Choosing a WealthTech ecosystem: Where decisions are not simple

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Nicholas Kwok
Endava, USA

Nicholas Kwok is an experienced adviser and delivery partner in the Wealth Management Technology (WealthTech) space and has more than 15 years of experience in the wealth management industry. Leading Endava’s North America Wealth Management practice, he helps leading wealth managers and WealthTech partners in industry execute and deliver on their digital strategies. With a focus on data modernisation and overall platform transformation initiatives, he has delivered multi-year digital wealth programmes for retail brokerages, wire houses, WealthTech platforms and asset managers. Most recently, he has helped a leading alternatives investment marketplace to deliver and execute on their data strategy and a leading capital markets FinTech provider with their product modernisation strategy. Nicholas holds a Bachelor of Science degree in Business Administration from Carnegie Mellon University.

Abstract

With the ongoing democratisation of investment and wealth services, there is a proliferation of wealth management technology (WealthTech) platforms that are providing professionals like financial advisers with advanced tooling, regular individuals like self-directed retail investors with approachable systems or both. It is difficult enough to try and pick the right platform or platforms to use regardless of what kind of investor you are, let alone deciding on what combination of them works best for you or your firm. The interoperability and strategic relationships of the WealthTech platforms are equally important when deciding whom to commit to — the ecosystem. As such, a WealthTech ecosystem is the complex network that connects a broad range of applications, services and partners — from enabling financial advisers to empowering self-directed investors and streamlining front-to-back operations to network connecting marketplaces. Both professionals and individual investors leverage a litany of platforms and service providers to manage their clients’ or their own wealth. This paper — leveraging content from a recent report from CB Insights (https://www.cbinsights.com/research/wealth-tech-financial-services-incumbents-partnerships/) — provides an overview of why it is important to look beyond the individual capabilities provided by a WealthTech platform and at the broader ecosystem that you will be participating in. This ultimately begins with an introspection of your own platform, capabilities and tools to determine how best to proceed.

KEYWORDS: WealthTech, wealth management, broker-dealer technology, ecosystem

WHAT IS A WEALTHTECH ECOSYSTEM?

Before plunging into a discussion of WealthTech ecosystems, it is helpful to clarify our definition of WealthTech and the ecosystem it supports in this paper. As the term suggests, WealthTech can be considered a segment of the broader FinTech umbrella that includes technology providers or digital enablers that support the investment and wealth management sector. This covers functions and accompanying capabilities spanning the entire value chain of wealth management. With the ongoing
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democratisation of investment and wealth services, wealthtech caters to professionals like financial advisers with advanced tooling, regular individuals like self-directed retail investors with approachable systems or both. As such, a wealthtech ecosystem is the complex network that connects a broad range of applications, services and partners — from enabling financial advisers to empowering self-directed investors and streamlining front-to-back operations to network connecting marketplaces. Both professionals and individual investors leverage a litany of platforms and service providers to manage their clients’ or their own wealth.

With traditional service providers reinventing themselves as platform providers and the proliferation of digital disruptors, there are more choices than ever for financial advisers and investors when deciding what tools to use or what platforms to invest through. Although the consolidation trend is helping to simplify decisions among the winners in the fragmented environment of wealthtech, there are still no outright turnkey solutions or straightforward blueprints to follow. The choice of tools or platforms to use is not based on a simple decision with regard to the individual capabilities provided but rather an evaluation of the overall experience that the combination of systems and broader ecosystem provides. The objective is to allow financial advisers to focus on clients and investors to focus on achieving their wealth goals and not on figuring out how to make things work.

WHY DOES IT MATTER?

We can view the world of wealthtech from two sides — those servicing financial institutions that help clients manage their wealth and those directly servicing end investors who manage it themselves. With the continued momentum in innovation and resources invested in the space, the pace of wealth management democratisation will only increase. This growing access to tools, services, products and education, which is fuelled by an ever-expanding market of providers not only enables the financial advisers but also empowers the end investors. Individuals today have the means, the tools and the access to products and education to manage their wealth in ways that were not historically possible. Financial institutions and their advisers are competing with a growing wealth management landscape as well as more educated individual investors going at it on their own.

Market volatility, propelled by recent geopolitical and global pandemic factors, is driving traditional wealth management providers and leading wealthtech providers to join forces and create strategic partnerships that strengthen the ecosystems that they are part of (Figure 1). As such, it is necessary to discuss a few important trends to highlight the challenges and opportunities that currently exist in the market:

- **Responsible and sustainable investing** — as wealth continues to be transferred from older generations and accumulated in younger demographics who value the societal impacts of their investment choices, so has the popularity grown with responsible and sustainable investing. Capturing data around and attributing performance or risk to parameters of environment, social and corporate governance (ESG) is still relatively new territory in the overall investment value chain. From data aggregators to product manufacturers, ESG-related investment functionality and capabilities will continue to be featured prominently. The challenge for financial advisers will be to navigate through the noise, understand what matters most to their clients and be able to communicate the whole story alongside traditional performance and risk dimensions. This also presents itself as an opportunity where a trusted professional can help discern misinformation and noise in
an area that is not mature enough for individual investors to work through themselves.

- **Social trading and investing** — as social media and digital communities are part of everyday life, the convergence of social platforms and investing is a natural evolution of trading communities. An example of this can be seen in the market turmoil generated by social media platforms connecting retail investors focused on meme stocks using platforms such as Reddit. There are brokerage platforms dedicated to facilitating community-driven investing to capitalize on this trend by allowing investors to ‘copy’ other investors’ trades using a very low to zero fee structure such as eToro, which further empowers retail investors through investing communities and education focus investment enablement. The challenge for financial advisers is whether they will be able to service clients that are increasingly more comfortable with and aware of investing trends. The challenge for traditional brokerage platforms will be to compete with the growing community-driven alternative platforms that create a richer experience for investors. As the behaviours and interaction preferences of the client base change with the demographic tendencies, financial advisers can engage with a larger audience and better understand the trends in the community. Likewise, for brokerage platforms the opportunity presented here is the ability to create a differentiated experience beyond fees, prices and product offerings.

- **The problem of too many** — finally, we have an abundance of providers, tools and platforms. Traditional turnkey asset management platforms are no longer sufficient or simple enough. The need to simplify and harmonise financial planning, hybrid advice delivery, client onboarding, account aggregation and all the functions of wealth management has led to the unified wealth platform that puts the entire wealthtech ecosystem into a neatly bundled package. Be it through strategic partnerships like Envestnet offering UBS
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and iCapital Network alternative products through iCapital's turnkey platform or its acquisition of Harvest Savings and Wealth Technology that unifies a bank's retail and wealth offerings, platform providers are racing to establish a unified ecosystem under one umbrella to provide an integrated solution covering all the needs of wealth management providers. The case that is being made is to eliminate the cost to integrate disparate components for financial services institutions and provide a seamless experience to both the financial advisers and the client to manage their financial wellness and achieve wealth goals holistically. As consolidations continue, there will be fewer and more comprehensive platform providers to choose from. Initial decisions may be easier, but there will be growing concerns with vendor tie-in and less flexibility in catering to your specific needs. Additionally, there will be custom cores along with new and emerging services that need to be integrated into the ecosystem solution.

WHAT CHOICES DO WE HAVE (AND HOW DO WE CHOOSE)?

There is a plethora of tools available in the market; whether they can fill the gap in your toolkit or replace the one that you have right now is meaningful only if you have a good understanding of what you want to do and what tools you need to accomplish those goals. Before deciding on what new tool or system to use and whom to partner with, we need to establish a clear framework to determine the value and purpose that these capabilities enable.

Establishing a high-level view of your core platform based on both client offerings and business capabilities helps identify integration complexities and feature overlaps between proprietary cores and wealthtech providers. The goal is to determine the essential differentiation enabling systems and capabilities and then decide on the best design to allow for flexibility and scalability with a high degree of control and make it future proof. The following are the core capability domains of a wealth management platform:

- **Experience Layer** — this includes all engagement channels for clients, advisers and operation users to provide a shared digital experience to reduce friction between clients and business users regardless of the access channels.
- **Client Relationship Management (CRM)** — modern client-centric CRM tools are highly consolidated, with Salesforce being an almost ubiquitous choice. The alternatives are specialised wealth providers such as Redtail or native extensions of turnkey asset and wealth management platforms that integrate more seamlessly with investment management and financial planning systems.
- **Client Onboarding and Maintenance** — tight integration with CRM and core banking functions such as account opening should be a top priority, along with maintenance, to enable a smooth client journey from prospect to client and maintain an enjoyable existing client experience.
- **Financial Planning and Advice Delivery** — essential to holistic wealth management is the overall financial and wealth planning that includes how the overall experience is delivered. CRM and account aggregation tools help collect the data to understand the client's goals and holistic wealth position, while financial planning focuses on acting on those insights. This is often the secret sauce for successful wealth managers.
- **Portfolio Construction and Management** — with the increasing availability and access to sophisticated investment and portfolio management tools, there is more room to automate the overall investment and strategy refinement process that not only alleviates the burden on the adviser but also reduces the margin of error.
• **Trading and Compliance** — the focus here is on access to expanding asset classes and product availability that veers into the vast world of alternatives and being able to bridge the gap to provide true holistic wealth management as a one-stop shop for clients.

• **Data Orchestration and Client Reporting** — being able to tap into both internal and external data to share information and act on insights consistently is important to reducing the friction in the overall client experience but is also critical to providing ongoing flexibility to the overall platform.

• **Core Banking and Record Keeping** — these are not limited to core banking but cover all core administration, record keeping and integration with other business and products to provide a consistent experience across offerings and services to the end client.

The core wealth management platform view helps organise what capabilities are critical and should remain proprietary to provide high levels of customisation and flexibility. The non-critical domains present opportunities for outsourcing but do not immediately mean they need to be. High levels of integration and compounding complexity to data orchestration add costs to partnering with vendors, which should be part of the evaluation of fit for purpose of tools.

Regardless of the business model — traditional adviser-led, direct to retail investors or a digital hybrid, the focus needs to be on establishing flexibility around proprietary cores, ease of integration both internally and externally through open architectures, democratised data access and ownership and personalised client experiences.

**WHAT IS AN EFFECTIVE WEALTHTECH ECOSYSTEM?**

As the pace of consolidation continues to accelerate, more strategic partnerships will form, and merger and acquisitions will take place to provide more comprehensive partnership models that focus on providing a turnkey experience. Consequently, the market will continue to help us decide what the optimal platform and model should look like, who are the providers and how we should engage and partner with them.

With growing economies of scale and comprehensive offerings, the successful wealthtech providers will have established integration patterns with most industry infrastructures and leading institutions.

Unlike closed ecosystem models, such as those of Android and Apple in the mobile phone space, the prevailing trend with wealthtech ecosystems is an emphasis on open architectures and ease of data integration. An effective wealthtech ecosystem is one that works with all the disparate providers across the buy and sell side spectrum, while leaning on modern architectures that enable flexibility for scale and changes.

In an attempt not to overgeneralise the options available in the market and what constitutes a wealthtech ecosystem — let alone an effective one, there are three models when considering the broader relationships and partnerships with wealthtech providers:

• **End-to-End Partner Platform** — this offers a near turnkey solution with a comprehensive platform that provides a breadth of investment management features and integrations with major industry servicers. An example of this would be buying into a platform such as Envestnet that has successfully acquired and integrated leading providers in the industry to offer a broad spectrum of capabilities that is all within a native suite. The benefit of this model relies on the scale and influence of the anchor provider to grow their offering (organically or inorganically) and offer streamlined integration that they navigate with external providers. The drawback will be
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limited customisation with partnerships and potential redundant capabilities with in-house systems.

- **Wealth Partner Core** — this offers a tailored wealth management solution with a seamless front-to-back experience for financial advisers and their client investors. An example of this would be leveraging the likes of an InvestCloud and customising the experience with their expanding library of solution offerings driven through merger and acquisition activity. The benefit of partnering with a modern wealth focused core platform is that it is cloud ready and offers a more tailored experience out of the box. The modularity of the platform offers customisation that is centred on core capability and experience layers from front to back office. This allows for more of a plug-and-play partnership model with other systems and providers. The complexity lies in the integration with those partners and services that may require more legwork to provide a seamless experience.

- **Best of Breed Network** — this is based on a few essential tools and wealthtech partners who are leading providers in the industry. It is unlikely, and not recommended, that all functions be outsourced to what may be deemed the leading option in the industry as they may not operate smoothly together without considerable integration effort. The model here is to focus on two or three essential systems across front/middle/back-office functions that are essential to user and client experiences. An example would be to anchor off Salesforce as a broad customer relationship management (CRM) system and an in-house client onboarding application that provides robust and differentiated functionality with tight-knit integrations for a smooth user experience. This model is a more reserved approach to leveraging wealthtech partners to outsource functions and capabilities that focus on a limited number of strategic partners to form the backbone of the platform and minimising the amount of integration points. The challenge will be to determine when it is best to keep things in-house, leverage the at times limited capabilities of the strategic cores rather than add another wealthtech partner to help fill another gap. The more partners, the more integrations, the more implementation and maintenance costs, which at some point will outweigh the benefits that those partners bring to the table.

**TAKEAWAYS FROM THIS DISCUSSION**

How can wealthtech partners and the broader ecosystem help you? The challenge at hand is usually a modernisation requirement of existing capabilities and lagging legacy systems or a need to support the expansion into a new business product or client offering. The value proposition of wealthtech providers is that they offer a quick and modern solution that can integrate more easily with modern technology stacks. As with any technology initiative, it all starts with a clear understanding of the business case and how it will impact internal users and external client experiences.

Without delving into general buy versus build assessment frameworks, the important considerations with partnering wealthtech providers is the level of integration and strategic partnerships with other core ecosystem providers such as custodians, investor reporting and account aggregation engines. To achieve or maintain a high degree of systems flexibility and overall platform scalability, integrations across all partner providers and proprietary systems need to be addressed as part of the strategic partnership decisioning. Whom you partner can increase the reach and access of your network but also restrict it, given competing natures of ecosystem partners. It is important not only to look at the capabilities individually but rather
consider the net impact of all wealthtech providers and their integration patterns. The strategic partnerships and investments being made within the broader ecosystem by the wealthtech provider you are deciding to leverage is critical to addressing scalability.

As discussed, integrations and interoperability are important to having a future-proof and scalable platform. Wealthtech partners and their level of external integrations with other providers is part of their overall value proposition. The first step, however, is to understand how your core platform will need to change to support the new products or capabilities. Whether you are looking to expand your existing wealth management offerings or introduce net new investment and financial planning services, you will have to determine what capabilities remain on your core platform. It is likely that any wealthtech you decide to leverage will have some redundant capabilities that require harmonisation such as portfolio reporting or asset and account aggregation. The data resides on two different systems and is presented on two different interfaces. Bringing in the new data alone is not sufficient as the reporting and presentation will also need to be enhanced to support the new products. Leaving it alone will leave users with a disjointed experience. As such, the harmonisation challenge adds another layer of data integration and user-experience complexities that need to be factored in when deciding to leverage a partner provider.

At the end of the day, wealthtech partners can provide a quick solution to meet either your expansion or modernisation goals. The decision is really between which providers to partner with rather than a true buy versus build evaluation. Most will have already established strategic partnerships with other ecosystem providers or developed mature integrations. The challenge is about how many providers you want to partner with and how much of your core platform you want to outsource. A best of breed network will not only provide more freedom of partners but also allow you to have more control over your product and platform roadmap as you are not as dependent on the partner roadmaps. Since there will be a lot more integrations and harmonisation considerations, it is generally a path to take if you already have an open architecture that can plug and play. On the other hand, partnering with an end-to-end provider or a core wealth platform will minimise the amount of work required to integrate components and offer a more turnkey solution. This, however, is a larger strategic commitment and will require more implementation considerations as more capabilities and user experiences are impacted.

As the democratisation of wealth management continues, the overall wealthtech ecosystem landscape will continue to change even more rapidly. Access to sophisticated investment services, holistic wealth planning and new alternative assets will continue to grow. Maintaining control and flexibility in your product and business roadmap is essential to maximising broader ecosystem partnerships and reacting to the market in a timely fashion. Technology is an enabler of the business strategy, and technology providers should help accelerate the achievement of those goals.

References
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