

The Power to Change

How Business Insights Fuel Success
Part 1: Challenges in a Changing Wealth
Management Landscape

WHITEPAPER

In this three-part white paper series, we look at why today's wealth managers need better insights into their businesses to cope with the changing wealth management landscape; how the flexibility and freedom to experiment can drive profitability; and how leveraging the right technology infrastructure translates into client acquisition and retention.

Moving with the times

The industry is globalizing. Domestic and international regulatory frameworks are being reshaped. Industry participants are merging or exiting the business. New competitors are entering the fray. Fees, margins and costs are under pressure. Demographics are shifting. And client service and communication expectations are being radically revised in a digital age.

The changes and challenges facing wealth managers are numerous, all-pervading, and in many cases gathering speed. But firms must ensure they keep pace if they are to remain relevant and competitive.

Regulatory complexity

The number of regulations globally-active financial institutions must track has tripled since 2011. And more than half the respondents to the latest annual WealthBriefing and SS&C Advent *Technology and Operations Trends in Wealth Management Report*¹ believe regulatory change will continue to gather pace in the next three to five years.

The cost implications are huge. Firms are typically spending 4% of total revenues on compliance, while for some organizations compliance may eat up 10% of revenues by 2022. And that resource drain will be exacerbated if the breakdown of the post-financial crisis regulatory consensus highlighted by KPMG² comes to pass.

In a fragmenting and complex regulatory landscape, investing in technology-driven automation and enhanced data management to improve efficiencies, ease the cost burden, and meet shortening investor and regulatory response times will be ever more crucial to wealth managers' survival.

Heightened competition

Wealth management competition is increasingly intense and globalized. Trends include:

- **Growth of robo-advisory**—as witnessed by the emergence of new entrants, the continued evolution of robo-advisory offerings, and steps by traditional wealth managers to partner with or acquire robo advisors, not least to attract millennial investors.
- **Drive for scale**—for example, many universal banks have merged their wealth and asset management divisions to help differentiate their wealth managers through personalized advice and “whole bank” investment advisory capabilities, while enabling asset managers to develop more customized products to meet high net worth clients' requirements.

- **Geographic expansion**—many European and North American wealth managers are keen to tap the growth opportunities in other markets, particularly those in Asia. However, they often face tough competition from domestic providers with local market knowledge, better brand awareness and increasingly sophisticated offerings.

Fees and margins

The level and transparency of fees charged by wealth managers and the broader investment management community has become a major issue both for regulators and investors.

PwC predicts fees will continue declining through 2025³. “This trend will be influenced by the continued rise of passives and newer low-fee products like smart beta, increased investor and regulatory scrutiny of the value for money that managers provide, and new fee models in the active space that focus on performance.”

¹ *Technology and Operations Trends in the Wealth Management Industry 2018*, WealthBriefing and SS&C Advent, July 2018, https://info.advent.com/Web-WP-Tech-Ops-Trends-in-WM-2018_LP.html

² *Parting of the ways? Evolving Asset Management Regulation report*, KPMG, June 2018, <https://assets.kpmg.com/content/dam/kpmg/xx/pdf/2018/06/evolving-asset-management-regulation-2018-a-parting-of-the-ways.pdf>

³ *Asset & Wealth Management Revolution: Pressure on profitability*, PwC, October 2018, https://www.pwc.com/jg/en/publications/pwc_awm_revolution_-_pressure_on_profitability_final.pdf

More customized, client-centric value propositions and service models, delivered through the customer's preferred (increasingly digital) channel, have become essential to improving the client experience.

Average revenue and profit margins are also under pressure, with PwC estimating industry profit margins globally have declined approximately 10% since the financial crisis due to the shift to passive, rising regulation and technology costs⁴.

Client expectations

Clients' service expectations—and the ensuing demands they put on wealth managers' operations—are another area of profound and rapid change.

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Better client service takes a multitude of forms, but the central elements are:

1. Delivering risk-adjusted investment performance

Investment performance—or at least achieving returns in line with the market—is one of the key determinants of client satisfaction, notes the Boston Consulting Group⁵. And client satisfaction in turn leads to higher, more stable revenues.

However, preserving wealth and/or achieving market-beating investment performance in a low interest rate and complex macro environment is challenging, with many investors forced to move into higher-risk assets to meet their mandates.

Fierce client scrutiny over portfolio performance is adding to the pressure. To demonstrate value for money, wealth managers must justify the performance achieved by explaining how and why it has evolved over time, that the risk has stayed within agreed boundaries, and reference it against relevant peer benchmarks.

2. Excellent client communication

Clients expect fast, easily accessible, more relevant and transparent information about their portfolios. And wealth managers must deliver it for less cost and with fewer resources.

Increasingly, the emphasis is on:

- **Digitalization**—providing clients with a digital communications delivery mechanism spanning the web, mobile phones and tablets that allows clients to access information and communicate with their wealth manager or advisor in whichever way they desire.

- **Flexibility and customizability**—having the infrastructure and operational flexibility to service clients when and how they want ... whether that is a regular, high-level overview of their account holdings and movements, or a detailed drill down of the performance of specific assets. To meet these increasingly bespoke demands, firms must know which clients want what, and have the performance attribution and reporting capabilities to provide it.
- **Mobility**—advisors need the freedom to meet prospects and clients where they want, and have the tools on-hand to onboard clients, provide advice, discuss their investments using real-time portfolio and performance data, and offer relevant additional services and products.
- **Consolidated financial information**—wealth managers need access to external data to provide clients with a holistic view of their holdings. This not only helps the firm deliver a better service, but reveals where opportunities may exist to expand the relationship.

⁴ *Asset & Wealth Management Revolution: Embracing Exponential Change*, PwC, October 2017, <https://www.pwc.com/gx/en/industries/financial-services/asset-management/publications/asset-wealth-management-revolution.html>

⁵ *Seizing the Analytics Advantage*, The Boston Consulting Group, June 2018, <https://www.bcg.com/en-gb/publications/2018/global-wealth-seizing-analytics-advantage.aspx>

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3. Multi-channel client service experiences

Clients no longer simply expect or want face-to-face onboarding meetings, followed by a periodic review. Nor necessarily will they be content with a purely digital, largely automated service experience.

The balance instead is shifting towards true multichannel offerings that cater to the needs of different client segments in a cost efficient way. For some clients that means access to enhanced digital communications and self-service capabilities. Others want more frequent, proactive and high-impact interactions with their relationship manager.

The challenge for wealth managers in striking this balance is two-fold: firstly, to upgrade legacy IT systems with new infrastructures that can deliver more real-time and interactive capabilities; and secondly, to properly segment their client lists, to ensure relationship managers allocate appropriate time and resources to clients in line with their service preferences and value to the firm.

A helping hand

Wealth management has always been a relationship-driven business. What distinguishes the best wealth managers is the level of service they deliver and the degree of value and sense of trust clients feel they obtain.

Increasingly, it is technology that gives the essential support to those relationships. Without a technology infrastructure that provides the flexibility needed to grow and adapt, while delivering much-needed compliance capabilities and operational efficiencies to overcome their manifold challenges, firms' future survival will be in serious jeopardy.

We discuss the key technology components wealth managers will need to thrive in this changing landscape in the third paper in this series. To receive your copy, please contact your SS&C Advent representative.