

Exploring the Potential of Turnkey Asset Management Platforms in Transforming China's Wealth Management Landscape: A Comparative Analysis with the United States

Lijin Su

Faculty of Business, The Hong Kong Polytechnic University, Hong Kong, 100872, China

* Corresponding Author Email: 20105452d@connect.polyu.hk

Abstract. Research background: China's wealth management landscape is evolving rapidly, driven by increased individual wealth accumulation and a shift towards comprehensive financial advisory services that emphasize personalized solutions and risk management. Research topic and method: This study examines the applicability of Turnkey Asset Management Platforms (TAMPs) in China by comparing their development and impact in the United States. Employing a comparative approach, the research combines literature review, case studies of notable TAMPs, and regulatory analysis to assess the feasibility and potential benefits of TAMP integration in the Chinese market. Research result: The analysis of TAMPs in the US highlights their role in reshaping wealth management by offering end-to-end services, from investment proposal generation to portfolio construction and reporting. TAMPs have proven effective in enhancing financial advisors' efficiency and client engagement. The study identifies key factors indicating TAMP relevance in China, including their potential to bridge advisor-client gaps, enhance investment decision-making, and provide scalable solutions. Research conclusion: This study suggests that TAMPs hold transformative potential for China's wealth management industry, addressing current advisor challenges and catering to diverse investor needs. However, successful implementation would necessitate adapting TAMP models to China's unique regulatory and market conditions. The research underscores the importance of considering TAMPs as a tool for enhancing efficiency, effectiveness, and client-centricity in China's evolving financial landscape.

Keywords: TAMP; wealth management; investment advisor; China; United States.

1. Introduction

The continuous accumulation of wealth of Chinese residents, as well as the increased attention to their own wealth management, is driving the growing demand for Pan-financial wealth market, that is, not only focusing on return on investment, but also focusing more on risk management. At the same time, due to the rapid expansion of the asset management market from 2014 to 2015, many financial products have multiple hidden dangers such as difficult to repay and capital pool risks, which led to stricter supervision in 2016, and many financial institutions and third-party institutional financial planner products have poor sales. Under these two recent trends, the wealth management needs, and risk appetite of Chinese investors have become more differentiated, which many financial advisors have also realized that and gradually began to start their own businesses, which has led to a substantial increase in the number of small and medium-sized financial institutions. However, for these independent financial planners, the lack of a series of resource support of the original platform, including product acquisition, compliance risk control, middle and back office system, will lead to a significant reduction in their work efficiency. Therefore, a third-party service platform will be crucial for them, and from this point of view, reference to the US TAMP industry will become very meaningful. This paper will explore the future trend of China's TAMP industry and the feasibility of TAMP by studying the problem and the demand existing in China's wealth management market, the differences between China and the United States in various fields of wealth management, and the development status of TAMP companies in the United States and the target companies in China.

2. What is TAMP

Turnkey Asset Management Platform (TAMP) is an all-in-one platform that provides different services for investment advisers. It covers a wide range of clients, including registered investment advisers (RIAs), independent brokers, large brokerages, banks, trust companies, family offices and law firms, among which independent investment advisers in RIAs are the main clients. The services provided by TAMP cover the whole process of investment advisory work, from the front desk of client risk preference survey and investment proposal generation to the middle desk of investment manager research and portfolio construction, and then to the back office of trading, portfolio rebalancing, performance reporting and billings. As a third-party technology platform, TAMP provides support for all aspects of the investment advisory exhibition industry, thus, the advisor can focus more on customer acquisition, customer relationship management (CRM), and provide services that are more in line with customer needs. According to the WealthAdvisory, the underlying outsourced portfolio solution investment model can be classified into five fundamental varieties, including Mutual Fund Wrap Accounts, ETF Wraps, Separately Managed Accounts, Unified Managed Accounts, and Unified Managed Households. Most TAMPs charge investment and management fees based on the size of the assets under management (AUM), with the overall fee typically ranging from 0.75% to 2.5%, depending on the services provided, the size and complexity of the account assets, and the cost of the investment instruments [1].

3. Development of TAMP in US

The emergence of TAMP can be traced back to the seller-to-buyer transition in the United States in the 1980s and 1990s. Seller advisory refers to selling products as the focus, from which they extract commission, while buyer advisory is an objective and independent existence, standing on the customer's position to make financial planning for customers [2]. There are two important reasons for the shift. First, the Securities Exchange Amendment Act of 1975 abolished the fixed commission system, and promote the establishment of the national market system [3]. The second is the vigorous development of the American financial market and the transformation of the nature of pensions in the 1990s. At that time, a variety of financial products emerged in the United States, including mutual funds (Figure 1), fixed income products, stock index futures, options, foreign exchange products, etc (Figure 2). With the rapid development of DC private pension plans represented by 401(k) plans, residents needed to make more investment decisions, but at the same time, due to the lack of professional knowledge, they needed to consult professionals. As a result, many residents no longer favor sellers who provide products, but buyers who can provide advisory services, namely investment advisers.

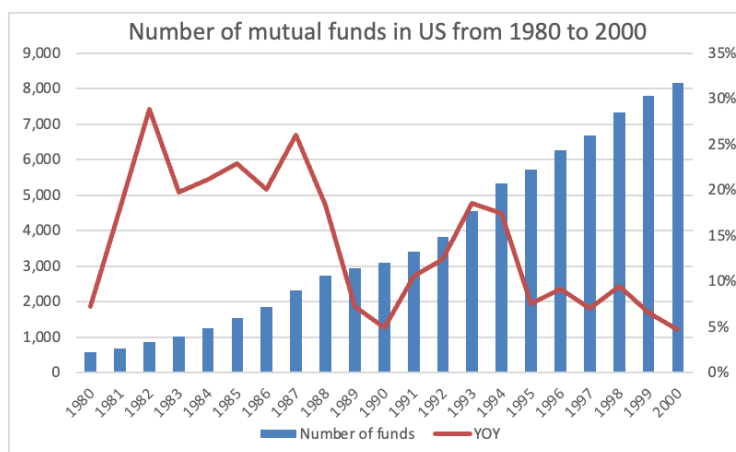


Fig. 1 Number of mutual funds in US from 1980 to 2000

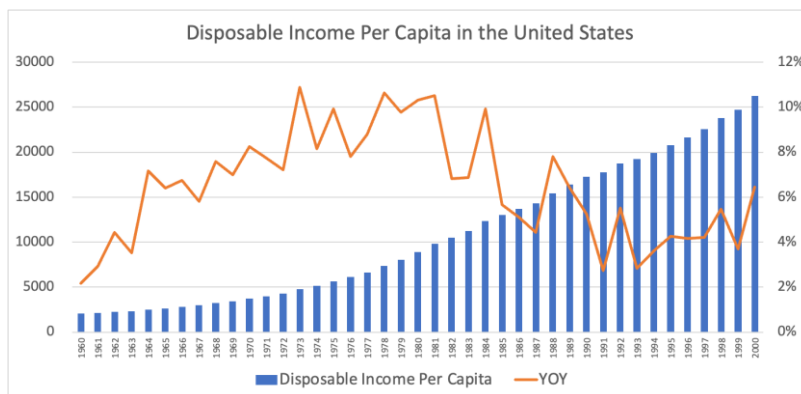


Fig. 2 Disposable income per capita in the United States

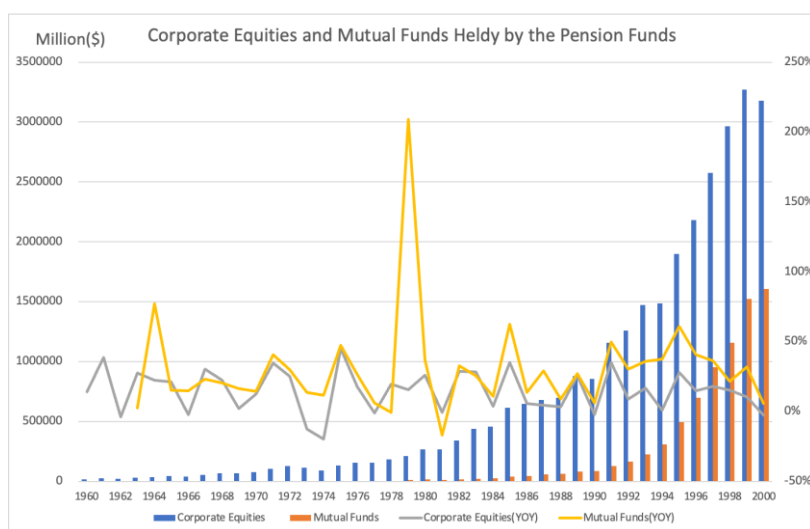


Fig. 3 Corporate equities and mutual funds held by the US pension funds.

However, investment advisers run into obstacles in serving their clients, which is that there are so many kinds of wealth management products that they have to spend a lot of energy and time selecting products, tracking portfolios, recording trades, preparing reports, etc. The burden of non-core wealth management has forced advisers to reduce the breadth and frequency of their services to clients, which led to the demand for products that can serve advisers.

In 1987, the whole process service based TAMP business model was born. Brinker Capital and Portfolio Management Consultants (PMC) were founded, they offer independent investment advisers separate account wrap-fee programs that previously existed only at large brokerages, through which investment advisers can offer their clients separate accounts managed by institutional money managers. At the same time, Brinker Capital and PMC also provide clients with portfolio construction as well as trading, account management, performance reporting, and other ancillary services, which TAMP was born since then. Subsequently, companies offering mutual fund plans and investment management services with open structure management emerged one after another. In 1992, Schwab launched the mutual fund OneSource platform, the first fee-free fund supermarket that allowed investors to buy different funds in one place [4] (Figure 3).

In 1999, the TAMP industry was begun to divide into products type and platforms type. Investnet launched the first web-based service TAMP, which enhanced the investment advisers' interaction with the platform. Investnet's emphasis on technology and application is different from the traditional "product TAMP" based on portfolio management. It builds TAMPs and provides a portfolio built by third parties, creating the "platform TAMP", which marks the emergence of a new branch of the industry. At the same time, the head company actively acquired small TAMP companies to expand the volume, enrich the product mix, and consolidate the technical base. For example, Investnet acquired PMC, a pioneer in managed accounts, Oberon, an innovator in financial software solutions,

and Net Asset Management in 2001 and 2004, respectively, to increase the scale of its business and strengthen its platform technology base.

Technology has made it possible for TAMP's business model to grow more diverse and improved since the 2008 financial crisis. Large asset management firms like BlackRock, Vanguard, and Fidelity all released model portfolio products through the model market under the guise of portfolio strategists. Model supermarkets, on the other hand, are provided by companies like TD Ameritrade, Orion, and Riskalyze that not only provide investment advisers portfolio strategies created by portfolio strategists, but also middle- and back-office services. The introduction of model supermarkets has given the TAMP business a new branch [5]. With the growth of direct indexed investing in 2019, businesses like JustInvest and O'Shaughnessy Asset Management have also entered the TAMP sector, providing portfolio management services in accordance with instructions from investment advisors. Thus, the services provided by TAMP become more diversified and customized.

4. Companies Business Model and Profitability

The TAMP industry in the United States has entered a mature stage, and now TAMP companies can be mainly divided into two categories, the first type is Internet Instrumental TAMP, and the second type is traditional financial institutions, such as brokerages.

Internet instrumental TAMP:

Investnet: Investnet is the largest and most competitive TAMP company in the U.S., with \$5.09 trillion in AUM and 105,500 financial advisors at the end of 2022. In terms of business model, Investnet primarily serves independent investment advisor. Unlike other TAMP companies, its fee model includes subscription model in addition to the traditional AUM percentage fee model. As shown in Figure 4, the subscription model, which mainly consists of fixed fees and fees based on the number of uses, brings it an enormous amount of assets under management. However, Investnet did not show a stable performance at the profitability level (Figure 5), and the cost of revenues, including payments to third-party service companies for consulting, liquidation, custody, and other fees, accounted for a large portion of its expenses (Figure 6).

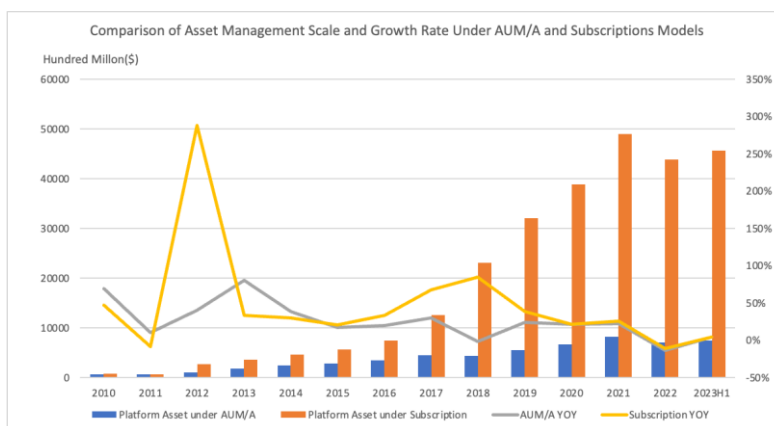


Fig. 4 Comparison of asset management scale and growth rate under AUM/A and subscription models of Investnet

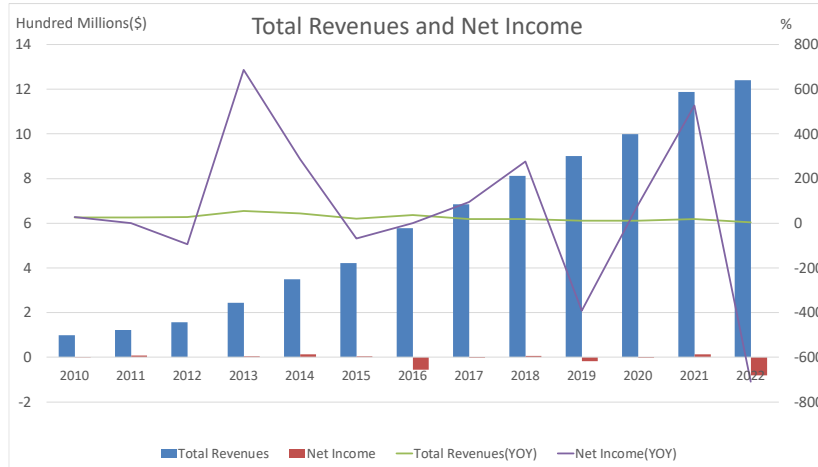


Fig. 5 Total revenues and net income of Envestnet

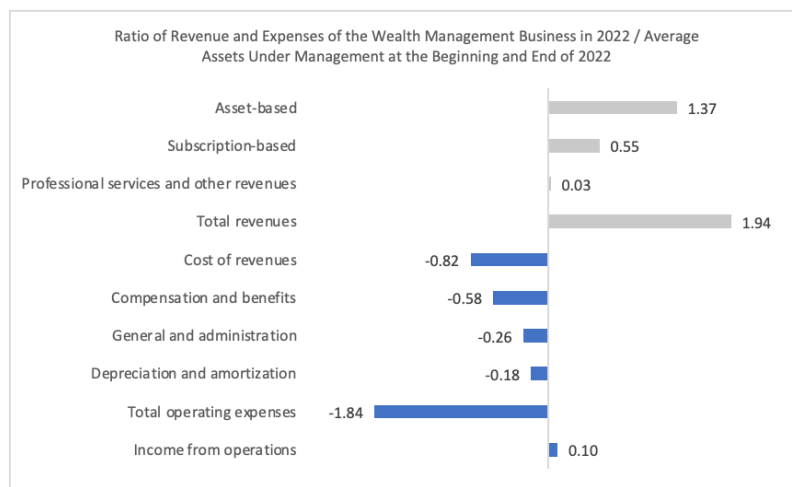


Fig. 6 Ratio of revenue and expenses of the wealth management business in 2022/ average asset under management at the beginning and the end of 2022

SEI: As shown in Figure 7, SEI serves a more diversified client base, including private banks, institutional investors, and investment managers in addition to investment advisers. By the end of 2022, it serves 13,000 customers and has \$1.23 trillion assets under management. The diversified, high-net-worth client positioning gives SEI more room to adjust its fees, as clients with larger assets are less sensitive with fees charged than independent advisers with smaller assets. As a result, SEI has maintained positive revenue growth and stable profitability over the past 10 years (Figure 8).

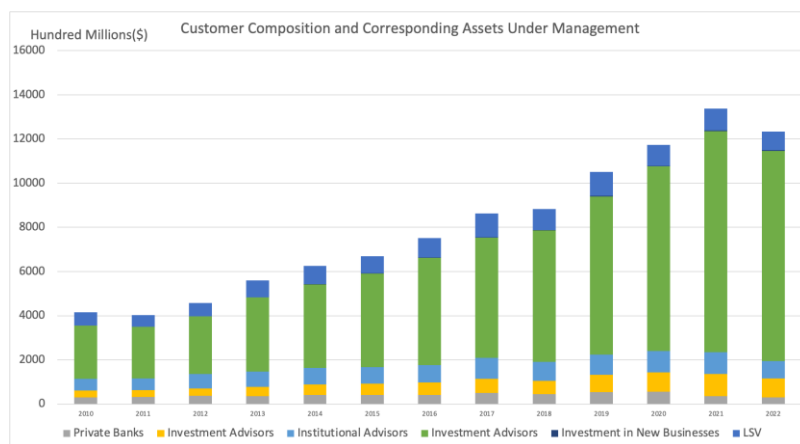


Fig. 7 Customer composition and corresponding asset under management

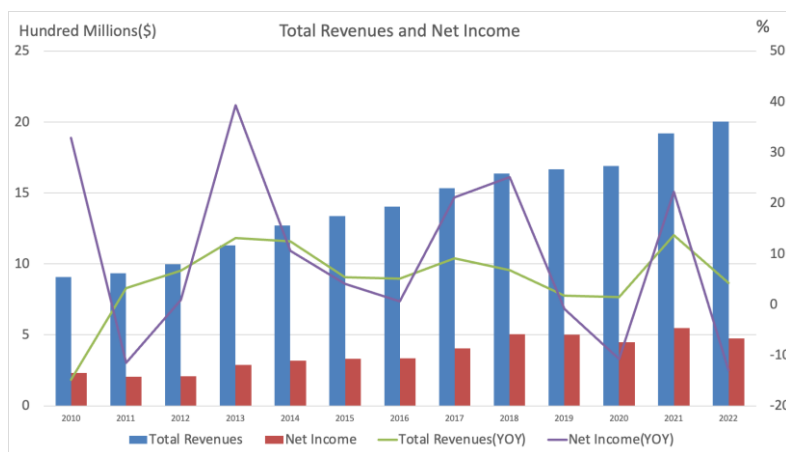


Fig. 8 Total revenues and net income of SEI

Two instructive conclusions can be drawn from the situation of these two leading companies. First, the subscription fee model is a good fee model for China, which is just in the initial stage of TAMP, because it is more acceptable for independent financial planners who have just left the institution to start their own business. Many financial planners may not understand TAMP or even feel that they do not need it, and the subscription model will play a "trial" effect.

5. Overview of the Industry Status of the Chinese Market

At present, China's TAMP industry is still in its early stages, but from the perspective of the development of TAMP in the United States, the early demand and supply have laid the nature of its business and provided a solid foundation for its future development. Therefore, when studying the TAMP industry in China, it is also meaningful to analyze the supply and demand in recent years.

From a macro point of view, China officially established the direction of the shift from seller's advisory to buyer's advisory in 2019. However, as early as 2016, China's financial regulatory authorities, mainly the People's Bank of China (PBC), the China Banking Regulatory Commission (CBRC), the China Securities Regulatory Commission (CSRC), and the China Insurance Regulatory Commission (CIRC), began to show signs of strengthening supervision of the wealth management industry. For example, in 2016, the CSRC issued the "Interim Regulations on the Operation and Management of Private Asset Management Business of Securities and Futures Operating Institutions", which prohibited the word "Breakeven" in asset management plans and limited the leverage multiple of asset management plans. In 2018, the PBC and other ministries issued the "Guiding Opinions on Regulating the Asset Management Business of Financial Institutions" to regulate the asset management business of financial institutions from the perspective of functional supervision, and proposed the goals of breaking rigid exchange, banning capital pools, and unifying leverage. It puts forward higher requirements for the enhancement of the active management ability of the asset management business of financial institutions. After that, various regulatory departments successively introduced supporting measures, such as the "Measures for the Supervision and Administration of Financial Services of Commercial Banks", the "Interim Measures for the Management of Insurance Asset Management Products", the "Measures for the Management of Private Asset Management Business of Securities and Futures Operating Institutions", etc. In 2019, the Securities Law was amended and clearly stipulated that securities asset management business was regulated by the Securities Investment Fund Law, and since then, the buyer advisory has been officially launched.

The establishment of the buyer advisory has drawn attention to various possibilities for the future development of wealth management industry in China. Forward-looking companies have been laying out TAMP or preparing it in different ways since well before 2019. In 2015, Yingmi Fund was established and launched the "Qiming" business, a Chinese version of TAMP. Qiming provides personalized solutions for wealth management teams/financial institutions and integrates industry

resources to empower advisors and help them better serve their clients. By the end of 2022, Qiming had 74 partners, served 2.12 million investors, and executed a total of ¥279 billion in fund transactions [6]. In 2016, Huatai Securities acquired AssetMark, one of the largest TAMPs in US, for \$780 million. In Huatai's annual report of 2016, it highlighted the importance of the acquisition several times, claiming opportunities to expand its investment management services capabilities and the potential to build world-class technology solutions [7]. In addition to the upon TAMP, there are also several emerging TAMPs in the Chinese market, such as iTrade, NewBanker, Chalsee Fintech, etc. However, without exception, these companies are still in their infancy, with smaller assets under management than TAMP companies in the US.

On the demand side, from the perspective of investors, most residents do not know much about the investment advisory industry and have not tried it at present. According to the Survey Report on the Investment and Financial Behavior of Chinese Residents 2021, only 21% of the respondents have tried fund investment advisory services, and half of the respondents said they did not understand fund investment advisory services [8]. However, many individual investors have realized their own needs for investment education and have gradually begun to learn. According to the Survey Report on the Status of Investor Education in China (2021), more than 90% of surveyed investors have invested in financial education, and the proportion of investors who spend more than 1 to 3 hours per week on financial education has increased year by year since 2018 [9]. Based on the result, more investors are willing to rely on external resources and professional guidance in wealth management, thus, professionals like investment advisor will be more accepted and concerned in the future.

From the perspective of industry, perhaps due to the influence of policies and the emphasis of financial institutions on wealth management business, according to the Securities Association of China, the number of securities brokers showed a clear trend of year-on-year decline since 2018, while on the contrary, the number of investment advisers maintained a steady growth trend and exceeded the number of securities brokers in 2021 (Figure 8). However, the professional service ability of investment advisors still needs to be improved. CHINA Financial Standards Association (FPSB CHINA) held four financial planner competitions from 2017 to 2021, with 51,005 financial planners participating, including financial planners from brokerages, banks, and third-party companies (Figure 9). The results show that the overall professional quality of financial planners in China is low, and the concentration of the middle level is high. The average score rate of financial planners was 44.3%, and the median score was 42.7%, indicating that more than half of financial planners did not meet the average. The main reason is that most financial planners are untrained and have low level of competence, and there is a large gap between them and elite financial planners, who have been professionally trained and most of them ranked in the top 100 in previous competitions. In terms of Comprehensive Planning ability, which includes Tax planning, Investment planning, Insurance Planning, and Financial planning, as shown in Figure 10, most ordinary financial planners have insufficient Investment and Tax planning ability, and the gap between them and elite financial is bigger than that of the other two planning ability [6].

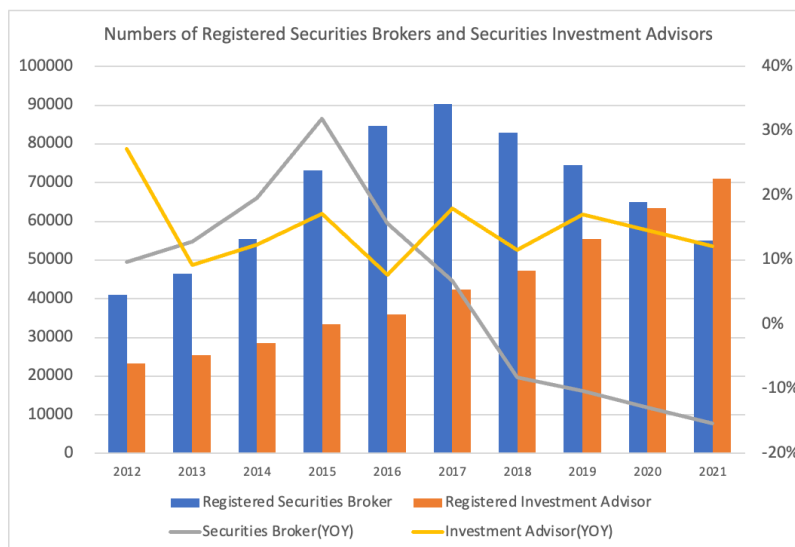


Fig. 9 Number of registered securities brokers and securities investment advisors

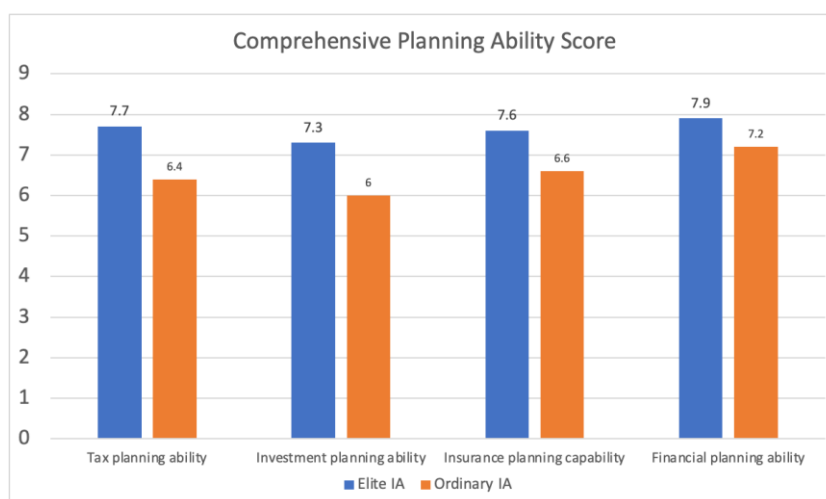


Fig. 10 Comprehensive planning ability score

6. Summary

After analyzing the wealth management market and TAMP status in the United States and China, we can find that the first TAMP companies in both countries emerged at the stage when the investment model changed from seller advisory to buyer advisory. However, from a specific analysis, the wealth management rules were established in the United States in 1940, but it was not until the 1960s to the 1990s that the demand for wealth management officially rose, accompanied by the transformation of the seller to the buyer advisory driven by the market change. In contrary, China began to introduce relevant policies to require the seller to transition to buyer advisory in 2016, and formally established the transition in 2019. It can be seen that the United States proceeded the transformation based on market supply and demand, while China needs more assistance and guidance from policies to speed up the transformation.

7. Potential Demand for TAMP in China

7.1. Financial Advisors Demand

7.1.1 The need for make up investment advisors' shortcomings

As mentioned in the above, the comprehensive planning ability of most Chinese financial planners is low, and TAMP can make up for this gap. For example, in tax planning, the tax planning tool on TAMP can provide many reference options for financial planners. Taking Envestnet as an example, its subsidiary PMC provides tax coverage services through cross-manager coordination, income/loss matching, deferred income, and tax budget establishment to help customers reduce tax risks, especially short-term income, so as to improve customers' after-tax returns.

7.1.2 The need for specialized investment research tools from independent advisors

Similar to independent investment advisors in the United States, Chinese investment advisors working for financial institutions and third-party wealth management firms may also decide to conduct business independently in the future due to factors such as low product sales, input-output imbalances, and their own ability to obtain clients independently. For most investment advisors, leaving the original organization means losing the various resources of the original platform, and there will be a strong demand for product acquisition, system training, compliance risk control and other issues. Therefore, independent investment advisors will definitely be one of the big customers of TAMP in the future.

7.1.3 The need of an efficient platform that can improve office efficiency

In the 2020 Investment Advisor Career survey released by New Fortune, 76.29% of investment advisers express the need of professional investment research tools that can help them serve clients better [10]. In general, financial planners spend too much time on tasks like sales and customer acquisition, brand operation, document preparation, and back-office management, leading to resource mismatch and efficiency loss. These tasks include financial consulting, developing new clients, and maintaining relationships with current clients. Financial planners urgently want a specialized one-stop service platform to offer organized support for the essential components of their exhibiting sector in order to increase productivity and cut expenses.

Although clients do not use TAMP directly, they are on the demand side of the entire wealth management process, and they drive the degree of use of TAMP. The needs of the client will be reflected to the financial adviser, and if the financial adviser cannot rely on its own capabilities or needs third-party platforms to assist, then TAMP is one of the main solutions.

7.2. Client Demand

7.2.1 Individual tax planning needs under tax reform and improvement

On January 1, 2019, the newly revised Individual Income Tax Law and its implementing regulations came into effect, raising the individual income tax threshold, clarifying the scope of comprehensive income tax, optimizing and adjusting the tax rate structure, and initially establishing a comprehensive and classified individual income tax system. At the same time, it has set up six special additional deduction items for children's education, continuing education, serious illness medical treatment, housing loan interest, housing rent, and supporting the elderly. In 2022, in order to reduce the burden on taxpayers, the State Administration of Taxation and relevant departments have successively issued a number of preferential individual tax policies to further release the benefits of the people. It can be seen that the introduction of a series of tax policies has made tax management more and more complicated, which is not only a heavy and cumbersome task for residents, but also for investment advisers.

7.2.2 Increase in investable product and inefficient product identification

Funds: as of June 2023, there are 10,890 public fund and 152,322 private equity products in China, which is not only a huge number for clients, but also a market that requires great effort for financial advisors to select.

Financial Products: By 2023, there are a total of 34,700 financial products from 278 banking institutions and 29 financial management companies.

Trust Products: As of May 2023, there are total 28,746 trust products in China.

8. Conclusion

In the future, there will certainly be more and more TAMP companies in China, and according to the classification of TAMP companies in the United States, Chinese TAMP companies will be divided into the following categories in the future:

Securities Brokers TAMP: Securities brokers are licensed so they can execute stock trading. In the future, brokers can build instrumentalized open platforms through investment, and modularize functions such as custody, transaction execution, account management, and investment management. At the same time, brokerages can actively open cooperation, cooperate with companies with fund investment advisory licenses, and attract other platforms for cooperation by their brokerage license.

Internet Instrumental TAMP: For Internet companies, they have more traffic, which can help them better promote their products. In addition, their technical capabilities are more advanced and experienced than traditional financial institutions, so they will have more advantages in product creation. However, their disadvantage is that they do not have an advisory license, which prevents them from trading and asset custody. Perhaps in the future, policy easing will give them more possibilities, but for now, strict regulations leave them to seek cooperation and waiting.

References

- [1] WealthAdvisory. America's Best Tamps 2023 Edition. 2023, 13-14.
- [2] Wen Yuechun, Cheng Tianxiao. Thoughts on the transformation of wealth management of domestic securities companies in the era of buyer's investment advisory: a mirror of the experience of the investment banks in the United States. *Journal of Shanghai Lixin University of Accounting and Finance*, 2020, 32(06): 36-47.
- [3] Gillis J.G. Securities law and regulation: Securities Acts Amendments of 1975. *Financial Analysts Journal*, 1975, 31(5): 12–15.
- [4] Charles Schwab. Company History. Available at: <https://www.aboutschwab.com/history>, 1973-1986.
- [5] Kitecs M.E. Unbundling of the TAMP and rise of the model marketplace. 2019.
- [6] Yingmi Funds. Available at: <https://yingmi.com/qiming>.
- [7] Huatai Securitise. Annual Report of 2016. 2017.
- [8] China Academy of Financial Research, Ant Group Research. Survey Report on the Investment and Financial Behavior of Chinese Residents. 2020.
- [9] China Financial Research Centre, Southwestern University of Finance and Economics, "Efficiency Analysis and Institutional Construction of China's Securities Investor Education" Group. Survey Report on the Status of Investor Education in China (2021). 2021.
- [10] New Fortune. New Fortune 2020 Investment Advisor Career Questionnaire. 2020