

Broker-Dealer Perspectives

ON DIGITAL JOURNEY MAPPING

October 2021



Context

Collectively, our industry is more ready than ever to adopt digital technologies. While this has long been a desired direction, the 2020 pandemic made digital processing a necessity. We now face a new normal; what started as a response to social-distancing requirements is now solidifying a more innovative future state. With this catalyst driving companies forward, it is a key moment for industry players to rally together and embrace solutions that not only strip away manual processing but also empower financial advisors with next-generation access to analytics.

METHODOLOGY

Given this need for alignment, the Insured Retirement Institute (IRI) interviewed information technology (IT) leaders and influencers at four broker-dealer companies to understand their views of the digital transformation underway and what trends they see coming. This report summarizes the results of those conversations; pseudonyms have been used in place of company names.

No single company can make these leaps in a vacuum. The supply chain for our industry is intricately interconnected. Insurers, asset managers, broker-dealers, and solution providers must often move forward in lockstep to achieve the full functionality desired. To move forward together, however, requires that each piece of the supply chain understands the preferences and perspectives of the others. Otherwise, companies risk making significant investments in creating technology platforms that ultimately go unused. This is time and money no business can afford to lose.

AREAS OF INQUIRY

Interviews covered three categories of interest:

- > Contract servicing trends
- > Digital servicing tools
- > Future digital expectations

SPONSORSHIP

This research was anonymously sponsored by one of IRI's insurer members. Interviews were conducted between IRI and the pseudonymed companies named in this report.

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SECTION 1:

Contract Servicing Trends

TRENDS AMONGST FINANCIAL PROFESSIONALS

Unanimous thinking almost never happens in the world of IT, but every interviewee contacted for this report had the same response to the question, “What changing trends are you seeing in how your financial professionals prefer to run the contract servicing aspects of their businesses?” The trend is repeated time and again across the industry: prior to the pandemic, broker-dealers faced hesitancy from financial professionals about using digital tools for contract servicing. Now, the doubt is gone. Digital solutions are here to stay. As one company put it, “We went from feeling a lot of resistance from financial professionals all the way to ‘there’s no other way’ in the span of a few months.”

That is not to say that all needs are being met or that there are not concerns about the new normal being established. With functionality like e-Signature now considered table stakes, IT executives are turning their attention to the next-level needs of their financial professionals. Issues raised during the conversation included the following:

1. Click-to-agree functionality

At Rogers Company¹, IT executives no longer consider digital functionality like e-Signature a “new” feature. As such, they are looking ahead to the next evolution, and click-to-agree technology is on their radar, especially as regulators become comfortable with this means of doing business.

2. Full book of business views

Certainly, financial professionals now want to be able to do everything they need to do digitally from a contract servicing perspective, but they want that paired with the ability to see all their clients’ data in a clear, easily summarized

format. It’s not enough to sign the contract digitally, managing it should also be digital.

3. Customer service

One interviewee cautioned against the idea of digital solutions that are not paired with strong interpersonal interactions. A financial professional who sends a client to a portal or website and does not spend time guiding them through that process may lose that client’s trust (or business). Similarly, carriers who fail to create easy-to-navigate customer service channels to support digital functionality may lose business to those companies who can supply that added assistance.

4. Consolidation and consistency

Finally, the lack of a clear, widely adopted approach to contract servicing across carriers is difficult for broker-dealer firms to manage. Advisors must go from website to website to do business. Internally grown platforms help, but information coming from carriers is disparate and arrives on varying schedules. A future where carriers agree to standard information flow and processing will ease the transition to a digital model.

The shift to digital since the onset of the 2020 pandemic was rapid, but Wilson Financial¹ executives caution that this new normal must be protected. As the country emerges from the pandemic, some carriers have tried to backtrack with a return to wet signature requirements, especially for enforce transactions. These reversals risk the progress the industry has made and will affect customer and advisor expectations.

¹Pseudonym

TRENDS AMONGST CARRIERS

Each interviewee sees the strong shift toward digital solutions as the trend amongst carrier partners. Carriers recognize that every phase of the process must become digital, and that evolution cannot stop with contract signing. An end-to-end digital transformation is underway.

Brady Financial Services¹ interviewees noted that carriers are succeeding to different extents, and companies seem to fall in one of two extremes. Some have managed to centralize everything a financial professional needs in one spot, but the resulting repository is difficult to navigate. Others have spread things out categorically, making what is needed hard to find. These extremes can be frustrating for financial professionals, especially those who are not digital natives. Today, the average age of a financial professional is 55 and only 10 percent are younger than 35²—meaning virtually all broker-dealers will have significant portions of their advisor pools who did not grow up in close, daily contact with computers, social media, and digital devices.

Allen Investment Services, LLC's¹ interviewee notes that the trends towards digital adoption amongst carrier partners is driving them to prioritize differently. They are not accelerating the process to add contract servicing data to the brokerage data they already have on their platform.

A final identified trend is the move to outsource some contracts, particularly older blocks of business. As carriers invest in development, they often focus on new business. This makes older contracts harder to service and the burden falls on broker-dealers.

INVOLVEMENT IN TRANSACTIONS

Only one of the broker-dealer companies interviewed for this report desires in-depth involvement in their advisors' contract servicing transactions. At Wilson Financial, executives see the benefit to significant involvement in advisors' contract servicing transactions but recognize that several hurdles stand in the way. For example, notifications about online transactions would be useful. Making that a reality, however, requires both the functionality to send the notification as well as the ability to ingest and process that information in a scalable manner. There must be full surveillance and oversight.

For the other interviewed companies, involvement in online transactions is less critical. These companies view their roles as that of facilitators. Certainly, oversight via documentation is necessary for suitability determination, compliance, and audit purposes, but that is the extent of the need. This sentiment reflects the role that broker-dealers often see themselves playing, as evidenced in the following quotes:

- > "Our value is to curate moments of visibility. We'll accept visibility if it is offered, but we don't mandate that unless it is necessary to provide consistent service."
- > "Advisors have to be able to review asset holdings and transactions periodically, and the firm must have oversight via advisors' documentation."
- > "We view our role as making processes easier and more efficient. This doesn't necessarily mean being involved in contract service transactions. The advisors should be handling that independently."

Likewise, these interviewees do not expect notifications about contract servicing transactions their advisors perform online. Scalable summary data is needed and useful, but individual notifications are not needed or wanted.

¹Pseudonym ²J.D. Power, U.S. Financial Advisor Satisfaction StudySM, 2019.

SIDE BY SIDE COMPARISON

	Rogers Company	Brady Financial Services	Allen Investment Services, LLC	Wilson Financial
Advisor trends	e-Signature isn't new anymore. Everyone is doing it.	Everyone is embracing digital, but it doesn't replace one-on-one interactions.	The hesitancy is gone. Digital is here to stay.	Shift to digital but beware of backtracking as we emerge from the pandemic.
Unmet needs	Click to agree functionality	<ul style="list-style-type: none"> > User friendly platforms > Customer service support 	Ability to view whole book of business easily	Consistency and consolidation
Carrier trends	Everything is becoming digital, every phase of the process.	Digital is the trend.	It's all going digital and soon it'll be easy to navigate.	Outsourcing some contracts makes it harder to manage older blocks of business.
Involvement desired	Only if it's necessary to provide consistent service.	Firms must have oversight via advisors' documentation.	Involvement isn't necessary. Advisors own that independently.	Significant involvement desired.
Notifications expected?	N/A	No	No	Desired but not expected

SECTION 2:

Digital Servicing Tools

PERCEIVED BENEFITS

It is hard to say which came first. Did a move toward holistic, long-term financial planning drive the industry to develop and adopt new tools for portfolio management and contract servicing? Or did the arrival of these products set a new standard for financial planning? Either way, this functionality is what today's tools enable. Clients and their advisors can see the full picture of investments and planned outcomes with complex products such as annuities included as part of the plan. Ultimately, the ability to work holistically rather than transactionally is what makes these tools critical to advisors and broker-dealer firms.

EXISTING TOOLS IN USE

Three of the interviewed broker-dealers pointed to distinct tools their financial professionals use for portfolio management and contract servicing.

- > **Allen Investment Services, LLC:** The tools used include National Financial Services, LLC (NFS) and Pershing, LLC for portfolio management, while on the contract servicing side they are investing in iPipeline's Affirm product. The goal is an end-to-end digital experience in both portfolio management and contract servicing. Implementing Affirm will allow them to make material progress toward that goal. However, they realize we will need critical mass adoption as an industry to move in that direction.
- > **Brady Financial Services:** Advisors use MoneyGuidePro and internal tools to assess what the client needs upfront. They will use Simon to onboard and train their agents with carriers. Additionally, Brady Financial Services is installing Broadridge as their wealth management platform so that advisors have access to aggregate views of the client's book of business as well as financial planning tools. And, finally, they would like to integrate Ebix into their

new wealth management platform.

- > **Wilson Financial:** The company leverages a third-party platform from Terrapin Technologies called Pandia, which was one of the first web-based solutions built specifically for broker-dealers' unique needs. Additionally, they clear through NFS.

By contrast, Rogers Company executives recognize that advisors come in with preexisting affinities to various platforms and tools. In response, Rogers Company takes a highly flexible approach. They will accommodate any platform request and intentionally maintain a very low threshold based on advisor preference.

UNMET NEEDS

Interviewees noted several unmet needs. First, service and integration. The process of portfolio management and contract servicing should be frictionless. Everything that does not absolutely require human interaction should be automated to minimize manual work. Second, annuity income should be included in the full picture of a client's plan. Some tools are getting better at doing this, but there is still further to go. When this is not done correctly, clients may misunderstand their financial outlook or question the value of the advice they have been given by their advisor. And, finally, advisors must be properly educated about how to use platforms comprehensively.

Half of interviewees noted that they absolutely expect portfolio management tools to offer integrated contract servicing capabilities. As one interviewee put it, "Stop looking at individual transactions. We must think about it as an end-to-end process that should be automated." The other half see this as a nice-to-have feature but recognize that you would need considerable industry consistency to make this work. In their

view, this may not be realistic until that consistency can be achieved, but it should be the direction we are heading.

A successful journey to fully end-to-end digital is dependent on industry consistency; without it, progression will be impeded by financial professionals being forced to navigate disparate processes depending on product issuer.

CONTRACT SERVICING FUNCTIONALITY EXPECTATIONS

Responses to questions about digitizing contract servicing transactions ranged from strong support of full digitization and automation to the perspective that such functionality would be preferable but may be product dependent or require industry changes to be plausible.

Allen Investment Services, LLC fell to one side of the spectrum with the highest expectations for digitization. In their view, everything should be digital, automated, and made self-service when possible. Entering a piece of data more than once should never be part of the process. Wilson Financial also expressed high expectations for digital servicing but caveated this by saying carriers would need to do a lot to make it happen securely and efficiently.

Slightly more conservative was Rogers Company, who saw some level of expertise being needed in the process as being a potential barrier to contract servicing automation and pointed to transition of model or investment strategy as a transaction that should not be done without guidance.

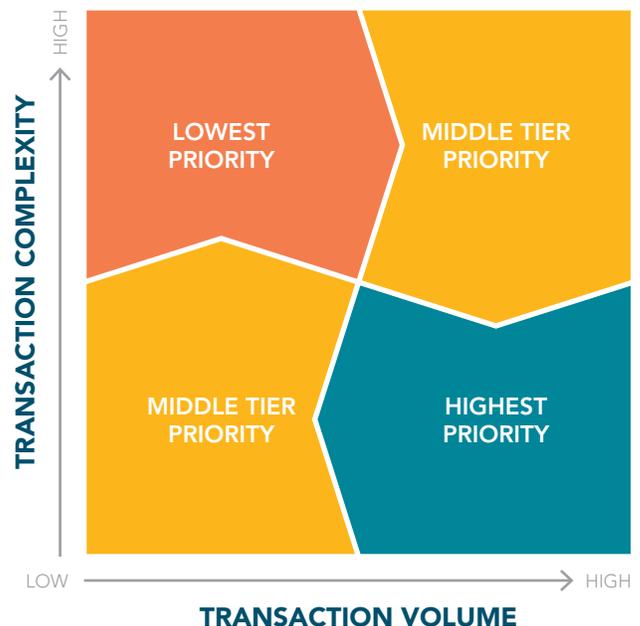
Brady Financial Services executives took a different tack, thinking far more about what is plausible given what is happening in the industry today. For them, digitization for the sake of digitization is not the goal. They support digitization, but they do so when it is the fastest, most efficient, safest mode for the client. As a result, Brady Financial Services' expectations for digital transactions are contingent on what the industry can consistency provide in a secure, streamlined manner.

Across the interviews, interviewees identified the following transactions as those they expect an advisor to be able to perform online, assuming the right protections are in place.

- > Additions
- > Allocations
- > Beneficiary changes
- > Contract designation
- > Reinvestment
- > Transfer of assets
- > Withdrawals

PRIORITIZING FUNCTIONALITY FOR DIGITAL CAPABILITIES

Ultimately, broker-dealers want to see digitization, automation, and self-service prioritized according to what provides the greatest return on investment. High volume transactions that are minimally complex are no-brainers for digitization and should be tackled first. Then comes high volume, complex transactions and low volume, uncomplicated transactions. Of lowest priority are those transactions that are low volume and highly complex.



SIDE BY SIDE COMPARISON

	Rogers Company	Brady Financial Services	Allen Investment Services, LLC	Wilson Financial
Tools in use	Works with advisors' tools of choice	MoneyGuidePro, internal tools, Ebix, Simon	NFS, Pershing, iPipeline	Pandia from Terrapin Technologies
Unmet needs	Automate everything	Clear picture of an annuity's benefits in client's plans	N/A	Integration
Expect portfolio management tools to integrate contract servicing?	Yes	Nice to have; Industry inconsistency makes this unrealistic	Yes	This will be an expectation in the future
Expect advisors to be able to service contracts digitally?	Yes	Depends on the product	Yes	Yes
Expect self-service contract servicing?	N/A	Not a priority until it can be done in a user-friendly way	Yes	Yes, but only if it can happen securely
Expect contract servicing to be automated?	Some level of expertise will always be needed	Only with protections for consumer in place	Yes	Depends on the transaction
Top contract servicing transactions that should be available online	Transfer of assets	Allocations, withdrawals, contract designation	N/A	Withdrawals, beneficiary changes, additions, allocations, reinvestment. But only if these transactions can be supervised.
Transactions that should not be performed online	Transition of model or investment strategy	Anything can be performed online if the right protections are in place	Everything should be digital	Ideally, none, but the right protections must be in place

SECTION 3:

Future Digital Expectations

FUTURE NEEDS FOR SUPPORTING DIGITAL CONTRACT SERVICING

Holistic. Full picture. Real time. These were the key phrases that emerged across interviews when we posed the question, “In the future, how do you plan to support your advisors’ digital contract servicing needs?” Ultimately, broker-dealers want to make their advisors as efficient as possible. Fully reaching that goal means creating a digital, end-to-end experience that is entirely frictionless. Breaking this down, respondents said they were particularly looking for the following:

- > **Streamline processes:** Today’s purchasing and servicing processes are altogether too difficult. Anything that reduces barriers to entry for advisors and customers is a winner. Paperwork and not-in-good-order (NIGO) errors should be issues of the past.
- > **Consolidated book of business views:** Advisors need to be able to see a client’s full plan easily in order to effectively and suitably guide their next steps. This includes tools that capture information about old products that are still in portfolios alongside new types of products.
- > **Real-time database systems:** All stakeholders (clients, advisors, etc.) should be able to see all relevant information in real time. No one should have to wait four or five days for the data to catch up to real life transactions.
- > **Data accessibility and usability:** Analytics, artificial intelligence (AI), blended programs, and modeling will be game changers and provide a distinct competitive advantage for companies who get them right.

BUILD VERSUS BUY

Three of the respondents held a strong preference for buying while the fourth feels comfortable pursuing either option. Favoring buying allows IT executives to follow the trends, see the next great thing coming to market, and pursue it. On the other hand, broker-dealers see necessity in balancing between these options when it is in the best interest of financial professionals.

Either way, all respondents see their demand for digital strategies expanding with three agreeing that investment in third-party platforms or tools will continue to grow. One firm noted that it would have prioritized differently two years ago. Then, it would have identified investment in business processing and workflow tools as the key area for growth. Today, business intelligence (BI) tools that contain and model data are the rising stars as they allow firms to make data-driven decisions that result in a positive impact to the bottom line and customer experience.

Asked whether their expectation was that insurance and asset manager partners would share these costs with the broker-dealer companies, responses were mixed. One respondent said, “Absolutely yes.” In his view, everyone in the industry should come together to push the digitization effort forward. It is in the best interest of clients and in the best interest of the collective industry. Two others said it depends on business factors and timing. But a fourth laid out what they perceive to be most important factor they seek: partnerships that are fair and equitable such that long-term, mutually beneficial relationships are established.

PERCEPTIONS OF CARRIER TOOLS IN THE MARKET TODAY

When asked if any of their carrier partners have particularly useful or compelling digital tool offerings today, only one firm was mentioned. Invent.us was identified as making a play to be an integrator in the industry because they maintain the integration point rather than asking the broker-dealer company to do so, and it is highly individualized.

No other carriers were identified as being particularly ahead of, or behind, the industry. And each carrier has places where they excel and places where they have opportunities to improve. To differentiate, carriers could consider more succinct listings of offerings, higher attention paid to servicing, and simplifying processes. One broker-dealer pointed to change of record processes as an example of a process that should be simple but rarely is. At Wilson

Financial, the ability to restrict access is a key factor in what tools work for them and what do not.

MANDATES

The majority of respondents do not foresee mandating that carriers integrate with particular tools or platforms at this time. But that is not to say this will be off the table in the future. If a product becomes so integral to what the business does, mandates may become points of discussion. But for now, flexibility is key.

On the other hand, Wilson Financial does expect integration with several tools and platforms. For the advisory side of their business, integration with FIDx is critical. On the transactional side, integration mandates include the following: Ebix, Cannex, RateWatch, NFS, and Simon.

SIDE BY SIDE COMPARISON

	Rogers Company	Brady Financial Services	Allen Investment Services, LLC	Wilson Financial
Future needs	Real time, full picture views and data analytics and modeling	Tools that streamline processes, views of consolidated books of business	Everything that moves them toward an end-to-end, frictionless experience	A captive ecosystem where everything is consolidated and supervised
Build vs buy	Both but prefer to build as little as possible	Preference for buying	Whatever path benefits advisors most	Will explore both but lean towards buying
Carrier mandates	No	Not at this time	Not at this time	Yes
Will investment as third-party tools or platforms grow?	Yes	Yes	Heavy investment in digital solutions, but will be a mix of buy, build, or rent	Yes
Expect insurer and asset manager partners to share those costs?	Depends on the situation, with many factors at play	Yes	Looking for fair and equitable partnerships	Depends on the service and the situation



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