

**B&FS Domain Consulting Group (BFSDCG)**

**Advisory Services**

**Business-IT Model**

**Draft Version 1.7**



## Document Control

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## 1.0 Introduction

This document supports the consulting projects in the Advisory Services industry. It describes the Business – IT model for the industry, which can be used as a reference for Cognizant to develop a blue print and a road map for banks and financial institutions who provide products and services to the Advisory Services industry.

A Business – IT model is the method of doing business by which an institution can comply, grow, be profitable, and compete in the industry. The model specifies the following:

- Industry overview and market analysis – Important definitions, market characteristics, various types of industry players, current and future market trends, competitive landscape etc.
- For target enterprises within the industry –
  - Strategic objectives, products and services, and where they are positioned in the value chain, who are their customers and how are they using the products and services, and what are their needs
  - How is the business organized to provide products and services and cater to the needs of the customer
  - How is the business performing currently and what are the performance objectives for the next 3 to 5 years
  - Operational processes and organization that the institution should have to service the market
  - What is the current IT model, and what should be the target IT model to meet the Strategic and Operational Requirements.

The table below defines the structure of the document.

Chapter	Description
2. Industry Definition	This chapter defines the Advisory Services Industry, its major business entities (Industry Participants) involved, high level operational processes involved ,various business segments, services required by these segments, market (for this industry) size, organizational structure of entities who provide these products and services.
3. Industry Analysis	This chapter describes in general the market place, customers, industry players - products and services they provide, or intend to provide, how they are organized, their size, major trends or developments in the market ,regulatory environment and supervision, along with a summary of our



	<p>conclusions.</p> <p>Also detailed are any major IT products, which are in use or emerging, and an assessment of the technology, i.e. business processes they service, and any other qualifications.</p>
4. Current Business Model - Financial Advisory Services Firm	This chapter describes the industry technology, customers, products, services, etc and IT environment of the Advisory Services Firm.
5. Business Strategy - Advisory Services Industry	This chapter defines Business strategy in terms of goals, objectives, critical success factors and constraints, issues, time frames, etc. The focus of this chapter is more geared towards interpretation and understanding of business strategy which can be applied to formulate a Business-IT plan that can be generically applied to the enterprises falling in Advisory Industry. The strategy can be used as a general direction to formulate more specific Business-IT strategy suited for a specific B&FS client in the said industry.
6. To Be Business – IT Model - Advisory Services Industry	This chapter describes a typical model covering the future customers, products, services, growth and performance, along with IT requirements



The financial advisory business in the United States has grown over the past 10 years to become major financial services industry. Spawned from a variety of other businesses including financial planning companies, trust banks and accounting firms, financial advisory firms' in 1992 had only \$120B under management. By the end of 1997 they oversaw more than \$515B in assets- a compounded annual growth rate of over 34% over the period. The industry assets currently have increased to 17.9<sup>^</sup> trillion. This staggering growth has resulted in creation of thousands of proprietorships and small partnership firms. The rapid growth has caught the financial advisory firms unprepared.

The following are the major developments in the industry in last 10 years

- ✓ The financial advisory industry is extremely fragmented with more than 11,500<sup>##</sup> firms. Most of these firms are small and generate only modest profits.
- ✓ The largest industry association, the Financial Planners Association, represents less than 30% of the market, and no single organization tracks all the industry's segments.
- ✓ The industry is made of mostly of sole proprietorship and small partnerships each offering a variety of services.
- ✓ There are 12 million mass-affluent (\$100K -\$1M in Investable Asset) baby-boomer households in the United States.\*
- ✓ Despite increased access to financial information and transactional functionality through direct channels like the Internet, 79% of mass-affluent investors want to have a professional advisor involved in their financial decision-making process. \*
- ✓ The number of certified financial advisors in the US financial planning market increased by 11% and reached over 43,390 thousand in 2003. #
- ✓ The financial planning market in the US is forecast to grow by 22.4% over the forecast period and reach a number of about 56,420 thousand certified financial advisors in 2008. #
- ✓ Brokerages have shifted their businesses from traditional transaction based compensation systems to fee based programs in order to compete for semi affluent clients (Investable asset of \$1-10M)
- ✓ Large investment banks and private banking companies that have historically targeted only the wealthy are now vigorously pursuing semi affluent.
- ✓ Company that had not traditionally been in the financial advisory business such as Accounting and Money management firms, trust attorneys have started their own practices and have formed their own financial advisory units.

\* Source: Forrester's Consumer Technographics® 2004 North American Benchmark Study

# Source Euro monitor report on financial planning Industry in USA

## Source: FIAG (Fidelity Investment Advisor group)

<sup>^</sup> Source: IARD (Investment Adviser Registered Repository)



## 2.0 Advisory Services Industry Definitions

In the following sections of this chapter the Advisory Services Industry in United States and its participant's and the business processes are defined. These definitions are meant to understand the lay of land and serve as reference in developing the models.

### 2.1 Advisory Services Industry

#### What are Financial Advisory Services?

Financial Advisory Services are a consulting service, which involves a relationship with an investment professional/financial advisor that allows the investor to receive information and advice concerning specific investment opportunities. However the individual makes the ultimate investment decisions.

A financial advice can be developed by the combination of any of the entitlements shown in Table 2.1 across different lines of business.

Entitlement	Line of Business/Products	Products
Financial Instrument	Investment Planning	Annuity, Certificate of Deposits, High Yield Savings, Mutual Funds, Life Insurance, Stocks & Bonds, IRAs/Roll over IRAs, Money Market & Cash etc
Transaction	Protection Planning	Auto, Home, Life, Long term care, Disability etc.
Product	Estate / Succession Planning	Organization Charting Tools, Talent Management.
Advice	Retirement Planning	401(K), IRAs, Rollover IRAs, Mutual Funds, Annuities, Privileged Assets Annuity, Pension Plans etc.
Strategy	Financial Position Planning	Mortgages, Home Equity & Line of Credit, Checking, Savings and CD etc
	Others	Charitable planning, Educational Funding , Tax Planning

Table 2.1 Financial Advice-Design



## 2.2 Advisory Services Industry - Major Entities

Some of the key functional roles in the financial advisory industry are:

**Client/Consumer:** The client in financial advisory industry is the one who receives the expert advice about investments, retirement planning, insurance and taxes etc. For Example: An individual seeking investment advice.

**Financial Advisor (Counselor or Consultant):** “Financial advisor” (or advisor) is a generic term used broadly by consumers and financial services professionals to describe an individual engaged in providing financial advice, services or products to a client for compensation. The term “financial advisor” covers a broad spectrum of financial professionals including financial advisors, registered representatives, money managers, investment advisors and individuals who sell or advise people on financial products. A list of terms that describes individuals who work in the financial planning and financial services professions is provided in the Section 8.1

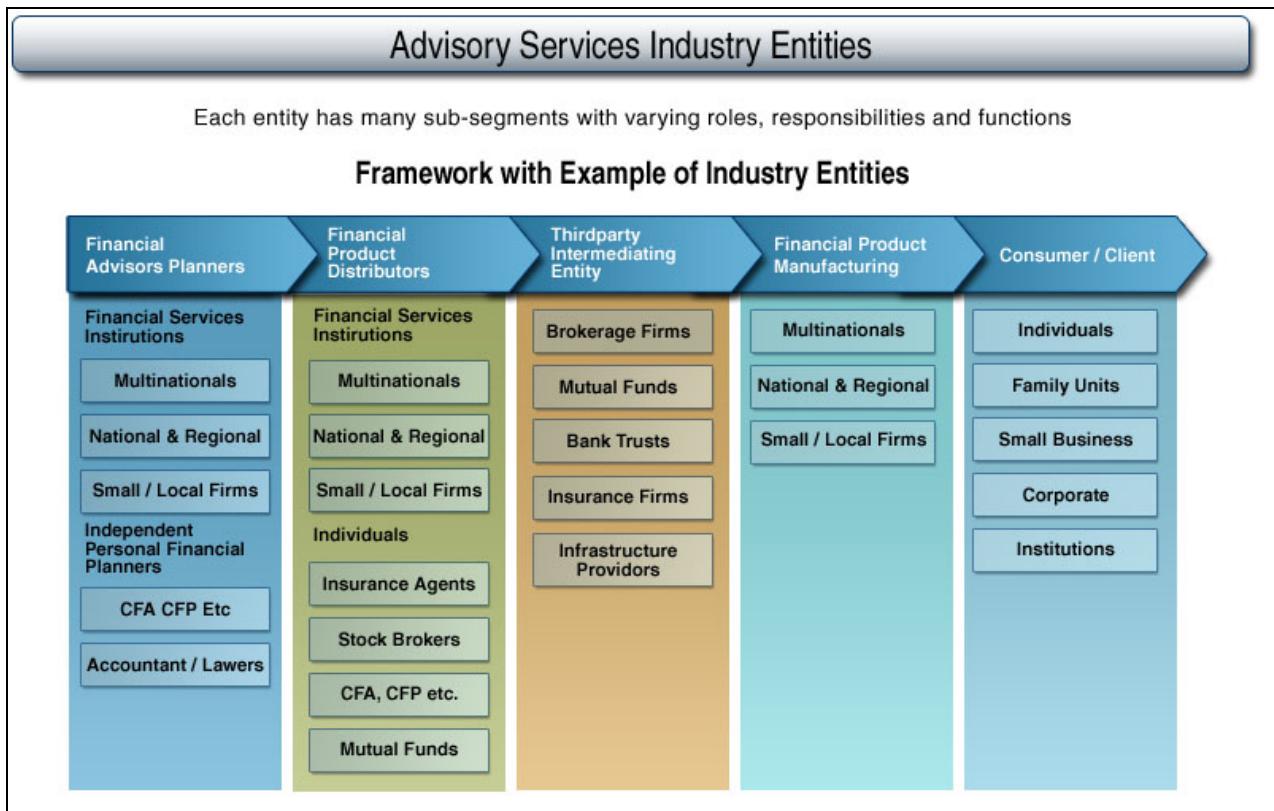
**Third Party /Intermediating Entity:** These are the institutions/organizations/individuals that play a role in the form of being a part of the implementation process of the financial advice. For example a financial advisor may involve a Real estate broker in the process of Real estate purchase/selling process. Real estate brokers may intern involve banks, savings and loans, and mortgage bankers etc and they all will collectively form a part of the Intermediating Entities.

**Financial Product Distributor:** Financial product distributors are institutions/ organizations/ individuals who are engaged in distribution of financial products. For example: A Mutual Fund Company selling a mutual fund or an insurance agent selling a life insurance scheme.

**Financial Product Manufacturer:** Financial Product Manufacturer are the organizations engaged in developing and designing financial products that help in risk management/asset liability spread matching etc. These manufacturers are financial innovators who develop financial products to improve the overall efficiency and effectiveness of any financial market. For example Credit Derivative is a financial product that helps banks in better risk management.

Figure 2.1 is a diagrammatic representation of different entities and players within the entities.



**Figure 2.1 Major Industry Entities****Industry Value Chain**

The advisory industry value chain and the value propositions offered by different participants have been explained in Table 2.2

Role	Creates Value By	Captures Value By
<b>Consumer</b>	<ul style="list-style-type: none"> <li>Paying service fees for advisory account management</li> <li>Buying products to implement plans</li> </ul>	<ul style="list-style-type: none"> <li>Better money/risk management</li> <li>More desired outcomes</li> <li><b>Sense of control/satisfaction</b></li> </ul>
<b>Professional Financial Planner</b>	<ul style="list-style-type: none"> <li>Information/advice/alternative scenario analysis</li> <li>Portfolio tracking/analysis/ reporting</li> <li>Access to network of services</li> </ul>	<ul style="list-style-type: none"> <li>Planning fees from consumers</li> <li>Commissions from product manufacturer (if also a distributor)</li> <li><b>Proud professional career</b></li> </ul>
<b>Financial Product</b>	<ul style="list-style-type: none"> <li>Education of marketplace</li> </ul>	<ul style="list-style-type: none"> <li>Commissions from product manufacturers</li> </ul>



<b>Distributor</b>	<ul style="list-style-type: none"> <li>• Client acquisition</li> <li>• Product marketing</li> <li>• Client account relationship Management.</li> <li>• <b>Product origination/servicing</b></li> </ul>	<ul style="list-style-type: none"> <li>• Sales commissions from consumers</li> </ul>
<b>Third-Party Intermediating Entity</b>	<ul style="list-style-type: none"> <li>• Introductions of info. / products/advice to consumers in their affinity group</li> <li>• Subsidies for costs of products /advice / service</li> </ul>	<ul style="list-style-type: none"> <li>• Referral fees</li> <li>• Enhanced satisfaction within their affinity group</li> <li>• <b>Fulfilling moral or legal requirements</b></li> </ul>
<b>Financial Product Manufacturer</b>	<ul style="list-style-type: none"> <li>• Product design/fabrication</li> <li>• Investment/risk management</li> <li>• <b>Risk underwriting spreads</b></li> </ul>	<ul style="list-style-type: none"> <li>• Money management fees</li> <li>• Asset-liability spreads</li> </ul>

**Table 2.2 Industry Value Chain****High Level Entity Relationship**

Shown below (Figure 2.2) is the High Level Entity Relationship and interaction amongst the different players in the advisory industry framework.



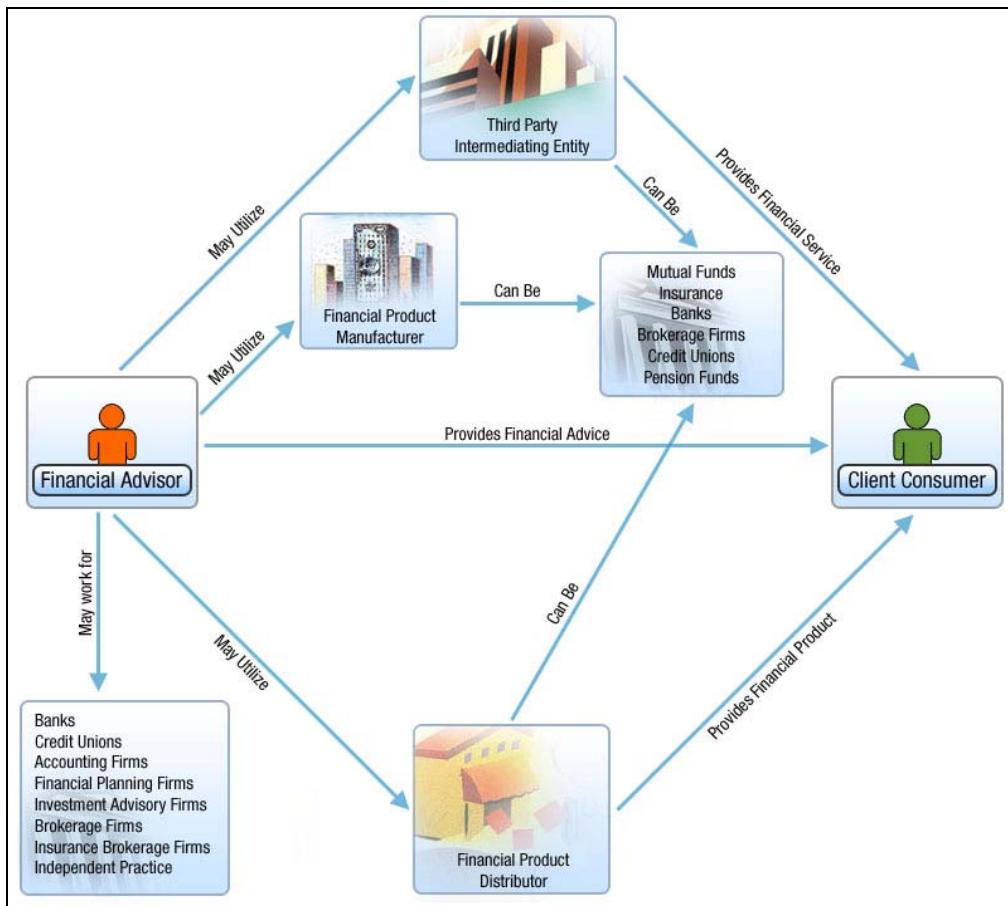


Figure 2.2 High Level ER Diagram

- 1 Financial advisor provides financial advice to the client; financial advisor may be affiliated to a Financial Advisory Firms, Investment Advisory Firm, Bank, Brokerage firm, Accounting Firm, Credit Union, or may be an independent practitioner.
- 2 Client opens an account with the Financial Advisory firm.
- 3 The financial advisor develops a financial plan based on client inputs.
- 4 Financial advisor may utilize Third Party Intermediating Entity, Financial Product Distributor or a Financial Product Manufacturer to implement the financial plan. They can be Banks, Mutual Funds, Insurance Firms, Brokerage firms or Pension funds etc
- 5 Financial advisor monitors/tracks/reviews the financial plan and progress depending upon the nature of engagement.

## 2.2.1 Financial Advisors/Advisors

Financial advisor gathers financial information, analyzes it, and makes recommendations to their clients in the form of clear, easily understood, and actionable financial plans that meet a client's total needs.

### Personal financial advisors

Personal financial advisors, also called financial advisors or financial consultants, use their knowledge of investments, tax laws, and insurance to recommend financial options to individuals in accordance with their short-term and long-term goals. Some of the issues that advisors address are retirement and estate planning, funding for college, and general investment options. While most advisors offer advice on a wide range of topics, some specialize in areas such as retirement and estate planning or education planning. The functions of an advisor include:

- Helping clients in identifying their objectives.
- Creating financial plans aligning with the unique objectives and the financial aspects of situation.
- Providing assistance in implementation of recommendations in the financial plan.
- Periodically reviewing and revising the financial plan to adjust to changes in the financial world as well as client's personal goals.
- Follow regulatory compliance.
- Act in a fiduciary capacity and maintain an allegiance of confidentiality.

The phrases "financial planning" and "financial planner" are sometimes used by individuals to promote the sale of financial products or are confused with the sale of such products. Financial advisors may also be registered representatives who sell securities products, insurance agents who sell insurance products or investment advisors who recommend certain financial products. Since no single entity tracks all individuals calling themselves financial advisors, there is no documented number of how many financial advisors are currently practicing in the United States.

A list of terms that describes individuals who work in the financial planning and financial services professions has been given in the Appendix 8.1.

A financial advisor can be classified based on

### Affiliation

**Tied-Advisor:** These advisors are full time employees of the advisory firm and can only sell products as per the guidelines of the advisory firm. There can be different arrangements w.r.t to selling financial products of a third party firm. For example, the commissions offered for a proprietary product may be more than that of a third party product .Tied advisors are affiliated to Brokerage firms, Banks, Mutual Funds ,Credit unions, Accounting firms, Investment Advisory Firms and Insurance firms.



**Independent Advisors:** Advisors are independent and are not employees or agents of the Advisory Firm (Ex Charles Schwab, & Co). The Advisory Firm prescreens advisors and checks their experience and credentials against criteria it sets, such as years of experience managing investments, amount of assets managed, professional education, regulatory licensing, and business relationship as a client of the firm etc. Advisors pay fees to be members of these advisory firms. The advisory firm may or may not supervise advisors and does not prepare, verify or endorse information distributed by advisors. They are also called sole practitioners. They can also be Registered Representative.

**Ensemble Practitioners:** Ensemble firms are defined as those with one or more principal advisors and/or additional professional staff. For example, a practice with two or more principal advisor, a practice with one principal advisor and one or more other professional staff or any combination thereof would be considered an ensemble firm.

**Niche Competitors:** Niche Competitors provide complex and sophisticated services that meet the unique needs of a very small portion of the over all market of financial advice.

**Registered Representatives:** The vast majority of financial advisors are commission-based registered representatives. The term “registered representative” signifies that financial advisors are agents of their broker-dealers and as such, are licensed with the National Association of Securities Dealers (NASD). Securities licenses authorize registered representatives to receive commissions for the sale of financial products

**Note:** *This document focuses on the tied advisor segment of the industry*

#### **Based on Size of Advisory Firm**

**Tier 1:** The top tier consists of the major financial brokerages/wire houses that maintain corporate offices and employ broker representatives in local offices. The major players in this tier are companies such as Merrill Lynch & Co., Citigroup Global Markets Holdings and Wachovia Securities etc.

**Tier 2:** Regional broker-dealers make up the second tier and some of them have grown to rival the footprint of the wire houses. According to an estimate these two tiers combined employ some 85,000 brokers.

**Tier 3:** The third tier comprises independent broker-dealers, generally smaller, regionally oriented organizations that maintain a network of independent brokers. These brokers get to keep a higher percentage of the investment business they generate but have to maintain their own offices.

**Tier 4:** Financial planning and registered investment advisory firms, regional and local companies that have no network affiliations, create the fourth tier. These companies often will represent a wide array of financial products, including insurance, accounting services and real estate lending.

The financial advisory firm can engage clients in a financial services relationship in wide variety of ways:

**Partnering:** For clients who desire a long-term advisor relationship, the advisory firm may offer programs for an annually renewable advisory fee, under which the client receives financial analysis and advice. This includes a written analysis and recommendations addressing advice



needs and goals initially, and additional analysis, recommendations and program towards goals every renewed year.

**Consultative:** For clients who have more specific, discrete financial advice needs, advisory firm offers programs for an annual or one-time advisory fee, under which the client receives financial analysis and advice with written analysis and recommendations addressing specific advice needs and goals.

**Transactional :**For clients who do not desire to receive financial advice services, advisory firms offers a wide array of financial products pursuant to an account servicing only relationship.

**Note: This document focuses on the Tier 1 advisor segment of the industry**

*Separately Managed Accounts which is an investment advisory wrap program, as well as non-discretionary brokerage accounts, for which clients pay an asset-based fee in lieu of individual commissions on transactions executed services, are a sub-set of Financial Advisory Services and Biz-IT Model on SMA can be referenced for more information*

### 2.2.2 Client/Consumer

The client receives the expert advice about investments, retirement planning, insurance and taxes and other financial matters.

The consumer of a financial advice can be classified into following segments:

**Individual**

In order to meet their short-term and long-term financial goals individuals consult personal financial advisors. These individual are classified based on age group, income level, financial needs etc.

**Corporate**

Corporate are small and large business organizations that seek financial advice in investment for investment decision-making.

**Note: The rest of the document focuses on the business IT model relevant for Individuals as target customers**

### 2.2.3 Third Party/Intermediating Entity

Banks, Insurance companies, Securities companies and Mutual Funds are the major financial intermediaries positioned between suppliers of capital (savers and investors) and users of capital (borrowers, business organizations). These institutes facilitate investors (clients/consumers) with a wide array of products to invest in.

### 2.2.4 Financial Product Distributor

Financial Product Distributors are financial institutions that are engaged in designing and managing financial products. These include Banks, Mutual Funds, and Insurance companies.



### 2.2.5 Financial Product Manufacturer

Financial Product Manufacturer is the organizations that are engaged in developing and designing financial products that help in risk management/Asset liability spread matching etc .For example Weather Derivatives is a financial product.

## 2.3 Advisory Services Industry - High Level Processes

The Financial Advisory Service is designed to assist individuals and/or business owners in identifying, analyzing and reaching their financial objectives. Financial advisor will:

- Conduct an initial interview at no charge to determine the nature of clients concerns, and your financial goals and financial planning advice needs.
- Work with the client to determine the appropriate advisory service for his situation, and if the Financial Advisory Service is selected, the appropriate advice needs to address, the appropriate engagement period and the applicable fee.
- Schedule consultations to discuss your advice needs and objectives.
- Review and analyze the information you provide.
- Summarize client situation and make specific, actionable written recommendations that will address clients' particular concerns, objectives and advice needs in the form of a Personal Economic Forecast/Review.
- Depending on the engagement period you choose, meet with you at least annually, either in person or by phone, to track progress toward meeting your goals.

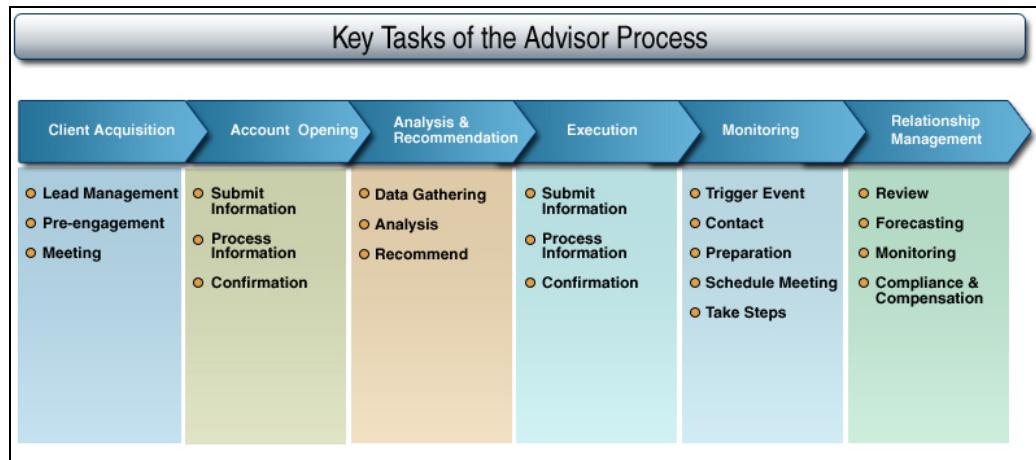
Because financial planning is an interactive process, the clients need to:

- Work with financial advisor to determine the appropriate financial planning goals to be addressed and tracked during the term of the Financial Advisory Service.



- Identify any material life events, economic factors, financial objectives or other issues that may cause a change in the advice given by financial advisor and notify financial advisor of such changes.
- Pay a fee to your financial advisor for his or her financial planning and attention to your financial goals and advice needs. This fee is separate from any compensation you will pay and that your financial advisor may receive for or in connection with product sales.

The key processes involved in advisory services industry have been shown in the Figure 2.23



**Figure: 2.3 Key Tasks of the Advisor Process**

The high level business process flow involved in the advisory business starts with Client Acquisition and continues till Relationship Management stage. The detailed business process flow has been illustrated in Figure 2.4

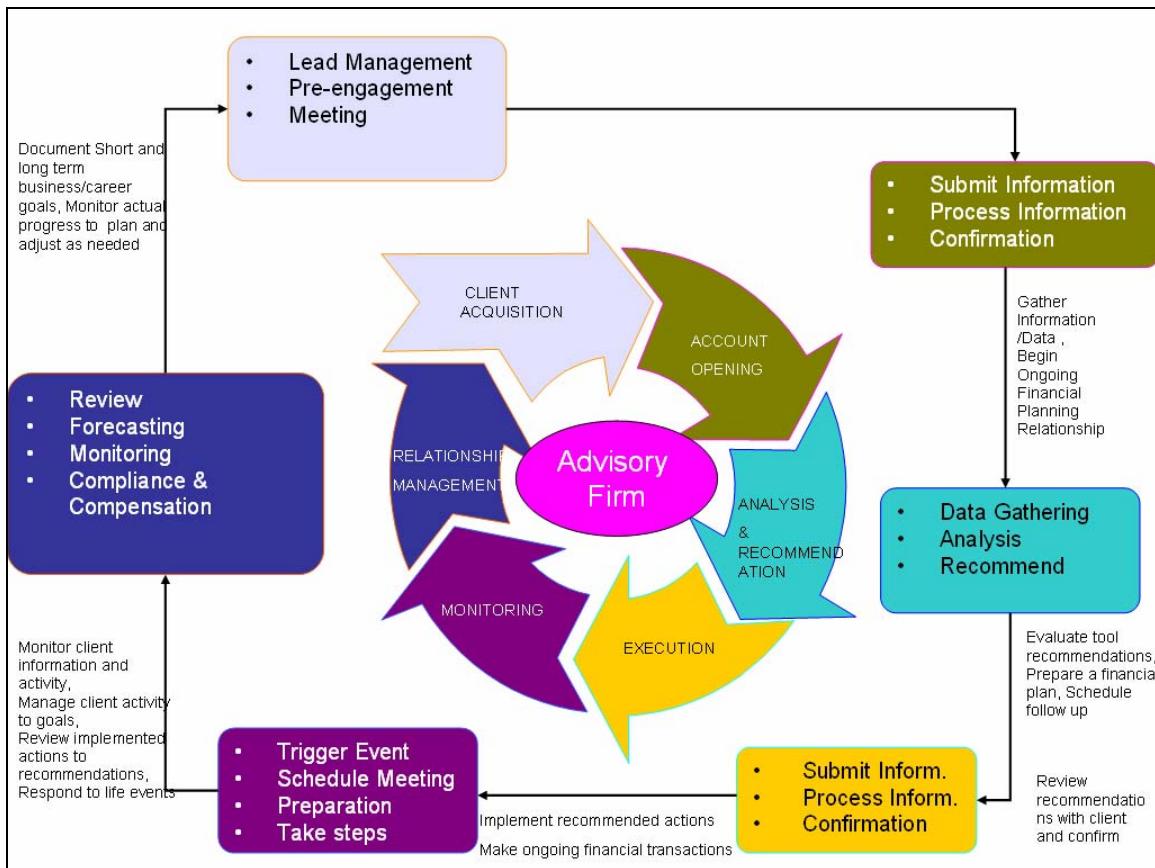


Figure: 2.4 High Level Business Process Flow

### 2.3.1 Processes – Client Acquisition

Client Acquisition process is the first step in the financial advisory process where the advisors try to acquire new clients. Most of the new client acquisition happens through referrals. The high level processes under Client Acquisition are as follows:

- **Lead Management:** Lead Management is the process of managing the leads generated by marketing using various channels including cross-sell. Referrals form one of the key channels for new client acquisition. The referrals are typically associated with a specific advisor and are accordingly tracked to closure. Leads are distributed to advisors automatically through a client-advisor matching tools.

- **Pre-engagement activities:** This process involves the first instance of communication between consumer and the advisor and is initiated by the advisor. When an advisor accepts a corporate lead, or at any other time, the advisor can send an auto-generated personal introduction letter / email through a centralized mail-shop or email. The advisors require a robust Contact Management System which should have standard contact management capabilities (Calendar, Client View, To-Do List, Email, Interaction Tracking etc), ability to store information online where it can be accessed by reports, other systems; ability for client information to be accessible to the advisor offline (PC or standardized PDA), ability to schedule and track prospects for development.
- **Meeting:** The advisor meets the client at a mutually agreed place as per his previous communication with the client. The advisor may be sent alerts / request that prompt him to schedule a courtesy phone call to confirm meeting, review agenda, and answer questions etc.

### 2.3.2 Processes –Account Opening

All the information gathered as a part of Client Acquisition process is now used to establish a new account for the client. The high level processes for Account Opening are as follows

- **Submit Information:** The advisors consolidate the information gathered during the client meeting and store it in hand written/electronic form. The advisors may enter required information in data collection tool or have the tool electronically fill required form, and then print the completed form on any computer connected to the internet.
- **Process Information:** Based on the nature of the account opened the processing of information takes place. The processing rules are based on the nature of the client requirements. For example in a typical advisory firm, for retail products no Support Staff intervention is required whereas for Non-Retail products, Insurance, Annuities and Third Party products may be processed manually by a CSR. Typically, there are tools that help in monitoring the status of all outstanding service requests. These tools help advisors keep track of the status of submitted applications as well as any exceptions pertaining to the case.
- **Confirmation:** An advisor receives confirmation on all of their online work upon submission from the advisory tools. They may receive mail updates for exceptions that require multiple day processing such as Life Insurance. The tool helps the advisor or staff to see the status of all outstanding service requests.

### 2.3.3 Processes – Analysis & Recommendation

The most critical process of Financial Advisory Process is the analysis and recommendation of a financial plan to meet the objectives of the client .The high level processes involved are as follows:

- **Data Gathering:** Data is collected from customers depending on the products that the customer is interested in. Data collection takes place in multiple contact



instances, starting from the initial interactions. Firms typically use a central data repository to store this data. The client fills in part of data and advisors gather a part of it.

- **Analysis:** Based on all available information the advisor crystallizes the clients' goal. Firms typically have a well-defined process and tools to aid this. e.g. advisors may use an advisor portal that provides a series of defined steps and/or tools to a desired outcome e.g., if the financial plan identifies a life insurance need the advisor/assistant will be seamlessly guided to life insurance tools to identify the product criteria and the available products to meet the necessary criteria for the client. The advisor analyzes a need such as life insurance, creates a proposal, and delivers it to the client.
- **Recommendation:** Based on the analysis of client information using portfolio planning tools the advisors recommends actions. The advisors use different portfolio management planning tools (based on the line of business) that guarantee standard advice quality including compliance. Advisors may customize the advice generated by the advice tools to make it customized. At the implementation stage, most financial plans will contain a combination of securities (shares, debentures, and bonds, managed funds such as property, equity or cash management trusts) and life insurance products such as annuities, insurance bonds, allocated pensions, term and disability insurance, superannuation and rollovers. Different financial proposals can be either delivered as stand alone documents or integrated into the comprehensive financial plan.

### 2.3.4 Processes – Execution

Once the financial plan is recommended by the advisors the client performs various financial transactions as a part of the implementation of the financial plan. Following high level processes are involved in Execute phase:

- **Submit Information:** The transactions can be carried out by the client independently, though in most cases the advisor executes the transactions. Advisor has systems that enable execution of varied transactions from a single interface.
- **Process Information:** Processing of client information may involve a Support Staff intervention. These transactions are than either manually or electronically processed. If the transaction request requires advisor (or client) input due to an exception, the system sends alerts/ call to action prompt to the Advisor Portal (or other actions based on business rules such as "sms the advisor", or "alert staff")
- **Confirmation:** Once the transaction is confirmed the financial transaction confirmations is electronically filed and stored for 7 years (this is a regulatory requirement) and is available for immediate retrieval by the advisor. Small advisory firms still print and store physical paper confirmations .If the advisors use a web based application to store the information than advisors and their support staff are able to view the transaction online and are able to access the confirmation page electronically. The confirmation of the transaction is also sent



to the specified client via an email.

### 2.3.5 Processes – Monitoring

Once the financial plan is implemented the advisors keep monitoring and servicing the changing needs of the client periodically .The high level processes for a Monitor & Service phase are as follows.

- **Trigger Event:** Trigger Event is the process of proactively monitoring the client. Based on the type of trigger event, the advisor acts as per the set of rules specific to the client situation. For example if the stock goes over/under a chosen price, client does not make a scheduled deposit or client makes a certain type of transaction.
- **Contact:** As a part of continuous monitoring all contact details (phone calls, meeting notes, etc.) are recorded in the client's history record in a contact management system which is available for reporting, audits, etc. The data is entered either manually or automatically.
- **Preparation:** During the process of preparation the advisor reviews client information, status, and prepares for a scheduled client review meetings. When an advisor reviews a client's profile, he chooses appropriate material desired for a meeting. He also prepares a checklist that includes steps to choose the desired portfolio by using Portfolio Management Tools. Generally advisors have an access to an easy to search online knowledge base of information including required reference material, policy information, regulatory information and product documentation. The advisor also accesses client record, and pulls up all information necessary to conduct a standard check-up meeting including recommended plan vs. actual performance. When the advisor is ready to produce an integrated document for the client, whether for advice recommendations or simply a portfolio report with sales illustrations, he uses a document management tool to integrate the pages into a single document. Documents are created as electronic and may be printed or sent to the client retrieved using CRM tools.
- **Schedule Meeting:** As per the schedule sent to the client the advisor meets the client for the meeting. The advisor receives prompts for meetings that occurred, to enter meeting notes and actions coming from that meeting. During the meeting he takes a feedback form the client and modifies the financial plan as per the changing needs for the client. A meeting summary is prepared by the advisor and delivered to the client.
- **Take Steps:** Based on the decisions taken during the meeting the advisors take appropriate actions. Advisors use tools to initiate service requests such as correcting the forms pre-filled with client information. Certain types of requests are processed by support staff.

### 2.3.6 Processes – Relationship Management

Relationship Management involves continuing the engagement with a client and get new



referrals based on the positive feedback from the client. The high level processes for a Relationship Management are as follows

- **Review:** Review meeting are conducted between the advisors and their Leadership/Supervisors. The main aim of the process is to ensure practice standards and review the advisor performance.
- **Forecasting:** This process is applicable for firms having a national/international presence as they would like to assess the health of different business regions. The firms use various business planning systems that assist them in defining business goals. These reports also generate profit & loss reports for region and other metrics desired by home office. Generally the forecasting includes product forecasting, new client forecasts, asset forecasts, profit & loss by region and other metrics.
- **Monitoring:** Organizations monitor, track and update baseline plans to actual results. Reports that show actual results against planned/forecasted targets help to track how an advisor's business is following plan. Reports are flexible and generally include plan by product, assets or new clients.

Advisors update plans based on review and create new plans that will track against original baseline.

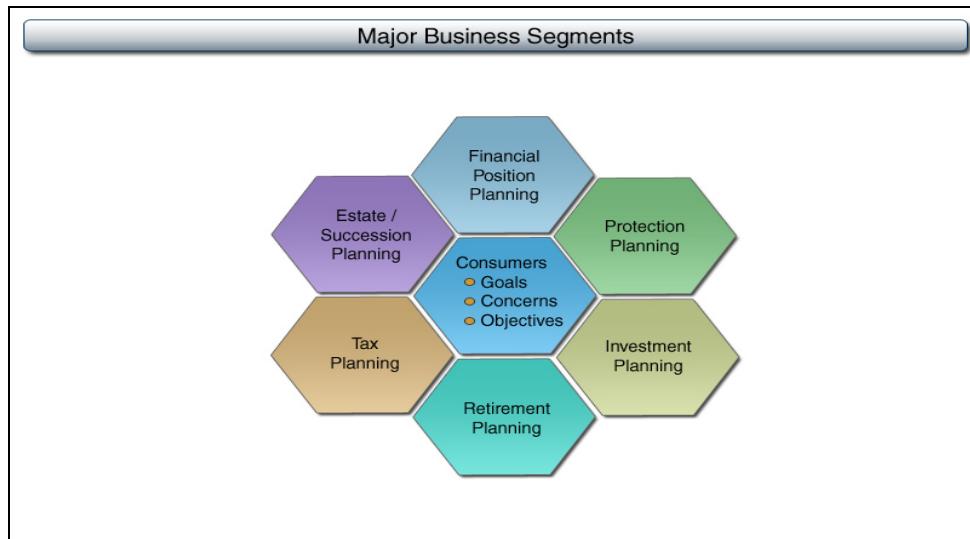
- **Compliance & Compensation:** Compliance to regulations is one of the most important functions in an advisory practice. Advisors and field compliance managers have access to an online data with current credentials, license status, and current address of client, expiration dates, and procedures for maintaining licenses. The advisors are sent alerts prior to business submission, edits and notifications regarding license and compliance requirements that will facilitate successful business set up and advisor compensation. Advisors know if there will be an impact to their compensation as a result of exit/purchase policies prior to final submission of business. They are also notified upon account setup that there is a compliance issue or fraud risk that should be reviewed. All large organizations maintain a fraud database and all Client detail is passed to fraud databases real-time and flagged accounts are reviewed to ensure accounts are never created with fraud risks.

## 2.4 Advisory Services Industry-Business Segments

### 2.4.1 Business Segments: Financial Advisor

The Financial advisory industry can be further broken down into six core areas based on the nature of financial advice. The Figure 2.5 shows the six core areas covered by a financial advisory firm.





**Figure: 2.5 Major Business Segments**

The different business segments, their processes, target customers, industry entities and the products and services offered has been tabulated below (Table 2.2)

Business Segment	Process	Target Customer	Major Industry Entities	Products & Services
<b>Financial Position Planning:</b> It involves assessment and evaluation of assets, liabilities, cash flow, expenses and the money elements of	The process of financial position planning involves examining the current situation of the client's to determine current financial position of the client. It involves assets, liabilities, cash flow, expenses and the money elements in the household of the client. The financial advisor calculates the current financial position of	Individual	Financial Advisor  Client  Third party intermediating entity  Financial Product Distributor	<ul style="list-style-type: none"> <li>▪ Comprehensive Financial</li> <li>▪ Life Planning</li> <li>▪ Charitable Planning</li> <li>▪ Elder Care Planning</li> <li>▪ Education</li> </ul>



the consumer.	client and prepares a financial plan taking the future goals of the client into account.			<b>Planning</b> <ul style="list-style-type: none"> <li>▪ Trust Services</li> </ul>
<b>Protection Planning:</b> Protection planning is the process of providing adequate protection in terms of life and health insurance, income protection and property and casualty coverage to the client.	The financial advisor ensures that client is adequately protected from unforeseeable events such as death, accident, fire, theft etc and recommends the client different types of insurance products to suit his needs. He may suggest a Health Insurance Product, Life Insurance Product, Property & casualty Insurance Product, Disability Insurance product	Individual	Financial Advisor  Client  Third party intermediating entity  Financial Product Distributor	<ul style="list-style-type: none"> <li>• Life Insurance</li> <li>• Health Insurance</li> <li>• Disability Insurance</li> <li>• Long Term Insurance</li> <li>• Property and Casualty Insurance</li> </ul>
<b>Investment Planning:</b> Investment planning focuses on the accumulation of wealth, which in turn, will be able to provide the client a steady income stream at retirement.	Investment planning involves gathering client information ,determining investment needs ,creating client risk profile, develop criteria for selecting investment vehicles ,Analyze alternative risk models	Individual  Corporate	Financial Advisor  Client  Third party intermediating entity  Financial Product Distributor	<ul style="list-style-type: none"> <li>• Wealth/Investment Management</li> <li>• Risk Management</li> <li>• Check Writing and Bill Payment</li> <li>• Brokerage Services</li> <li>• Debt Management</li> <li>• Portfolio Money Management</li> </ul>
<b>Retirement Planning:</b>	The goal of Retirement Planning is to	Individual	Plan sponsor	<ul style="list-style-type: none"> <li>• Profit sharing</li> </ul>



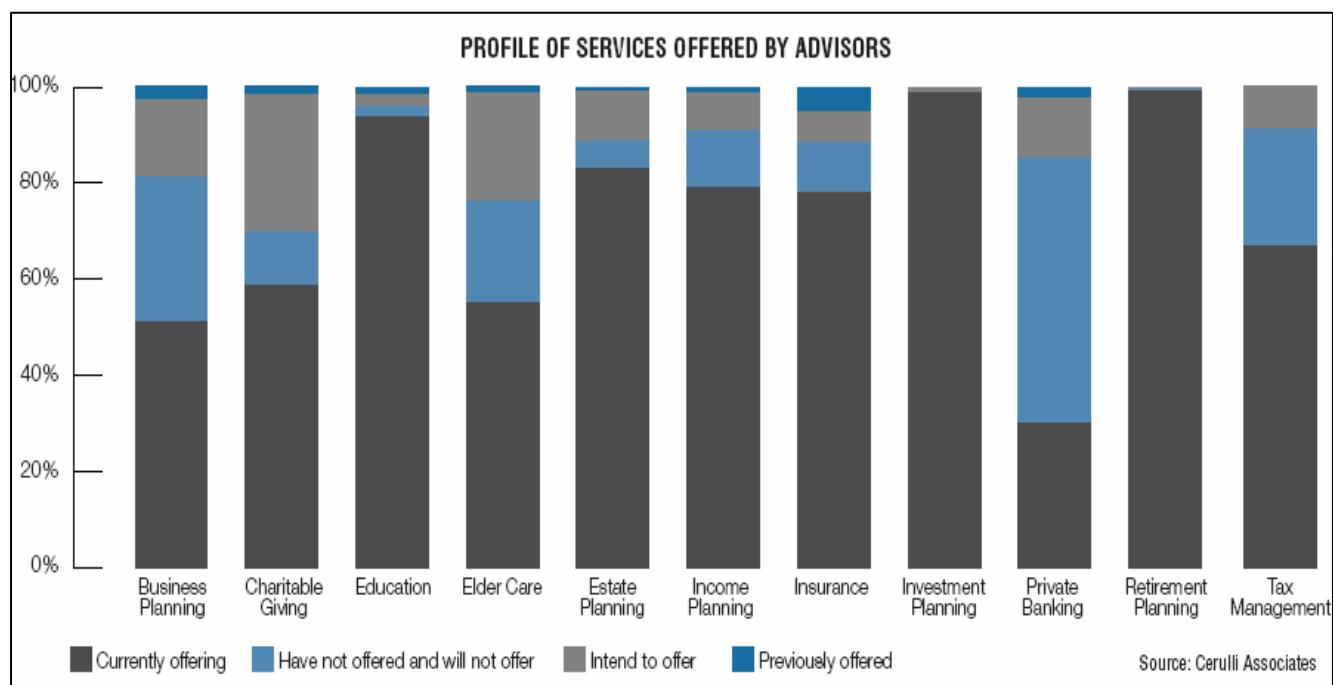
<p>Retirement planning is the process of organising your assets and savings into a plan which will meet your goals for retirement.</p>	<p>coordinate the financial resources available so an individual can plan for a financially secure retirement. The retirement planning process teaches you how to calculate the amounts necessary for you to meet your personal retirement goals</p>	<p>Small Business Owner</p>	<p>Plan Participant Plan Service Provider Financial Advisor Consumer</p>	<ul style="list-style-type: none"> <li>• Simplified Employee Pension Plans (SEP)</li> <li>• Money Purchase Plan</li> <li>• Target Benefit Plans</li> <li>• Individual Retirement Accounts (IRAs)</li> <li>• Roth IRA</li> </ul>
<p><b>Tax Planning:</b> Tax planning involves managing income taxes for the client with tax advantaged investments and tax planning strategies</p>	<p>The tax planning process begins with data gathering. The client provides information about all the sources of income to the financial advisor. Based on the total annual income and government guidelines on income taxes the financial advisor prepares a tax plan for the client. He also advises the client to buy tax savings product such as medical insurance, municipal bonds etc. The financial advisor takes assistance from third party intermediating entities in implementing the tax plan</p>	<p>Individual</p>	<p>Financial Advisor  Client  Third party intermediating entity  Financial Product Distributor</p>	<ul style="list-style-type: none"> <li>• Income tax plan</li> </ul>
<p><b>Estate Planning:</b> Estate planning is the process</p>	<p>Developing a comprehensive estate plan is one of the best ways to help assure that the assets of the client</p>	<p>Individual  Family Business</p>	<p>Financial Advisor</p>	<ul style="list-style-type: none"> <li>• Estate Planning</li> <li>• Business Owner</li> </ul>



that deals with preserving wealth and possessions of the client after his death.	will be managed for his family and loved ones as he intends. Financial Advisor helps in coordinating key aspects of clients plan—wills, life insurance, gifts and trusts. He or she can also help assemble a team of professionals to work with the client and his other trusted advisors.		Client Third Party Intermediating Entity	Succession Planning
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**Table 2.2 Products and Services**

The key advisory services can have a wide range. The profile of services offered by the advisory firms as per the survey done by Cerulli Associates (A Boston-based research firm) for Q4 2002 has been shown in Figure 2.6

**Figure: 2.6 Services Offered by Advisors**

## 2.4.2 Business Segments: Consumer

The business segments for the consumer are individuals who can be classified based on such as income level, age group, investible assets etc.

# 2.5 Advisory Services Industry - Products and Services

## 2.5.1 Products and Services – Financial Advisor

**Financial advisors can offer advisory services in any of the following areas**

1. **Wealth/Investment Management Services:** These services summarize investment planning information including levels of investment risk, types of returns on investment, time value of money, income tax considerations and characteristics of investments. Information and analysis may be provided on various investment vehicles. As part of investment strategy, an asset allocation analysis may be provided to help develop an investment portfolio (Portfolio Money Management Services) to move toward the clients' goals at a level of risk acceptable to him. The analysis includes a summary of current portfolio asset mix, proposed asset mix, comparison of current and proposed portfolio model mixes, and information on historical returns and risks of the portfolios.
2. **Retirement Planning Services:** These services summarize and analyze the retirement needs of one or both clients, estimate retirement income and expenses, and can illustrate possible savings and investment combinations to help meet retirement needs. Illustrations may be included that show the effect of changing retirement age(s), income and expense amounts and timing, pre-retirement savings period, retirement plan distribution options and risk tolerance. For already retired individuals, this service may analyze the effect of changing income and expense amounts and timing, savings levels and risk tolerance with the objective of maintaining financial independence.
3. **Estate Planning Services:** These services summarize and analyze estimated estate settlement costs and the possible remainder of estate(s) that could be passed on to heirs. Married couples and dual clients/domestic partners receive these estimates with regard to each respective death, alternating the order of each death. Illustrations may be included that show the effect of changing



various estate planning assumptions, including adjustments to gross estates, settlement costs, bequest amounts and estate appreciation rates.

4. **Education Planning Services:** These services summarize clients' existing assets, income and savings that may be designated toward achieving your goals given the assumptions you choose. Should it be determined that client would not achieve his goals without making adjustments, an illustration may be developed by the financial advisor indicating changes in asset levels, income and savings, and assumptions necessary in order to help achieve goals.
5. **Tax Services:** These services include information on the general tax treatment of financial services products, the general tax implications of a transaction or of establishing a certain type of ownership or product purchase. Financial advisor can also work with clients' tax advisor to ensure that tax advisor is aware of your financial planning objectives.
6. **Financial Planning Services:** Financial Planning Services summarizes clients' current income and expenses (cash flow), and assets and liabilities (net worth) based on the financial information that you provide. Information and analysis may also be provided on discretionary income, cash reserves, itemized expenses, debt management and restructuring, if appropriate.
7. **Protection Planning:** These services summarize information on basic personal protection: the impact of each client's death and disability; life insurance and disability income premiums by policy; cash flow in the event of disability or long term care; and resources available for estate liquidity are explored, if appropriate. It includes Life Insurance Services, Health Insurance Services Disability Insurance Services, Long Term Care Insurance Services, Property and Casualty Insurance Services etc.
8. **Life Planning & Counseling Services:** This service will provide analysis and advice or information on short-term, specific financial topics or decisions not covered within any of the advice need areas listed above on an individual basis. Financial advisor will analyze the topic separately and probably not in the context of the complete financial situation.
9. **Miscellaneous Services :**These include trust services , Charitable Planning Services and Elder Care Planning Services



## 2.6 Organization Structure & Supervision

Large Financial Advisory firms operate a number of financial advisory branches throughout the country. Each branch provides the Financial Advisory Service as described in service document of the firm. Typically, the financial advisors within a branch concentrate in different aspects of financial planning e.g., retirement, estate or planning for business owners. Generally, the financial advisors work together as a team to help client meet his financial goals.

Financial advisors in these branches may share fees and commissions from products and services that the client purchases.

### 2.6.1 Field Management

All the advisors either works independently from their home/office or work as an employees of large financial advisory firms, banks, financial institutions. The financial advisors' activities are supervised by their Office of Supervisory Jurisdiction (OSJ typically correspond to states) and individuals therein including any or all of the following: branch managers, field compliance supervisors, field compliance managers, OSJ branch managers, field vice presidents, group vice presidents and by senior vice presidents who report to a senior officer of the company.

Field vice presidents, OSJ branch managers, field compliance managers and field compliance supervisors hold NASD general securities licenses and the appropriate securities, insurance, NASD and investment advisor agent registrations and licenses for the states in their supervisory area. In the organization structure of the Financial Advisory business; the work of individual advisors is monitored by a Registered Principal (RP). Typically a RP is allowed to have his own advisory practice as also supervise up to 50 advisors whose offices are within a specified distance. In certain organizations they are allowed to choose their RP and also negotiate the payout to the RP- thereby creating a potential conflict of interest. The RP is required to review around 6 plans per advisor per year- with extra focus on new advisors- typically the RP might review the first few plans prepared by him/her before a random sample is started.

Plans vary on whether they are comprehensive (typically the first plan which would cover retirement, estate, tax, education, insurance etc) or focused on individual issues. Typically the advisor is required to use a case complexity template to determine the charge for the financial plan- that could then be negotiated with the customer prior to signing the ADV. In case of fees exceeding a threshold (> 10K), the RP might have to validate the justification for the fee.

The next layer for supervision is the compliance team which ensures that advice is in accordance to laid-out policies. The processes of the compliance team are overseen for effectiveness by the supervisory oversight group.

### 2.6.2 Financial Advisor Model

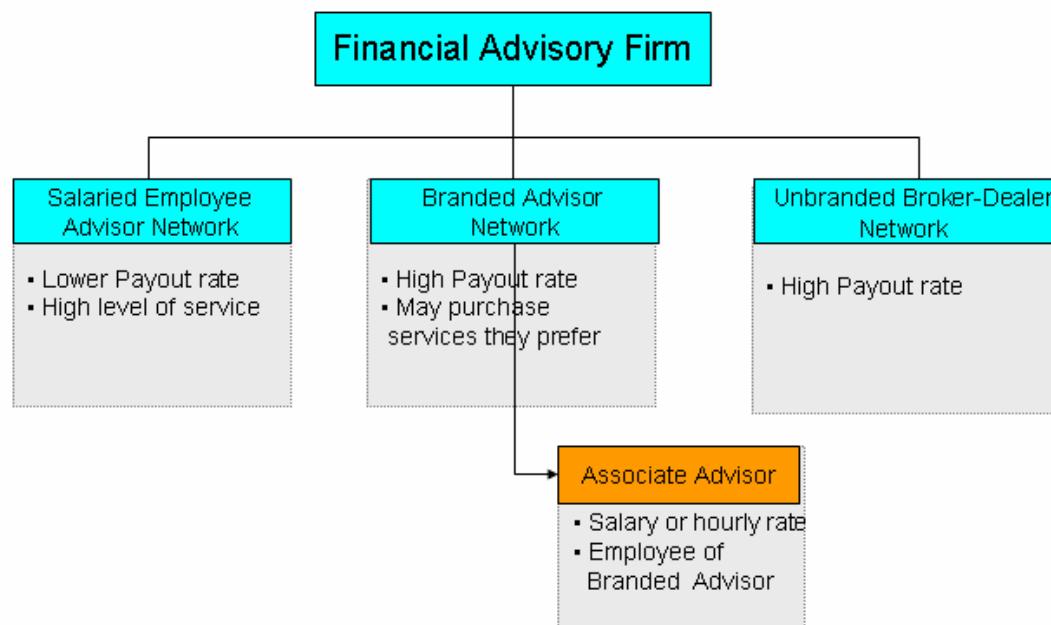
In financial advisory firms, there are **n** possible financial advisor models possible. The illustration below describes a **three** level model.

The marketing system for the Advisory Service firm consists of financial advisors operating in all 50 states and the District of Columbia. Financial advisors may choose one of three career affiliations with the firm



- **First affiliation:** Financial advisors are employees of the firm and receive a salary and the potential for bonus compensation based on the fees paid by the advisor
- **Second affiliation:** Financial advisors are independent contractor franchisees of the firm and receive a fixed percentage of the fee paid to the Advisors for the Financial Advisory Service to compensate them for introducing you to the service, gathering the information necessary to prepare your service, helping you establish needs and objectives, preparing and presenting your service and/or providing financial advice on behalf of the firm. The remaining portion of the fee goes to the firm for the supervisory, technical, administrative and other support that is provided to all financial advisors.
- **Third affiliation:** Financial advisors, known as associate financial advisors, are employed by an independent contractor franchisee financial advisor (the “employing advisor”), and will receive either a salary or an hourly rate of pay. The employing financial advisor receives a fixed percent of the fee paid to financial advisory firm to compensate them for the associate financial advisor’s time spent introducing you to the service, gathering the information necessary to prepare your service, helping you establish needs and objectives, preparing and presenting your service and/or providing financial advice on behalf of the firm. The remaining portion of the fee goes to the firm for the supervisory, technical, administrative and other support that is provided to all financial advisors.

## Advisor-Firm Affiliate Model



The licensing team ensures that all sales that are made are by advisors licensed properly in the geography and for the relevant product (licenses vary by geography and product). In effect they run all advisor recommended sales against the licensing database- payout to the advisor is



made only for licensed sales. In most cases on unlicensed sales identified by the system, it is most likely that the advisor failed to update the licensing team with proof for the license renewal. In cases where the sales was by an unlicensed advisor, the RP is requested to examine the transaction for suitability – the customer is advised of the recommendation, informed that the sale was made by a unlicensed rep and given an option to rescind the transaction. Action is taken against the advisor depending on whether this was the first or a repeated violation.

## 3.0 Industry Analysis

This chapter describes Advisory Industry including the industry evolution, participants, statistics, IT environments and trends and strategies.

### 3.1 Industry Evolution

As a concept and an occupation, financial advisory first emerged in the United States about 35 years ago when American consumers, benefiting from a long period of prosperity following World War II, began to invest more widely and in greater numbers. Typically, these consumers turned separately to their accountant, stockbroker, or insurance agent for financial advice.

In the late 1960s, a small group of financial services professionals recognized the inadequacy of this fragmented approach to financial advice and began to advance the concept of financial advisory as an integrated, holistic approach to analyzing a client's financial needs and recommending solutions. This new group of professionals called themselves financial advisors

In an attempt to move financial advisory toward a true profession and to differentiate themselves from those who loosely use the term financial advisors imply for marketing purposes voluntary certification program administered by Certified Financial Planner Board of Standards Inc. (CFP Board) came in. The advisors certified by CFP Board have agreed to follow voluntary standards for education, examination, experience and ethics, adopt a six-step financial planning process, and have learned a comprehensive approach to planning that includes personal tax planning, employee benefits, insurance risk management, investment strategies, retirement planning and estate planning.

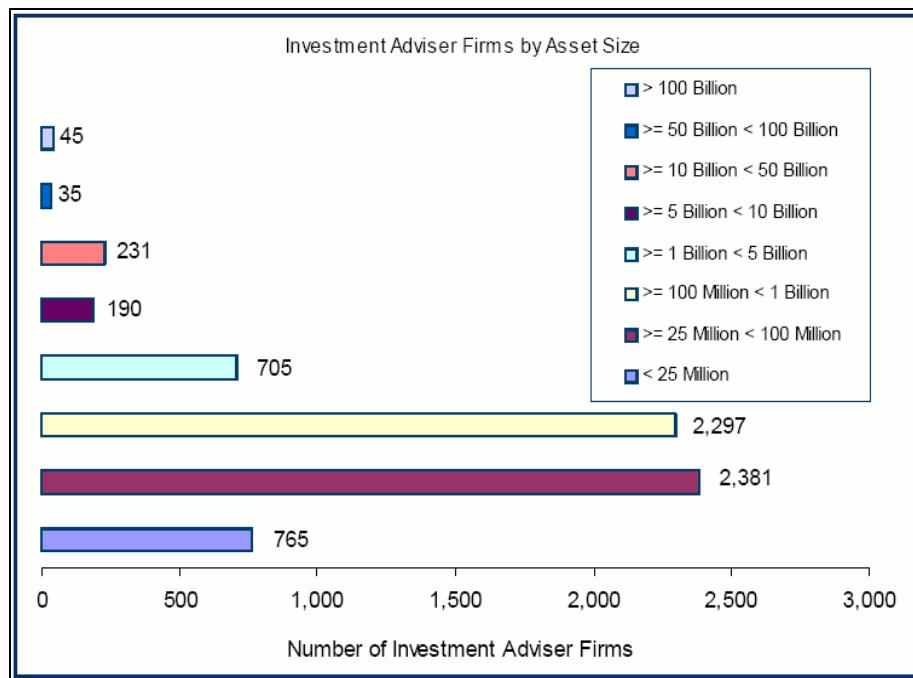
Financial advisory sprouted internationally in the 1980s as countries moved toward market economies, and consumer access to world financial markets grew. Financial advisory firms blossomed in Australia, Japan, United Kingdom, France, Germany, Switzerland, New Zealand, South Africa, Canada, Hong Kong, Malaysia, South Korea, India, Brazil, Netherlands, Sweden, Singapore, and elsewhere. In the 1990s, many of these organizations began banding together to promote financial advisory as a distinct profession, develop international standards for delivering personal financial advice to consumers, and certify the competence of individuals in their countries who wish to be recognized as professional financial advisors. For example, organizations in 17 countries currently have adopted programs based on CFP Board's model and affiliated with the US organization.

### 3.2 Market Players and their Performance

To date 6649 investment advisers<sup>#</sup> have submitted form ADV, Part 1 to the SEC using IARD.



This number shows a modest growth in the profession from the 6360 advisers in 1999. Figure 3.1 shows the investment advisory firms by asset size. The figures should be taken with a pinch of salt as investment advisory firms include Corporate as their clients.



**Figure: 3.1 Investment Advisory Firms by Asset Size**

<sup>®</sup> Investment Advisory Firms are a subset of Financial Advisory and they also include Corporate as their client.

### 3.2.1 Leading Financial Advisory Services Firms

Table 3.1 tabulates the leading advisory services firm in US

Name
1. Charles Schwab
2. Wachovia Securities
3. American Express Financial Advisors
4. Smith Barney
5. RBC Dain Rauscher
6. Fidelity Investments
7. Scotia
8. LPL Financial Services
9. Morgan Stanley
10. AG Edwards
11. Merrill Lynch
12. ING
13. Metlife Financial Services
14. Money Concepts
15. Raymond James Financial Services
16. AIG Advisors
17. AXA Financial Advisors -MONY

**Table 3.1 Major Players-Financial Advisory Industry**

### 3.3 Market Trends and Analysis

#### Business trends



The buoyant economy of 2004 has led to growth within financial advisory practices in terms of growth of revenues, growth of assets under management, growth of client base, and growth of staff. There has been an increase in the reputation and market share of independent financial advisors and is helping attract more clients and wealthier clients. As independent firms are growing they continue to evolve towards more effective and efficient operational and organizational models in order to translate the revenue growth into bottom-line profitability.

The critical factors in the advisory industry will be the ability of the advisory firm to *define its target clients well, develop the optimal service model for those clients, and create an organization around that model*. Effectiveness is integral to efficiency and the practices that achieved high profitability were distinguished by:

- Strong notion of who the optimal client is, and targeted business development and client acceptance procedures
- Emphasis on the core services where the practice is strong and resisting the dilution of focus and resources inherent in trying to be all things
- Effective use of the external resources available to the practice, such as those offered by their custodian or broker-dealer, industry consortiums and organizations and outsourcing vendors.

For practices to maintain profitable growth at similar or improved margins, clear articulation of a strategic plan for the business is essentially a prerequisite. Many participants still struggle to define their unique skills or target market, but those who can are larger and more lucrative.

#### **The Key Industry Drivers are:**

**Economic:** Increasing globalization of financial markets and greater reliance on the individual consumer to provide for his/her own financial security.

**Technical:** Increasing use of internet to provide consumers with information about and access to the global financial markets & increasing complexity of financial products.

**Societal:** National governments are less interested in providing citizens with financial security, therefore, pushing the responsibility to the individual.

**International:** Increasing mergers and acquisitions of global financial firms have made sources of products are less clear today (banks, insurance companies, mutual funds, brokers); consumer is less able to distinguish between products and to judge their value in reaching particular financial goals.

## **3.4 Revenue Model**

There are several commonly accepted revenue models of compensation to advisors:

### **Fee Only**



The financial advisory firm is compensated entirely from fees for purpose of consultation, plan development or investment management. These fees may be charged on an hourly or project basis depending upon the client's need, or as a percentage of assets under management.

### **Commission only**

There is no charge for the planner's advice or preparation of a financial plan. Compensation is received solely from the sale of the financial product clients you agree to purchase in order to implement financial planning recommendations.

### **Combination Fee/Commission**

A fee is charged for consultation, advice and financial plan preparation on an hourly, project or percentage basis. In addition the firm may receive commission from the sale of recommended products used to implement the plan.

### **Fee-Offset**

Commission from sale of financial product is offset against fee charged for the planning process.

### **Salary**

Some financial advisors work on a salary and bonus basis for financial services firm. For example full time employees of Schwab Advisory

### **Bundled in AUM Fee**

The financial advisory firm may receive the compensation as a fixed percentage of the total Asset under Management (AUM).



## 3.5 Advisory Services Industry – Regulatory Environment<sup>#</sup>

### 3.5.1 Introduction

Financial advisors provide vital advisory services to clients who perceive financial advisors as professional participants in the financial services industry. But while financial services are among the most heavily regulated industries in the United States, the financial advisory profession itself lacks a comprehensive regulatory scheme. Many of the discrete, individual component services that financial advisors provide are regulated quite extensively, either at the state level, or the federal level, or both. But there is no government regulation of the comprehensive, rather all encompassing service that constitutes the development, promulgation and maintenance of plans, strategies, and actions designed to help a person to achieve life-long financial goals. The regulatory environment in US has been pictorially represented in Figure 3.2

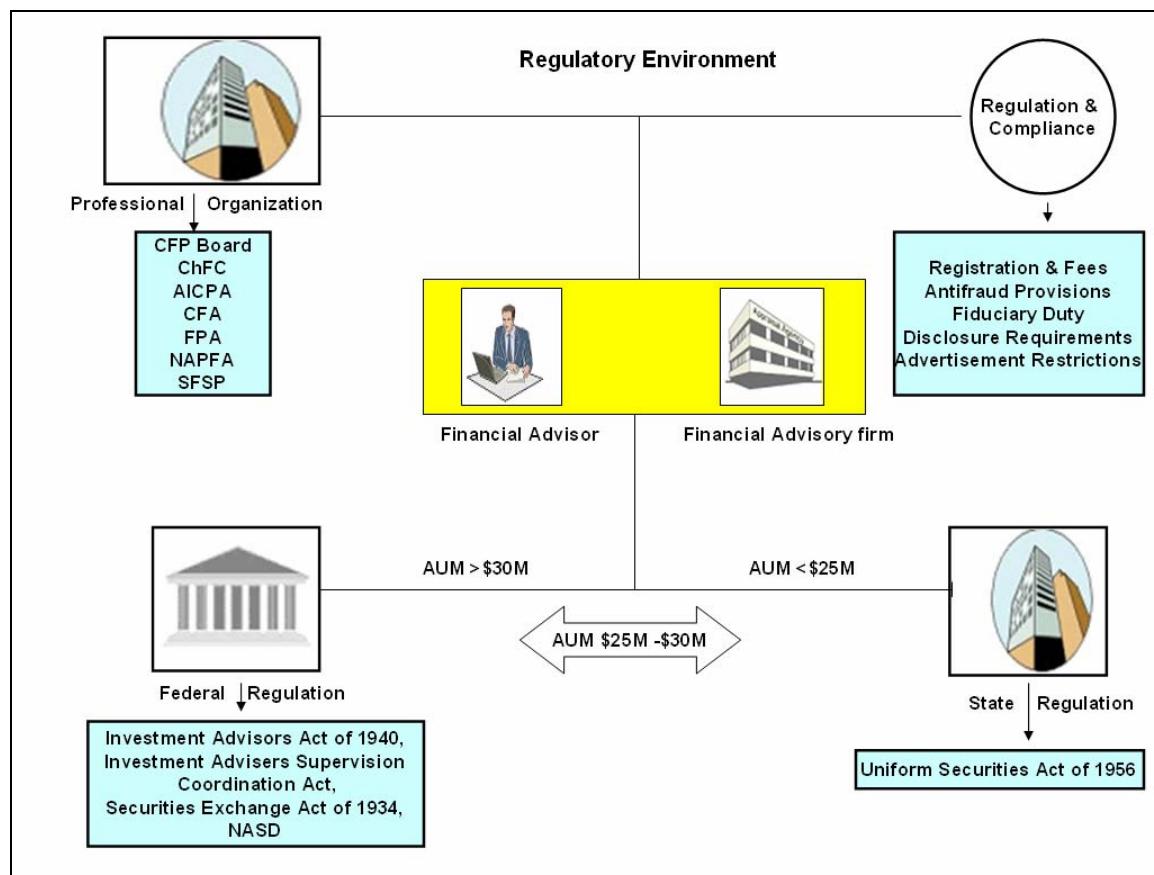


Figure: 3.2 Regulatory Environment

<sup>#</sup> Source: "Regulation of Financial Advisors" A white paper by Financial Planning Association

A number of professional organizations assist, certify or regulate financial advisors and have been listed below.

1. The Certified Financial Planner Board of Standards (CFP Board)
2. The American College's Chartered Financial Consultant (ChFC)
3. The American Institute of Certified Public Accountants (AICPA)
4. The Association for Investment Management and Research (AIMR)
5. The Financial Planning Association (FPA)
6. The Society of Financial Service Professionals (SFSP)
7. The National Association of Personal Financial Advisors.(NAPFA)

The different regulations that govern the Advisory practices are the Federal and State regulation. Each of the regulations has nuances that have been described in detail in appendix 8.5

### 3.6 Conclusion

Making mass-affluent advice profitable requires technological reinvention. As competition raises the bar on financial advice, financial advisory firms will find it challenging to serve less affluent groups profitably. To offer a great financial planning experience at a lower marginal cost, we believe financial advisory firms targeting the mass affluent should:

**Streamline the financial planning process:** Today, the creation of a financial plan for a mass affluent client is no different than it is for millionaires: It's a drawn-out process of data entry and discussion that often takes half a day to complete. To make the process quicker and simpler for the mass-affluent market, advisory firms must develop financial planning software that requires half the data entry, recommends specific financial products, and executes any recommended product purchases automatically. By offering its advisors a web-based solution, advisory firms can monitor the amount of time advisors spend on different parts of the planning process and adjust the software accordingly.

**Introduce collaborative advice:** By enabling clients to review and manipulate their plan online, advisory firms can make the planning process more efficient for both advisors and clients. Allowing clients to run scenarios and projections on their own is also likely to increase the perceived quality and relevance of the financial plan. A collaborative advice process will even improve the advice itself: with the onus of additional data entry and experimentation on the client instead of the advisor, advisor/client discussion time is left open for deciding on the best course of action.

**Outsource more development:** Financial advisory is a multifaceted process, and the firm with the best-integrated planning suite will have a huge advantage in the mass-affluent advice war. Advisory firms that have traditionally developed all of its own financial planning technology should take advantage of the growing maturity of planning and collaboration software. By purchasing more software and development resources from vendors, they can focus its internal talent on



integrating these best-of-breed solutions with its customer databases and order management systems necessary steps for truly automating the plan creation and execution process.

Some of the trends that are driving the evolution of the IT system landscape include:

**Financial Service ‘Supermarkets’:** Most financial services firms are altering their business strategies including going in for large-scale acquisitions to build one-stop shops and pitch a wide range of products to consumers. To be in sync with this strategy, the IT infrastructure needs to be able to provide a seamless product perspective to the client, single customer view internally and enable leveraging cross-sell opportunities.

**Targeting the Mass-Affluent Advice Market:** As the competition increases for the millionaire market, firms are aiming to service the opportunity provided by the mass-affluent market (investible assets between \$100,000 and \$1 million). The challenge here is to offer a great financial planning experience at a lower marginal cost, by streamlining the financial planning process and enabling collaborative advice.

**Catering to the secondary advisors:** The role of secondary advisors is increasing as their growth far outstrips the growth of tied advisors. Firms are enhancing their systems to provide better tools and other value-adds to secondary advisors to increase their penetration.

**Increasing competition:** There is an increase in the competition for the Millionaire advice market. With this comes increasing investment in technology to improve their products as well as enable advisors to deliver better financial planning to customers.

## 4.0 Financial Advisory Services Firms – Current Business - IT Model

### 4.1 Industry Technology

#### 4.1.1 Overview

Technology plays a vital role in different business processes involved in advisory practice. Figure 4.1 provides an overview of the key functions from an IT system perspective.



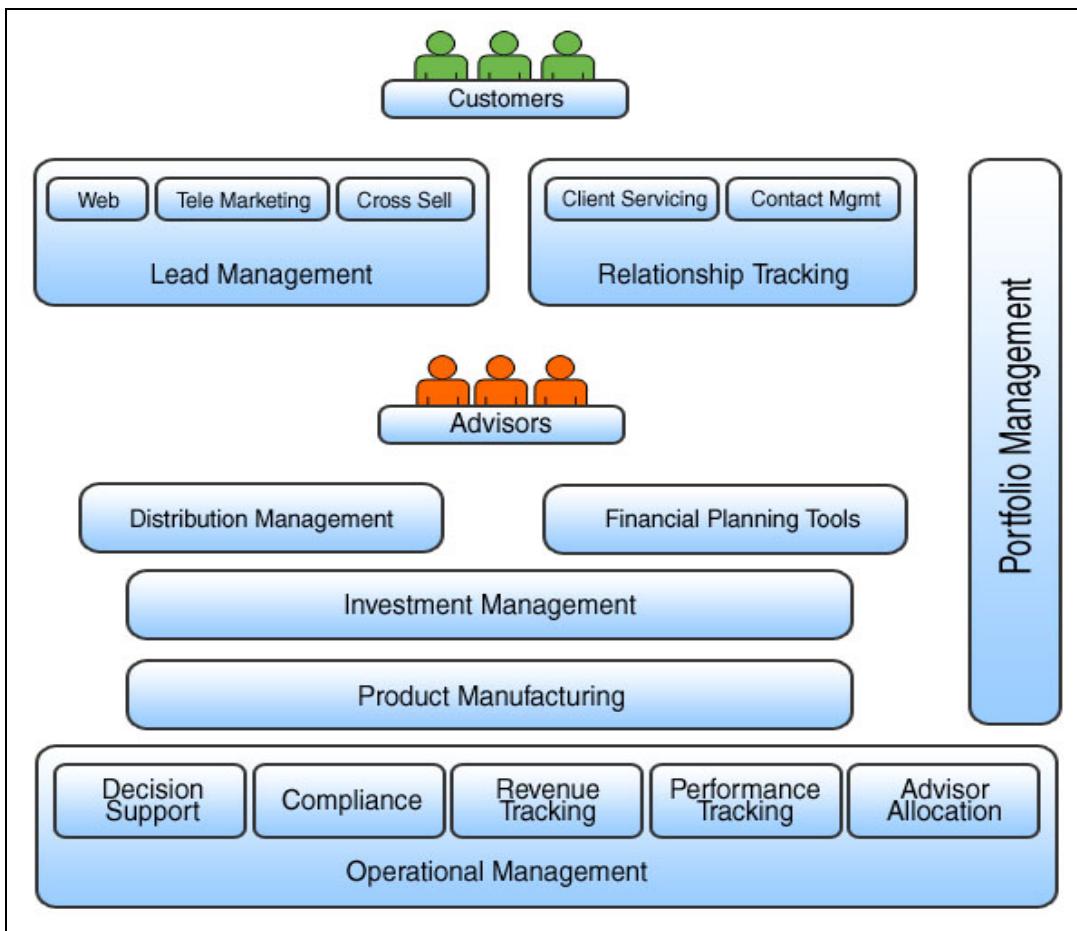


Figure 4.1 IT Framework of Advisory Firm

The systems include:

**Lead Management:** These include tools to manage leads through various channels like Web, Telemarketing (both outbound through campaigns as well as inbound through references), and cross-sell using other products. These also include tools to support corporate & field marketing initiatives, such as customer segmentation & closed loop marketing. The tools used are mostly home grown apart from CRM solutions that are used.

**Relationship management:** This is an aggregation of tools that are used to manage the relationship with the client. Firms utilize contact management tools to stay in touch with the customers. There are systems to support corporate and sales force customer service activities, including customer management and money movement capabilities. These systems are used by advisors to open new accounts for the customers to keep track of their plans & investments as well as to service existing accounts.

**Portfolio Management:** Tools and engines to client's holdings and transactions. These are also exposed to the customers over the web to provide self-service.



**Distribution Management:** Tools and systems to centrally manage information (registrations, agreements, licensing, compensation rates, etc.) about the advisors and distributors that are involved in the sale and servicing of products and services.

**Financial Planning:** These are tools that use various mathematical models and simulations to suggest the appropriate plans.

**Investment Management:** Tools to support trade and risk management, investment accounting and investment decisioning. However, these strictly would not fall into the area of systems supporting the advisory services business.

**Product Manufacturing:** Most firms have their set of products that are also sold to the customers. These are tools and engines to manage the products of the firm. However, these strictly would not fall into the area of systems supporting the advisory services business.

**Operational Management:** Systems that support post sales activities such as compliance, statementing, distributor compensation, analytics, and general business management.

The High-level technology architecture can be broken down into IT capabilities as shown in the Figure 4.2



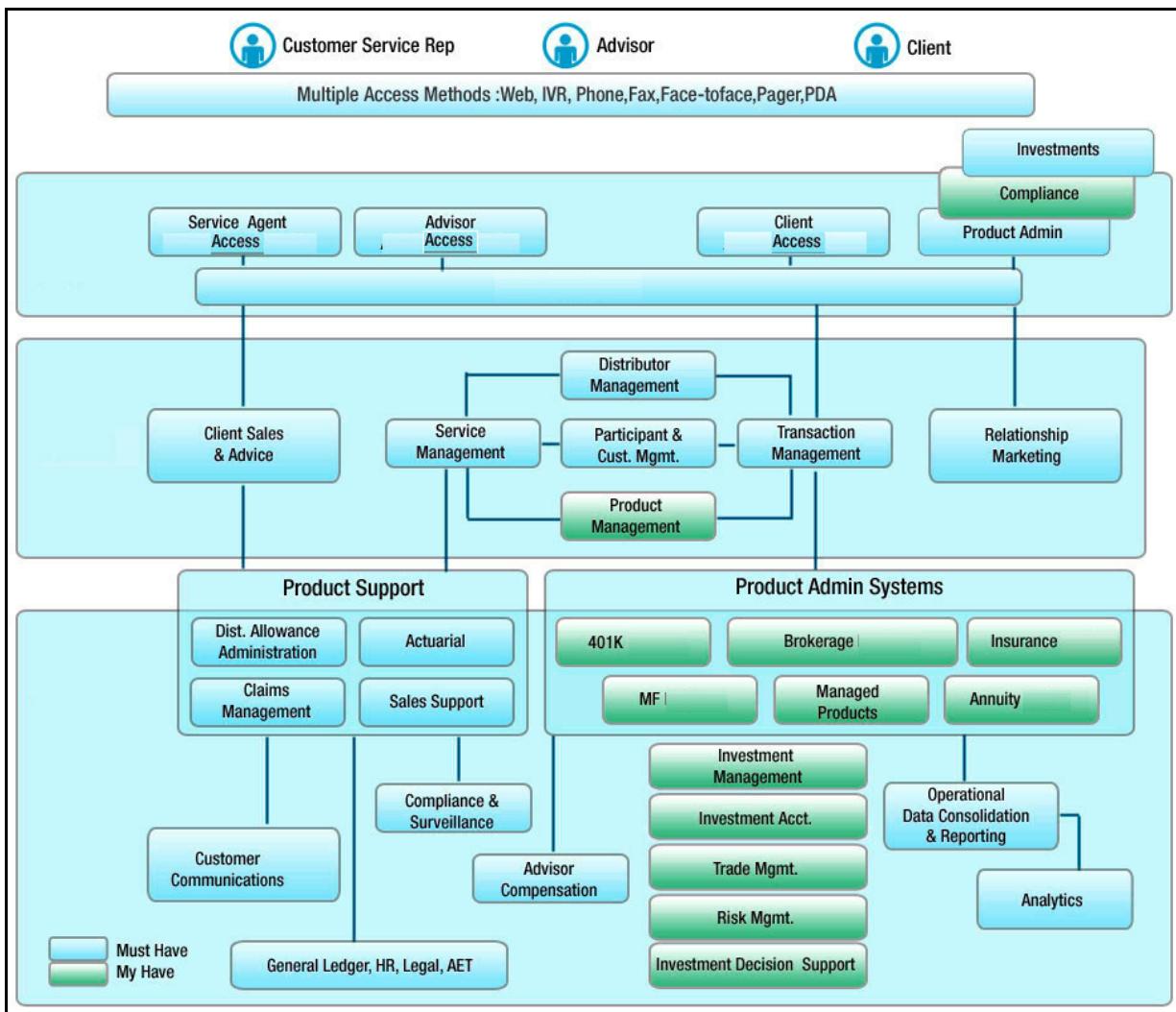


Figure 4.2 Functional Representation of IT Capabilities of an Advisory Firm

### Access

- **Access & Integration services to administrations and support staff:** These systems include applications and tools that provide Internet portal access to clients, distributors and home office staff of the advisory firm.
- **Client/Advisor/Participant Access and Integration:** The advisory firms should be able to provide efficient, secure, easy to use, internet based, single entry point access to applications and tools for client view, transact, and self-service functions.
- **Compliance / Investments / Product Administration:** The advisory firms operate in an organizational structure where supervisor/leaders who are distributed geographically need



to accesses information on compliance, investment and product administration. Advisory firms use several IT tools to meet these service needs.

- **Security:** Since most of the systems discussed above are over internet the advisory firms needs strong security systems in place. These systems provide seamless security sign-on process for distributor, customer service representatives, portfolio managers and client, including identity management and authorization capabilities.

### Client Sales and Advice

- **Advice Tools & Analytics:** The advisory firms various tools and capabilities to monitor and train their advisors .They use tools and training to support advisor-delivered advice, product accounting capabilities for advice services, advisor practice management tools and the analytics to develop insights into Advisor / Client behavior.

### Distribution Management

- **Distributor Management:** The ability to centrally manage information (e.g., demographic, biographic, licenses, registrations, agreements, hierarchies, relationships) about the entities that are involved in the sale and servicing of products and services (e.g., advisors, field leaders, field support staff, locations, teams).

### Client Servicing

- **Service Management:** Service management covers all the aspect of advisory processes. The advisory firm needs the tools and capabilities to support customer service activities, including, the creation and maintenance of client and account setup across all products, forms engines to support data transmittal to operations and the ability to track client service cases from opening to closing.
- **Participant and Cust. Mgmt:** Centralized management of enterprise customer information, including a full view of client relationships within AXP to support segmentation, relationship based pricing, servicing, cross-sell, and compliance.
- **Product Management:** The advisory firms may be a subsidiary of a large financial institution that may be catering to different segments of financial services industry e.g Mutual funds, Banking etc. It then becomes useful to integrate the information about products and systems that administer the products of the parent firm
- **Transaction Management:** The advisory firms that assist their client in implementing the financial plan with the help of brokerage engines or other product related systems need the ability to move money and perform financial transactions. This includes moving both scheduled and unscheduled money in/ out/ as well as inter-product and intra-product money movement.

### Marketing

- **Relationship Marketing:** Effective distribution of high quality leads to advisors with full tracking and analytical capabilities. Includes the ability to segment the client base for marketing campaigns and cross-sells, as well as response tracking, scoring and modeling tools.



### **Product Manufacturing**

- **Product Support:** Product support includes distributor allowance administration, claims management and actuarial data to support reporting requirements for the various business functions, as well as the tools to enable advisors and distributor agents to promote sales and adoption of the products of the financial advisory firms. This becomes more relevant when the advisory services are a part of the broad range of services being offered by the financial institution.
- **Product Admin Systems:** This includes industry standard, flexible, scalable, highly available, efficient product systems that support rapid product shifts and implementations based on market conditions. They also include the ability to support multi-channel distribution for products such as Mutual Funds, Annuities and Insurance and are applicable in advisory firms having financial institution as its parent firm.

### **Post Sales Operational Management**

- **Customer & Participant Communications:** These are the utilities that support electronic communications, document creation and document management as well as the delivery of Statement of account, confirmations, agreement and contracts to customers and other participants.
- **Compliance & Surveillance:** These systems provide the advisory firm ability to embed compliance into the transaction lifecycle. (e.g, Order Ticket entry, front-end compliance checking, tracking IDs, compliance supervision, anti-money laundering etc).
- **Distributor Compensation:** The advisory firm may utilize third party distributor to implement the financial plan of the client .In such cases the firms need the ability to calculate the transaction level distribution allowance to be paid to the distribution firm based on product schedules and rules as specified in the agreement between the product manufacturer and distributor. Where required, it also needs to calculate and allocate commissions to one or more agents.

### **Investment Management**

- **Investment Management:** These are the IT systems that support products, investments and retail strategies, by providing capabilities form investment trading decisions, trade management, pre and post trade compliance and investment accounting. Also provides a centralized source of information on all securities, as well as complete risk management tracking and reporting capabilities on investment information processing.

### **Decision Support**

- **Operational Data Consolidation and Reporting.** Decision supports include standardized facilities to extract raw data from the systems of record, transform and/or sanitize the data, and load the data into analytical and consolidation databases in real time / point-in-time. They also include the ability to produce financial, compliance, operational, penny-accurate reporting for the field and home office.
- **Analytics:** Shared analytics environment that supports analysis and decision-making across business areas. Areas of focus include customer analytics, segmentation, profitability, product pricing and risk management, MIS reporting, investment decisioning, marketing, compliance, etc.



## 4.1.2 Technology Trends

The survival of financial advisory firms is likely to depend on the degree to which they embrace technology. Technology can increase productivity and profits for advisors and help advisors meet increasing regulatory demands. Advisors should use technology to help with the whole financial planning process, from the initial disclosure of services to fact-find, through sale and writing of the business to administration.

## 4.2 Customers

Financial Advisory Services firm offer financial advisory services across a wide range of financial matters. (See section 2.5.1 for complete list of financial advisory services).

## 4.3 Products

Financial Advisors primarily use financial planning software to prepare the financial plan based on the inputs of the consumers. Firms offer advisors a plethora of financial planning tools. Financial firms support multiple financial planning packages because no tool does everything well and to appease change-resistant advisors. However according to a forester survey few advisors use the tools as they find it difficult to use, overly complex, and nonintegrated. The next-generation planning applications will be web-based. Many firms are migrating to web-based apps for their easier deployment and enhanced tracking capabilities.

## 4.4 Services

Tools and technologies play a major role in different advisory processes. The advisory firms use different type of tools and technologies and many of them are proprietary in nature that interfaces with their legacy system.

The advisors seek different IT services to enable them effectively execute various advisory tasks as illustrated below (Table 4.1):

Advisory Process	Service 1	Service 2	Service 3	Service 4
Client Acquisition	Centralized Contact Manager that helps advisors manage the lead process according to standardized practices	Centralized mail shop to make it easier for advisors to send bulk mail	Systems that obtain complete client information and holds all prospect and client data and delivers the data to the user or	Systems enabled to perform privacy checks before any contact is initiated



			applications when needed	
<b>Account Opening</b>	Systems that allow Advisors to enter new accounts online and know of issues if any.	Systems that enable Advisors to check client status at any time without the help of support staff.	Systems that enable faster opening of Client Account with the advisory firm.	Registered Principle and license checks should be done before a new account is opened
<b>Analysis &amp; Recommendation</b>	Tools that are built in a standardized workflow allowing new advisors to deliver quality advice services	All clients needs including High Value Clients needs should be met through interconnected suite of tools	Professional, consistent advice output that meets regulatory standards	Financial planning software that requires half the data entry, recommends specific financial products, and executes any recommended product purchases automatically.
<b>Execution</b>	All tools should be able to pre-fill known client data	One online order entry system for all transactions	Advisors can check status at any time without the help of support staff	All systems should perform a compliance check before processing the transactions
<b>Monitoring</b>	Systems that allow all client information to be located in one place that could be accessed by	Systems should send Centralized alerts and notifications prompt advisor of	Systems to manage inventory of outstanding advice recommendations to drive	Client interactions to be transparent and available at any time



	Advisors, Leaders, Marketers, Support staff, and other users	potential service opportunities and scheduled meetings.	continued client productivity	according to regulations
<b>Relationship Management</b>	Systems should enable documented, standardized business plans created by both Advisors and Field Leaders	Systems that allow forecasts rolled up and tracked to actual results so that proper changes or intervention happens quickly and effectively	Systems that enable Supervisors/Managers to closely monitor Advisor's business and help manage changes to meet goals	

**Table: 4.1 IT Services in Advisory Processes**

#### 4.4.1 Services to Product Mapping

Different business processes in advisory services demand different type of services in terms of technology. Given below are the major business processes and the technology capability required to service the processes.

##### Advisor Access

The financial advisor needs easier and faster access to all relevant advice tools and relevant information through a web based advisor portal. Single password requirement for accessing all tools helps advisor to find out the required information faster and improves his productivity. The client & advice data should be made available across all tools. Capabilities required are:

1. Advisor Access
2. Document Manager
3. Advisor to Client Matching Tools

##### Lead Management

The financial advisors need a Web-based capability to distribute / retrieve leads; Track leads and prompt advisor with call to action; Disposition monitoring and field leader/HQ reporting; to facilitate advisor productivity, field management oversight and marketing



intelligence. Capabilities required are

1. Lead Management System
2. Contact Management System
3. Closed Loop Marketing Campaign Management

### **Complete Client View**

The financial advisors should have the ability to access all necessary client information in a consolidated manner by all relevant applications for account opening, advice, illustrations, etc. The system should also allow users with higher privileges to able to view information about leaders/ by various criteria to facilitate customer relationship analysis & management. Capabilities required are:

1. Complete Client View Tools

### **Account Opening**

The advisors need tool with ability to open a client relationship account in a consistent, efficient and automated manner .He should be able to electronically submit requests with little to no intervention from support staff/CSR and with no errors; standardize data entry with automated data validation and error detection; Automatically review Registered Principal performance; Automate complex processing with built in compliance checks and automated routing for resolution. Capabilities required are:

1. Simplified Account Opening
2. Data Gathering and Business Process Management Tools
3. Registered Performance Review System.

### **Advice**

The financial advisors use different portfolio management tools to analyze and recommend financial plan to the clients,. In addition these tools integrate and streamline advice with recommendation tracking; make available client & advice data across tools; provide comprehensive advice tools to support High Value Client with high quality recommendations and professional output; have ability to track and analyze recommendations implementation. Capabilities required are:

1. Comprehensive Advice Tools
2. Smart Advice Tools.
3. Recommendations Tracking Tools

### **Transact**



Technology play an important role in implementing the financial plan by providing tools that perform transaction, track transaction history etc These tools enable efficient financial transactions processing through single standardized platform for all financial transactions including Brokerage, ACH-IN, money movement etc; moving money in & out, across and within accounts; They improve the process by minimizing the involvement of advisor or CSR intervention. Capabilities required are:

1. Money Movement Tools
2. Financial Transactions Interface Tools

Table 4.2 shows the service to product mapping

<b>Service</b>	<b>Product 1</b>	<b>Product 2</b>	<b>Product 3</b>
<b>Advisor Access</b>	Advisor Access Portal, Insight Advisor	Document Management Tools	
<b>Lead Management</b>	Lead Management System	Closed Loop Marketing	
<b>Complete Client View</b>	Complete Client View Tools		
<b>Portfolio Management Tools</b>	MoneyGuidePro,	WealthTec	NaviPlan, MoneyTree etc
<b>Account Opening</b>	Simplified Account Opening Tools	Data Gathering Tool	Business Process Management Tools
<b>Analysis &amp; Recommendation</b>	Comprehensive Advice Tools	Smart Advice	Recommendations Tracking Tools
<b>Execute</b>	Money Movement	Financial Transactions Interface Tools	
<b>Contact Management</b>	Contact Management System		

**Table 4.2 Service to Product Mapping**



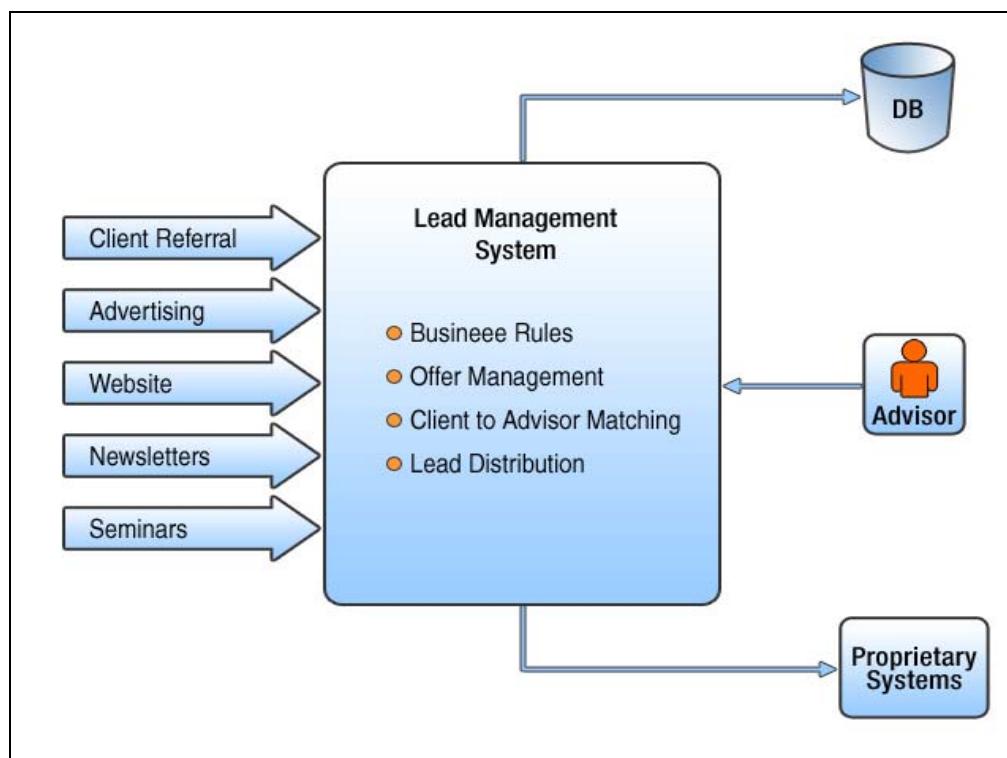
## 4.5 IT Profile

As described earlier, the financial advisory firms use a variety of applications and technologies to technology enable the key tasks in advisory business. The functionality of some of the key systems is:

### 4.5.1 Lead Management Systems

The Lead Management Systems are applications that enable creation, management and publishing of offers for the advisory firms marketing team. The application presents the offer through financial services site of the firm to the prospects and clients. Firms marketing team users can create a new dynamic offer using predefined templates and components (header, footer, copy, form, and navigation).

The application allows users to carry out criteria-based searches of all offers maintained in the database. The searched offers could then be previewed or modified and could be reused to create new dynamic offers. The application also allows users to create a record of static offers (offers created outside the application). Once the offer is created it goes through a legal and launch approval. After the necessary approvals are obtained and recorded in the system the offers are presented to clients and prospects.



**Figure 4.3 Lead Management System**

## 4.5.2 Account Opening and Relationship Monitoring Systems

Account Opening and Relationship Monitoring Systems track the advisor-client engagement. The high level functionality of a typical system has been listed below

- Application's search function provides the ability to find "Profile" information about any Client/Advisor in a matter of seconds.
- Number of accounts/engagements under an Advisor.
- Services defined by Service Agreement data per each engagement; products expected per Service Agreement.
- Fee/Payment Schedule per each engagement.
- Transactions performed for each engagement; Refunds, Transfer/Reversals processed.
- Advisor History: a listing of all the engagements connected to one Advisor and a description type for defining corporate activity reasons for changes, refunds, suspense, etc.
- Communications performed for that Advisor; listing a reference for the engagement, date and type of communiqué, and to whom it was sent to and where.
- Listing of all Clients associated with the engagement of the ABR.
- Listing of all advisors associated with the advisor.
- Profile information for all advisors listed

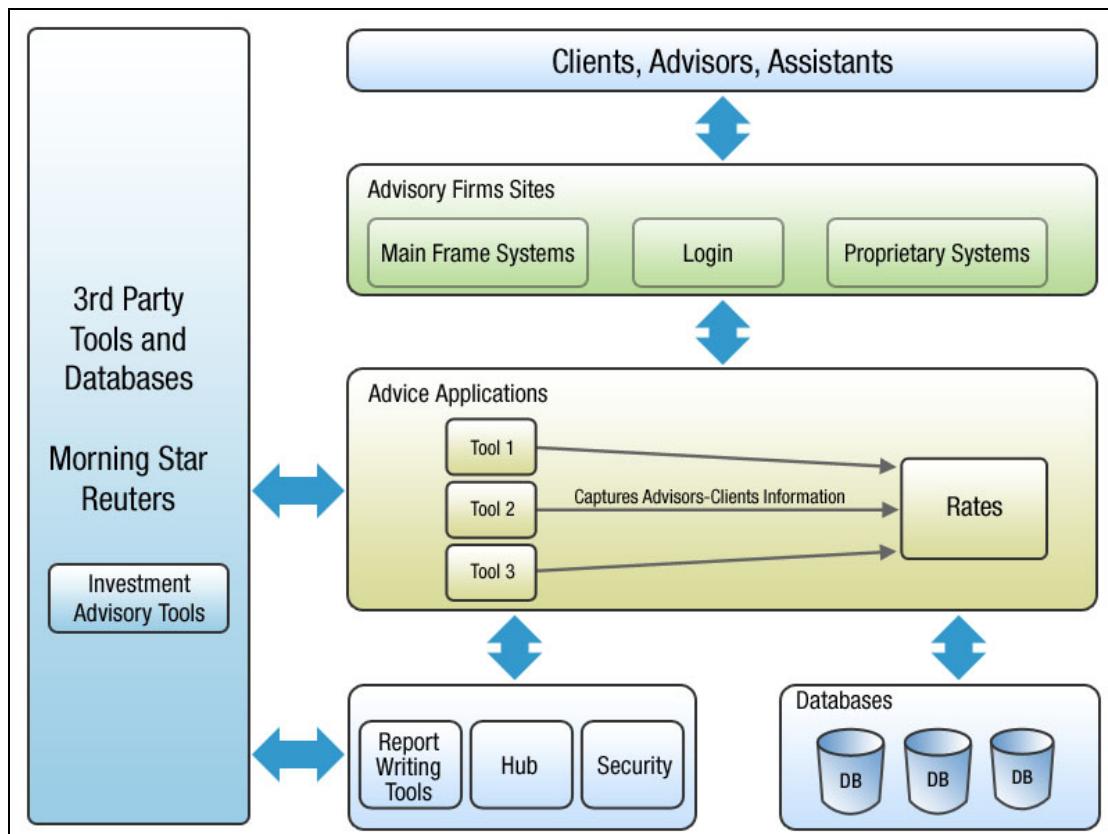


Figure: 4.4 Relationship Monitoring

### 4.5.3 Financial Planning Software

Financial planning software is stand alone applications used by financial advisors to develop a comprehensive financial plan in a short period of time. Shortening the time it takes to produce a plan provides advisors more time to obtain new clients and produce additional plans. These tools use mathematical modeling (Monte Carlo Simulation etc) to generate a financial plan. They provide integrated asset management, allowing advisor to propose the repositioning of certain client assets. They also identify areas of concern, needs and opportunities for advisor including identification of appropriate proprietary products. These off the shelf products are designed to meet the quality of advice standards based on the input and selection of advice.

Major commercial off-the shelf products financial planning software used by the Financial Advisory Firms are listed on Table 4.3

Vendor Name	Product Name/Suite	Services Offered
<b>Morningstar</b>	Morningstar® Advisor Workstation <sup>SM</sup> Office Edition	Comprehensive investment tools & Analysis, Contact management system, Data Aggregation, Report Generation
<b>M-Plan</b>	Advisor's planning tool	Advisor's planning tool
<b>netDecide</b>	Advisor's planning tool	Advisor's planning tool
<b>eMoney Advisor</b>	Advisor's planning tool	Advisor's planning tool
<b>Financial Profiles ,LLC</b>	Profiles + Professional, Forecaster®	Financial Planning, Client Reporting, Portfolio Analysis
<b>Thompson Financial</b>	Thompson IRA Analyst	Education & Retirement Planning
<b>Methuselah</b>	Advisor's planning tool	Advisor's planning tool
<b>Financial Engines</b>	Advisor's planning tool	Advisor's planning tool
<b>Emerging Information Systems Inc. (EISI)</b>	NaviPlan Financial Planning Software	Comprehensive Financial Planning
<b>WealthCycle</b>	Advisor's planning tool	Advisor's planning tool
<b>Money Tree Software</b>	TOTAL Planning System	Comprehensive Financial Planning
<b>Confiniti</b>	Advisor's planning tool	Advisor's planning tool
<b>SUNGARD® Advisor Technologies</b>	Portfolio Builder, Unified Overlay Management	Web-based asset consulting programs and back-office services to financial advisers and institutions.
<b>DirectAdvice</b>	Advisor's planning tool	Online financial planning and advice technology
<b>AdviceAmerica</b>	AdvisorVision	Web-based Financial Planning applications,



		Analytics & Model Portfolios
<b>ExecPlan</b>	Amicus Email monitor, Amicus KYC	Advisor Compliance technology solutions providers
<b>Impact</b>	TCAdvisor	Trading & Portfolio management solutions.

**Table 4.3 Major Commercial off-The Shelf Products**

The high level functionality provided by such software is:

1. Generating Monte Carlo Simulation and other models
2. Lifetime Financial Planning
3. Probability Models
4. Generating Model Portfolios
5. Risk Management (At client level)

#### **4.5.4 Asset Allocation Tool**

Asset Allocation Tool helps a financial advisor to answer following questions being asked by the client.

- What are all my investments worth?
- How much have I invested with you?
- Where are we making or losing money this year?
- How much did I make (or lose) last year?
- How am I doing compared to the market?
- Which of my investments are doing the best?
- How are my education accounts doing?
- How are we doing against the asset allocation model we agreed to follow?

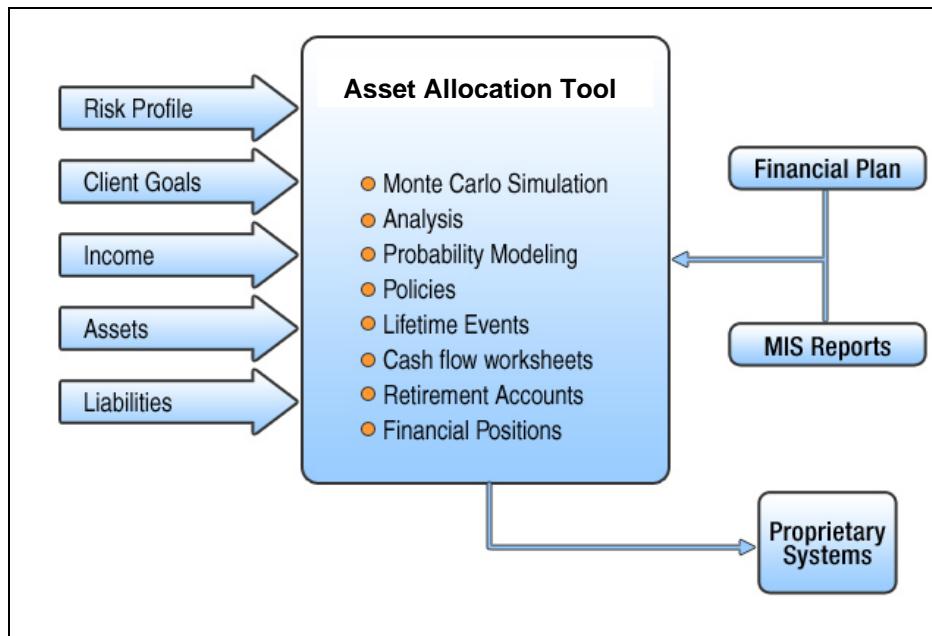
The tools have the ability to create portfolios of any group of clients or accounts, quickly and easily. Advisors can run the holdings, transactions, performance and asset allocation reports on these portfolios, enabling them to more closely track their clients' progress toward their financial objectives.

At a higher level the tool performs following functions:

- Holdings, Transactions, and Performance Information for Individual clients / accounts households or any combination of accounts
- Create Portfolios
- View, augment & share and Report generation
- Comparative performance analysis of asset classes
- Client & model portfolio comparison

There are several off the shelf Asset Allocation tools available in the market. Other companies including ING, Fidelity, Schwab, Merrill Lynch, LPL, Paine Webber, as well as many private banks are moving rapidly or have already adopted PMT.





**Figure: 4.5 Asset Allocation Tool**

## 5.0 Financial Advisory Services Firms-Business Strategy

### 5.1 Business Goals

The financial advisory services firm has following goals:

1. Help clients achieve their financial objectives prudently and thoughtfully through a long-term relationship based on trusted and knowledgeable advice
2. To provide Financial Expertise, Personal Focus, Frequent Contact, Product Quality and Performance, Simplification, Reliability and Trust.

## 5.2 Business Objectives

The major business objectives of financial advisory firms are:

1. Acquire new clients and develop long-term relationships.
2. To become leading mass affluent financial advisory service provider.
3. Increase Asset under Management.
4. Offer new financial products to satisfy diverse financial needs.
5. Invest in new technologies that have a direct return to the business.
6. Achieve consistent client experience through advisor training.



### 5.3 Critical Success Factors

The future success of any financial advisory firm will depend upon its ability to:

1. Increase the range of the target market
2. Reduce the turnaround time required to generate a financial plan
3. Providing a better information access and relationship experience to customers
4. Ability to cross-sell different products
5. Ability to attract secondary advisors
6. Effective organizational processes and structure to meet the regulatory requirements.
7. Efficient distribution processes
8. Achieve sufficient scale of operation to defray their fixed cost

The table 5.1 below illustrates critical success factors for an advisory firm across different business processes:

Business Functions	Critical Success factors
<b>Pre-engagement</b>	Use of consistent, standardized, prescribed client contract approach with clear objectives, templates and scripts.
<b>Client Meeting</b>	Professional meeting environment that supports the client's expectations (right location, right signage, right technology, etc.)  Fast and error free account opening and funding process
<b>Analysis &amp; Recommendation</b>	Clear, easily understandable and actionable financial plan in least time.
<b>Plan Execution</b>	Streamlined transaction processing in minimal amount of time.
<b>Relationship tracking</b>	Follow-up and contact based on relevant market events, life triggers, and identified client initiated transactions and quarterly client progress reporting, tracking performance



	against plan.
<b>Relationship building</b>	Proactively tracking and communication of progress towards goals via clients preferred channel.  Ongoing proactive, focused information and advice customized to clients needs.
<b>Collaboration</b>	Client Online access for easy self-servicing routine transactional requests.
<b>Conflict resolution</b>	Prescribed approach and response time for problem resolution

**Table 5.1 Critical Success Factors**

## 5.4 Constraints

The financial advisory industry operates and will continue to operate under following major constraints

**Lack of Standardization:** When seeking professional help, consumer has no uniform standard to judge the competency or ethics of the adviser; one who has the client's interest first.

**Declining Margins:** The growing competition in financial advisory space has resulted in declining margins for the firms and poses a challenge in near future. Banks, Mutual funds, Insurance companies and other financial institution are getting into the financial advisory space making it difficult for already established firms.

**Incongruous nature of regulation** The most specific hurdle in the financial planning world is the incongruous nature of regulation. Legislation focuses more on the regulation of financial product distribution, not on the process of advice given by an individual planner. In most countries, regulation centers on investment products, insurance schemes, mutual funds, bank offerings and how they are sold to consumers. In addition, several countries regulate both firms and individuals, while others only regulate one distribution method.



## 5.5 IT Goals and Strategy

The IT Goals and Strategy are driven largely by the Business Goals and Objectives an organization has set for itself and The Financial Advisory firms have following IT Goals:

- To improve productivity of financial advisors and therefore increase firm profits.
- To move from paper based methods towards electronic document management
- To meet increasing regulatory and compliance requirements.
- Reduce time taken to process the clients request and improve service standards.
- Lower Operating Costs by automating standard processes.



## 6.0 Financial Advisory Services Firms – To Be Model

The financial advisors, the advisory firm and even the Customer Service representative should together provide range of services that can meet diversified and sophisticated needs of all its customers. The involvement and engagement deepens as we move up to the higher end of the customer need spectrum. Therefore the financial advisory firm's service model has to encompass all types of interaction that will take place between the client and the firm, with varying degrees of involvement with the representative or advisor.

The tasks can be classified as execution oriented, tactical and strategic. All services provided across the spectrum have some elements of each type of task in them. For example, for a given account, at any given time, the firm may be involved in the following:

**Execution:** Buying and selling certain securities, executing an FX hedge – the support system will have to be able to communicate to other systems within the firm with the requisite mechanism for feedback and information retrieval and presentation

**Tactical:** Make a tactical asset allocation model change – the support system needs to combine client information in the form of a changed personal event (new baby, loss of job etc.) with market conditions and a suitable product offered by the firm to make the decision. Further, it needs to provide a mechanism to effect that change with the requisite feedback

**Strategic:** Proactively present a long term estate plan for an upcoming entrepreneur – the support system has to track the momentum of an account, identify it as a category-jumper (say moving from mass affluent to moderately wealthy), associate the demographics of the account with the firm services and market opportunities, and alert the advisor or salesperson to such an opportunity

If an advisor is involved in the above activities, she may be interacting with the client at the same time. The diversity of these activities will vary based on the client segment the advisor is operating in. The larger the account, the more close is the advisor acting as the "office" of the client. It is easy to appreciate the richness of this environment and the flexibility required from the associated support system. As we move to the higher end of the spectrum, we view the servicing representative as orchestrating various tasks. As we move to the lower end of the spectrum, these tasks will be less complex, and hence more automated.

It is near impossible for to come up with a one-size-fits-all service model for a financial advisory firm catering to different client segments. However, a single paradigm can be constructed that cover all client segments, at least at a basic functional level. The functionality requirements can be broken down into discrete sets increasing in the order of complexity as we approach higher end client segments. Each additional functionality set will naturally target fewer and fewer client accounts. Even the most basic functional set will encompass a combination of CRM, work flow, information retrieval, and reporting requirements. Hence, looking at the solution purely as a customer relationship management (CRM) systems is not sufficient. Any such general purpose CRM entails heavy customization, which brings on unnecessary additional operating complexity, defeating the purpose for which it is conceived in the first place. In other words, having CRM is a necessary but not a sufficient condition.



The required system has to have the following basic properties:

1. It should serve as the entry point for all users (here, advisors, planners, reps etc.) and users must not have to log in to any other system beyond this
2. Client, market and firm product and service information must be accessible
3. Should be loosely tied to other systems that perform secondary tasks in the workflow and be part of a communication feedback loop (trading systems, position keeping etc)
4. Be flexible to adjust for changes in underlying core system configuration and allow for growth at varying rates in different areas
5. The paradigm should also allow for clean cleavages of parts of systems in the future arising from outsourcing to third parties as well as changes in organizational structures.
6. Certain functionality to be specific to this industry in great detail (for example, maintenance of portfolio models, compliance rules etc.)
7. Modular approach is required, wherein a base functionality set may be part of the system itself, but additional complex functionality sets may reside outside the base system
8. Effective management of clients (or accounts) to the services that their client segment allows
9. Data mining and business intelligence to observe trends, convert them into useful information, and leverage for additional revenue opportunities

Based on our discussion so far, the proposed system has components of CRM, portfolio management, research and market information, compliance, prospecting, data warehousing and reporting. In the past, this system, which we can refer to as an integrator, has been implemented with a general purpose off-the-shelf system such as a CRM, a middleware application or a data warehouse as a basic platform. Each of these off-the-shelf systems is functionally strong in one or two of the areas required, but has to be heavily customized to fit the other requirements. Frequently, the level of customization has been so high, that the customized portion of the resulting system eclipses the off-the-shelf portion of such systems, defeating the purpose of putting in a basic system in the first place. Hence, it is imperative that the design of this integrator not be based on some pre-conceived model of CRM, data warehouse or middleware product, and be constructed taking into account the entire gamut of the above requirements.

### Full spectrum services scenario

Let us assume a firm that caters to all five-client segments that we have identified above. We further divide the services into various categories as defined below. While it is possible that all client segments may be exposed to each one of these service categories, the degree of depth required will depend on the revenue potential, and hence size of the account.

Financial portfolio



- Basic non-discretionary buy and sell orders
- General research tools
- Custody and administration
- Maintaining an SMA account
- Customized portfolio with extensive compliance
- Complicated instruments & hedges
- Sub-advisory services from hedge funds, alternative investments etc.

#### Non-financial portfolio

- Real estate properties – houses, farms, etc.
- Insurance of yachts, automobile collections etc.
- Custody of art collections

#### Liabilities

- Home mortgage
- Insurance policies
- Car, education, and other loans
- Home equity and other collateral based loans
- Credit cards & lines of credit

#### Personal retail services

- Checking & savings accounts
- Bill payment services (unassisted)
- Money Transfer & wire payments
- Foreign exchange provision
- Assisted payment management (alimony, allowance for families etc.)

#### Trusts & Legacy

- Retirement & Tax Planning



- Estate Planning
- Design of family trusts & wills
- Planning for charitable donations
- Portfolio design for future endowments & foundations

#### Reporting

- Automated commodity reports at account level
- Reporting with breakdowns of underlying accounts & assets within accounts
- Comprehensive UMA reporting encompassing all assets & liabilities
- Customized reports with details on different specific areas
- Market commentaries customized to portfolio
- Scenario analysis of portfolio based on specific imminent market events (oil price volatility etc,)
- Up-to-date online as well as detailed print reports with glossy graphics etc.

The super high net worth account is entitled to all these services in all details. The footprint of the other segments will be subsets of this Super Profile. The depth of service within these functional categories will vary widely. However, there will be a basic functionality set that will be common to all client segments in all service categories. This basic functionality set should serve as the “thin slice” or basic core of the system that we have been discussing.

For instance, this thin slice of functionality called the Basic Profile may cover the following:

- Financial portfolio (Buy and sell orders, general research tools, and custody)
- Non-financial portfolio (none)
- Liabilities (home mortgage, car loan)
- Personal retail services (checking & savings accounts, unassisted bill payments)
- Trusts & Legacy (retirement planning in the form of IRA)
- Reporting (Automated basic account level reporting)

This bundle of services will be available to the advisor when this account is accessed. This bundle of services will be available potentially to millions of accounts. The system should have the scale to cater to the volume of accounts, associated automation, and round the clock uptime requirements that this model entails.



As we move into the next segment, the mass affluent, we will add services to arrive at a Preferred Profile. This profile will consist of the above plus:

- Financial Portfolio (SMA account with basic profiling)
- Personal retail services (money transfer & wires)
- Reporting (breakdowns of underlying accounts & assets within SMA accounts)

The Preferred Profile may apply to a few hundred thousand users. The scale volume here is much lower, but still high enough that a lot of these functions will have to be automated. The advisor will have some interaction here in terms of changing the model of the portfolio etc.

As we move up the client segments, the high net worth segment will have a Select Profile in the form of the above services plus a few more from the menu described initially. This segment may only cater to about 10,000 to 25,000 users and will involve even higher advisor-client interaction. At this point, pools of advisors are typically assigned to dedicated accounts. The system options should also be higher as compared to the Preferred Profile.

The next very high net worth segment will typically have a Select Plus Profile with a few hundred to a few thousand accounts, and may have dedicated advisors who concentrate on a single account alone. The amount of functionality required from the system is higher, and the level of automation is low. This is an intensive one-on-one advisor-client communication environment. The level of connection to the system to underlying systems gets higher as we move up the client segments. Some characteristics between this segment and the super high net worth segment blur, and the distinctions are more in terms of the number of advisors involved within a given account. Clients in the last category may be attended to by groups of advisors with meetings even coordinated with portfolio managers, externally hired hedge fund managers etc.

As we move up the client segments, we notice that

1. Time spent on the account has to increase – the larger the account, higher the service levels and personalization expected.
2. Nature of service gets more diverse and less discrete – examples are increased management of liabilities in addition to assets, concentration on advisory functions versus execution functions, property and other asset management, tax planning, and personal services concerning travel planning, events, and currency transfers.
3. Complexity of the service increases within a given service – examples are complex hedging requirements using derivatives, attention to tax consequences and estate planning, charities, endowments, and other legacy enhancing activities.
4. Revenue opportunities go up as a percentage as well as by account and by attracting new customers in all the segments
5. Threat of losing the account is lower, but the consequences are severe – management changes are fewer and far between at high net worth levels, but the dollar impacts are much higher when they happen



6. Ability to automate functions goes down exponentially – any automation will tend to reduce human involvement in less proportion as the account size increases

Financial Advisory Firms should be able to

1. Identify category movers in advance by tracking the growth and momentum in the account
2. Quicker implementation of higher end services to lower categories – say, bundling high-end portfolio management advice in mass SMA accounts
3. Information dissemination among firm employees working across different categories – single system makes employees also more portable across functions with lowered training costs
4. Prospecting for new clients and designing marketing campaigns becomes more effective if profiles of new clients can be correlated to existing ones to come up with investment patterns, outlooks, and general service and relationship requirements.

Advisory firms can use this paradigm to identify the service portfolio they need to support, the drivers for each system and the complexity for each system. This paradigm serves as the link between the business strategy and the IT system definition.

## 6.1 Customers

- Financial Advisory services firm want to retain their existing clients and build on the client relationship for future business.
- Advisory Firms want a consistent and powerful positioning supported by competitive media levels
- Enhanced statements and financial accounts view representing client progress towards goals in a clear and concise manner
- Develop online ability for clients for perform routine tasks and transactions
- Large Financial Advisory firms want to provide wide range of financial options/solutions to meet the ever changing sophisticated needs of their customer.
- Financial advisory firms want to form strategic alliances and partner different business entities across the industry value chain to provide a one-stop shop for the client.
- Client online self servicing for routine transactions and requests

## 6.2 Financial Advisors

Financial Advisory firm are taking following measures to become more competitive:



- Advisor training on listening skill and client focus.
- Clear and consistent standards on the following dimensions
  - Office location, furnishings and maintenance
  - RFI and RFC requests fulfillment.
  - Minimum technology hardware requirements, connectivity and tool / platform subscription.
- Scripted client acquisition process and timeline that is prescribed / mandated.

### 6.3 Products

- A move towards providing comprehensive financial planning solution to the client is a major focus for all the large advisory firms. They will try to increase the number of services offered and would try to cater to all financial aspects of the client.
- Small advisory firms will try to specialize in the areas that they are already strong in and will try to turn themselves as niche dominant players.
- Advisory firms will try to devise new financial products to solve ever changing financial needs of the clients.

### 6.4 Services

Financial advisory services firms should evaluate following services/capabilities for their clients:

1. Large financial advisory firms should try to have presence across the industry value chain and should not only offer financial products but should also provide the services of a third party intermediating entity and hence reduce the time it takes to implement a financial plan. This will also improve the time to market performance and client experience.
2. Small proprietary firms should create a niche for themselves and move towards becoming a niche player. This can be a key differentiator for the advisory firm in already crowded industry.
3. The existing financial advisory services firm should provide a comprehensive financial advisory suite to their clients. This will not only help clients to get a one-stop shop experience but also create a value proposition for the advisory firm.
4. Forming Strategic Alliances with established financial institutions will help the firm to widen its service offerings without substantial capital investment.
5. The advisory firms should move towards institutionalization of relationships. The



degree to which the firms have institutionalized their relationship, will determine their intrinsic value.

6. The advisory firms should try to diversify their client base so as to provide stability to their business.
7. Large financial advisory firms should capitalize on their brand name as it reflects the strength of a firm's reputation within a geographical or client market.

## 6.5 Revenue Model

There are several established revenue models practiced in the industry and are fee only, commission only, combination, salary, Asset under management fees etc. Different advisory firms use mix of the above revenue model to do business.

Operating expenses of a Financial Advisory firm include:

1. Fees paid for investment management (research, trading, portfolio manager compensation, administrative services and technology),
2. Distribution and shareholder services fees paid for ongoing service provided by the firm and the financial advisor
3. Other expenses such as record keeping, portfolio accounting, regulatory reporting, audit, legal and other non investment expenses.

A significant portion of the operating expense fees is paid to the financial advisor as compensation on an ongoing basis

The major expense incurred by an advisory firm is

- Marketing,
- Employee Salary,
- Administration cost
- IT support .

Most of these costs are fixed cost and hence the firms typically aim to increase the client base so as to defray the fixed costs.

## 6.6 IT Profile

Table 6.1 below summarizes the IT functionality needed by advisory firms across different process of advisory to achieve next level of process maturity



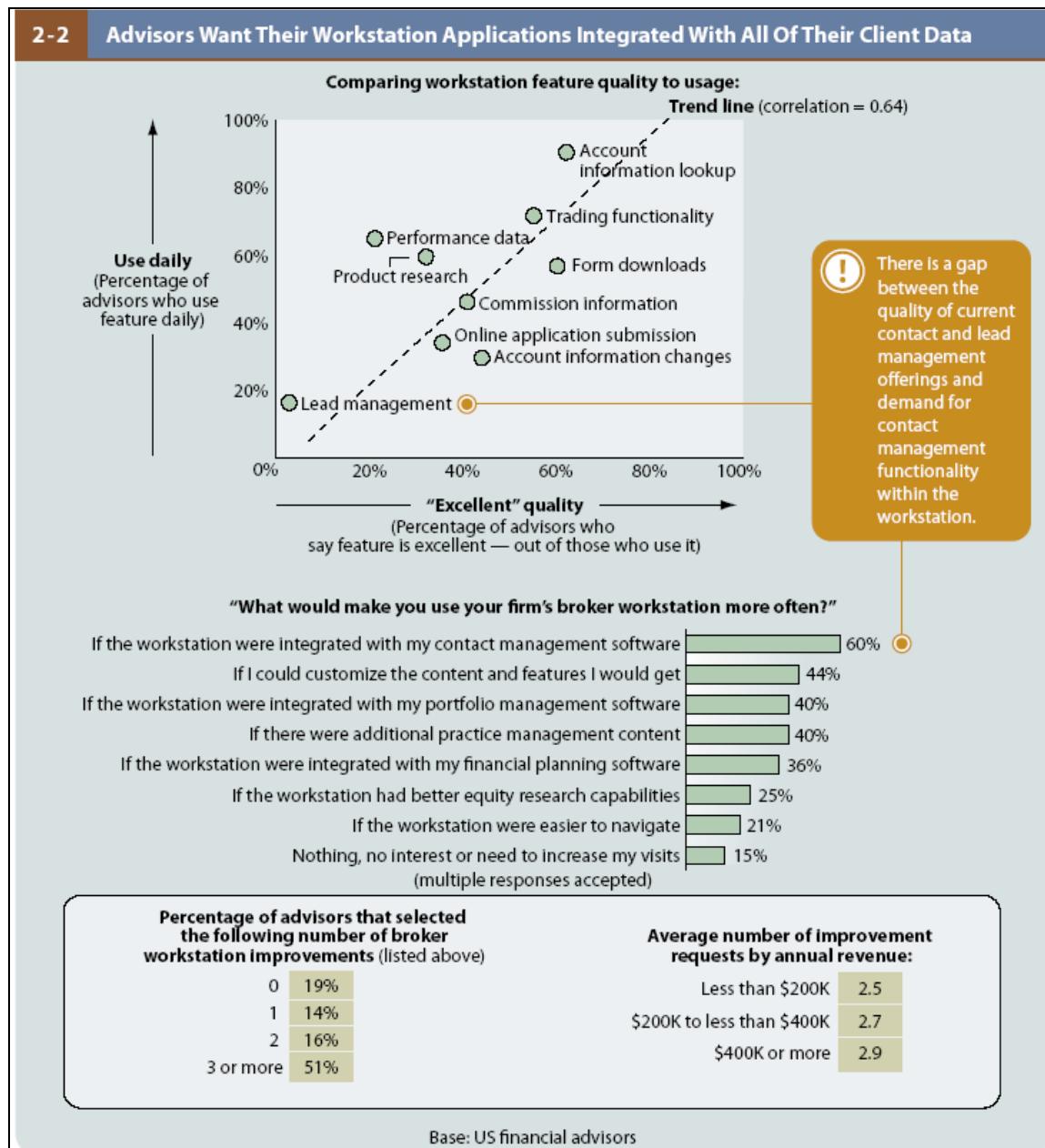
Key process	Challenges
<b>Client Acquisition</b>	<ul style="list-style-type: none"> <li>▪ Scripted client acquisition process and timeline that is prescribed / mandated</li> <li>▪ Easy way to contact via web, 800 or local included in all sale material and advertising</li> <li>▪ Scripted first meeting process that is prescribed and mandated</li> <li>▪ Contact manager for automatically scoring and allocating leads based on a match against the firms decision support system</li> <li>▪ Enhanced lead management / relationship management system providing advisor, field leaders and marketing with relevant and timely information on lead status, prompts advisors for action.</li> </ul>
<b>Account Opening</b>	<ul style="list-style-type: none"> <li>▪ Ability to open new accounts online only, with infrastructure to support target cycle time of 24 hrs</li> </ul>
<b>Analysis &amp; Recommendation</b>	<ul style="list-style-type: none"> <li>▪ Utilizing required tools, delivered within 30 days of initial client commitment and in a common format by all advisors</li> <li>▪ Streamlined online transaction systems that incorporate necessary regulatory and compliance need from the outset to prevent duplicative efforts for the advisor or client</li> <li>▪ Relationship based tracking systems capable of generating alerts based on relevant market events, life triggers, and identified client initiated transactions</li> <li>▪ Enhanced statements and financial accounts view representing client progress towards goals in a clear and</li> </ul>



	<ul style="list-style-type: none"> <li>▪ concise manner</li> </ul>
<b>Execution</b>	<ul style="list-style-type: none"> <li>▪ Online ability for clients for perform routine tasks and transactions</li> </ul>
<b>Relationship Management</b>	<ul style="list-style-type: none"> <li>▪ Streamlined online transaction systems that incorporate necessary regulatory and compliance need from the outset to prevent duplicative efforts for the advisor or client</li> <li>▪ Prescribed ongoing financial process for advisors which contain templates, scripts and delivery standards</li> <li>▪ Development of prescribed proactive advisor touch-points driven by key market, life or transaction events – potential system enhancements to deliver automatic alerts to the advisor at trigger points.</li> <li>▪ Proactive monitoring of inventory of outstanding advice recommendation to drive client productivity and prescribed follow-up timeframes for advisors.</li> <li>▪ Ability to track contact</li> <li>▪ Relationship based tracking systems capable of generating alerts based on relevant market events, life triggers, and identified client initiated transactions</li> </ul>
<b>Relationship Management</b>	<ul style="list-style-type: none"> <li>▪ Client online self servicing for routine transactions and requests</li> <li>▪ Nearly all financial transactions handled through an online order entry system</li> <li>▪ Transaction execution and service request status is available when the client chooses to view, and through the preferred channel.</li> </ul>

**Table 6.1 IT functionality vis-à-vis Business Processes**

The biggest challenge faced by the financial advisory industry today is the integration of Advisory tools with their proprietary legacy systems.



**Figure 6.1 “What Advisors want from Technology”-A Forrester Study**

To keep up with client management and financial planning, today's advisors use a number of applications. Majority of financial advisors today use a Contact Management Software, Portfolio Management Software and Financial Planning Software. But the lack of integration among these tools requires advisors to waste time toggling between them, reentering the same data into

disparate systems. To streamline advisor software and improve the technologies that are already in place, brokerages and third-party software manufacturers must eventually:

**Integrate all tools with contact management software.** Coupling financial software with CMS allows advisors to get a full picture of each client's financial situation and contact history without the burden of additional data entry on either end. It is, therefore, the point of integration that advisors request most. According to a Forrester Survey Eighty-seven percent of CMS users use either Microsoft Outlook or ACT as their contact management software — so planning and portfolio management software vendors should make sure that their product integrates with these two CMS platforms at the very least.

**Connect portfolio management and planning software with account data.** Advisors use portfolio management tools and planning software to save time, but entering each client's account positions is a time-consuming process. In addition to connecting these planning software and portfolio management tools with CMS, brokerages should adopt tools with account systems of record so that the system can pre-populate financial data. To fully simplify the data-entry process, brokerages should partner with investment-strength account aggregation vendors like CashEdge and Yodlee to populate financial holdings held both within and without their own financial institution.

#### **Combine all technologies to redefine the workstation.**

The next-generation broker workstation will combine all five technologies. It will: 1) offer access to account data and enable trades like the traditional workstation; 2) keep track of client and prospect contact history with contact management capabilities; 3) allow advisors to manage their customer's portfolios; 4) enable the generation of financial plans; and 5) update product information by either connecting to fund sites or accepting syndicated content from fund companies. To avoid creating an all-in-one platform from scratch, brokerages and custodians should require their vendors or internal product development teams to enable integration between all five core advisor technology components.

The following are the emerging technology trends:

- Advance CRM tools for Advisors
- Portfolio Management Tools
- Online Portfolio performance reporting tools
- Straight Through Processing
- Remote Computer Access tools (Ex [www.gotomypc.com](http://www.gotomypc.com) etc)
- Data simulation tools
- Document Management Systems
- VOIP technologies for Client-Advisor Communication



## 7.0 Reference

### Websites

<http://www.bls.gov> : U.S. Department of Labor, Bureau of Labor Statistics

The Bureau of Labor Statistics is the principal fact-finding agency for the Federal Government in the broad field of labor economics and statistics.

<http://www.iso.org> : International Organization for Standardization

ISO is a network of the national standards institutes of 146 countries, on the basis of one member per country, with a Central Secretariat in Geneva, Switzerland, that coordinates the system.

<http://www.cfainstitute.org>

A global membership organization that awards the CFA designation, CFA Institute leads the investment industry by setting the highest standards of ethics and professional excellence and vigorously advocating fair and transparent capital markets.

<http://www.cfp.net>

Certified Financial Planner Board of Standards Inc., a professional regulatory organization, fosters professional standards in personal financial planning so that the public values, has access to and benefits from competent and ethical financial planning.

<http://www.fpanet.org>: The Financial Planning Association

The Financial Planning Association is the membership organization for the financial planning community

<http://www.financialadvisormagazine.com/>

Financial Advisor is a "pure play" on the independent financial advisor market, targeting independent broker/dealer affiliated financial advisors, registered investment advisors (RIAs) and Investment Advisor Representatives (IARs).

### Others

1. Processes of an advisory firm has been modeled as outlined by the ISO working committee .The committee is working towards building International Standards for Personal financial planning.
2. Strategy Documents & Presentations on Advisory Firms
3. White paper on Regulation of Financial Advisors by Financial Planning Association

## 8.0 Appendix

### 8.1 Professionals in FA Industry

#### **Accountant**

The two principal types of accountants in the United States are Certified Public Accountants (CPAs) and public accountants. CPAs have passed a national examination, completed educational and supervised experience (in most cases) requirements, and are licensed by the various states to practice public accounting (e.g., auditing) as CPAs. Generally, public accountants are accountants who were in practice at the time that most states required all new accountants to be CPAs and who were “grandfathered” by many states to practice for the rest of their lives as public accountants. Accountants perform one or more of the following services involving the use of accounting or auditing skills: issuance of reports on corporate and individual financial statements, consulting, preparation of tax returns and the provision of tax-related advice. Many accountants have broadened their activities in recent years into computer systems analysis, management advisory services, corporate or individual tax planning or other areas of financial planning, such as investment planning.

#### **Attorney**

A relatively small percentage of attorneys provide financial planning services, usually specializing in estate and tax planning. In the context of financial planning, a planner may ask an attorney to provide specific legal advice for a client, particularly in the areas of taxation or estate planning. An attorney may also be called upon to prepare the legal documents necessary to implement recommendations in areas such as wills, trust documents or business ownership planning.

#### **Broker/Dealer**

Broker/dealer is a term used to describe an individual or a company that is licensed to buy and sell investment products for or to clients. Some broker/dealers are large companies that sell securities that they own (thus, the term “dealer”), while others are firms that only buy and sell securities on behalf of investors (thus, the term “broker”). To be in the securities business, an individual or a company must be a broker/dealer or an individual must be affiliated with a broker/dealer as a registered representative.

#### **Certified Financial planner tm Certificant or CFP® Practitioner**

CERTIFIED FINANCIAL PLANNERTM certificants are individuals who have met CFP Board's education, examination and experience requirements, have agreed to adhere to high standards of ethical conduct and who complete CFP Board's biennial certification requirements, including continuing education, to use the certification marks C FP®, CERTIFIED FINANCIAL PLANNERTM and . A CFP practitioner is a financial professional authorized to use the CFP certification marks who has identified himself or herself to CFP Board as being actively engaged in providing financial planning services. All CFP certificants have voluntarily submitted to the regulatory authority of CFP Board.

#### **Chartered Financial Analyst®**

Holders of the Chartered Financial Analyst (CFA®) designation are securities analysts, money managers and investment advisors who focus predominately on the analysis of investments and the securities of particular companies or industry groups. Individuals earn the CFA designation by completing experience, education, examination and ethics requirements for the Association



for Investment Management and Research® (AIMR®). All CFA charter holders have voluntarily submitted to the authority of AIMR.

**Chartered Financial Consultant**

The title Chartered Financial Consultant (ChFC) is used by financial professionals—including accountants, attorneys, bankers, insurance agents and brokers, and securities representatives—who have earned the ChFC designation by completing The American College's (see description on page 44) Eight-course education program, met experience requirements and agreed to uphold a code of ethics.

**Estate Planning Professional**

An estate planning professional devises a plan for the orderly handling, disposition and administration of an individual's assets (which can include securities, insurance, real estate, cash and business interests) at the time of the individual's death. Estate planning professionals, usually individuals who practice accounting, financial planning, insurance, law or trust banking, also make financial projections or illustrate financial options and strategies for a client. As many estate planning documents can only be completed by an attorney, estate planning professionals often work as part of a team that includes an attorney.

**Fee-Based Financial Advisor**

An advisor who is compensated both by fees paid by the client and commissions that are contingent on the purchase or sale of financial products.

**Fee-Only Financial Advisor**

An advisor who is compensated solely by the client, with neither the advisor nor any related party receiving compensation that is contingent on the purchase or sale of financial products.

**Financial Advisor (or Advisor or Counselor or Consultant)**

"Financial advisor" (or advisor) is a generic term used broadly by consumers and financial services professionals to describe an individual engaged in providing financial advice, services or Products to a client for compensation. The term "financial advisor" covers a broad spectrum of financial professionals including financial advisors, registered representatives, money managers, investment advisors and individuals who sell or advise people on financial products.

**Financial (Securities) Analyst**

These professionals are usually employed by investment brokers, banks, mutual fund managers, venture capitalists or investment institutions to conduct investment research and analyze the value of securities and financial condition of a company, group of companies or industry sector. Based on their analysis of a given stock or market sector, analysts will make investment recommendations to buy, sell or hold a given stock.

**Insurance Agent**

Insurance agents are individuals licensed by a state or states to sell life and health and/or property and casualty insurance products. Many financial advisors are licensed to sell or give advice on insurance products. Other financial advisors might identify insurance needs for a client, but turn to a licensed insurance agent for recommendations about which existing insurance products best meet the client's needs. Independent insurance agents sell products for two or more insurance companies; exclusive insurance agents represent only one.

**Investment Advisor**

Any individual or firm providing securities advice for compensation as part of a regular business of giving investment advice must register with the Securities and Exchange Commission (SEC) or appropriate state securities agencies as an investment advisor, unless specifically exempted from registration. Financial firms and individuals managing \$25 million or more of assets have to register with the SEC, while individual advisors and firms managing less than \$25 million have to register with the state securities agency in the state(s) in which they practice. Individual advisors whose place of business is in Wyoming (which does not currently regulate individual advisors) must register with the SEC. Individual advisors with less than \$25 million under management but who have clients in more than 30 states also may register with the SEC. Broker/dealers are usually exempt from registering as investment advisors because they are primarily sales agents who fall under the regulation of the National Association of Securities Dealers (NASD®).

Investment advisors may recommend stocks, bonds, mutual funds, partnerships or other SEC-registered investments for clients. To register, an applicant must file a Form ADV (Advisor) detailing educational and professional experience with either the SEC or the state(s), and disclose whether he or she has ever been the subject of disciplinary action. This form or its equivalent must be shown to potential clients prior to the commencement of a professional engagement.

#### **Investment Advisor Representative**

An investment advisor representative is an individual associated with an investment advisor firm who provides investment advice to clients. States currently use the Series 65 exam to test investment advisor representatives. The North American Securities Administrators Association's (NASAA) revised Series 65 exam tests the subject matter knowledge and competency of state-registered investment advisor representatives and must be passed as a licensing requirement. Individuals associated with an investment advisor firm who do not communicate directly with clients (e.g., personnel who prepare newsletters, provide general market timing advice or prepare lists of recommended purchases for Web sites) may not be deemed investment advisor representatives based on certain state laws.

#### **Investment Consultant**

Although investment consultant is a generic term used to describe a money manager or even a financial planner, it more accurately describes consultants who evaluate, select and monitor money managers. Consultants typically work for brokerage firms or independent advisory firms, and their clients most often are institutional investors, such as pension plans, but may include individuals with substantial sums to invest.

#### **Money Manager**

Money managers typically design a portfolio for clients (or work with a design developed by a financial planner) comprising individual securities, bonds, real estate or other financial assets and investments, and manage the portfolio on a discretionary basis, usually for a fee that is a small percentage of the value of the assets under management. Money managers may range from an independent advisory firm to a bank trust department, pension fund, mutual fund or insurance company.

#### **Personal Financial Specialist**

Certified Public Accountants (CPAs) who wish to specialize in personal financial planning can earn the American Institute of Certified Public Accountants' (AICPA) Personal Financial Specialist (PFS) designation by being a member of the AICPA in good standing and meeting its exam, experience, and learning requirements.



**Portfolio Manager**

See “Money Manager” .The term portfolio manager is often used to describe the investment manager of a mutual fund or private institutional fund.

**Real Estate Broker**

A real estate broker is licensed by the state(s) in which he or she practices to arrange the purchase or sale of property for a buyer or seller in return for a commission. A real estate agent is an individual who works for a real estate broker and may hold an individual real estate broker's license. Real estate brokers may help consumers finance a real estate purchase through their contacts with banks, savings and loans, and mortgage bankers.

**Registered Representative/Stock Broker**

A registered representative, also called a stockbroker, is affiliated with a stock exchange member broker/dealer firm, recommends to clients which securities to buy and sell, and earns a commission on all trades as compensation. To become a registered representative, an individual must pass NASD administered securities exams depending on the type of securities in which he or she wishes to deal (e.g., Series 6 for variable annuities and mutual funds, Series 7 for general securities) and any securities exam(s) required by the state securities agency of any state in which he or she practices. All registered representatives, including any financial advisors who execute buy or sell orders for mutual funds, stocks, bonds, commodities or other securities on behalf of clients for compensation, must be registered with the NASD®(see page 20) and licensed by the appropriate state securities agency.

*Note: Investment advisors who only manage money in a no-load mutual fund for a percentage of assets (a fee) are not required to register with the NASD or be licensed by the appropriate state securities agencies as they do not execute securities transactions on behalf of their clients. These trades are executed instead by the broker/dealer custodian of the clients' funds.*



## 8.2 Worldwide CFP Certificant Growth

### Worldwide CFP Certificant Growth

Date Affiliated	Region	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	3rd Qtr 2004	
Dec-90	Australia	49	76	109	148	274	527	782	1,030	1,480	2,162	3,011	3,885	4,725	5,198	5,528	
Mar-02	Austria													19	54	82	
Mar-02	Brazil													0	61	61	
Jan-96	Canada							0	4,700	6,900	10,677	11,850	13,277	14,483	15,492	16,006	
Jan - 04	Chinese Taipei																
Oct-97	France							0	0	172	283	540	850	1,200		1,365	
Oct-97	Germany							23	227	349	451	601	694	880		921	
Nov-00	Hong Kong												88	334	996	1,162	
Oct-01	India												0	0	54	90	
May-92	Japan			241	436	584	810	1,025	1,276	2,318	4,007	5,860	7,967	10,037		11,657	
Apr-00	Malaysia												9	24	961	2,580	
Mar-96	New Zealand							0	265	268	226	240	253	268	287	287	
Jun-00	Republic of Korea												30	101	354	562	
Dec-98	Singapore									0	3	3	91	212	370	476	
Nov-98	South Africa									0	1,834	2,098	2,300	2,117	2,551		2,500
Apr-99	Switzerland										99	140	239	280	287		285
Jun-95	United Kingdom							70	60	63	80	131	190	215	232	284	340
	International Totals	49	76	109	389	710	1,181	1,652	7,106	10,231	17,971	22,282	27,403	33,243	40,685	44,664	

Financial Planning Standards Board Ltd. (FPSB) owns the CFP, CERTIFIED FINANCIAL PLANNER and CFP® certification, service and related marks (CFP marks) outside the United States. Certified Financial Planner Board of Standards Inc. (CFP Board) owns the CFP marks in the US and its territories. Each organization is responsible for establishing, enforcing, and promoting standards for CFP certification to benefit and protect the public in its territory.

United States 20,304 23,358 25,538 27,817 29,532 31,572 30,129 31,939 33,120 34,656 36,307 38,408 40,375 41,509 45,198

Grand Totals	20,353	23,434	25,647	28,206	30,242	32,753	31,781	39,645	43,351	52,627	58,589	65,811	73,618	82,194	89,862
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## 8.3 Classification of individuals

Individuals can be classified on the basis of:

1. Age Group:

Segment	Age Group
Up & Coming	20-39
Mid-Life	40-54
Retirement Cusp	55-69
Up & Coming -> Who are they?	20-39-> Financial Planning Focus
Ages: 20-39	Prepare for retirement
28% have a written financial plan	Manage/reduce debt
52% completed plan within the last 3 years	Build an emergency fund
Most tolerant of risk	Build a college fund
Most likely to use the Internet for financial purposes	Save for a home purchase/renovation
Most likely to have financial software	
Mid-Life -> Who are they?	40-54-> Financial Planning Focus
Ages: 40-54	Prepare for retirement (strongest focus of all three categories)
39% have a written financial plan	Build an emergency fund
56% completed plan at least 4 years ago	Vacation/travel
More likely to use a planner to develop plan	Finance college education
Highest amount of household income	Manage/reduce current debt
Have low to moderate risk tolerance	Shelter income from taxes
Retirement Cusp-> Who are they?	55-69-> Financial Planning Focus
Ages: 55-69	Prepare for retirement
47% have a written financial plan	Vacation/travel
62% completed plan at least 5 years ago	Accumulate capital
Higher net worth and lower risk tolerance	Generate income
Most likely to have a financial professional as a primary adviser	Shelter income from taxes

2. Household Income Level

Age-Group	Income
20-29	\$ 60,000+
30-39	\$ 85,000+
40-49	\$ 100,000+
50-59	\$ 100,000+
60-69	\$ 60,000+

3. Investable Asset Level

Age-Group	Income
20-29	\$ 60,000+
30-39	\$ 85,000+
40-49	\$ 100,000+
50-59	\$ 100,000+
60-69	\$ 60,000+



## 8.4 Regulatory Compliance for Registered Rep



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## 8.5 Regulatory Compliance for Advisory Firms



D:\Sumit\Advisory  
Services\WIP Advi Biz

