Financial Planning

How Schwab handles TD's Veo could reshape the RIA fintech landscape

By Ryan W. Neal

Charles Schwab's $22 billion acquisition of TD Ameritrade may be closed, but there are still lingering questions around what Schwab will do with Veo, its former rival's popular technology platform for independent advisors.

While fintech startups worry that Schwab may not offer the same integration support they enjoyed with Veo, industry insiders say the deal creates a window of opportunity for tech providers across the industry to reshape the RIA technology landscape. Traditional competitors such as Fidelity and Pershing, as well as TAMPs, wirehouses and smaller custodians all have new room to grow and contend for advisors' technology budgets.

"There's an opportunity for other players to step up and compete in an invigorated way" says Aaron Klein, CEO of Riskalyze. And don't forget, Klein says, that Schwab can use the acquisition to expand its existing capability set and attract even more advisors.

"I don't think this consolidation means that anybody in particular wins or loses," he adds. "It creates a more vibrant marketplace of options for advisors."

So far, Schwab has released few details about its plans for Veo. Bernie Clark, head of Schwab Advisor Services, says the firm envisions a single platform in the future with Schwab's existing technology, Advisor Center, at the core. Andrew Salesky, the custodian's senior vice president of digital advisor solutions, reiterated the message on an Oct. 15 conference call with reporters, but acknowledged that not everything will carry over.

"It's not as if we are going to duplicate every feature, necessarily," Salesky says when asked if any of Veo's integrations will get left behind. "We are looking at those features that are most highly utilized and valued by clients, and making sure those are included."

Schwab will keep its former rival's iRebal portfolio management software and the thinkorswim trading engine, Salesky says.

"We want to get away from the names of the two platforms and focus on the capabilities that we're going to take advantage of," Salesky says.

But it's not rebalancing that won the hearts and minds of the RIA community. It was Veo's ecosystem of roughly 180 in-

tegrated third-party fintechs vendors. When TD launched Veo Open Access in 2010, it was the first of the "Big Four" custodians to offer a so-called "open architecture" approach to technology: letting advisors build their own digital toolkit rather than rely on what the custodian provides. Veo technology remains popular and even earned industry awards in 2020 while the Schwab deal was pending.

"Veo made it very easy to connect technology. Getting data in and out is incredible," says Doug Fritz, founder and CEO of F2 Strategy, a tech consulting firm. Even as other custodians have embraced open architecture — Schwab says it now supports 140 integrations with independent fintechs — they typically work better for advisors staying within the firm's architecture, Fritz says.

So what does he think about Schwab's early comments on Veo?

"What a shame," Fritz says. Maintaining a network of a vast array of startups just isn't in Schwab's DNA, he adds.

As TD was pioneering open-architecture for RIAs in 2010, Schwab was doubling down on proprietary technology, promising a new multi-custodial portfolio management tool to rival rising startups like Orion, Tamarac and Black Diamond. The firm pivoted in 2018 after Salesky took the reins on advisor technology and dedicated more resources towards third-party integrations.

The firm still released its own portfolio management tool, PortfolioConnect, that features tight integrations with the Schwab brokerage platform and is free for advisors who exclusively custody assets with the custodian. The software is a success, Fritz says, but shows Schwab still values proprietary technology as a means to keep advisors at the custodian.

Advisors also have concerns about Schwab's commitment to innovation for advisors versus its retail business. For example, some RIAs complain that the client experience on Schwab Advisor Services is not up to par with Schwab's retail-facing robo advisor, according to Will Trout, head of wealth management at research firm Celent.

Fritz adds that Schwab and TD had different approaches to technology. "Schwab is going to do its best to Veo-ize, but I just don't see it. It's a cultural thing," Fritz says.

Even if Schwab wanted to, porting over TD's network will be a major technical lift, comparable to the big bank mergers following the global financial crisis, Fritz says.

Indeed, Schwab executives have previously said that the TD integration could take as long as three years.

"This deal makes sense when Schwab doubles in size and runs off its existing tech infrastructure and teams, not by spending huge percentages on redoing everything," Fritz says. "Schwab could totally surprise me and figure it out, but I don't see any evidence that they're doing that."

Trout doesn't expect the company to implement more than a few pieces of TD's digital architecture. However, that doesn't mean Schwab will reverse course on open architecture, Trout says.

Schwab has already opened its APIs in response to advisor demand, and now it faces pressure in several new directions. In one corner, there is BNY Mellon Pershing and Fidelity, which are both aggressively investing in their own open architecture platforms, Trout says.

"Both the economics and the zeitgeist are saying to open up the business and enable this glorious fintech universe of the future," Trout says. "And Schwab, in [its] classic way, may not be first, but when they go in, they go in a big way."

In another corner, wirehouses are deploying their vast resources and strategic advantages to catch up and even surpass the digital capabilities of the independent market. Even Goldman Sachs is entering the RIA space with its acquisitions of United Capital and Folio.

And there are also smaller, insurgent custodians offering cutting edge digital experiences, fractional sharing and direct indexing.

"Custodians are no longer chasing TD, they're chasing the smaller guys. And the wirehouses have got the message," Fritz says.

Apex Clearing, for example, is making inroads with traditional RIAs, according to Fritz. The firm recently named former Morningstar chief product officer Tricia Rothschild as its new president, and Tom Valverde, a former senior vice president of sales at Fidelity Institutional, as general manager of Apex's advisory practice.

As a firm that relies on third-party partnerships for advisor- and client-facing applications, Apex is better positioned to build a modern infrastructure than any of the incumbent firms, Rothschild says.

The firm has opened 5 million accounts this year and had no trouble handling spikes in market volatility, she adds. Firms such as Robinhood (a former Apex client), Vanguard and Schwab have struggled at times to stay online during the pandemic as an influx of users logged on to make trades.

"It's great that people have focused on the front-end and the technology that people can see but it's really goddamn time for people to think about the tech they don't see," such as how accounts get funded and how money transfers work, Rothschild says. "That work is very hard and dirty and labor intensive."

Finally, there's the continued growth of TAMPs offering advisors outsourced asset management alongside an open architecture technology environment. Firms like Orion Advisor Services, SS&C Advent and Envestnet already have partnerships with all the major custodians and are ready to take over where Veo left off, says Fritz.

Trout adds: "These advisor platforms are the next frontier for integration."

But Klein, whose company Riskalyze integrated with both Veo and Schwab, doesn't think Schwab will concede any ground on the RIA technology front. The executives are giving every indication that they want to bring over some of TD's digital DNA, which is a positive sign for anyone worrying about Schwab's future vision, Klein says.

Nor does Klein think incorporating TD's technology will be as difficult as others are making it out to be.

"It's not hard to open up your APIs if you decide that you want to, and Schwab is signalling that they want to create that open-partner ecosystem using TD's processes and infrastructure," Klein says. "If they wanted to go the [traditional] Schwab way, that's not the message that they delivered."

Ryan W. Neal
Technology Editor, Financial Planning