that left the investor worse off. Traditional commissioned compensation inherently encourages this behavior by rewarding the advisor for making transactions, whether or not they are best for the investor. Firms and advisors cannot ignore the impact conflicted advice has on brand reputation and client retention.

Investors with only $100,000, or less, in assets have largely the same needs as the high net worth, but far less ability to pay. This group requires both less expensive products, and a cost-effective way to access the same high-touch support as is available to wealthy. To provide quality service without losing money, financial firms will need to create business models blending personal advisors, self-service technology, and call centers.

While the opportunity presented by retirement savers is well-understood, there is considerable gap in quality, unbiased, and affordable financial advice. Investors have learned to ask advisors "Are you putting my interests first?" and question those that can't say "Yes" – time will favor those firms that establish cost-effective fiduciary practices.

COMMON FEATURES OF A FIDUCIARY BUSINESS MODEL

The firm is responsible for restructuring its businesses and providing resources to make it easier for advisors to develop fiduciary relationships with investors.

Advisors should have tools to guide investor information gathering – not just "suitability", but also goals and other details of the investor's financial situation. *After* the client's situation has been determined, these tools should help advisors find a product that fits. Beginning with a specific product and developing a "story" to sell that product is not a fiduciary practice.

Home offices can reduce advisors' work by prescreening investments to filter out high cost or other difficult to justify products. Product shelves should include passive mutual funds, ETFs, target date funds, and other inexpensive, easy to explain investments, in addition to active options.

- ✓ Well-defined client discovery process
- ✓ Formal guidelines for matching products to investors
- ✓ Due diligence reviewed product shelf
- ✓ Unconflicted compensation and other incentives
- ✓ Automated account opening and other administrative tasks
- ✓ Advice documentation and CRM

It is the firm's job to align the advisor's incentives with the investor's. Conflicted advice can be avoided by encouraging advisors to use asset-based or similarly flat fee models, and structuring commissions to eliminate any financial incentive to sell certain products over others.

The advisor's time is important to establish the relationship, but other activities can be done at a lower cost through a call center or investor self-service. For example, the investor may complete paperwork and other account opening tasks on his or her own in an online portal. This frees the advisor to focus on business development, without interfering in his or her control of the relationship. Successful firms will employ a hybrid approach, blending personal advice with online resources.

Finally, customer management resources should make it easy for advisors to continually engage with investors, both to provide up to date advice and provide opportunities to expand the relationship.

INVESTING IN TECHNOLOGY TO REDUCE COSTS

Creating a profitable fiduciary business requires investment – tapping less affluent investors relies on automation. Making that investment now, rather than continuing to put off upgrades and new systems, will give firms an advantage.

A well-planned platform will support any service channel, including traditional advisor, self-directed digital, call center, or a blend. Basic configuration of each tool to surface or hide capabilities provides the differentiation between channels.

Any Service Channel

Financial Advisor **Digital/ Robo** **Call Center**

INTEGRATED TECHNOLOGY PLATFORM

Making technology available is not enough – firms should look for issues at the touchpoints between technology and users to ensure it is working well. A common problem is advisors not using tools (e.g. CRM, investment planning) because they don't know how or don't want to. Training, home office service support, and incentives can resolve these issues. Another problem is both advisors and home office users manually doing tasks that could easily be automated (e.g. generation of trading compliance reports instead of systematic pre-trade rules enforcement).

Technology is not a replacement for advisors, it is a complement – a robot can't form a relationship. The greater the efficiency firms achieve from their technology platforms and administrative processes, the greater the return they can earn from retirement savers at scale.

ABOUT PATPATIA & ASSOCIATES, INC.

Patpatia & Associates is a management consultancy that exclusively serves financial institutions and financial technology firms. We provide both strategy development and execution services for clients, ranging from the largest multi-nationals to boutiques.

Our Wealth Management practice's experience includes: new market entry strategies, advisory and customer engagement initiatives, product/platform development, and technology and infrastructure modernization. Through these specializations, our team of industry veterans helps firms get and stay ahead in the marketplace.

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