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Tech Solutions the Key to TPAs' Future

It's up to TPAs to invest in technology that will increase margins by creating the solutions advisors want and need to be successful.

BY DAVID J WITZ

Historically, recordkeepers, not TPAs, have held a leadership position in technology deliverables that are provided to plan sponsors, participants and advisors. The expectation, especially from advisors, for new disruptive and/or sustaining innovation has not changed despite continuing fee compression, litigation risks, and now the new conflict-of-interest rules from the Labor Department.

Today, however, there is a growing reliance on TPAs to deliver more technology-driven solutions that enhance an advisor's ability to win new clients and keep existing ones. This is a high-cost proposition that squeezes profit margins for small TPAs at a time when fee compression has already cannibalized revenues.

Fortunately, large bundled service providers, which in many cases also collaborate with TPAs, have invested significant capital in technology solutions that help their small TPA partners. But those solutions also enhance their ability to win direct business, giving them an unfair competitive advantage with advisors that sell retirement plan solutions. Bundled providers benefit from economies of scale that enable them to spread their technology costs

over a larger base of participants. This results in a cost per participant that no bundled daily valuation recordkeeper can match.

In addition to this competitive advantage, consider that many bundled providers are also product manufacturers that draw additional revenue from proprietary or sub-advised investment options — revenue that may be deployed for technology enhancements. Although TPAs are not product manufacturers, they have enjoyed the benefits of receiving a portion of the asset-based fees charged by recordkeepers in the past. But this is quickly disappearing as the market demands pricing that is not linked to plan assets for administrative services.

DATA THE KEY

The critical question for TPAs to address today is: "What action must I take now to remain relevant five years from now?" The bundled providers with whom they collaborate and compete are taking action today that reveals what they believe they must do to stay relevant in the future. Their action plan includes:

- acquisition;

- heavy investment in new proprietary and non-proprietary technology; and
- dedication to a multi-revenue solution platform that includes proprietary and sub-advised investment options.

In today's ever-changing retirement industry, the strong will survive and flourish. However, survival is dependent on distribution, and distribution is dependent on unfair competitive advantages in the mind of the advisor — advantages created with substantial capital resources that TPAs do not have.

However, there is a silver lining: data. A local TPA has data on plans that others don't have — data that is valuable and that can be monetized to create reports that provide documentation to support procedural prudence and fiduciary governance, impact outcomes, assist with plan design — and that, when monetized, encourages advisors to stay loyal.

BUYING CONSORTIUM

Of course, few TPAs can afford the price tag of building the technology for proprietary purposes. Instead, a TPA's survival is dependent on "co-opetition," a neologism coined to describe cooperative competition (sometimes called "coopertition" or "co-opertition"). In other words, a TPA with a small technology budget can create an equally impactful result if the budget of multiple TPAs is combined into a buying consortium.

A buying consortium provides a TPA with the ability to build a suite of technology solutions it could not afford to build or support on its own. Bottom line: The current environment of fee compression that squeezes margins, combined with the high cost of innovative cutting edge technology solutions, encourages collaboration between competitors who wish to protect their business valuation and remain relevant in the future. It also provides a TPA a way to monetize its storehouse of information and knowledge.

Of course, as with any technology initiative, early adopters that embrace the initiative to stay relevant will profit the most. Late adopters will either pay a premium to jump on board after the fact or be locked out altogether due to limitations on the number of participating TPAs established by the consortium.

An integrated technology platform of multiple solutions will assist the consortium with winning the loyalties of their distribution channel by supporting their consulting engagements with clients and prospects. Technology that wins distribution loyalty is technology that adds value and improves margins.

GENERATIONAL COMMUNICATION ISSUES

TPAs that embrace this new paradigm will need to be mindful of how they roll out the new technology solution. The communication approach must be structured to address what remains of the Baby Boomer generation while appealing to the predominant Gen X and Gen Y workforce — the generations that are today's emerging decision makers and fiduciaries. Failure to consider the generational differences is a quick way to lose opportunities. If you are willing to invest in technology with the intent of capitalizing on new, cutting edge deliverables that win distribution and customer loyalty, you cannot ignore the messaging. It must resonate with the preferences of each generation as both customers and distributors of your services.

While the future is yet to be written, certain trends are undeniable. The big are getting bigger and the small are not growing (or their growth is marginal). And while advisors are a distribution channel to be coveted, they don't want to spend their money. (This is especially true for dabblers.) It will be up to a TPA to take a leadership position and invest in technology that will increase margins by creating solutions advisors want and need to be successful.

More importantly, it will be the technology solutions that build loyalty with advisors. The solutions that have been identified as especially important to advisors include data integration, prospecting tools, proposal generators, plan features analysis, plan design tools, benchmarking, investment monitoring, fiduciary and participant online education, and model creation and monitoring.

Developing new technology that will support the advisor's ability to stay focused on business development, client relationships and vendor management will give TPAs a shot at more opportunities to build their business valuation and achieve the success they covet. But the clock is ticking, and the door of opportunity is closing.

The DOL's conflict-of-interest rule has created a clear path to writing IRA rollover business while also being a plan-level fiduciary. That is an impetus for new technology to support what could be an army of dabblers that become fee-based Series 65 RIAs now that the rule has been finalized. A TPA that has tools in place to support this new paradigm is in the best position to build scale quickly. Time will tell which TPAs are left behind, but my tea leaves say it is the late adopters of new technology. **PC**



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