Even RIAs are feeling pressure to charge less and automate

By Editorial Staff *Thu, Dec 21, 2017*

RIAs appear to realize 'that alternative pricing structures may be critical to attracting new clients,' according to a new study from Fidelity Clearing & Custody Solutions, a division of Fidelity Investments.

Registered investment advisors (RIAs)—an advisor channel that captured a big share of the high net worth client market after the financial crisis—now feel forced to take measures to reverse declining revenue and client growth, according to the 2017 Fidelity RIA Benchmarking **Study**.

The study showed that RIA revenue yield has dropped 3 basis points (bps), the revenue growth rate has fallen to 7% and the client growth rate to 5%, the lowest level in five years. Fidelity Clearing & Custody Solutions, a division of Fidelity Investments, sponsored the study, which identified three new trends:

- Pricing: 64% of RIAs are offering fee discounts, and RIAs have begun to unbundle their fee structures.
- Productivity: 33% of RIAs plan to implement a digital solution in the next 18 months.
- Segmentation: the number of RIAs naming client segmentation as a top focus area has risen sharply.

"Discounting could signal that RIAs are bridging to the practice of unbundled fee structures, which may help to attract fee-sensitive clients, align services with value and protect against the commoditization of investment management," said David Canter, head of the RIA segment for Fidelity Clearing & Custody Solutions, in a press release.

RIAs appear to realize "that alternative pricing structures may be critical to attracting new clients," the release said. About 40% of investors would prefer a financial advisor with lower fees, according to Fidelity.

While stated core basis-points (bps) fees across all firm sizes have remained stable, the study showed that 64% of RIAs are discounting their fees. Mid-size and larger firms are more likely to be discounters, with 79% of firms with $500-$999 million in assets offering discounts compared to 57% of firms with $50M-$99 million in assets.

The average discount across all firm sizes is 21 bps, but the discount jumps up to 28 bps for firms with more than $1 billion in assets. Discounters set fees 10-15 bps higher than other firms for clients $2 million and above, but then appear to negotiate lower fees across the board. Actual fees could be 10-20 bps below reported fees.

Formal unbundling is occurring as RIAs charge extra for certain services. Retirement plan services are included as a bundled service by 15% fewer firms, trust services by 14% fewer, and investment management by 10% fewer.

RIA productivity is at or near its highest level in five years, the study showed. Assets under management per client remain at $1.1 million, and assets per advisor and clients per advisor are up 11% each. But RIAs are looking toward digital solutions and client segmentation to raise productivity higher. The study found that:

- 41% of RIAs are considering or already using a digital solution.
- 33% are looking to implement a digital solution within the next 18 months.
- RIAs who use digital solution work with nearly three times as many clients as non-users (566 vs. 202 on average), have 2.5 times the assets under management ($533M vs. $209M) and three times the revenue ($4.2M vs. $1.4M).

Technology remains a priority for RIAs. Almost half (49%) say that investing in new or existing technology is a strategic priority for their firm. The number of RIAs naming client segmentation as one of their five focus areas, has risen by seven percent. Client segmentation is associated with higher productivity.