



An industry in flux

> Are IBDs and RIAs equipped to survive?

Multiple factors are accelerating change in the financial services industry. Are IBDs and RIAs equipped to survive the evolution and thrive in the new normal?

> Executive summary

Introducing broker-dealers (IBDs) and registered investment advisors (RIAs) are used to operating in a changing professional landscape. Advances in technology, going as far back as the development of the telegraph and the first transatlantic wires, which opened global markets, have driven change in the financial services industry. In addition, rapidly evolving technology, consumer demand, regulatory updates, and mergers and acquisitions are also driving change in our industry.

Perhaps even more important are the opportunities and risks created by this change and how your firm responds. With the right tools and partners, your firm can overcome the risks and take advantage of the opportunities. Over the years, our industry has learned to be nimble and adapt quickly. This has never been more important than now.

Investing in technology is one of the most important ways to equip your firm for changing demands and expectations. Working with supportive partners can help you deliver the services and products your clients expect and need.

Our industry may be in flux, but these changes present opportunities to thrive.

> Catalysts for change

Throughout history, there's often one moment that marks a turning point: the advent of the printing press, the Boston Tea Party, and the stock market crash on Black Monday in 1929. The other factors that led to the critical moments in history are often forgotten.

In the future, we might look back at March 2020 and the COVID-19 shutdown as a pivotal point in history, while in fact, many factors have been evolving the way we do business for some time. Given the uncertainty of 2020, it's no surprise that change is accelerating, and we now feel it more intensely.

Mergers

The mergers of several industry leaders are creating financial services powerhouses with far fewer options for firms. The resulting powerhouses might operate with more efficiency and diversity than ever before.

But what does this mean for small- and medium-sized broker-dealer firms? Will they receive the same level of customer service and attention or will wait times grow while fees become prohibitive? Will some IBDs face competition from their custodial firms as some super-firms offer IBD and advisory services?

Regulations

It's no secret or surprise that regulations affect how we operate. FINRA and the SEC routinely introduce new rules and regulations. This year, we're adjusting to Regulation BI and Form CRS, among others.

Regulation BI—Regulation BI (Best Interest) aims to increase investor protection by introducing a standard of conduct for IBDs when making a recommendation of any securities transaction or investment strategies to a retail customer. While the IBD role has traditionally focused on back-office services, they frequently offer recommendations and advice. Reg BI attempts to enhance the transparency of the relationships between IBDs, RIAs, and retail investors.

Form CRS—In June 2020, the SEC introduced Form CRS (client relationship summary), and IBDs are required to provide their CRS to retail investors.

Other new rules, regulations, and amendments include updates to FINRA Rule 4210, which addresses margin requirements, and modifications to FINRA Rules 5130 and 5131 regarding restrictions on the purchasing and selling of initial equity offerings and new-issue allocations and distributions.

> Document delivery updates

Additionally, the SEC and FINRA have moved to almost entirely electronic document systems. Depending on your firm's size and the type of documents, you have various delivery and sharing options ranging from secure emails and password-protected files to FTP platforms and other portals to safeguard private data. Your firm needs to identify the correct method of providing documentation and ensure that you have the appropriate programs to remain compliant.

> Consumer-driven change

Expectations are higher than ever. We live in a digitized, 24/7 world. Everything we need is at our fingertips, more or less. We can do almost anything with the tap of a screen. So why would clients expect less from their advisors or brokers? And in turn, why would IBDs and RIAs expect less from their partners?

Additionally, as millennials and Generation Z come of age and become financially active, there's a shift toward self-directed trading and away from traditional advisor services. Younger investors seem to prefer a more hands-on DIY approach to investing than older generations. As wealth shifts to younger investors, this could lead to more changes in the RIA space.

Many firms are adopting a holistic business model. Your clients expect a comprehensive range of services, but they don't want multiple service providers.

> Technological

Consumer demands are accelerating the already rapid digitization of financial services. This transition to technology-driven business has been in progress for decades, as emerging software streamlines transactions and reporting and improves overall operational efficiency. While investing in technology can be costly, it increases accuracy, reduces the risk of human error, and introduces fail-safes to prevent problems.

Advances in technology are also increasing self-service capabilities. Providing solutions allowing correspondent firms and their clients to complete tasks or retrieve information independently solves multiple challenges. It allows for rapid responses from automated chatbots as well as the hands-on experience desired by some clients.

> COVID-19

We can't talk about modern industry disruptors without talking about COVID-19. The pandemic has triggered a transition to remote working, sparked mass unemployment, and created instability in the stock market and across the broader economy. As a result, we all must cope with increased reliance on technology and rapidly changing client needs and expectations.

> Operating within the new normal

As with most significant changes, there are benefits and drawbacks to our new normal. Some of the possible opportunities and risks brought out by the recent and ongoing industry flux include:

The (potentially) good

- Better tech and resources
- Economies of scale and efficiencies
- Increased advocacy for the industry
- Improved risk management

The (potentially) bad

- Less competition between custodians
- Increased regulatory burden
- Increased competition against RIAs (bigger firms also offer advisory services)
- Migration burdens due to mergers (switching platforms, legacy platforms, new relationship teams)
- Smaller RIAs might be left behind by the megafirms

Many firms are taking advantage of the current climate to rethink their business models, make radical changes, and forge the path to recovery. They are investing in technology to improve productivity, accelerating the digitization of our industry. They're partnering with innovative organizations to keep up with evolving market dynamics and business models.

> Do you have what you need?

This is the million-dollar question. Are you equipped to navigate the current unpredictable and evolving nature of our industry? Perhaps most obviously, staying current with technology is paramount. With the right tech stack, you can create efficiencies, maintain safe business practices, mitigate risk, and continue to meet your clients' expectations. Some of the most useful programs include those that enable:

- Portfolio and performance reporting
- Client relationship management (CRM)
- Portfolio modeling/rebalancing/trading
- Billing
- Online client portals
- Document management

You also need a suite of APIs that allow the different programs to communicate. These innovative little interfaces enable the various programs in your tech stack to cooperate. For example, an API translates and transmits transaction details from the advisor's dashboard to your trading platform.

We are all always under pressure to do more with less. While this certainly isn't new, the intensity of this pressure increases every year. Automation is critical to creating the efficiencies modern broker-dealers and RIAs need to remain profitable. Providing easy-to-use, reliable, and secure self-service options can also contribute to cost savings and growing profits.

> Working with the best partner

Operating as an IBD or RIA is costly. Keeping up with technology and maintaining regulatory compliance are huge investments that cut into your profits. Today, firms like Axos Clearing offer a comprehensive suite of services, products, and technology, enabling you to remain competitive and thrive in uncertain times.

You need a partner to deliver efficient back-office functions. At Axos Clearing, we harness the digital DNA of our parent company, Axos Financial, to offer flexible, customizable solutions. Our technology automates back-office transactions and reporting. We provide white-label programs to help you deliver seamless, modern services to your clients. We also offer the capacity to expand your client offerings with integrated digital banking services.

Outstanding service is one of the pillars of our business philosophy. When you partner with us, you have a dedicated team who knows you and understands your business. We invite our correspondent firms to provide feedback that we carefully consider and implement as we continue to anticipate and meet your needs.

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