



THE CHAOS THEORY IN WEALTH MANAGEMENT



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The Chaos Theory in Wealth Management

Using disciplined practices to attract and retain top producers

ABSTRACT

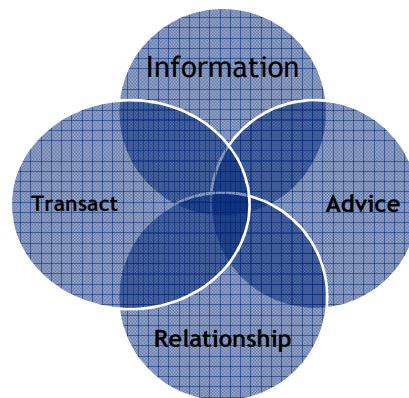
The chaos is nobody's fault. It just evolved that way. The wealth management universe intersects many parallel constellations, each with their own historical and somewhat myopic perspective on order. Ironically, too many overlapping seeds of legacy order have fostered areas of holistic chaos. Successful wealth management industry executives will see the chaos as an opportunity to distance themselves from the competition. It is time to challenge conventional wisdom about those legacy industry practices that are having a crippling effect. Rethinking practice disciplines can instill new order within the chaos that is being imposed on your wealth management business.

INTRODUCTION

Wealth Management industry executives face a constant flow of superimposed challenges that deflect attention away from what should be their top priorities of increasing revenues and decreasing expenses. We have also entered a new era in which executives' own careers are personally threatened by any undisciplined practices uncovered on their watch. Those that embrace the imposed chaos as a challenge and implement new disciplined practices will not only survive but will thrive as the next generation leaders in our industry.

CHAOS THEORY IN WEALTH MANAGEMENT

The wealth management segment within the financial services industry is a relatively new hybrid platform. It is the byproduct of a new economic era. New distribution models and consumer value propositions have emerged that make the definition of practice fundamentals no longer the exclusive domain of only the product issuers and regulators as in the past. The dominant influence of the transactional business model of the industrial age must now give as much focus to the client-driven model in the information age. Today's financial advisor is more than a salesperson. Consumers, facing information overload and constant cynicism, need to put their trust in someone to help them make their own informed financial decisions. The role of "trusted advisor" has become as much an "infomediary" as being an intermediary. Transactions lend themselves well to oversight, but the information exchange in confidence is what remains as the primary economic driver of the wealth management industry.



In the industrial age business model, the financial product issuer controlled the complete proprietary value chain on a top down per product basis. Products and their practices were defined on an exclusive, somewhat mystical, basis by each issuer and approved as such by the various regulators, all with a transaction "sale" focus. Products were clearly segmented within the prescribed industry-regulated silos and each issuer had exclusive distribution arrangements, mostly captive, that made oversight through transactions relatively easy for both issuers and regulators.

....CHAOS THEORY IN WEALTH MANAGEMENT

After centuries with little process change, industry consolidation and the demise of captive distribution have absolutely disrupted the financial services industry universe. Industry consolidation has eliminated the silos between product segments on which “order” was previously established. Manufacturers, distributors, and advisors in wealth management are now commingled in various configurations that defy traditional logical boundaries. Clients are confused, regulators are confused, and the value chain participants themselves are left to run an obstacle course in a maze.

The independent financial advisor model also emerged in parallel over the past two decades while consumers in the information age have been given far more independent access to seemingly unbiased information. These trends are at the root of the chaos. A chasm exists between the unbiased advice model demanded by consumers of wealth management services and the “proprietary” industry legacy culture. The latter is slowly migrating away from an expectation of proprietary end-to-end controls but remains constrained by a regulatory framework that is justifiably more concerned with inhibiting those few “bad apples” that prey on consumer apathy and misguided trust.

There is no argument anywhere about the existence of a chaotic state in wealth management.

UP THE DOWN STAIRCASE

It has never been more important for a wealth management industry executive to be personally disciplined and to ensure his or her organization follows suit. The wealth management value chain practices must be simultaneously managed by the traditional top down perspective and the customer-centric perspective. In the real world, relationships are built from the bottom up. Client picks advisor. Advisor picks distribution partners. Distribution partners align with manufacturers. It is not a sales transaction that kicks off the industry processes. It is the regular scheduled review conducted by an advisor with his or her clients that is the true process catalyst.

Yet, too little time and money is spent integrating the independent advisor’s own practice management disciplines into the overall industry value chain processes and technology. As a result, the burden of the inefficient processes and the ill thought myopic controls reduce advisor productivity almost to a financial crisis point. Low productivity, lack of succession planning, and difficulty recruiting are all symptoms of the chaotic state of the wealth management industry today. Advisors, desperately

seeking order within the chaos in hopefully greener pastures, are frequently accused of disloyalty and/or mercenary behavior.

....UP THE DOWN STAIRCASE

A failure to integrate advisors into the wealth management value chain is relatively easy to spot:

- *Advisors who hire more assistants yet still spend a decreasing amount of time interacting with clients.*
- *Advisors who avoid certain products because of the additional compliance workload attached.*
- *Advisors who demand more technology and data integration from their own practice perspective.*
- *Advisors who jump from dealer to dealer despite the serious inconvenience attached.*
- *Advisors who refer to distribution partners and product manufacturers as low value add.*

Let's face it; the very elite advisors have the financial resources to work around most of these issues independently. The majority does not and there is a resulting exit from the business at an alarming rate.

INSTALLING ORDER WITHIN THE CHAOS

It is important to talk to your advisors as your starting point. They may not be able to identify their issues in a casual conversation so you need to take an active consultative approach. Visiting their place of work and observing their practices and discipline, or lack thereof, will reveal the areas of disconnect and inefficiency caused by the broken industry value chain. You should pay special attention to the key automation tools used in the advisor's day-to-day practice:

- Time is what they sell; scheduling and time management disciplines are critical success factors.
- Collaboration within advisors own team must be linked through workflow management, automated ticklers, and interactive communication methodologies to drive efficiency.
- Redundant data entry across a myriad of systems is commonplace. Look for advisor's own CRM, planning tools, multiple partner systems, and form duplication.
- Information overload also impacts advisors. Streamline communications to be targeted one-to-one and provide the abridged version to allow for a quick scan.
- Don't count on scheduled training and documentation as the only vehicle for providing guidance. Just-in-time automated guidance per process is far more effective.
- Respect that you do not necessarily have an exclusive relationship with each advisor and do not penalize their efficiency because of it.

- Embrace your share of advisor and earn the right to more by being “easiest to do business with” and most helpful in creating even more mutual business.

SUMMARY

The chaos felt further up the value chain is magnified exponentially at the advisor level. Most feel orphaned when it comes to practice management and automation help. The winners in wealth management will embrace the autonomy of advisors and help them instill order within the imposed chaos. The benefit will be more advisor loyalty and more productive advisors. Word of mouth referrals will also help your recruiting efforts.

Author of this White Paper

Jim Graddon left an executive role with a life insurance company in 1994 to focus his own consulting practice on the challenges of financial advisors in the post-captive era. Having both operational and IT experience in financial services, Jim has earned recognition as an advocate for the advisor across the wealth management industry. Jim has been a frequent speaker at industry events. Jim joined OPUGEN in January, 2010.

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More than a consulting and software company, OPUGEN’s team is led by executives who themselves have led wealth management firms. We have also assembled a syndicate of seasoned executives and consulting boutiques to be catalysts for our clients in wealth management, insurance, and annuity distribution. Consulting, technology, and outsourcing services help our clients instill order within the imposed chaos through enhanced disciplined practices.