A Guide to Managing Held Away Accounts

Red Paper

Introduction.

As a financial advisor, you make your living by making decisions that help your clients reach their unique short and long-term financial goals. You also turn to service and technology partners to help you get the financial pieces you need to develop and communicate a comprehensive financial plan to your clients.

You need all accounts from a client to provide sound advice and holistic financial planning. Without such advice, clients may never feel comfortable enough to transfer all their assets over to one financial advisor.

In the past, the reason that you could not access held away accounts was that the tools were not available. It was very inefficient, cumbersome, and involved a significant amount of coordination with the client that, in the end, was challenging for the client to see and realize the value. That excuse no longer holds true with the advent of the various services and tools that exist today, such as:

- Data gathering account aggregation applications.
- Client portals for easy viewing of a client's complete financial picture.
- Integrated systems to allow for this data to be automatically pulled into financial planning software and holistic performance statements.
- Order management systems that enable you to actively manage and trade held away accounts.

Account aggregation automatically collects financial information from accounts at different financial institutions, which includes direct custodians and held away accounts, brings it to one place, and makes the information available to other systems. It eliminates the need to collect paper statements and manually key data into financial planning, performance reporting, CRM, client portals, or other systems. Additionally, order management systems allow for you to act on behalf of your clients and manage their held away accounts.

This Red Paper will show you how to aggregate client investment information from all the financial institutions where assets are held, allow the client to see their complete financial picture, and most importantly, allow you to manage and trade those held away accounts for a fee.

What is a held away account?

For high net worth clients, held away accounts often include assets in 401(k) plans, 403(b) plans, IRAs, 529 plans, annuities held at insurance companies, private equity, hedge funds, individual trading accounts, trusts, assets held overseas, and real estate trusts. The number of financial advisors billing for held away accounts has jumped from 10% to 46% over the last three years, according to James Carney, President of ByAllAccounts in Woburn, Mass[1].

Outside retirement plans, which often come in the form of employer-backed 401(k)'s are systematically not available in data feeds provided by recordkeepers. If you do not have a tool that helps incorporate these held away accounts, then you can end up managing your client's financial plan in a piecemeal fashion rather than as a holistic plan.

While that is not necessarily the worst thing in the world, there are overwhelming benefits for you and your clients when it comes to incorporating these held away accounts. Financial advisors are fast discovering a rich new source of revenue from existing clients that is easy, efficient, and fast to start managing.

Advisors should realize that they can charge for held away accounts and that clients are in fact pleased to have a professional monitor all their holdings.

How does account aggregation work?

There are three methods of account aggregation that work by compiling information from different accounts which may include bank accounts, credit card accounts, investment accounts, and other consumer or business accounts. Account data is gathered by means of:

1. **Manual Input** – where you input data from account statements manually. You must enter the data periodically to provide a holistic view for your client. This is the least preferred method of aggregation.

2. **Screen Scraping** - where a client provides the account access information allowing an automated system to "scrape" or gather the information from a website. Unfortunately, for a variety of reasons, not all financial institutions provide a direct feed of client account information, and as a result, data scraping technology must be used. To scrape the data, a computer must sign into another computer by using the client's security credentials and then find and extract the information. Some of the most notable screen scraping companies are ByAllAccounts, Quovo, and Yodlee.

There are many things that can go wrong with screen scraping and it centers around change.

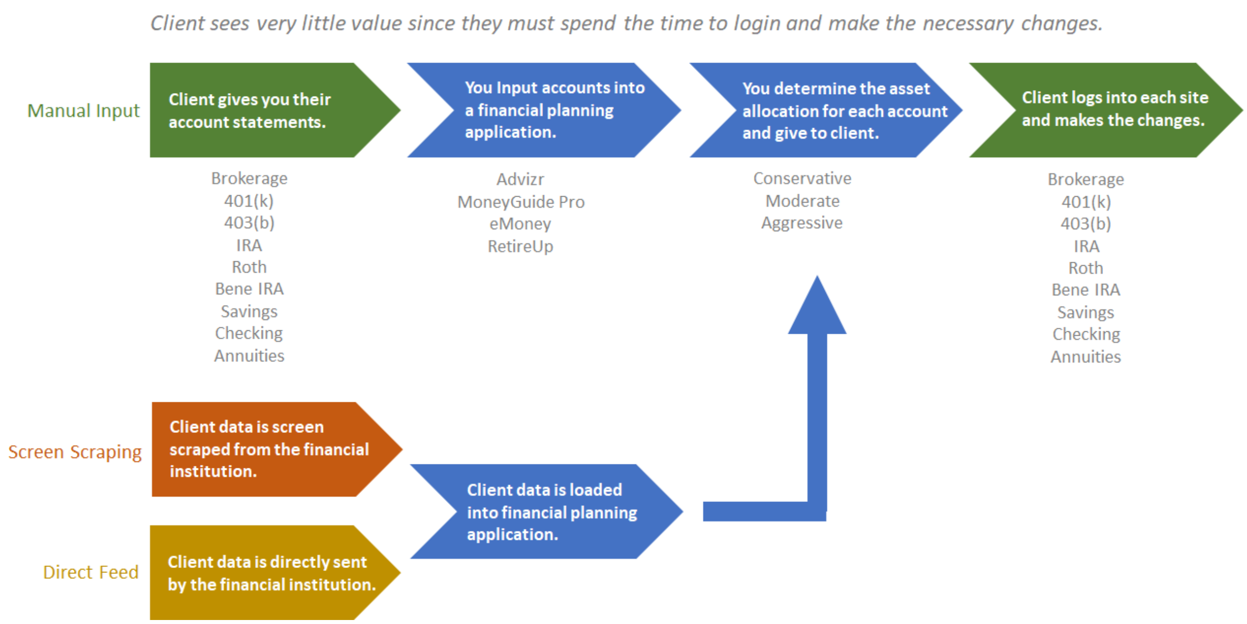
a. **Changing Credentials** – When the username, password, or security questions and answers change, data scraping technology stops working. The system can no longer log in with the credentials it has stored and must look to the user to update them to restore a working connection. This can become burdensome for you since many of the providers require that the financial advisor fix the problem rather than going directly to the client who has the information.
b. **Changing Interface** – Website updates typically benefit users, but they are burdensome for screen scrapers. If a website is changed it will typically create inaccurate data or fail altogether until the aggregation vendor can re-map the changed website.
c. **Changing Security Technologies** – Updates to security technologies are often necessary. Security changes also often stop the aggregation technology from signing in which stops aggregation technology from collecting data.
d. **Changing labels and references** – Marketers will often change the way that things are labeled to make information easier to understand. Unfortunately, this too often can lead to errors in data collected via aggregation technology to the extent that labels were relied on to identify important data.

3. **Direct Feed** – where data from a financial institution is automatically provided to a third party directly. Direct connections, as the name implies, are connections between computer systems and are designed with the kind of consistency and data specificity that computer systems require. That typically means the connections and data quality are very reliable and maintaining these connections requires little to no attention, making this the preferred method of data collection.

Data aggregation is a great way to view all client's accounts, but it does not allow you to manage the held away accounts in an efficient manner.

All these methods are designed to gather data for reporting and financial planning. While it provides value to the client to see their holistic financial picture, it does not allow you to really manage the held away accounts. The diagram below shows how these accounts have traditionally been managed by telling the client what they should do, and it is up to the client to carry out your recommendations. At the end of the day, it is hard for the client to see the value you are providing because they must do all the work to make it happen.

Traditional Method of Managing Held Away Accounts



The financial advisor's use of a client's usernames and passwords to access the client's accounts, whether it is to view the accounts or initiate transactions has come under scrutiny in recent years. In February 2017, the SEC Office of Compliance Inspections and Examinations ("**OCIE**") disclosed in a Risk Alert that the use of a client's usernames and passwords can create compliance issues with the Custody Rule[2]. According to OCIE, a financial advisor's "online access to client accounts may meet the definition of custody when such access provides the financial advisor with the ability to withdraw funds and securities from the client accounts." Accessing a client's account using a client's username and password often results in a financial advisor being able to withdraw funds and securities. You must convince the SEC that you are not able to take distributions from the accounts.

If you are using a client's username or password to access the client's account, to view and initiate transactions on behalf of the client, the SEC views that as a compliance issue with the Custody Rule.

The North American Securities Administrators Association ("**NASAA**") has also observed in recent years that if a financial advisor logs into a client's account using the client's personal information, the financial advisor is in effect impersonating the client and has the same access to the account as the client. As a result, several issues arise when a financial advisor uses a client's personal information to gain access to online accounts, including custody, recordkeeping obligations, and potential violations of user agreements.

According to NASAA, it is difficult to differentiate logins between a financial advisor and the client when both parties use the same username and password. Additionally, NASAA has noted that companies often provide in user agreements that clients cannot give another person their usernames or passwords, as a cybersecurity measure. If an account is compromised, and a client has shared their username and password with you, the company operating the account could cite the shared access to disclaim liability and you can become liable.

Considering these concerns, you should refrain from using a client's usernames and passwords and you should use alternative methods to view or initiate transactions on behalf of the client.

How do your clients benefit when you manage their held away accounts?

Clients expect to have one place to go where they can log in and see everything. They expect their financial advisor to give them a 360-degree view of all their assets and liabilities. No matter where they hold their accounts or who manages them. Younger clients are especially used to all their data being a mouse click away. People are sick of remembering lists of websites, passwords, usernames, and security questions.

Clients want to know where they stand with all their accounts, not just a few.

Several robo financial sites like Robinhood and Mint have educated consumers to expect this convenience. When considering the benefits of including held away accounts, there is no shortage of upside for your clients. This could be the reason why 95% of financial advisors said their clients are asking them for advice on held away accounts[3].

Many times, these held away accounts are often your client's largest holdings, yet end up in multiple accounts across multiple platforms, where they may be overlooked. This puts the client at risk for falling short of their highest potential. It also puts you at risk since another financial advisor may be able to manage the held away accounts and take your client away.

Clients want a financial advisor that can give them advice on their entire financial picture. A holistic view provides your clients with:

- **An Improved Understanding** – Your client can more readily view their entire wealth so you can help them make informed, confident decisions across various components.
- **Coordinated Advice** – You can take in the parts and the whole, so you can help your client best position each piece to serve their total household needs.
- **Efficient Tax Planning** – It is easier for you to maximize the tax efficiency for your clients when you are looking at the entire picture.
- **Smoother Wealth Transfer** – You know all the pieces, so you can help widows, widowers and other beneficiaries experience less stress because the assets are organized and readily identifiable for them.

How do you benefit from managing held away accounts?

When searching for a service provider to help you manage held away accounts, their service should allow you to expand your assets under management efficiently with little effort on your part. Make sure that you can realize the following:

- **Simplify operations -** Dramatically reduce the work of gathering and entering data. No more hassling clients to bring in statements, no more keying and re-keying their data, no more manual data-entry.
- **Accelerate asset gathering -** Faster and easier access to client data. Held away accounts are updated every night and available online. This enables effective collaboration, reduces client questions, and allows you to spend more time on value-add services.
- **Expand your service offering -** Monitor and actively manage held away accounts you previously could not and charge appropriate fees.
- **Improve client service and become more proactive –** Advise clients on everything they own gives them full service with one provider, you. Because account aggregation systems update daily, you can monitor your client’s assets in a timelier manner. In many cases that means you will know what is happening before your client does.
- **Manage the “whole picture” -** Having access to a client’s entire financial profile, such as what they have, where it is, how one account relates to another, allows you to leverage that knowledge and deliver comprehensive financial advice.

What do you have to do to manage held away accounts?

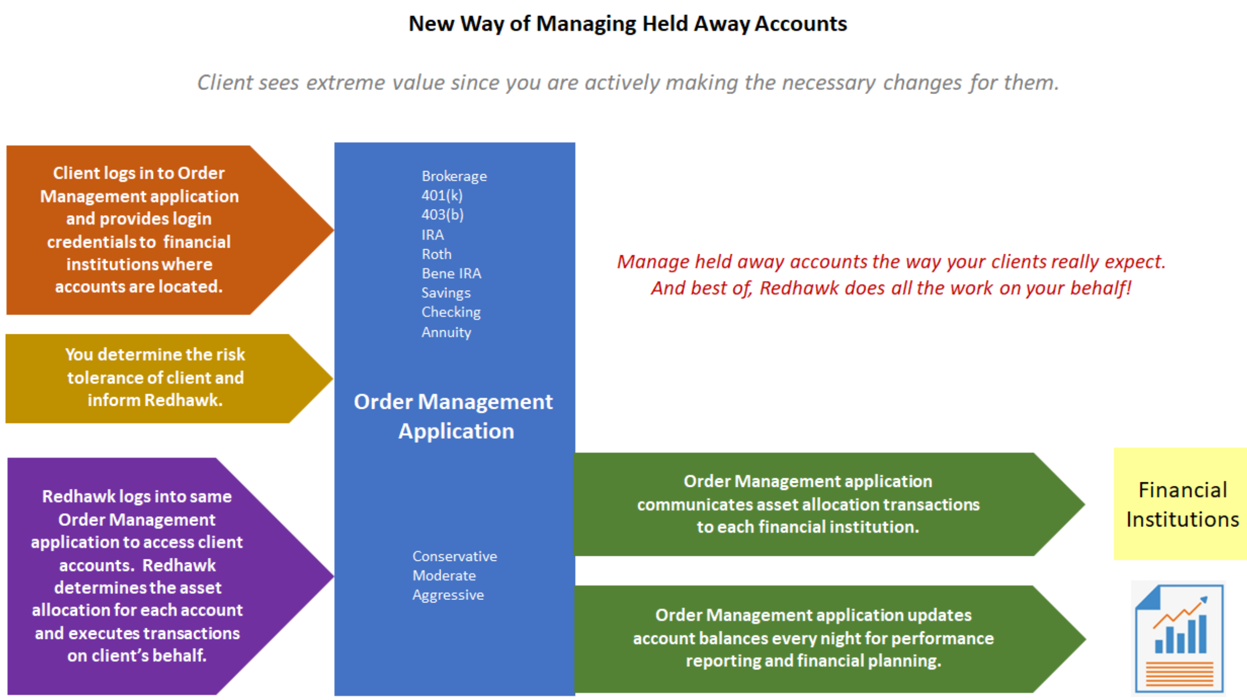
The diagram below, shows the new way of managing held away accounts. Under this new way, all you do is:

1. Communicate the new service to your existing clients.
2. Determine the client’s risk tolerance (which you probably already have).
3. Send a link to the client for them to enter their held away accounts.

Then, Redhawk does the rest:

1. Determines the funds available in the client's retirement plan account.
2. Develops three asset allocation portfolios for a conservative, moderate, or aggressive client.
3. Develops the algorithms that determines the client's quarterly asset allocation changes.
4. Change the client's allocations quarterly as determined by the algorithms.
5. Update every night client's held away accounts for performance reporting and financial planning.
6. Manages the billing and invoicing.

The diagram below, shows the new way of managing held away accounts.



Redhawk does all the work for you!

Additional revenue for your practice.

Some financial advisors choose not to bill on held away accounts because they view it as a strategic give away. That can be a smart strategy that will help you capture rollover assets and other assets down the road. But, by offering investment management on held away accounts, you increase the likelihood that clients will rollover assets to you when they are eligible. This is an easy way to increase your AUM without having to add new clients.

Many financial advisors do not bill on held away accounts because they do not know how. It may seem too complicated, or they simply do not have the time to figure out the logistical and operational steps they need to take. Worse, many financial advisors do not think clients will see the value and pay. As mentioned earlier, with almost 50% of financial advisors charging for this kind of service, the evidence suggests otherwise.

If you want to bill on held away accounts, think about the investment management and advice you provide for these accounts. It is an additional service offering that is providing significant value to your clients. Like all your other services you should be compensated, and most financial advisors are charging their normal fee for this service. Keep in mind that managing held away accounts typically involves additional research, recommendations, and actively rebalancing accounts.

By managing held away accounts you create additional value for your clients while creating an additional revenue stream for your firm. Make certain the service has a billing system that can deal with held away accounts efficiently. The service should be able to take fees from a non-qualified account or invoice the management fees directly to the client where they can pay using a credit card.

Increase your AUM by 33%, just from your current clients.

What we find is that a typical financial advisor can increase their assets under management by 33% when bringing in held away accounts, just from existing clients! So, if you are currently managing $25M in assets, you should be able to increase your AUM by $8M within 3-6 months. If you charge an average of 0.75% on the held away accounts, you can increase your revenue by $60,000. That is $60,000 that drops to your bottom line!

If you currently do not manage held away accounts, you run the risk of losing your clients.

Morgan Stanley Wealth Management's plan to gain more of its clients' wallet share by using asset aggregation tools and financial planning is paying off, a senior company executive said on Wednesday[4]. Since rolling out new asset-aggregation and planning technology over the past 12 to 18 months, the firm's 15,700 brokers have uncovered around $60 billion that their customers keep in accounts at other banks, Chief Financial Officer Jonathan Pruzan said in a presentation at the Barclays Global Financial Services conference in New York.

"We are just scratching the surface to better identify these assets with our enhanced asset aggregation technology," Pruzan said, noting the firm's estimate that its wealth clients keep another $4 trillion outside of Morgan Stanley. Pruzan said Wednesday that Morgan Stanley brokers are widely adapting the use of financial plans to glue customers to the firm. The number of clients with such plans has grown 125% since April 2017.

Summary

Clients want a holistic view of their financial picture and they are willing to pay for it. The old way of managing held away accounts is very cumbersome, and the client must do all the work to implement your suggestions. Savvy financial advisors are adopting the new way of managing held away accounts by partnering with a service provider that does all the work for them and most importantly for their clients. By managing held away accounts, you can provide better financial planning and advice on all their investments and become even more valuable to your clients. And, the additional revenue drops straight to your bottom line.

Acknowledgements

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2. Mark Schoeff, Jr., September 28, 2015, Investment News. https://www.investmentnews.com/sec-cracks-down-on-advisers-access-to-clients-outside-accounts-64963
3. Jim McConnville, June 18, 2012, ©2020 Charter Financial Publishing Network Inc. https://www.fa-mag.com/news/comprehensive-account-data-would-help-financial-advisors-give-better-advice-says-survey--11019.html
4. Mason Braswell, September 11, 2019, Advisorhub. https://advisorhub.com/morgan-stanley-eyes-4-trillion-in-client-assets-held-away/

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