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 will depend on clearly identifying their strengths and weaknesses. From there, firms can focus on taking action 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.

Shifting Business Opportunities

Competition within the global wealth management industry is intense, and becoming increasingly so. Yet the changing landscape is also opening a range of opportunities for firms with the detailed insights and flexibility to take advantage.

—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.

What is your client sweet spot, and how is that 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 their profitability and potential growth, and tailor your service offering accordingly?

Ernst & Young's 2016 Global Wealth Management survey[1] indicates four in 10 clients would likely consolidate their assets into fewer firms given the right incentives, with the top three reasons being:

- Better pricing (i.e. transparent pricing with clear and demonstrable value for fees paid, and not necessarily lower pricing).
- Better returns (which could mean beating the market or achieving personal goals).
- Breadth of products and services (e.g. new banking products or mobile access).

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.

For example, 15% of wealth managers that participated in the Boston Consulting Group's 2016 Global Wealth report[2] said they had relationship managers and teams that served all segments. This sort of non-targeted approach "can increase the risk of overserving smaller clients at the expense of larger ones," notes the survey.

For firms focused on the HNW and UHNW segments, the key focus should be "how to ensure consistency and coordination across the different elements of the business model," notes EY. "This means making sure advisors have a full view of clients' assets (including investments handled through digital channels) and are able to provide holistic and non-conflicting advice."

Meanwhile, targeting affluent clients—especially through low-cost digital advice models that chime with affluent investors' price sensitivity—presents opportunities to generate significant revenues, given they represent 6% of households and hold 30% of global wealth.

1 *The experience factor: the new growth engine in wealth management,* EY, May 2016

2 *Navigating the New Client Landscape,* The Boston Consulting Group, June 2016

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"Advisors should be seeking ways to incorporate a robo-advisor option for less complex client segments," observes Mercer[3]. "As more millennials get into investing their money, they will actively seek out easier, low-cost, and 'do it yourself' ways to build their wealth. Advisors are increasingly looking for ways to segment their books, and a robo-advisor solution provides them the opportunity to seed relationships for when the investment portfolio is of a scale that could benefit from additional sophistication and time."

—Products and Services

In a low-growth world, notes Mercer, "returns across asset classes are likely to be lower over the coming years." With equity and fixed income-based portfolios struggling to reach their return objectives, alternatives will play a key role. But as wealth managers allocate more client capital to both liquid alternatives and illiquid private markets, "greater analysis and understanding of their clients' overall factor exposures are critical."

Investing in socially responsible products offers a further opportunity for fast-moving wealth managers, says BCG. "Nearly 70% of millennial survey respondents said that they would like to invest in such products, which include renewable energy indexes, microfinance, and conservation finance. This wish plays an important role in their choice of wealth manager as well."

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

—Geographic Markets

The flexibility to expand into new geographies presents another potential source of growth. Euromoney's 2016 Private Banking Survey[4] reports private banks continue to focus their expansion efforts on China and North Asia, with 22% of respondents listing the region as key to investment in the coming year, followed by Western Europe.

And no wonder. According to the BCG report, the Asia-Pacific region boasted the highest growth in private wealth in 2015 (13%), with its share of global wealth predicted to rise from 22% to 27% by 2020. Two-thirds of the increase will be made up of new wealth, rather than the performance of existing assets.

While the opportunities are enticing, profiting from them will not be straightforward. As the EY report observes, success requires firms to navigate "diverse work practices; disparate regulatory and tax policy; skill shortages and maturity differences; and, at times, limited distribution opportunities."

Client preferences also vary across the region, especially between developed and emerging markets. "This further indicates that generalized approaches are unlikely to work," notes EY. "Instead, APAC wealth managers need to align offerings to country-based differences in investor attitudes."

Do you have the infrastructure capabilities to meet different markets' often idiosyncratic compliance responsibilities? Can you support clients with the breadth and depth of services they have come to expect from a local provider?

Having the flexibility to pursue strategic business growth plans is critical. That requires the capacity to enter and operate in new markets without incurring huge costs, while being able to change strategy quickly as business realities dictate.

[3] *Challenges for Wealth Management Firms in 2016: Are You Prepared?,* Mercer LLC, February 2016

[4] *Private Banking and Wealth Management Survey 2016,* Euromoney

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.

Fees and costs

Demands for full disclosure of fees and costs are gathering pace, driven by widespread investor pressure and growing regulatory action. This scrutiny on fees, and the expectation of high quality services in return, seems only likely to get more pronounced, particularly as competition increases and new entrants join the fray.

Not that the trend is necessarily all bad news. Wealth managers may have some scope to maintain and even raise fees and enhance margins—provided they are justified, especially with improved investment performance and/or service.

As EY points out: "A pricing strategy that provides transparency into the value delivered is almost as important as competitive pricing." It adds that those firms that "truly appreciate the client's need for understanding the 'why' will be rewarded with greater loyalty and retention, as well as asset consolidation."

What is potentially more of a problem is that across the industry costs are on the rise. Onerous regulatory requirements are largely to blame, forcing companies to invest in technology, additional personnel, and training. Investments in digitalization and analytics are another major factor. According to the BCG report, middle- and back-office costs "accounted for 53% of total costs for our wealth manager survey respondents," with investments in digital technology "a significant part of these costs."

Investing in success

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Increasingly, the answer to that conundrum lies in 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 increasingly want. And by automating processes throughout the value chain, an integrated systems infrastructure can significantly improve operational efficiencies and compliance activities.

It will take an investment. But leveraging the right technology capabilities—whether they are implemented in-house or accessed through hosted applications—can ultimately pay massive dividends.

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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