The Six Levels Of Account Aggregation #FinTech And PFM Portals For Financial Advisors

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Executive Summary

While the early years of the internet brought a wave of new solutions that made it easier than ever to track one's investments, it wasn't until Mint.com showed up in 2006 that the true potential power of "account aggregation" was revealed, as the company grew to 1.5 million users in just two years and was sold to Intuit for a whopping $170 million.

Yet years later, the adoption of account aggregation in the financial services industry remains somewhat lackluster, particularly amongst the largest enterprise buyers like banks and financial advisor broker-dealers. While some new solutions roll out, and an occasional blockbuster deal is announced, relatively few new players have arrived on the scene for several years now, and a number of banks have recently announced that they are shutting down their PFM solutions.

A deeper look, though, reveals that perhaps the biggest blocking point to the growth of PFM solutions – particularly in the financial advisor channel – is that most remain mired in the early days of using account aggregation to simply compile investment performance reports and identify held-away assets. Relatively few have evolved to higher-level functions that would support the delivery of financial advice (and not just the sale of financial products), and even fewer have gone to the next level where account aggregation could be used to actually automate financial plan monitoring and the execution of financial planning strategies. In fact, when account aggregation providers are evaluated on the six levels of potential functionality, most have failed to even move beyond Level 1 or Level 2!

Fortunately, though, the reality is that the unit economics of providing account aggregation solutions to financial advisors are actually quite good, especially compared to the direct-to-consumer channel, and a few key players – including Envestnet's Yodlee and Quovo – appear to be positioning themselves for the future growth opportunities of advice-centric account aggregation. Nonetheless, for the time being, account aggregation appears to be stuck in a chicken-and-egg dilemma that few providers are building advice-centric account aggregation solutions (instead remaining focused on only investment accounts), but the industry's product-centric focus means few enterprises are demanding the Advice and Automation levels of account aggregation anyway.

However, with the ongoing shift of financial advisors towards real financial advice, catalyzed by the Department of Labor's fiduciary rule, the logjam may finally be about to break free – creating a wave of new account aggregation solutions that can power next generation financial advisor dashboards and client PFM portals that truly help to deepen the value-add of a financial advisor!

The Evolution Of Account Aggregation FinTech

One of the tremendous benefits of the interconnectedness of the internet is the ability to weave together data from disparate sources into a single place. In the context of financial advisors (and personal finance in general), this has led to both the rise of "account aggregation" providers that pull in data from various financial accounts and providers (early players included ByAllAccounts, CashEdge, and eMoney Advisor, all founded in 1999-2000), and "personal financial management" (PFM) software that allows consumers to directly aggregate their financial information to keep track of their own finances (e.g., Mint.com starting in 2006).

In the early days, the goal was simply to *get* all the data and aggregate it in a single location to be able to provide useful reports – e.g., to calculate composite portfolio performance across multiple accounts and providers. But as the software and technology continues to evolve, it becomes clearer and clearer that financial advisors can leverage account aggregation dashboards (for advisors) and PFM portals (for clients) to go far beyond "just" providing a consolidated look at investment performance, as the focus shifts from just aggregating Accounts, to powering Advice, and ultimately achieving Automation.

In fact, in today's environment, there are arguably six stages of account aggregation advisor dashboards and PFM portals for clients, across the tiers of Accounts, Advice, and Automation… each that provides varying and additional levels of capabilities, and more value-add potential for financial advisors in the advisor-client relationship. The key point, though, is that not all account aggregation and PFM providers are the same, at all, and the capabilities of what they do – and what they *can* do – varies widely!

Level 1 Account Aggregation: Comprehensive Investment Tracking (Held-Away Accounts)

The first tier of account aggregation solutions are those that draw in the account balances of investment accounts beyond those that the advisor directly manages or advises on (i.e., "held away" accounts).

By drawing all the household's investment accounts into a single location, it's feasible for the advisor (and investor) to track what's held in each of their accounts, and whether any investments might need to be changed. Notably, to the extent that the account aggregation provider just pulls in the account *balance* at the end of each day, it's generally not feasible to calculate investment *performance* results of the accounts, but it's at least possible to *see* them all in one place, and spot potential investment issues where it may be necessary to dig in further.

From the financial advisor's perspective, Level 1 account aggregation is popular because it provides an opportunity to identify held-away assets that might be available to manage or advise upon (i.e., new business or cross-selling opportunities).

However, such solutions actually add very little for the end investor/client, who likely already receives account statements (or in today's environment, the ability to log in at any time and see the balance), and won't necessarily glean much new information to justify the invest of time to link accounts (and be willing to share that information to an advisor or institution they know will likely try to use it to sell them something!). As a result, Level 1 account aggregation tends to be popular for advisors and financial institutions (as a business development tool to expand wallet share), but struggles to gain consumer adoption because it lacks the relevance and value-add necessary to make the consumer take the time to link accounts (and be willing to convey that information to their advisor/institution and trust that it won't be taken advantage of).

Level 2 Account Aggregation: Holistic Portfolio Performance Reporting (Multi-Platform Accounts)

While the first tier of account aggregation providers can already pull in daily account balances of multiple investment accounts, Level 2 account aggregation is all about pulling together *transaction-level* data across multiple accounts and providers. Typically, this data feeds *into* a more comprehensive portfolio performance and accounting software solution (e.g., Orion, Tamarac, or Black Diamond) that can then produce composite performance reports for the *entire* household across *all* those different accounts and investment providers. Historically, the leading account aggregation providers in this space were companies like ByAllAccounts and CashEdge.

The key differentiating feature of Level 2 Account Aggregation providers is their ability to deliver "clean" properly reconciled transaction level data in order to accurately produce those holistic portfolio performance reports. Because the key to calculating investment performance is to have precise and accurate data regarding every transaction in the account – from cash inflows and outflows, to purchase and sale transactions, along with properly categorized corporate events (e.g., spin-offs and mergers) – all of which is necessary to ensure that performance *is* properly calculated and can be appropriately time- and dollar-weighted. (As once there are cash inflows and outflows, simply calculating a "holding period return" is no longer an accurate reflection of actual performance, nor can the performance of individual securities be assessed unless each purchase and sale of that individual investment along the way is accounted for.)

From the financial advisor's perspective, the virtue of Level 2 account aggregation is the ability to provide holistic investment performance reports for an entire household, specifically when investment accounts are held across multiple providers/platforms. These solutions are especially helpful for investment-centric advisors who either use investments across multiple platforms (e.g., multiple TAMPs or SMAs), or those that work in the ultra-high-net-worth space where not all investments are even *available* on "typical" investment platforms (a space where modern account aggregation and portfolio accounting software provider Addepar really shines). And consumer adoption tends to be better, because Level 2 account aggregation genuinely provides insights and perspective (accurate rendering of complex multi-account multi-investment performance reporting results) that can't be easily obtained by the investor on their own, or with Level 1 technology.

Level 3 Account Aggregation: Full Net Worth Reporting (*All* Assets *And* Liabilities)

At Level 3, account aggregation shifts from "just" being about *investment* accounts and *investment* performance reporting, and shifts to a focus on advice and facilitating more comprehensive financial planning for the client's *entire* household net worth.

The key distinction of Level 3 reporting is that it includes *all* of a household's assets – not just investment accounts. This would include bank and savings accounts (financial assets that aren't typically tied to performance reporting) and specialized accounts like college savings plans or health savings accounts, along with other asset types (e.g., a personal residence and/or other investment real estate, with prices continuously updated via a direct feed from Zillow). Level 3 account aggregation should also include a direct feed from the financial institutions that hold the individual's *liabilities*, including the current mortgage balance, credit card debts, student loans, automobile loans, etc. The early pioneer in this space for advisors was eMoney Advisor (and for consumers was Mint.com).

From the financial advisor's perspective, the relevance of Level 3 account aggregation varies depending on the true focus of the financial advisor. Those who are primarily towards insurance and investment products will find Level 3 account aggregation of limited use, as the additional (non-investments) assets that are included, along with the liabilities, do not typically contribute to product-based new business opportunities. However, financial-planning-oriented advisors (a key financial advisor channel segmentation in the future) find Level 3 account aggregation to be very valuable, as it can be an effective tool to enrich the depth and breadth of the financial planning conversations when providing holistic advice. And also provides a means to demonstrate the value of advice *over time* by showing how net worth has increased over the time span of the advice relationship (i.e., Trends tracking and progress reporting)!

From the consumer perspective, Level 3 account aggregation can be a substantial value-add, providing a true holistic household view of his/her financial net worth that most people do not actually have a very clear picture of (unless they already use a direct-to-consumer Level 3 account aggregation solution like Mint.com, or track it themselves using sometimes-time-consuming tools like Quicken or an Excel spreadsheet). As a result, Level 3 account aggregation often has far more effective adoption from consumers (unless they're already fully immersed in another provider's tools) than Level 1 or Level 2 solutions.

Level 4 Account Aggregation: Cash Flow Tracking (Expense Categorization)

While Level 3 account aggregation is focused on tracking the client's household balance sheet (the personal net worth statement), Level 4 is all about the client's "profit and loss statement" (the personal cash flow statement) and aggregating together all of the household's cash inflows and outflows.

Notably, though, the real differentiator for Level 4 account aggregation is not merely the capability to pull in the household's cash inflows and outflows from various bank accounts and credit and debit cards, but the effective *categorization* of those expenses to make the data relevant and usable for the advisor and client.

Effective categorization of household expenses has many unique challenges unto itself, from simply figuring out *what* an expense is (e.g., correctly identifying what is a restaurant expenditure, what's a clothing store, and what's a household appliance purchase), to developing an appropriate higher-level expense categorization structure (e.g., Food & Dining, Home, Auto, Utilities, Shopping, etc.), and being able to distinguish between true household outflows, and what are merely intra-account transfers (e.g., recognizing that a $1,000 payment from a bank account is actually just paying off the balance of a credit card and isn't a net outflow where the expenses on the credit card were already previously included in the household's cash flows).

Ideally, though, effective cash flow tracking with expense categorization opens up entirely new realms for financial advisors to add value (and get paid for their services). For new clients, the ability to link accounts into a Level 4 account aggregation solution and "instantly" have expenses categorized makes it possible to instantly help clients get more organized, and actually provide cash-flow level advice where it was previously impossible (as those who are most likely to need advice on spending are the least likely to be tracking it in the first place, which makes account aggregation essential as a component of the advice solution). On an ongoing basis, Level 4 account aggregation makes it feasible to help clients establish better spending habits, where the advisor and client can set goals and the advisor can actually monitor outcomes and serve as an accountability partner to help coach the client to achieve the goal (where the software provides the key tracking necessary to help everyone know whether the client is staying on track or not).

From the consumer perspective, most households struggle to fully and effectively track their cash flow, and struggle even more to know *what* appropriate spending levels *should* be (to benchmark their behavior against their peers) and understand whether they're really appropriately living within their means. As a result, level four account aggregation that is effective at categorizing expenses provides a tremendous value-add for consumers, allowing expense-tracking-centric Level 4 account aggregation to have *far* more adoption and engagement (and the better the software categorizes, the less work for the user, and the higher the adoption and engagement). After all, while investors may only check their account balances a few times a year to verify if they're on track, Mint.com users often log in monthly, weekly, or even *daily* to monitor their spending habits and progress towards short-term spending goals! Other leaders in this category include Wealth Access for advisors, and Personal Capital (which has successfully turned its Level 4 account aggregation solution into a massive lead generation funnel to power $5B of new asset growth for their advisory business!).

Level 5 Account Aggregation: Continuous Monitoring (Proactive Planning Notifications)

If Levels 3 and 4 of account aggregation are focused on pulling in all the information necessary to create a household's entire financial balance sheet and cash flow statement to support the delivery of Advice, Level 5 (and Level 6) are all about *doing* something more with that information (and Automating the process).

Specifically, Level 5 account aggregation is about taking the information from assets, liabilities, and cash flow from the various data feeds, and scanning the data to spot potential financial planning opportunities, which would be delivered to the financial advisor as proactive notifications that could/would/should trigger outreach and communication to the client. In other words, the advisor no longer needs regular client meetings just to figure out *if* there's a need for advice and planning; instead, the software automates the monitoring process, and notifies the advisor when there's a planning opportunity!

For instance, a Level 4 account aggregation tool might help clients track their spending, but a Level 5 solution would actually notify the advisor when certain spending targets were breached (to contact the client about getting on track) or were achieved (to congratulation the client on meeting their goal). A Level 4 account aggregation tool would track the client's income to report on whether their income exceeds their outflows, but a Level 5 solution would monitor for changes in income that could indicate a promotion (big bump up in automatic payroll deposits), a bonus (unusual lump sum deposit from an employer), or a layoff (ongoing payroll deposits suddenly cease)… all of which would merit communication from the advisor.

Additional Level 5 monitoring and proactive notification opportunities might include spotting: unusually large account inflows (potential inheritance? death in the family?); warnings when retiree portfolios breach a critical downside threshold (when spending changes must occur under the client's withdrawal policy statement); mortgage refinancing opportunities (compare mortgage interest rate against externally available mortgage rates); change of health or medical issues based on rising spending or abnormally large bills for medical expenses; and potential financial fraud or elder financial abuse based on abnormal account transfer activity (particularly via wire transfers, a rise in cash withdrawals, or a sudden rise in the number of transfers going to another individual's bank account).

Ultimately, the differentiating factor that will drive the most successful Level 5 account aggregation solutions will be their ability to harvest big data sets to identify what kinds of financial events, flows, and other financial data points represent potential financial planning advice opportunities to clients, and then create the necessary algorithms that monitor for such events and communicate the relevant information and timely notification to the advisor so he/she can proactively reach out to the client.

Future account aggregation software will proactively identify financial planning opportunities!

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Level 6 Account Aggregation: Automated Advice Execution (Data-Driven Automation Triggers)

While Level 5 account aggregation is meant to provide notifications to financial advisors to reach out to clients for proactive advice conversations, the final Level 6 account aggregation phase is all about *automating* the execution *of* a pre-determined planning strategy – and using the data feeds associated with account aggregation to know when to pull the automated (algorithm-based) trigger.

A quintessential example in today's environment is Betterment's SmartDeposit feature, which tracks the account balance of an external cash account and automatically transfers the excess above a pre-determined threshold as a "smart" deposit directly into the client's Betterment account to be invested. Thus, if the client *really* only needs about $4,000/month in their checking account to manage expenses, they can set a target threshold (e.g., a $6,000 balance, to provide some extra margin for safe liquidity), and the Level 6 account aggregation software will automatically transfer any "excess" funds above the threshold from the checking account to the investment account, effectively automating the long-term saving process. That way, the client doesn't even need to remember to "save" their bonus, or a tax refund, or any other cash influx; instead, it gets saved automatically, because it exceeds the threshold based on the established plan (which the software monitors, identifies, and executes on).

Another example in this category is the MaxMyInterest platform, which tracks the current yield of a client's bank savings account, and automatically opens new accounts and transfers the money to alternative online banks that offer better yields, using data feeds to track where the client's money is, what it is currently yielding, and what competitor banks are offering.

Of course, it's important not to transfer money from one account to another (whether amongst banks for better yields, or to investment accounts for long-term growth) if the client might actually *need* the money, which is why Level 6 account aggregation will likely mostly focus on the execution *of* a plan that has *already* been established by an advisor (i.e., to use MaxMyInterest for known-to-be-idle emergency cash reserves that are OK to be transferred, or by first determining with the advisor the appropriate cash balance to keep in a checking account before automatically depositing any excesses in a long-term investment account). Rather than trying to prescriptively "tell" the client what to do, based on the computer's limited knowledge of the client's personal situation.

Nonetheless, the key point remains that once the Level 3 and Level 4 data feeds are established, there is a rich flow of data that makes it feasible to both identify and spot proactive advice opportunities (Level 5 account aggregation), but also automate the dynamic execution of that advice as events occur and circumstances unfold (Level 6).

The Current Solution Gap And Future Of Account Aggregation And PFM Portals

Notwithstanding the tremendous potential of account aggregation to power greater value for financial advisors, the industry has been slow to build and adopt account aggregation solutions, and most providers remain mired at Level 2 account aggregation (with just a handful providing Levels 3 and 4, and virtually none yet powering Level 5 and beyond).

On one hand, this appears to be a result of (short-sighted) industry demand. To the extent that the financial advisor still community is still largely investment-product-centric (especially amongst the broker-dealers that are the largest enterprise buyers of advisor technology and operate a business model that is entirely predicated on being an intermediary for product distribution), it is perhaps no great surprise that the focus of account aggregation has been on identifying held-away accounts for asset gathering and product-cross-selling opportunities. Similarly, the bank channel has thus far focused primarily on Level 1 account aggregation solutions to identify cross-selling wallet share opportunities.

Short-sighted industry demand has led to slow adoption of account aggregation solutions!

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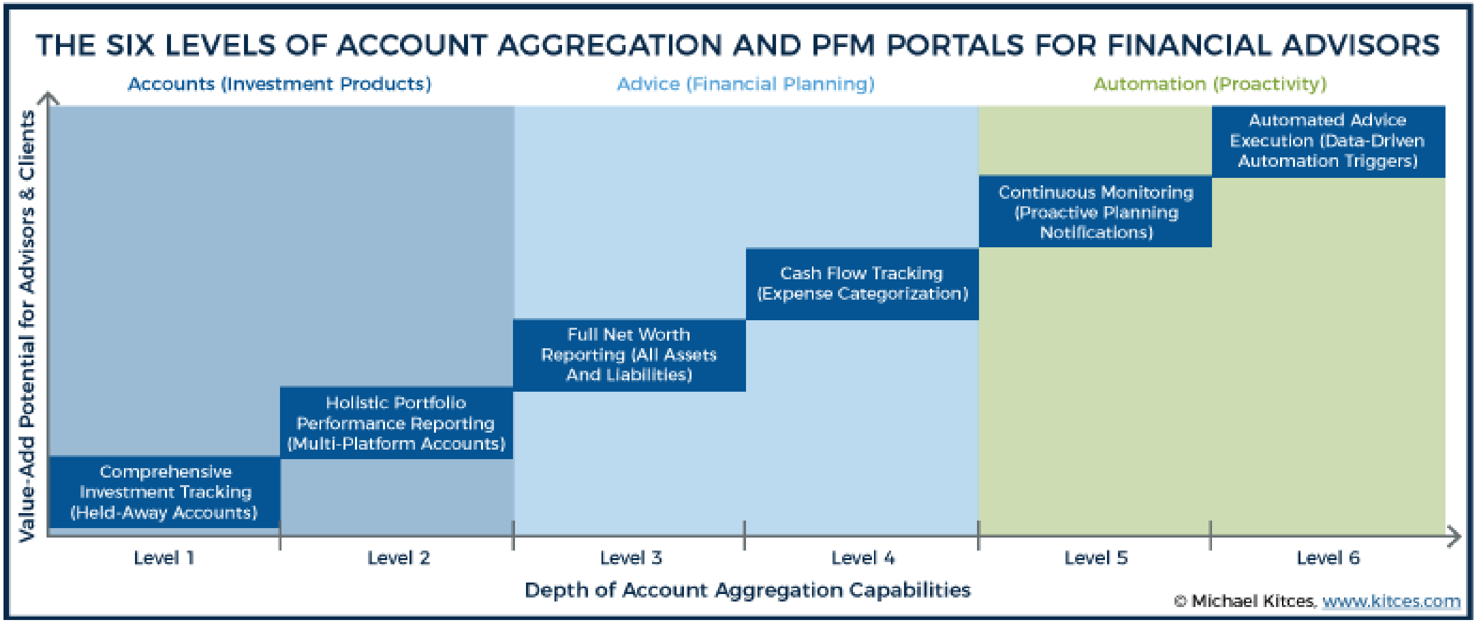
Yet such efforts have thus far yielded somewhat lackluster results, to the point that several banks have recently been shutting down their PFM solutions (from Capital One closing Level Money, to SoFi winding down Zenbanx), and financial advisors continuing to struggle with account aggregation adoption. However, these limited results shouldn't be entirely surprising, when recognizing that: a) the value-add to the consumer of Level 1 and Level 2 solutions is extremely limited, given the number of free or direct-to-consumer solutions already available to accomplish similar results, which in turn limits adoption; and b) the real opportunities for advisors to deepen the relationship and actually add value with advice (beyond just products) can't be effectively delivered *until* account aggregation solutions reach at least Level 3 (which thus far are primarily demanded by the independent RIA community, at least until broker-dealer enterprises reinvent themselves for an advice-centric future).

In essence, Levels 1 and 2 are mostly about Accounts (i.e., Investments), while Levels 3 and 4 build upon that information to actually help provide better Advice (i.e., Financial Planning). And Levels 5 and 6 further build upon the Advice layer by aiming to make the advice more proactive, or entirely Automated. These three A's – Accounts, Advice, and Automation – form the basis of the successive tiers of account aggregation value-add to the advisor-client relationship.



Ironically, though, notwithstanding the dearth of upper-tier account aggregation providers, those who actually *do* offer such solutions have already been able to monetize them remarkably well. Thus why ByAllAccounts (a Level 2 provider) was sold to Morningstar in 2014 for $28M, while eMoney Advisor (a level 4 provider) was sold to Fidelity for $250M, and Yodlee (a level 4 provider with Level 5 & 6 potential) was bought by Envestnet for $590M !

A look at eMoney Advisor's fundamentals are particularly striking, as while the software is commonly held out as "financial planning software with account aggregation included", their pricing model is actually structured more as "account aggregation with financial planning included", as in 2015 when eMoney finally bundled their $300/month planning software into separate account aggregation and financial planning, they began to charge only $100/month for the financial planning software and $200/month for the (Level 4) account aggregation! And given the typical advisor only does in-depth financial planning with 50-100 clients, this effectively means that eMoney is generating a healthy $24 – $48 per year per user for their standalone PFM solution. In a world where direct-to-consumer account aggregation solutions struggle to generate just a few dollars of average revenue per user!

Yet despite the healthy unit economics and business opportunity for advisor PFM solutions, most providers have continued to build primarily for the (much harder to monetize) direct-to-consumer channel, or remain stuck going no further than Level 2, and even after lamenting the problem four years ago, there remains a dearth of PFM solutions for advisors that go beyond Level 2 account aggregation. It's only with the looming impact of DoL fiduciary, and the ongoing impact of technology commoditizing investment accounts and products, that financial advisors en masse are being driven to move up the value chain and provide deeper, more substantive, and more holistic advice… for which it suddenly becomes apparent what a gap remains for higher level account aggregation providers.

On the plus side, recent announcements of the Yodlee roadmap suggests that Envestnet has a vision of building Yodlee's capabilities towards Level 5 and eventually Level 6. And upstart account aggregation provider Quovo has positioned itself from the start to focus on Big Data insights (relevant for Level 5 account aggregation), and recently launched an account authentication API that could go a long ways towards facilitating Level 6 account aggregation automations.

The bottom line, though, is simply to recognize that that the landscape for "Account Aggregation" is far more complex than merely pulling in investment data feeds from various broker-dealers and custodians (despite the fact that is where most Level 2 account aggregation providers remain mired). The potential to develop far more in-depth advisor dashboards and client PFM portals at Levels 3 and Level 4 can substantially enrich true financial advice relationships, and the proactivity and automation at Level 5 and Level 6 account aggregation are ultimately the future of financial planning (especially when integrated into the next generation of comprehensive financial planning software). Yet the question remains: when will more FinTech providers actually begin to build the PFM solutions that financial advisors will need in the future (and already need today!), and stop focusing in Level 2 account aggregation that remains mired in financial advisors' product-centric past?

So what do you think? Would more in-depth account aggregation solutions that build towards Levels 3 and 4, or even Levels 5 and 6, be helpful in your advisory firm? What do you wish account aggregation software did that is currently lacking? Or are you happy with your solution as it exists today? Please share your thoughts in the comments below!