

The Power to Change

How Business Insights Fuel Success
Part 2: Exploiting the Opportunities

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.

Future focus

Wealth managers' future growth and profitability depend on clearly identifying their strengths and weaknesses. From there, firms can focus on the necessary steps to maximize their actual and potential competitive advantages. This will likely be a multifaceted approach that may include:

- Attracting assets and generating additional revenue streams by targeting growth opportunities—for example, by developing already successful business segments, or moving into new client, geographic, and product areas.
- Increasing existing client profitability through upselling/cross-selling, and servicing them more efficiently.
- Exiting unprofitable or low-value client, market and product segments.
- Improving operational processes or restructuring operating models to reduce costs.
- Enhancing staff productivity.

Embracing business opportunities

The vast majority of respondents to the latest annual WealthBriefing and SS&C Advent *Technology and Operations Trends in Wealth Management Report*¹ are upbeat about the wealth management sector's growth prospects, with this optimism seen in almost equal measure across North America, Europe and Asia.

For those firms with the insights and flexibility to take advantage, the developments we're seeing in the wealth management landscape offer a range of opportunities, spanning three main areas:

1. Client segments

Client 'stickiness' is declining, especially among the younger, digitally-native generation. As the ties of tradition and loyalty weaken, winning and retaining clients will demand an ongoing dedication to best practices, excellence and engagement.

Equally, it is vital wealth managers know who to target.

Oliver Wyman and Deutsche Bank argue "broad waterfront" strategies that offer "everything, everywhere to everyone" can only be successfully pursued by a few wealth managers with the necessary scale². For the rest, success will depend on focusing their value proposition. By more sharply differentiating their offering, firms can attract investors' attention and improve their economics.

To do this, wealth managers need to know what their client sweet spot is, and how it is evolving:

- Can you break down your target market into segments based on age, wealth, risk profile, service demands, and investment objectives (capital preservation, legacy planning, growth, etc.)?
- Can you identify clients' profitability and potential growth, and tailor your service offering and up/cross-selling activities accordingly?

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 *Dare to be different*, 2018 Deutsche Bank/Oliver Wyman Wealth Management Report, 27 April 2018, <https://www.oliverwyman.com/our-expertise/insights/2018/apr/wealth-management-industry-analysis-2018.html>

The challenge for wealth managers will be to leverage sophisticated analytics to segment clients based on preferences and behaviors, and develop cost-effective solutions for specific segments to get the client experience right.

By combining proprietary client data and external data sources with the new breed of sophisticated analytics, wealth managers can better segment clients based on their preferences and behaviors. With these insights, firms can develop more cost-effective solutions for specific segments to get the client experience right.

Wealth managers that exploit these data analytics opportunities can unlock revenue potential along the entire client lifecycle, and potentially achieve a revenue uplift of up to 20%, notes the Oliver Wyman/Deutsche Bank report. Meanwhile, the Boston Consulting Group suggests wealth managers can achieve a revenue uplift of 8% to 12% by adjusting price levels, correcting unnecessary discounts, and simplifying overall pricing structures³.

2. Products and services

The trend increasingly is for multi-asset, outcome-driven solutions that employ a mix of active, passive, smart beta and alternative strategies, notes PwC⁴. Allocations to both liquid alternatives and illiquid private markets in particular have been on the rise, as wealth managers strive to deliver the investment returns and exposures investors want.

Investing in products that score well on environmental, social and governance factors is another growing trend, especially among the millennial population.

Supporting such a diverse range of asset classes and instruments brings significant operational challenges though. Having the infrastructural flexibility to cope will be essential. Without it, firms risk missing out on the performance a diversified, non-correlated portfolio can bring, and jeopardizing those all-important client relationships.

3. Geographic markets

The flexibility to expand into new geographies presents another potential source of growth.

The BCG research shows North America, Western Europe and Asia are the largest markets by personal wealth, with Asia enjoying the strongest growth. Yet profiting from the opportunities new markets offer is no simple matter.

Firms must navigate complex national regulatory and tax regimes, market maturity differences, diverse industry work practices and skill levels, and country-specific distribution networks and approaches. Client preferences also vary from region to region, especially between developed and emerging markets.

Having the infrastructure capabilities and flexibility to pursue strategic business growth plans will be critical. That requires the capacity not only to align your offering to the demands of regulators and clients in new markets without incurring huge costs, but to change strategy quickly as business realities dictate.

³ *Seizing the Analytics Advantage*, The Boston Consulting Group, June 2018, <https://www.bcg.com/en-gb/publications/2018/global-wealth-seizing-analytics-advantage.aspx>

⁴ *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

The major challenge firms face will be to reduce their cost base, thereby enabling them to better compete on fees and maintain profitability, while at the same time ensuring they have the capacity to meet their regulatory responsibilities and provide an exceptional customer experience.

Investing in success

Global wealth (and the asset management potential that offers) may be rising, but so too are the demands on industry participants. To compete, wealth management firms must provide an exceptional and more individualized customer experience, while complying with their expanding (and more costly) regulatory responsibilities. At the same time, firms are under pressure to reduce their cost base as they battle to maintain profitability in the face of ongoing fee compression.

The answer? Increasingly it lies with technology.

Powerful analytics alongside flexible multi-asset class, multicurrency platforms give wealth managers the product and service insights and reach they need to take advantage of emerging business opportunities. A sophisticated front-end portal can then help deliver the responsive and interactive experience clients now want.

And by automating processes throughout the value chain, an integrated systems infrastructure can significantly improve operational efficiencies and compliance activities.

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.



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