

Altigo

Straight-through processing: Revolutionizing the alternatives investment industry

Brooke Heffington, managing director for *Real Assets Adviser*, a division of Institutional Real Estate, Inc. (IREI), recently spoke with **Bill Robbins**, CEO of WealthForge, about the advantages of straight-through processing. Following is an excerpt of that conversation.

Let's start with defining what straight-through processing is for those who might not be familiar with the term.

Straight-through processing is simply a way to digitize the investment process. We are all familiar with purchasing items online, especially after these past 18 months of staying home. You look online for what you want, confirm your address and payment information, then click a button and your purchase is completed. This same ease in purchasing and paying could be part of the alternatives experience, if more firms adopted a straight-through process. Unfortunately, investing in alternatives today is more like shopping from the old Sears catalog. Most alternatives managers are still using an antiquated process based on paper forms, manual signatures and physical delivery of the completed package.

How would straight-through processing change this experience?

Investors and managers are already filtering, reviewing and purchasing equities and public bond offerings online. There is no real reason the alternatives investment world doesn't do the same thing. With the right platform, the wealth manager, adviser or broker/dealer representative could enter a few criteria into specific fields to filter the offerings to those that meet the investor's portfolio risk/return profile; help the investor sort through those offerings; fill out forms that auto-fill many of the fields and only ask for information that is actually needed; then point and click to make the purchase. Once one purchase is made, the system typically saves data so that fields in future forms can be auto-filled, saving time and reducing mistakes.

How does this compare to the current system?

The way we do the business today, which is often referred to as check-and-app, is

like the way mutual funds were done in the '80s. The investor and/or their adviser fills out a subscription package or application, sometimes actually with a pen and paper. Packages can run 50 pages and include lots of fields that aren't necessary for a particular transaction. It is up to the purchaser to find and complete all the necessary fields and supply the necessary documents — and this often doesn't happen correctly the first time. When the paperwork is completed, a check is literally paperclipped to the top page, and the entire package is put in the mail. That is the way that we have done alts business for decades, but it creates a lot of problems. The first is something that the industry refers to as "not in good order" subscriptions, or NIGO. Approximately half of all paper-based subscriptions end up NIGO the first time and must be reworked, sometimes multiple times. You can start to imagine the problems that creates. It is in everybody's interests to automate that process to create a better experience and make it easier for clients to do business with them.

What other benefits does automation confer?

In addition to making it easier to do business with you, automation makes the entire process faster and more efficient. It can take three to four weeks to get a subscription completed through the old-fashioned check-and-app method. That is partly the result of common NIGO mistakes and partly the result of the hours it takes to complete a paper application, but also just the time it takes to mail the package to each of the participants. The adviser mails it to the client, and the client mails it back to the adviser. The adviser then mails it to the custodian, who mails it to the transfer agent or directly to the fund. When you automate that process in a straight-through processing platform, the time to complete the application can be cut down to minutes, while mailing is eliminated completely. The time to process the entire package can be cut down to days, or even hours, for what has historically taken weeks. In addition, the

efficiency this process brings to the office enables advisers to grow their business without hiring additional staff. We have seen some firms turn away clients because they are not able to handle additional paper applications. If they were using a straight-through process, this wouldn't be a problem.

Finally, this is a big-picture growth opportunity for the entire industry. We believe that, in general, high-net-worth, retail investors are underallocated to high-quality alternative investments. That is primarily because the products have not always had perfect alignment with investor outcomes, and they have been too hard to access. Technology can increase access to these high-quality products and make it easier for advisers to select the best investment for their client. When we make it as easy to purchase alternatives as it is to purchase mutual funds, we will see exponential growth in the alternatives market.

Is straight-through processing secure?

Not only is it secure, the privacy and security benefits of straight-through processing are two of the main reasons to use it. Currently, some firms have taken half measures by providing fillable, signable PDFs. But then everyone sends these PDFs around via email. That is probably the least secure way that you could transmit this ultra-sensitive information about your best clients. It is a recipe for disaster. Straight-through platforms, on the other hand, incorporate industry-leading security measures to protect this information during transmission and purchase execution.

Besides security, what else distinguishes straight-through processing from digital solutions like PDF forms?

PDF forms and electronic signatures are digital components of straight-through processing, but they are not straight-through processing in and of themselves. The straight-through processing is about connecting the entire ecosystem of service providers and other technology platforms. This would include CRM platforms, which already house most of

the client information you'll need for a purchase, as well as custodians who support advisers and broker/dealer firms, and transfer agents and fund administrators who support funds and sponsors. Straight-through processing connects all of these folks who are part of the ecosystem, so that we are no longer passing paper back and forth, or using email to send documents — which is a security risk that no one should be taking. It becomes much more like the Amazon type of experience that we are all familiar with outside of our financial lives.

How exactly does straight-through processing connect this ecosystem?

Straight-through systems are set up to only push the parts of the subscription that are relevant to each party. This has several advantages. First of all, each party only has to deal with forms and information that are relevant to their role in the transaction, so it is rare that something gets missed in the shuffle. But more importantly, it keeps information secure and data private. The only data a vendor sees is the data necessary for them to perform their job. For example, a custodian does not need to receive the same documentation that a sponsor does. This is much more secure than the typical process, which has the entire package of paperwork being circulated among all the interested parties. So, each recipient is receiving what they need, but not receiving information that they don't need and that, in many cases, would not be appropriate for them to receive.

Why has it taken the alternatives industry so long to get to this point?

Automation thrives on standardization. However, the alternatives investment space has a fairly complex regulatory structure. For example, registered, non-traded REITs are governed by state securities regulators, where you can have different regulations from state to state. This means we can have variability from 50 state securities regulators about things like the applicability and enforceability of electronic signatures. In addition, there simply hasn't been the will to automate the process. When a firm or vendor moves to automate their processes, they will start with highest volume transactions. Alternative investments are typically less than 5 percent of an investor's portfolio. So, if you're going to start automating, you're going to start with the transactions like your NYSE-listed equity securities and corporate bonds. But now, enough other asset classes and transaction types have been automated that it is alts' turn. Change, in general, is hard. But the good news is that we are seeing straight-through processing becoming more of the norm.

Why are some firms still hesitating?

The primary hurdle is making sure that the platform that is adopted has access to all of the products that the wealth manager wants to offer. They don't want to automate some products and not others. On the other end of the spectrum, the asset managers only want to be on the platform where all the wealth managers are. So, they were each sort of waiting for the other to go first. Then you start getting to a hierarchy of needs. The firms obviously have regulatory

requirements, and the need to be very clear about the data-privacy and information-security controls of the platform they adopt. I would say custodians are the last mile of straight-through processing. We have no doubt they will get there. They just need to be very sure that this process is safe, secure and works to the benefit of all participants.

What sets Altigo apart from other straight-through platforms?

There are several solutions in the marketplace that are essentially a library of PDF documents. Our platform, Altigo, doesn't start with a document. It starts with a question and guides the adviser through an intelligent workflow process. When it comes to offerings, we have taken an "open network" approach. Some platforms decide for the investor which products are appropriate and only allow access to those products. We believe advisers are capable of doing their own investment research, and don't need us to curate and tell them what the best product is. Our approach is much more an open network, technology approach. We aren't competing with the asset manager to choose products. Our approach seems to be working, as we are seeing great transaction growth. We have over 80 broker/dealer and registered investment adviser firms on the platform. We have done over 3,000 transactions, which represents more than \$780 million of volume. And we believe this is just the beginning. Straight-through processing is a growth opportunity not only for us, but for the alternatives industry in general.



Altigo, an electronic order entry and subscription processing platform from WealthForge, is built to address common industry roadblocks, enable marketplace connections, and facilitate alternative investment transactions between reps, advisers, asset managers, custodians and transfer agents.

CORPORATE CONTACT

Email sales@wealthforge.com or call 866.603.4115 to learn more

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kerage platform and operations.

Bill Robbins, CEO, brings more than 25 years of experience in growing brokerage platforms and provides strategic oversight and leadership at WealthForge. Prior to joining WealthForge in 2015, he served as president of BB&T Securities Services, leading teams that supported the firm's bro-