TECHNOLOGY AND OPERATIONS TRENDS IN THE WEALTH MANAGEMENT INDUSTRY

2015

EVOLUTIONS IN IT, OUTSOURCING AND DIGITAL MEDIA

SS&C ADVENT

WealthBriefing

WEATHERILL

CONTENTS

FOREWORD

WealthBriefing and Advent, a business unit of SS&C, have a longstanding research partnership which has led to the exploration of a range of technology and operations issues affecting the wealth management space in recent years. In addition to special reports on subjects such as risk-profiling methodologies and advisor productivity, we have been tracing the development of technology and operations trends annually since 2012.

Having surveyed wealth management professionals from all around the world over that time, it has been fascinating to see the evolution of the industry's approach to technology and operations optimisation. Even in just a few years, there have been marked shifts in attitudes towards options like outsourcing, cloud computing and hosted solutions as the tripartite pressures of increased regulation, margin pressures and changing client expectations have taken greater hold.

The ever-heavier compliance burden is undoubtedly the most significant challenge facing the industry. Yet this is probably best thought of as an umbrella issue with many overlapping challenges sitting under its auspices. The need to evidence immaculate compliance procedures against an ever-expanding set of rules is driving the sector towards greater automation and fully digital data capture; this in turn is bringing challenges concerning systems connectivity and standardisation to the fore. More importantly, the costs associated with increased regulation have created an urgent need to capture efficiencies and so allow resources to be re-allocated towards more strategic investments and innovations.

This year's *Technology and Operations Trends Report* seeks to quantify just how far wealth managers' technology ambitions have been hampered by the impact of regulatory change, in the sense of both budgetary constraints and losing corporate energy. The financial services industry is predicted to spend $50 billion on risk management and associated regulatory compliance in 2015, with the average Tier 1 bank spending over half a billion a year[1] to ensure they are meeting their obligations. Putting these figures into context, however, are the massive fines which continue to be meted out internationally and which have reached as much as nearly $9 billion in recent times.

This year's report also investigates for the first time how much data wealth managers are gathering on their clients' profiles, preferences and behaviours, and how much of a priority this really is for them. Better data management is increasingly regarded in many quarters as one of the pillars of a future-proofed compliance strategy, yet there are many other opportunities – and challenges – that gathering more information on clients brings up. This again feeds into the need for technology upgrades and perhaps changes in attitudes towards new ways of working.

Exploring the relationship between third-parties and wealth managers in technology and operations has always formed a large part of this report, and is one of the key areas of change that has been tracked over the years. There has been a marked proliferation of all kinds of specialist providers, particularly in the compliance area; there has also been a noticeable trend of technology firms making their first forays into the wealth management space, as the needs of institutions have converged with those of other industries. Meanwhile, the big technology vendors providing all-in-one platforms are also raising their games and making it easier than ever for firms to get precisely the right mix of solutions for their unique needs.

This year's report also contains a special section on mobile technologies, which outlines expert views on where wealth managers may still have much work to do. The fact that wearables are increasingly on the radar of retail financial institutions underlines how far some wealth managers have fallen behind on this front. Yet, as has already been discussed, the limitations on innovation imposed by regulatory change will have been very significant indeed for many.

We are delighted to have had the involvement of many of the world's biggest wealth management brands in the production of this report, and are most grateful to have been able to gather the insights of their most senior executives, along with those of a raft of other experts in technology and operations issues for the benefit of the *WealthBriefing* network.

Wendy Spires
Head of Research
WealthBriefing

SPECIAL THANKS

In addition to the Editorial Panel, *WealthBriefing* and Advent Software would also like to offer special thanks to the following contributors. Their insights were also invaluable.

CHRIS HAMBLIN - Editor of *Compliance Matters*, the flagship compliance publication of the *WealthBriefing* group of newswires.
THIERRY HAENSENBERGER - Senior vice president at AxiomSL, a fintech firm that provides technology for FATCA compliance.

EXECUTIVE SUMMARY: TEN KEY TECHNOLOGY AND OPERATIONS TRENDS

NO RESPITE FROM REGULATORY UPHEAVAL; TECH RELIANCE CONTINUES TO RISE

As seen last year, two-thirds of wealth managers are bracing themselves for increasingly rapid, impactful regulatory change over the next three years; a further third see the frenetic pace continuing unabated. With no respite from regulatory upheaval in sight, 76% of respondents believe technology plays an important/critical role in helping their firm meet its compliance obligations. Moreover, 94% believe technology could play an *even greater* role.

BASEL III, SUITABILITY HITTING HARD; FATCA FALLS IN THE IMPACT RANKINGS

On aggregate, 48% of respondents said Basel III is having a significant/very significant impact on their firm's technology and operations, rising from 29% in 2014. Suitability was a close second, with 44% giving it the highest impact scores, followed by MiFID II, UCITS V and CAD 4 (similar to 2014). This year also saw FATCA fall out of the top five most impactful regulations, but there may be challenges ahead with reporting volumes.

COMPLIANCE CHALLENGES STYMIE INNOVATION

Wealth managers may be highly motivated to innovate, yet over half have been seriously held back: 51% of respondents report that the budgetary constraints imposed by coping with regulatory change have stymied their firm's strategic technology investments, while 56% said significant/very significant corporate inertia has resulted.

BEST-OF-BREED FINDS INCREASING FAVOUR

This year, 33% of respondents categorically said their firm needs multiple technology providers (2014: 24%). Correspondingly, the proportion saying their needs are mostly met by their main provider fell from 16% to 9%. Just a tenth of firms' systems and processes are said to be largely satisfactory, while 26% are under pressure and require significant bolt-on developments in the next two years.

CLOUD ADOPTION TO CONTINUE CLIMBING AS CONCERNS WANE

Some 77% of respondents foresee an increase in their firm's use of cloud technology over the next three years (2014: 62%), with 12% predicting a *significant* increase. Barriers to adoption remain, but negativity has waned. Last year, 76% of those surveyed said data security concerns were a very significant barrier; this fell to 61%. Those citing regulatory issues as a "deal-breaker" fell from 41% to 26%; problems with legacy systems and connectivity dropped from 57% to 36%; and concerns over perceived costs fell from 31% to 12%. Again, a quarter of respondents said cloud computing is against group policy.

A CONTINUUM OF CLOUD DEPLOYMENT MODELS

The proportion of wealth managers using their own servers for data storage and management fell from 83% in 2014 to 69% this year. However, 42% of respondents report that their firm uses *only* its own servers for this, while the next most popular option, using a private cloud alongside their own servers, has been opted for by a very much smaller proportion of 15%. Meanwhile, 12% of wealth managers are using a private cloud and the same proportion have deployed a hosted cloud for data management purposes. Overall, 31% are using a using a combination of owned servers, private, public and/or hosted clouds.

EXTERNAL HOSTING/SOFTWARE SPEND SOARS

Openness to outsourced technology solutions/third-party hosting remained stable, with 64% of respondents saying their firm is willing/wholly willing to consider this and the proportion giving the maximum score rising from 32% to 40%. The proportion dismissing this option fell from 11% in 2014 to 4%. Some 63% of respondents foresee increased spend on external hosting/software over the next three years.

CHANGING PUSH AND PULL FACTORS IN OUTSOURCING

The activities wealth managers are most and least willing to outsource are similar. This year, asset management platforms and accounting and reconciliations were the joint top options, with 49% of respondents indicating a high/very high openness, followed by investment research at 48%. Interestingly, 47% indicated high/very high openness to outsource client accounting and performance reporting, up from 34% in 2014. Meanwhile, they remain most reluctant to outsource client administration - 36% of firms were said to be "wholly unwilling". Currently, 11% of firms are reportedly seeking to insource processes or technology applications that are currently outsourced, up from 5%.

DRIVERS OF OUTSOURCING SEEM TO BE SHIFTING

This year improving efficiency ranked first, with focusing on core business third. Improving service quality, meanwhile, was nudged down to fifth place by improving scalability and improved organisational effectiveness and connectivity. This year 76% of respondents identified scalability as a strong/very strong driver of the decision to outsource, rising from 56%. Improved organisational effectiveness and connectivity made a similar jump from 53% to 71%.

BETTER DATA MANAGEMENT DEEMED BUSINESS-CRITICAL

Over eight in ten firms reportedly regard data management as important, and 44% see it as business-critical. Approaches to collating data on clients' profiles, objectives and behaviours vary widely, however. Although 62% of respondents gave their firm a good/very good rating, almost a tenth said it is only gathering the "bare minimum" of data.

EDITORIAL PANEL

DANIEL ERIKSSON
VICE PRESIDENT, SOLUTIONS CONSULTING - ADVENT SOFTWARE

Daniel Eriksson is Vice President, Solutions Consulting for EMEA at Advent Software. Daniel has been with Advent since 2001 and has held a variety of senior roles related to product management, product marketing, solutions management and solutions consulting, supporting the extensive business growth of Advent in the EMEA region over that time. Daniel has responsibility for Advent's global trading & order management solutions as well as solution strategy for EMEA, solutions consulting and local solutions development. Prior to joining Advent, Daniel worked at a large treasury department and held different roles within local Swedish banks.

REPORT AUTHOR

WENDY SPIRES
HEAD OF RESEARCH - *WEALTHBRIEFING*

Wendy Spires has been a wealth management journalist and a research writer for over seven years, covering a variety of international markets and sub-sectors over that time. Wendy has written an array of in-depth reports on issues affecting private banks and wealth managers, including technology and operations trends, enhancing the client experience, branding and marketing strategy, and risk-profiling methodologies. As well as speaking at conferences in both the UK and abroad, Wendy has also carried out several research projects among end-clients, for both internal and external purposes. She also regularly consults on communications issues related to the wealth and asset management market, specialising in technology.

STEFFEN BINDER
MANAGING DIRECTOR AND CO-FOUNDER - MYPRIVATEBANKING RESEARCH

Steffen Binder is managing director and co-founder of MyPrivateBanking Research, an independent Swiss research firm focusing on the impact of online and mobile media and other disruptive technologies on the wealth management and banking sector. Steffen is head of research and oversees the research agenda and analyst teams. He is responsible for creating and developing powerful concepts and relevant content to help our clients navigate a rapidly changing digital environment. Prior to this, Steffen was managing director of Forrester research in Germany, Switzerland and Austria, joining via the acquisition of Forit GmbH, a leading European technology research company, of which he was also a co-founder. Prior to that, Steffen was a partner at Monitor Company (Strategy Consulting).

ASHLEY GLOBERMAN
WEALTH MANAGEMENT ANALYST - CELENT

Ashley Globerman is an analyst with Celent's wealth management practice and is based in the firm's London office. Her research spans the North American and European wealth management markets, with a focus on digital strategies and innovation for the self-directed and retail brokerage segments. Prior to joining Celent, Ashley was based in New York and worked for Credit Suisse Asset Management on the institutional sales and consultant coverage teams for North America. Previously, Ashley worked for Lyxor Asset Management as an analyst on the operational due diligence team, which was responsible for evaluating the overall risk of the platform's hedge fund managers while working closely with legal, risk, marketing and sales teams.

EDITORIAL PANEL

JEROEN KWIST
HEAD OF EUROPE AND ASIA-PACIFIC - BNY MELLON WEALTH MANAGEMENT

Jeroen Kwist is the managing director responsible for BNY Mellon International Wealth Management in Europe and Asia-Pacific. He oversees the firm's current business activity while also leading the execution of the wealth manager's organic and strategic growth strategy in Asia and Europe. That strategy focuses on delivering comprehensive wealth and investment planning services to HNW clients globally. Jeroen has more than 25 years of professional services experience that includes positions in the US and internationally. Prior to his current role, Jeroen was responsible for BNY Mellon's International Wealth Management business development and strategy by leveraging his prior experience in BNY Mellon's US Wealth Management business. He joined BNY Mellon after working for 10 years in management consulting.

HOLGER SPIELBERG
MANAGING DIRECTOR & HEAD OF INNOVATION, DIGITAL PRIVATE BANKING - CREDIT SUISSE

Holger Spielberg is managing director and head of innovation at Digital Private Banking Credit Suisse. He has been an innovation and new venture professional throughout his career, covering business areas like automotive research and development, corporate development, corporate venture capital, mobile resource management, consulting for strategy and innovation, and more recently in leadership positions in digital businesses such as PayPal. Holger spent 16 years in Silicon Valley and is a shareholder of various start-ups while also currently serving on the boards of Seedmatch and moj.io. In 2013, Holger was ranked 45th in the 100 most influential people in internet developments in Germany.

TIM TATE
DIRECTOR, HEAD OF DIGITAL STRATEGY - CITI PRIVATE BANK

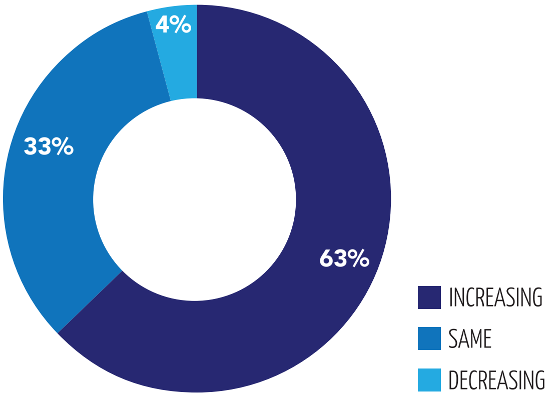
Tim Tate is the business lead for Citi Private Bank's initiatives focusing on digitisation and innovation. He is coordinating the combination of new processes, data and technologies, including the In View platform, to create a digitally-enabled banker/client engagement model. Tim joined Citi Private Bank in 2010 as global head of client management. In this role he worked with the COO and global management teams to develop strategies to best serve the UHNW market, strengthen client relationships and ensure target market discipline. Tim joined Citi in 2000 as head of business analysis for the European investment bank. He later led the global banking client strategy team in Asia-Pacific, before returning to London to lead the corporate and investment bank client strategy for EMEA.

MIKE TOOLE
CHIEF OPERATING OFFICER - ARTORIUS WEALTH

Mike Toole is group chief operating officer of Artorius Wealth, an ambitious multi-family and wealth manager established in 2014 that is now growing quickly in the UK and Switzerland. He has been building a multi-jurisdictional client proposition and infrastructure, addressing the associated opportunities and issues that arise. Previously, he was a partner at accountancy firm Baker Tilly, where he was group operations director for the financial management and investment businesses. Mike has 12 years' experience in financial services and banking, including with KPMG, Santander and UK mutual societies. He was also involved in founding a Saudi family office and managing a substantial private equity portfolio.

1 NO RESPITE FROM REGULATORY UPHEAVAL; RELIANCE ON TECHNOLOGY CONTINUES TO RISE

FIGURE 1
How do you see the pace and impact of regulatory change over the next three years?



A large majority of wealth managers are bracing themselves for increasingly rapid and impactful regulatory change over the next three years, with almost two-thirds (63%) of respondents seeing pressures ramping up even further, and a further third seeing the frenetic pace of change continuing unabated. Just 4% believe that regulatory pressures will ease in the near future. This expectation of continued compliance-related upheaval remains virtually unchanged comparing last year to this.

Coping with the regulatory onslaught is costing the financial services industry dearly: globally, it is currently spending over $50 billion a year on risk management and related regulatory compliance initiatives[2]. In the wealth management space specifically, ensuring regulatory compliance is a top spending priority for 92% of CIOs[3] and 42% expect their firm's compliance spend to rise 10% plus over the next 12-18 months[4].

WEALTH MANAGERS CONTINUE TO TURN TO TECHNOLOGY PROVIDERS

According to this year's survey, over three-quarters (76%) of wealth management professionals believe that technology plays a very important/critical role in helping their firm meet its regulatory obligations, slightly down from 83% in 2014, but still a very large majority. Interestingly, wealth managers seem to be expecting technology providers to up their game *even further* in terms of easing the regulatory burden.

This year, an overwhelming 94% of respondents said that technology could play a greater part in supporting the business meet its compliance obligations, compared to 86% in 2014.

FIGURE 2
How important a role does technology play in enabling your organisation to meet its regulatory requirements?

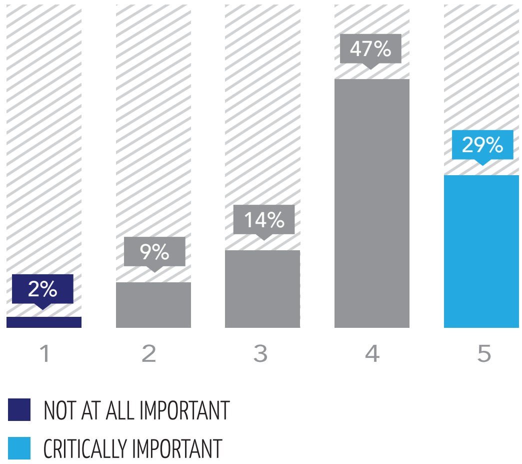
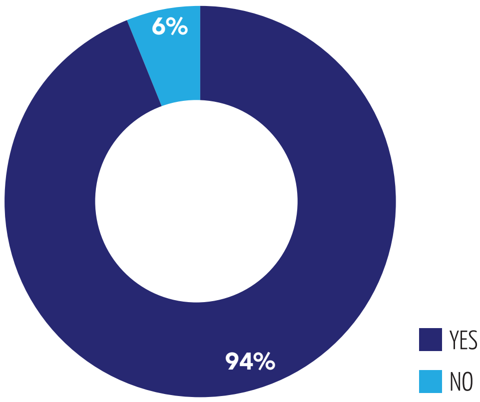


FIGURE 3
Do you think that technology could play a greater part in supporting the business to meet regulatory requirements?



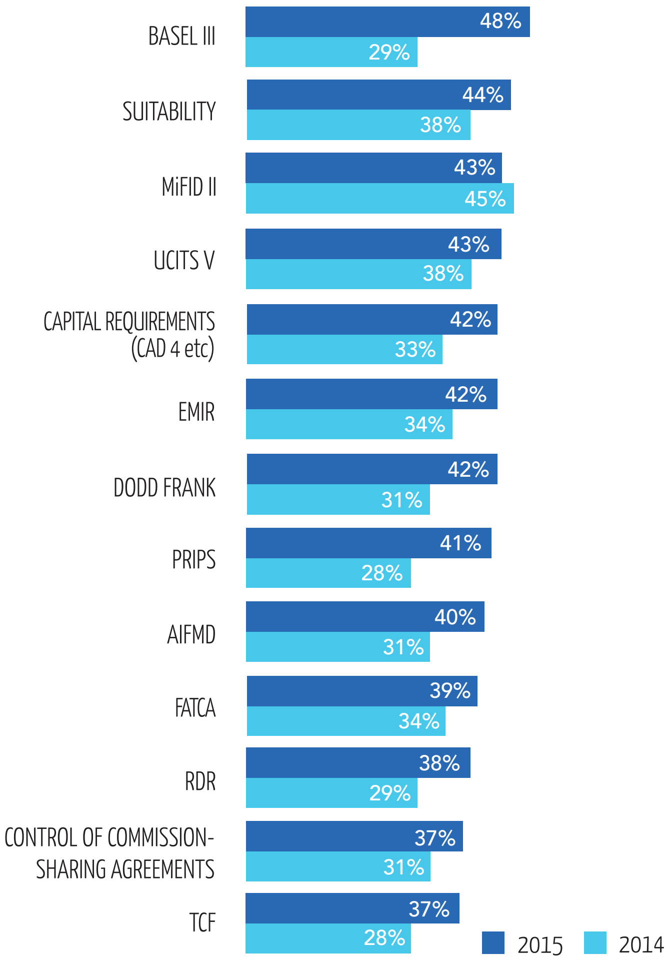
For Chris Hamblin, Editor of *Compliance Matters*, the fact that more and more wealth managers are looking towards technology to solve their most pressing challenges is completely predictable, simply because of the dearth of compliance staff when firms need a great deal of expertise to interpret and satisfy an ever-growing alphabet soup of regulations. "Technology has simply got to be a saviour," he said. "The reason is that it's difficult to come up with new compliance staff when the market is expanding so quickly. The pool of compliance officers can't expand as quickly as the number of regulations is expanding."

As he also pointed out, this shortage also means that compliance experts can command salaries very much higher than previously, particularly when Western institutions are anxious not to lose compliance talent to the Far East.

COMPLIANCE CHALLENGES CONTINUE TO CHANGE DIRECTION

FIGURE 4

How significantly do you believe each of the regulatory requirements below will affect your firm's operations and systems going forward? *(proportion indicating significant/very significant impact)*



This year respondents identified Basel III as the regulation that is currently having the greatest impact on their firm's operations and systems: an aggregate 48% said it was having a significant/very significant effect, compared to only 29% in 2014. Suitability was a close second, with 44% of those surveyed giving it the highest impact scores, followed by MiFID II, UCITS V and capital requirements rounding out the top five (these also scored highly in 2014). In addition to the dramatic rise of Basel III in the rankings, this year also saw FATCA and EMIR fall out of the top five most impactful changes wealth managers are coping with.

Predictably, each edition of *WealthBriefing's* annual T*echnology & Operations Trends Report* shows shifts in the rankings of the regulations as the implementation date for each new rule/amendment has come more closely into view. As Daniel Eriksson pointed out, while regulations do not cease to have an impact once they have come into force there is at least less uncertainty around them. "I think FATCA still carries a burden on managers, but that burden is now relatively well understood. Conversely, MiFID II still has people guessing what it really means," he said.

> *"I think FATCA still carries a burden on managers, but that burden is now relatively well understood. Conversely, MiFID II still has people guessing what it really means."*
> *- Daniel Eriksson, Advent Software*

Instances where proposed regulations have actually been significantly watered down in their final rendering will have arguably created a degree of uncertainty (and even scepticism) over how stringent new rules and their deadlines are. Institutions clearly cannot afford to rely on concessions being made however, the panellists said; nor should they wish to when the benefits of achieving full compliance with new regulations well ahead of time are so apparent.

The need to explain changes well to clients, particularly on fee transparency (see the UK's RDR) or in the way investment performance is calculated (Canada's CRM2 programme) underscores why lead time must be used to the best possible effect - not to mention the time and resources making wide-reaching changes to technology, operations and culture could take.

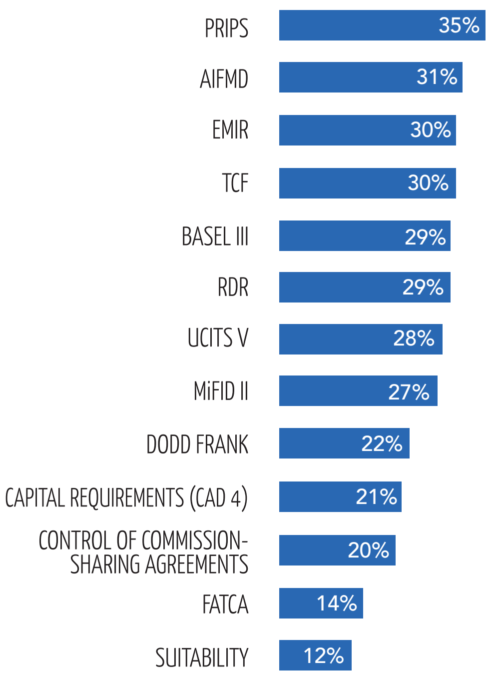
BASEL III

Basel III is intended to improve the worldwide bank regulatory framework and prevent institutions over-leveraging, maintaining inadequate liquidity buffers or relying on lower levels of poorer-quality capital. Under Basel III, which will be in full force in 2019, banks will have to maintain a minimum total capital ratio of at least 10.5% of their risk-weighted assets and a total Tier 1 capital ratio of 8.5%, which must be made up of mostly common equity and retained earnings. Included is a 2.5% capital preservation buffer, which will start to be phased in from 2016.

As the implementation of these stringent capital requirements comes closer, banks are said to be facing real challenges in putting into place the new rules on the risk weighting of securitised assets like Collateralised Debt Obligations. No longer can they rely on ratings agencies and instead must carry out internal credit analyses on the assets underlying the instruments themselves. This, of course, adds another imperative for wealth managers to strengthen their data storage and analysis capabilities. To further complicate matters, certain types of securitised assets are subject to maximums and will be "grandfathered" out of eligibility for inclusion, while tracking and excluding deferred taxes is also reported to be an issue.

FIGURE 5

Proportion of respondents reporting a *major* impact on systems and operations



PRIPS

The survey suggests that the imminent introduction of Key Information Documents for Packaged Retail Investment Products is causing over a third of institutions a major headache. From 2016 non-UCITS funds, structured products, insurance-based investment products and derivative instruments available to retail investors will need KIDs.

It is has been suggested that PRIPs KIDs are likely to be a page longer than those for UCITs vehicles (three rather than two). Firms must include lots of mandatory details and there is a requirement that - with this document alone - an average investor should understand the key features and risks of a product and be able to make informed investment decisions about it.

SUITABILITY

While the proportion of respondents identifying suitability as having a significant or very significant effect on their firm's technology and operations was second highest, it is interesting to note that just 12% gave it the maximum impact score – putting it right at the bottom of this ranking.

This indication that suitability is a challenge, but not one that is having the harshest of impacts, could be interpreted as confirmation that wealth managers aren't having to radically alter what they do, but rather improve their organisation and documentation of it - translating instinctive good practice into more robust processes and auditability.

As commentators have said, the maxim on suitability has to be, "If it isn't documented, it isn't done". As a result, wealth managers that have yet to fully get to grips with this could be really losing out on business. "Many times firms struggle to systematically manage and track the suitability process, leading them to potentially offer 'simpler' products to be on the safe side," said Eriksson. "They are therefore potentially leaving money on the table."

> *"Many times firms struggle to systematically manage and track the suitability process, leading them to potentially offer 'simpler' products to be on the safe side. They are therefore potentially leaving money on the table."*
> *- Daniel Eriksson, Advent Software*

GLOBAL REPLICABILITY

There is a strong case for global wealth managers to develop compliance processes that meet the highest global standards and which can as such be applied across all their markets.

Uniform processes are clearly a compelling efficiency play and arguably have particular merit in the case of suitability. As last year's report discussed, the UK and US authorities have been very much setting the pace and regulators all over the world are now rapidly moving to catch up, particularly on suitability and consumer protection issues like fee transparency and enforcing independent advice (there are very different stances on commissions, however).

What might be called "super-equivalence" to the world's most stringent regulations creates a more internationally transportable model that may also gain favour with licensing bodies. As Jeroen Kwist said of his organisation, BNY Mellon Wealth Management: "Because we are a discretionary investment manager we have a very robust suitability process and structure, given the importance of suitability in managing the success of the ongoing client relationship. We're able to apply that suitability standard to all the jurisdictional areas we operate in, as we've set the internal thresholds at such levels that we already clear the hurdles that the various regulators place on us."

The wisdom of this kind of approach was illustrated by Hamblin. "One very interesting jurisdiction on the suitability front is Singapore, which is going through what people are calling the 'Far Eastern RDR'. It was originally intended to shake up advice, but there's been a lot of mission-creep in the past two years and so it's now starting to address pay, processes and other things," he said. "It's a movable feast and the law hasn't come into force yet. It's a really good example of UK regulation affecting foreign countries."

Kwist explained that standardisation in the client experience – including in suitability – is particularly important with the type of internationally-mobile UHNW clients his firm serves. "A company like ours has to make sure we are delivering services consistently to our clients across all regions. We have a client base that is increasingly global, that can have relationships with us in multiple locations within the same family," he said. "The reality is that families today are more global with business and investment interests in multiple regions, family members studying and working abroad, and children more and more likely to marry partners of other nationalities. The wealth management industry has to be able to seamlessly cater to these multi-regional families, regardless of any regulatory variations in the different jurisdictions." As discussed on page 21, most large wealth managers seem to see a single global platform as the most efficient way of working, but are open to "localising" where it is called for.

The importance of robust suitability procedures and documentation has been further underscored by Scorpio Partnership's recent finding that 29% of HNW individuals under the age of 40 believe that their wealth manager has made recommendations which did not reflect their true risk tolerance (against a 17% global average)[5]. Tackling suitability inadequacies is leading forward-thinking institutions to think carefully about how to efficiently gather and then *proactively* leverage all the information they have to now hold on clients. Many will have an urgent need to try to increase efficiencies through technology and wring business benefits from this additional effort and expense.

COMPLACENCY OVER FATCA COMPLIANCE?

After delays, FATCA went live on 1 July 2014 (for 2015 reporting, 31 December 2014 data must be reported) requiring financial institutions (ranging from banks to hedge funds) that deal with US persons, or which suspect that clients are US persons, to report details to the US authorities or face a 30% withholding tax.

In this year's survey, FATCA fell quite dramatically in the rankings of regulations that are having the most impact on institutions' technology and operations, indicating that institutions have largely made the necessary investments and preparations – although non-US tax authorities may have not. Technology commentators have also warned that further investment is likely to be necessary for firms to achieve scalability in their systems.

Thierry Haensenberger, senior vice president at AxiomSL, a fintech firm that provides technology for FATCA compliance, is seeing regulators and tax authorities alike behind schedule and struggling with the legislation still today. Industrialising the reporting process has been made difficult because of the fact that many countries are not ready to report to the US Internal Revenue Service on behalf of Foreign Financial Institutions (Model 1) as opposed to them reporting directly (Model 2).

"What's obvious is that nobody is really ready in terms of industrialised reporting processes. In Intergovernmental Agreement Model 1 countries [including the UK, Germany and France], FFIs have to report to their local tax authority at various dates (mostly 30 June, with many countries extending the deadline by at least a month as the legislation and regulator are not fully ready); in turn, those tax authorities have a deadline of reporting under FATCA of 30 September to the US IRS; this is not done yet," he said (during the summer of 2015).

"Model 2 countries and direct regulation countries had until 31 March 2015 to submit to the US' IRS; that deadline had been extended by 90 days," Haensenberger said. "In Luxembourg, they postponed the deadline by 30 days, to 31 July, because the legislative process to implement FATCA as a local law, and the reporting format to be used, was still not finalised at the end of June."

There may be further trouble ahead, however. As Haensenberger points out, next year, pre-existing accounts (those opened before 1 July 2014) come into the scope of the FATCA rules and that will of course mean much, much larger volumes of reporting required.

FURTHER TO FATCA...

It also needs to be remembered that FATCA is just the first big salvo in a global crackdown on tax evasion, including UK-CDOT (which comes into force next year) and the Automatic Exchange of Information and its Common Reporting Standard (put together by the OECD from the work done for FATCA), which will be implemented by almost 100 countries in 2017 and 2018.

Haensenberger noted that many institutions initially took a "tactical approach" to FATCA – because of uncertainties around its debut and the relatively limited reporting volumes it entailed. Now the Act's transformative effect is starting to be fully appreciated he believes that firms are taking a more strategic approach to their reporting obligations. As discussed on page 20, one element of this might be an increasing openness to outsourcing regulatory reporting.

IN FOCUS:

Business benefits out of compliance challenges?

WealthBriefing research[6] has highlighted the significant negative impact on client onboarding processes – in terms of efficiency and the client experience – caused by additional questioning and evidencing.

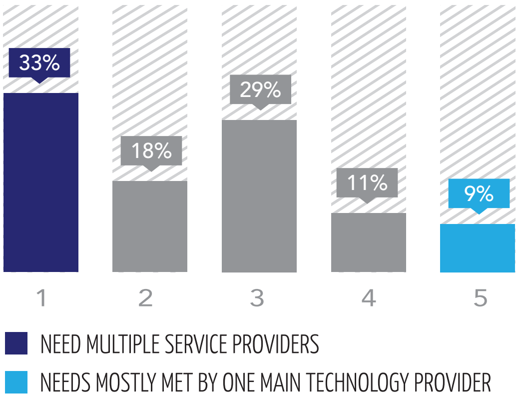
Over half of wealth management professionals (52%) believe that additional regulation has significantly slowed down the time it takes to convert a prospect into a client. Meanwhile, over half believe that extended compliance-related questions have had a negative effect on the overall client experience (with a tenth seeing a very negative effect).

At the same time, 69% of wealth managers see synergies between the process of carrying out annual compliance profile reviews and sales activities. Using data to predict clients' needs more accurately, and maximising the use of management information generally, clearly has great potential for product and service design and marketing purposes.

2 BEST-OF-BREED FINDS INCREASING FAVOUR

FIGURE 6

To what extent does your current main technology provider meet your requirements or do you have to rely on multiple service providers?



There has been a significant increase in the proportion of wealth managers saying their technology needs are not met by one main provider– from an already fairly high base. This year, 33% of respondents said categorically that their firm needs multiple technology providers, against 24% in 2014. Correspondingly, the proportion of respondents saying their needs are mostly met by their main provider fell from 16% to 9%.

There is doubtlessly an element of cyclicality to wealth managers' wish to work with multiple vendors, technology commentators have pointed out. The build strategies of yesteryear gave way to single-vendor solutions as technology providers became more adept at serving wealth managers' specific needs, and the costs and risks of in-house developments became more apparent. Now, with technology vendors having become very much more vocal about their commitment to working effectively with other providers, wealth managers are more empowered to seek best-in-class technology and customise, rather than compromise, to obtain the capabilities they need. As Figure 7 shows, just over a tenth of respondents say their firm's systems and processes are largely satisfactory at present, while 26% report that they are under pressure and require significant bolt-on developments in the next two years.

Yet the debate surrounding best-of-breed versus single solution is more complex than one of prevailing fashions or the fact that cherry-picking solutions, or even single modules, from multiple providers is more practicable today. As with all the technology choices institutions are making, there are multiple (and often overlapping) priorities at play which might be pragmatic or more philosophical in nature. The disparity of technology strategies seen across a simultaneously diverse and highly-specialised industry is therefore as to be expected. In the words of Holger Spielberg: "Every bank has to figure out their own individual way and that manifests in very different approaches."

SIZE MATTERS…

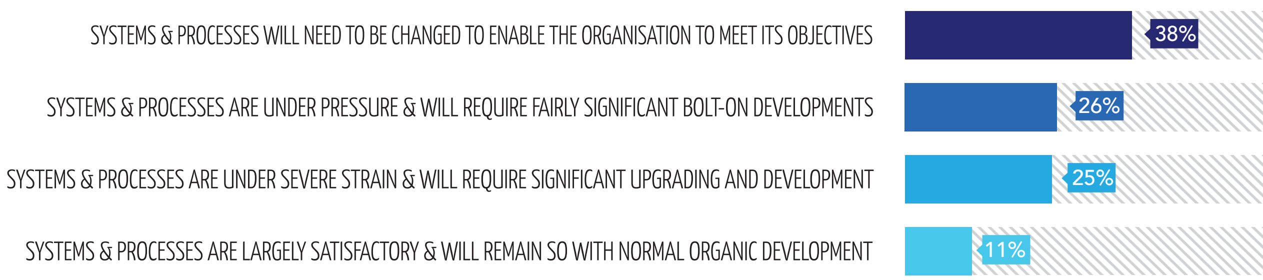
In assessing the reasons behind best-of-breed versus single-solution approaches, the expert panel first pointed to this choice being a function of size in the main: smaller organisations tend to opt for a one-size-fits all solution which gives them front, middle and back-office functionality, while bigger firms are more enabled to go for best-of-breed. Arguably, their specialised nature means most wealth managers have a powerful urge towards tailoring their technology, but the larger ones are more facilitated to do so by virtue of the greater economies of scale and internal resources they are able to bring to bear in selecting systems. Implementation costs and licensing fees aside, selecting and then managing a range of providers is a significant task in itself, it was said.

…BUT OPERATING MODEL MATTERS MORE

It is, however, perhaps more what the size of an institution *denotes* rather than size in itself which matters, the panellists pointed out. Although a presence in multiple jurisdictions is not the sole preserve of the big brands, having a truly

FIGURE 7

Over the next two years, which of the following best describes your operational strategy?



global reach arguably is, and this means complexity. "From an operating model perspective, the size of the business is one very important element and geographical dispersion is another," said Jeroen Kwist. "In most scenarios a one-size-fits-all cannot adequately serve a large, geographically dispersed company because it will have to be able to adapt to different needs in different jurisdictions. The key element to success is to be operationally nimble and make the experience for clients consistent across all the different regions."

In addition to regulatory differences, regional variations in clients' profiles and preferences mean that servicing models may not be uniform. "The more complex needs a firm has due to its strategies, the more likely they are to need multiple systems to enable internal efficiencies and excellent client service," said Daniel Eriksson. As he further noted, "personal" preference, at both a corporate and executive level, also has a role.

Related to these issues is the undeniable fact that many of the biggest wealth management brands have been built on the strength of an international banking group parent, and so the wealth business' needs might therefore constitute a relatively small part of the overall technology puzzle. "I think that saying best-of-breed is a function of size is a pretty fair assessment, but if you ask 100 banks you will get 100 answers since each one is different," said Spielberg. "They vary by size, by regional focus, the fact that some are multi-functional banks and others are very specialised, and whether there is a retail offering as well as private banking. It's a whole different world in retail."

THE IMPORTANCE OF FLEXIBILITY

While it is easy to see why global, multi-disciplinary institutions would need to take a best-of-breed approach, for Mike Toole of Artorius Wealth there may be even more compelling reasons for smaller specialists. In selecting its technology, he explained that the firm had two main considerations: what clients wanted the business to function as and where the industry is heading generally.

Choosing a best-of-breed approach was therefore firstly driven by the conclusion that clients wanted "a consolidated information point that could manage multiple parties and give them a consolidated view" and the recognition that this would entail the use of a large (and growing) number of platforms and data sources.

The second driver was the fact that the industry is becoming increasingly complex on a number of fronts. "Without doubt, the complexity in the business is really ramping up - whether that be the regulatory requirements or risk assessment tools, through to FATCA and the client reporting rules coming in. The reality is it's going to be incredibly difficult to find one solution that's good at everything," said Toole. "You've got to have a central data repository, but then how you construct everything around it in order to be able to use that data – to provide the output for the client, the regulator or the tax authorities – it's got to be best of breed for that."

Toole, along with several of the other panellists, also made the point that with technology advancing at such a rapid pace adding bolt-ons has to be an option. "If you tie yourself to one platform then ultimately it does restrict your client experience. You start saying there's a list of things you can't do," said Toole. "With our business we didn't want to be in the situation of alienating our clients just because of technology limitations."

The kind of limitations imposed by inflexible technology can manifest in a number of key areas where wealth managers could rather be differentiating their offering to great effect, the panellists said.

Amid an entrenched low return environment and growing appetite for alternatives, investment choice is one very significant area. According to *WealthBriefing* research also carried out this year, 40% of advisors believe that their firm's technology set-up is preventing them from offering the kind of interesting investment opportunities that will enhance client engagement; 35% believe that it prevents clients from having the flexibility and choice they need to achieve their financial objectives[7]. At a time when fee transparency has heightened the need for wealth managers to emphasise the value they deliver, enhanced performance reporting is another key theme and here over half of advisors see inadequacies in their firm's systems.

Technology flexibility clearly makes it easier to make such enhancements as the need arises, but the panellists also pointed out that this can be as much about maintaining a modern image as it is about improving the core business of growing and protecting clients' wealth. Slick digital user experiences are now the norm in virtually all areas of life and – as premium service providers - wealth managers have to compare especially well. "It's about understanding what the client expects and really moving with the times to meet that expectation," said Kwist. "If clients are using mobile devices, then that's the platform that you have to be ready to deliver to them on."

Kwist also highlighted a more prosaic, but nonetheless very important point on the need for flexibility in technology: thrift. As he pointed out, technology enhancements are a continuous project, but firms need to be able to continue to extract value from their historical investments as they move in new directions. "Technology outlays can be very significant and the focus has to always be on return on investment for the long term," he said. "It's about making strategic investments in technology that make the client experience even better."

"Technology outlays can be very significant and the focus has to always be on return on investment for the long term. It's about making strategic investments in technology that make the client experience even better."

THE INNOVATION IMPERATIVE

The drivers for wealth managers to forge ahead with new technologies, both in a client-facing and behind-the-scenes sense, apply to institutions almost universally. Yet the question of which organisations are best-placed to innovate was the cause of some debate.

Holger Spielberg said that in his observation "everyone is doing something in the digitalisation area today", but that the magnitude of investment required means that building bespoke is out of the reach of many. "Economies of scale are important. Smaller players will find it a real challenge to develop platforms on their own which are scalable, so they will tend to either ride on other people's platforms or have a more standard approach, adding things with a unique flavour to cater for their specific niche," he said. That is not to say, however, that larger institutions will find innovation easy. "In terms of scale and adopting technology, strategically and theoretically the larger banks have an advantage. But the reality is that they also have legacy systems and can run into numerous complexities there," he continued.

In speaking of riding on others' platforms, Spielberg alluded to an interesting trend towards sharing technology. As he pointed out, institutions are understandably keen to defray development costs and this means that "a larger bank may try to play the role of not only having the platform themselves, but maybe also offering it to smaller asset managers or banks too". This has been a growing trend in Switzerland, where there are hundreds of very small external asset managers which enjoy a devoted client base but perhaps lack the resources to make the technology investments required to meet new regulations. The potential for custodian banks to gain new assets through lending technology in this fashion is clear.

Summing up the debate over single solution versus best-of-breed (and underscoring its highly-nuanced nature) Eriksson reported that he sees chief technology officers on *both* sides citing the need to innovate in their rationale. "One side may say, 'We are now looking to move towards one single solution to make it easier to offer mobile apps and portal solutions', while the other could say, 'We power our portals and mobile apps from our best-of-breed solutions'," he said, adding that providers' strategies are evolving rapidly in response.

"Innovation is driving things both ways. On one side you have the more established vendors innovating to not only offer more via a single solution, but many times to also offer great mobile and portals," said Eriksson. "On the other side there are many great ideas out there, especially those that are cloud delivered, where firms easily can add capabilities on top of existing solutions."

There remains, however, the question of where to draw the line on this proliferation – if only for practical reasons - the panel pointed out. "I do think there will be a need for many firms to consolidate their systems, or at least consolidate their data, to simplify integrations and allow for the scale needed to offer efficient tools like mobile and portals," Eriksson said.

COMPLIANCE CHALLENGES STYMIE INNOVATION

Wealth managers are clearly keen to innovate and fully leverage technological advances to improve client service and operational efficiency. Predictably, however, many have had their strategic IT investments hampered by the pressures of coping with regulatory change.

Naturally, resources are a big part of this: on aggregate, half (51%) of wealth managers feel that the budgetary constraints imposed by the pressures of coping with regulatory change have held back their strategic technology investments, while just 6% were able to say that budgets have not been an issue. Yet an even greater proportion of firms have felt the morale-sapping effects of having to cope with regulatory change: 56% of respondents report that dealing with rule changes had sapped corporate energy to a significant or very significant degree, while only 7% said that regulatory change had not caused any of this kind of inertia.

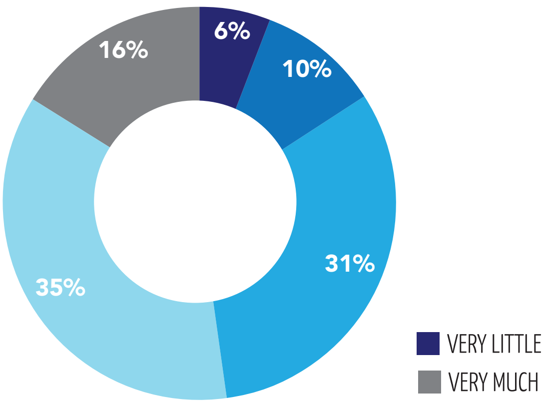
According to the panel, it is inevitable that having to deal with a constant barrage of new rules engenders a "bunker mentality" which, when coupled with budgetary constraints, could seriously subdue innovation and lead to a preference for playing things safe. "As a vendor, we've certainly seen some firms decide to put replacement projects on hold and instead try to adapt the legacy system to cater for the new regulations," said Eriksson. "We have also seen firms abandon certain strategies to avoid complexity due to regulations."

This kind of self-limitation is one dispiriting outcome of increased regulation, but it also means that wealth managers are in many senses swimming against the general technology tide. Developments like hosted solutions have facilitated a more iterative approach to technology and have arguably made organisations far more willing to try new ideas, because it is both easier and cheaper to abandon any that don't work. By the nature of their business, wealth managers may not be able to be quite as reactive to emerging consumer trends as FMCG companies, and arguably nor do they have be. Yet, as discussed on Page 14, many do need to seriously ramp up the pace of change in areas like mobile.

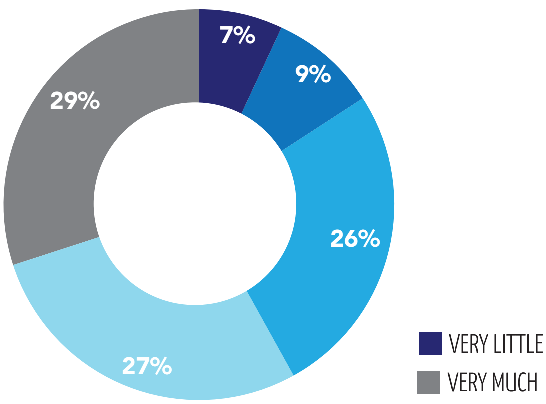
FIGURE 8

To what degree has the pressure of coping with regulatory change held back your institution's strategic IT investments?

IN TERMS OF BUDGETARY CONSTRAINTS



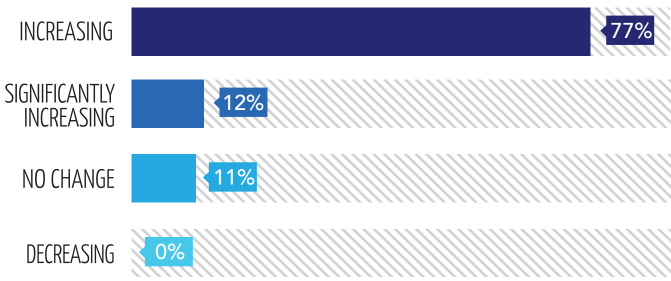
IN TERMS OF "CORPORATE ENERGY"



3 COMPELLING REASONS TO GO CLOUD

FIGURE 9

How would you see your use of cloud technology changing over the next three years?



As Figure 9 shows, use of cloud technology appears to be going only in one direction: dramatically up. Over three-quarters of respondents (77%) foresee an increase in their firm's use of cloud technology over the next three years, with a further 12% predicting a significant increase. This is from an already high base: in 2014, 62% of respondents predicted an increase in their use of cloud computing.

Wealth managers' enthusiasm for cloud solutions is clearly growing rapidly, but this should not of course suggest that they are abandoning having their own data servers or that cloud use is manifesting uniformly. As Figure 11 shows, firms seem keen to use whatever combination of cloud deployment methods suits their purposes best and they are likely making very finely balanced decisions around costs, risks and regulation to arrive at the best hybrid model.

On this point, it is of course important to distinguish between the types of business activities institutions are more or less likely to utilise cloud technology for. While cloud-based CRM and email are already well-accepted options, wealth managers are naturally going to be very much more guarded in other areas. "Institutions will have different needs depending on what each system does and the sensitivity of the data. Many firms are still reluctant to have certain data outside their own premises," said Daniel Eriksson. It is therefore easy to see the appeal of hybrid models where a private cloud is retained for functions where security is paramount.

IN FOCUS:

One Wealth Manager's Case for Cloud

Despite ongoing concerns over data security, enthusiasm for cloud computing is running very high in some segments of the industry - in particular among new entrants that credit the technology with lowering barriers to entry and allowing them to compete with institutions with far greater in-house resource with relatively low start-up (and ongoing) costs. Furthermore, as proponents such as Mike Toole of Artorius Wealth point out, hosted servers and cloud applications can actually represent a far more robust approach to technology, both from the perspective of having access to cutting-edge hardware/software and IT expertise, and alleviating technology worries so that wealth managers can focus on core business.

"At what point are you going to have a team that can run a rack of IT at the level of security and fall-over protection you need? With the best will in the world, it would take us years to replicate that level of expertise and it would cost us a fortune to build that level of infrastructure. With outsourcing we get big bank infrastructure for very little comparatively," said Toole. "I just don't see why you'd build all your own kit. We regularly get pitched to by firms saying they could build things, but then they talk about putting domain servers in your office and I just think, 'Why would I want to build all that complexity into a business when I don't have to worry about it?'"

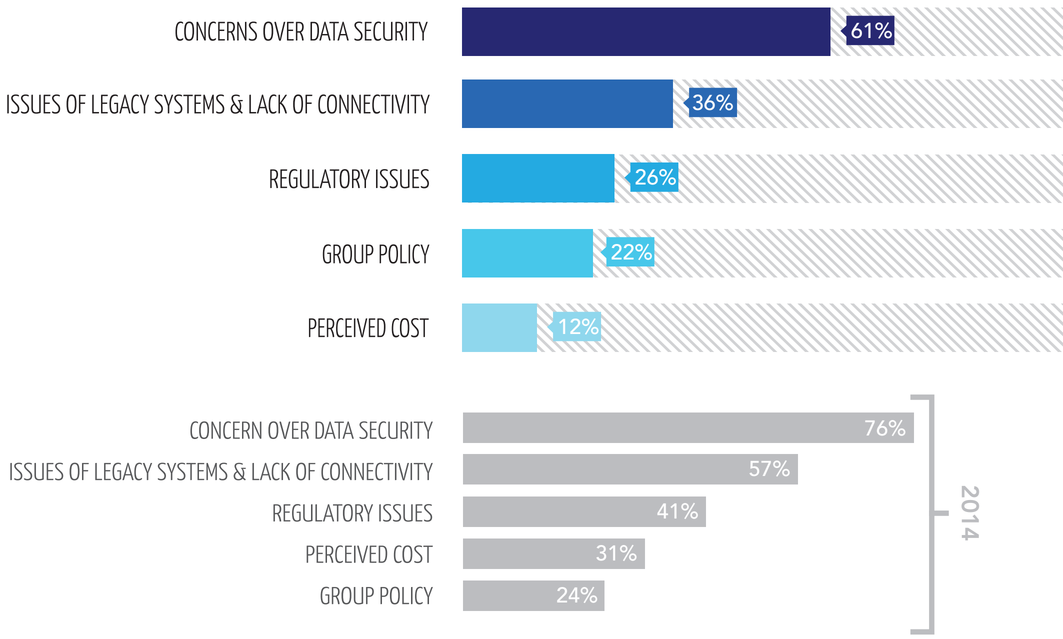
As Toole further pointed out, outsourcing also allows wealth managers to sidestep the onerous task of drafting fail-safe policies and procedures as required by jurisdictions such as Switzerland. "It will take you a huge amount of time to write business continuity and disaster recovery plans when it's your own kit and your own people, whereas an outsourced provider will have it written for you already. We know that if their system goes down they've got another which is fired up within a maximum of 15 minutes," he said. "Then there's the need to test it all too. Our provider simply says, 'We're running a business continuity test at the weekend, so we'll need you for 15 minutes' - we don't have to plan for four weeks."

Using outsourced technology solutions will not completely remove the need for an in-house IT team (and indeed none but the smallest of firms would wish this). Yet as Toole and other contributors pointed out, outsourcing also speaks strongly to wealth managers' desire to focus personnel, energy and budgets where they will have most impact (see page 14 for more on corporate inertia). "The whole thing about cloud computing is that it takes away a lot of the stress and strain out of your business," said Toole. "As a result, I have an IT team, but they are focused on delivering client solutions and working with vendors on how to deliver them – not things like writing a business continuity plan."

BARRIERS TO ADOPTION REMAIN, BUT ARE ON THE WANE

FIGURE 10

How important are the following factors in inhibiting your take-up of cloud and hosted technologies?
(Proportion identifying each issue as a major barrier)



Although wealth managers are generally becoming increasingly open to cloud solutions, there are still a number of big barriers to adoption that cannot be discounted. The strength of negative feeling has diminished significantly in just a year on most fronts, however.

Last year, 76% of those surveyed said that concerns over data security were a very significant barrier to their firm's adoption of cloud solutions, while this year that proportion dropped to 61%. Similarly, the proportion citing regulatory issues as a "deal-breaker" dropped from 41% to 26%; problems with legacy systems and connectivity fell from 57% to 36%; and concerns over perceived costs more than halved from 31% in 2014 to 12% this year.

The only exception to these falls was in how much of a problem is posed by firms having a group policy preventing cloud adoption, which this year was again cited as a very significant barrier by around a quarter of respondents. It seems that wealth managers' group policies are still catching up with increasingly positive industry sentiment.

The biggest barriers to cloud adoption - regulation and wealth managers' own concerns over data security - are of course inextricably linked, and attitudes are changing dramatically as security measures improve and become better understood by all parties. The cloud journey is not proving an easy or indeed linear one, however, particularly for global organisations.

"Regulation has driven how far we have been able to push with the cloud," said Tim Tate, recounting how a few years ago Citi Private Bank had to reverse its CRM strategy after reluctance from the regulator in Singapore to approve a cloud-based CRM platform that was already successfully deployed in the US, Europe and Latin America.

"In Switzerland we were able to meet regulatory requirements through data tokenisation and masking, but in Singapore we had a situation where the regulator was not comfortable with us using cloud, so we had to rethink our whole CRM strategy," he said. "Our cloud experience was not a happy one and the global players have probably all had the same types of challenges."

Singapore's previous ban, which arguably came as a big surprise given the jurisdiction's high-tech image, no doubt caused many institutions to curb their cloud ambitions. It can be assumed that their consternation has only been compounded by the regulator's recent volte-face on the issue.

In June 2015 Ravi Menon, managing director of the Monetary Authority of Singapore, used a keynote speech to clarify the centre's new views on cloud computing, saying that the notion that the regulator does not like the cloud is "an urban myth; not true". He explained that the previous ban was purely due to security fears which have now been allayed because cloud technology has "evolved considerably" so that institutions can implement strong authentication and encryption techniques to protect their data. To further counter perceptions that it is a no-cloud jurisdiction, Menon pointed out that several institutions in Singapore have successfully rolled out cloud solutions in the past two years.

These kinds of reversals are perhaps inevitable when technology developments are moving at such an incredibly fast pace. However, as Tate rightly points out, the process of regulators understanding and accepting new technologies can be costly and frustrating for the banks trying to drive technology changes in the industry. He also observed that acceptance of cloud is not the end of the story: cross-border data flows, attitudes to outsourcing and many other factors continue to curtail the applications of cloud technology in private banking.

DATA SECURITY VS GOVERNMENT AGENCIES

Although wealth managers' openness to cloud computing continues to rise, adoption has undoubtedly been hampered by security concerns – and not just the risk of criminal hackers obtaining clients' financial details for nefarious purposes.

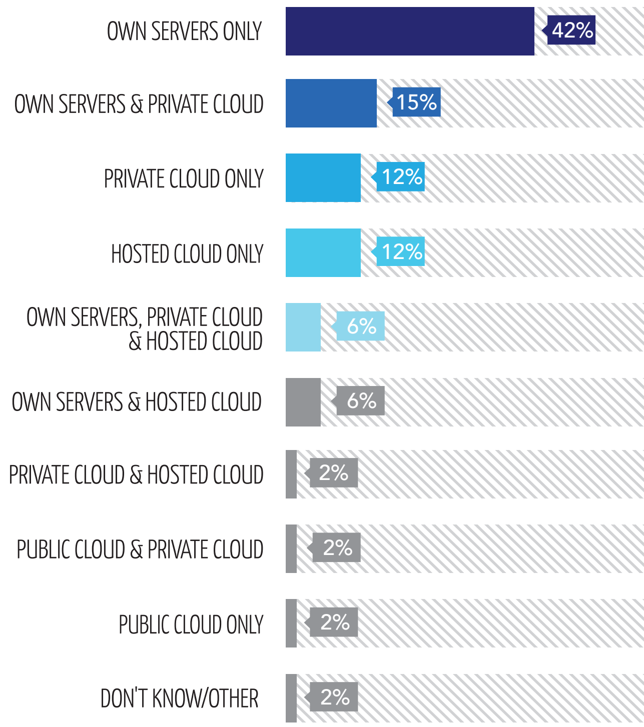
Commentators argue that the accounts of HNW individuals will prove an irresistible lure to governments and that data privacy in the face of the efforts of intelligence agencies like the US National Security Agency can only ever be a mirage. In fact, such is the magnitude of concerns about NSA spying that last year 9% of foreign firms said they had stopped or reduced their spending with US-based providers of internet-based services[8]. It is predicted that the US cloud computing industry will have lost out on $35 billion by 2016 due to security worries[9].

Providers of cloud technology (especially US ones) will certainly have much work to do to allay these specific security fears from wealth managers, and it is unsurprising in this context that some providers highlight the fact that clients can opt out of using US-based data centres.

There remains however a general need for cloud computing providers to continue to improve security and educate the industry on how these risks are minimised, according to Ashley Globerman. "There is always more that can be done in terms of data security as breaches, regardless of scale, have a detrimental effect on the enterprise and happen more often than we would like," she said. "Wealth managers need to be sufficiently educated on how the systems work so they can then communicate this to the client."

FIGURE 11

What do you currently use for your data storage and data management?



"With regards to data storage and data management, wealth managers continue to use their own servers, but there is a growing inclination towards a blended, hybrid approach."
- Ashley Globerman, Celent

The survey revealed a very mixed picture when it comes to the ways in which wealth managers are currently storing and managing their data, with firms opting for a wide variety of possible combinations of their own servers and/or private, private and hosted clouds.

But while a continuum was in evidence – ranging from those wishing to keep everything on premise to a very small minority apparently untroubled by concerns over public cloud – wealth managers are still leaning heavily towards methods which (rightly or wrongly) might be seen as safer options.

Looking at how cloud deployment models have changed in the past year, there has been significant fall in the proportion of wealth managers using their own servers for data storage and management, from 83% in 2014 to 69% this year.

However, approaching half (42%) of respondents report that their firm uses only its own servers for data storage and management, while the next most popular option, using a private cloud alongside their own servers, has been opted for by a very much smaller proportion of 15% of organisations. Meanwhile, 12% of wealth managers are using only a private cloud and the same proportion have solely deployed a hosted cloud for data management purposes.

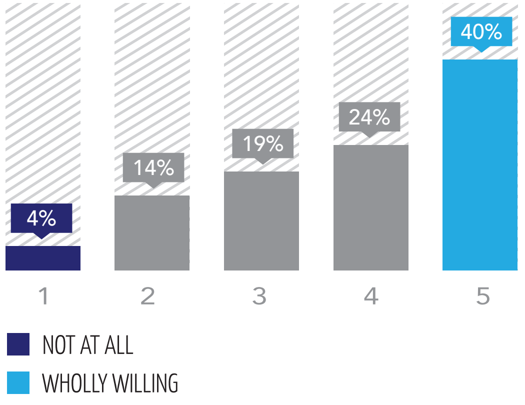
Arguably what is most interesting about 2015's findings however, is the prevalence and variety of hybrid approaches. Close to a third (31%) of firms are using a using a combination of their own servers and private, public and/or hosted clouds. This, according to the expert panel, is a trend set to grow as cloud adoption increases generally and firms' strategies become more nuanced.

"With regards to data storage and data management, wealth managers continue to use their own servers, but there is a growing inclination towards a blended, hybrid approach," Ashley Globerman. "While there are drawbacks to using cloud computing, the benefits are hard to dismiss: flexibility, efficiency, collaboration and cost management, among others. I would expect there to be increased spending on cloud services over the next couple of years."

EXTERNAL HOSTING/SOFTWARE SPEND SOARS

FIGURE 12

How willing are you to consider outsourcing technology solutions / hosting by third parties?



"Hosted solutions can represent great value as outsourcing here avoids the need to own expertise both on the IT side as well as the software side." - Daniel Eriksson, Advent Software

The survey findings for 2015 shows that positivity towards outsourced technology solutions/hosting by third parties has continued to strengthen (from an already fairly high base).

Although openness to this approach has remained broadly stable, with 64% of respondents saying that their firm is willing/ wholly willing to consider this option this year against 66% in 2014, the proportion of those giving the maximum score rose from 32% to 40%. Meanwhile, the proportion of institutions which dismiss outsourced technology solutions/third-party hosting out of hand has more than halved from 11% to just 4%.

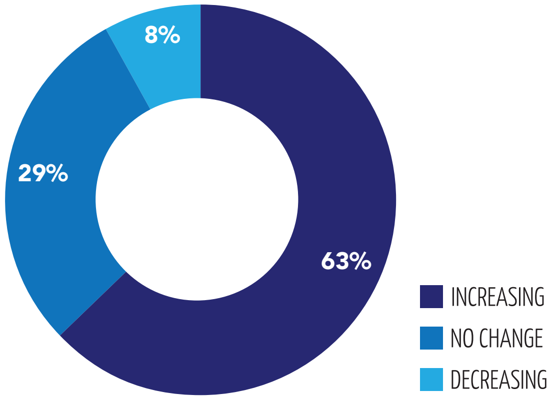
The growing currency outsourced/hosted solutions have in the industry is not merely in principle either, as spending projections continue to support the notion of an explosion of activity in this area.

Comparing this year's findings to those of 2014, we see that it is still the case that almost two-thirds of wealth managers see their spend on external hosting/software (as opposed to internal resources and development) increasing over the next three years: 63% of respondents foresee increased budget allocation in this area, while 29% predict that spending levels will remain stable and just 8% foresee trimming back.

"Hosted solutions can represent great value as outsourcing here avoids the need to own expertise both on the IT side as well as the software side," said Eriksson, adding that seamless upgrades are another benefit if "true" cloud solutions are deployed.

FIGURE 13

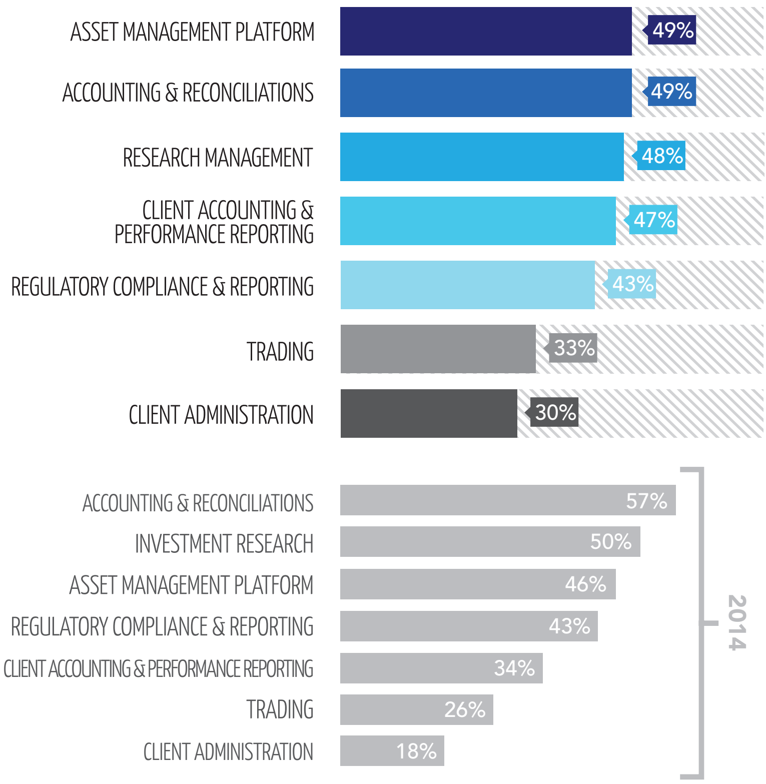
To what extent do you see your spend on external hosting / software compared to use of internal resources / development changing over the next three years?



4 CHANGING PUSH AND PULL FACTORS IN OUTSOURCING DECISIONS

FIGURE 14

How prepared are you to consider outsourcing the following?
(Proportion indicating their firm is willing/wholly willing)



Last year's contributors noted that generally the case for business process outsourcing tends to feel weaker than that for elements of technology alone. In particular, with BPO institutions may fear a dilution of operational control, rising costs and providers not living up to expectations – especially in areas where clients will notice any slippage in standards.

There may also be practical and cultural barriers, such as the challenge of making overly manual and circumlocutory workflows "outsourceable" and ensuring data is fit for purpose. Increasing standardisation across individual institutions' systems and processes, and across the industry more broadly, is a key trend here.

There are several instances where business process and technology outsourcing makes real sense, it was said. Expertise seems to be the key driver here at both the more prosaic end of the spectrum (dealing with local regulations) and the more exciting end (developing and continually updating a suite of apps suitable for several devices; see page 21).

Reluctance to let go of any activity that "touches the client" or concerns sensitive data is still in evidence, but the maturation of cloud solutions and security measures seems to be driving greater acceptance of outsourcing generally.

WHERE ARE FIRMS MOST/LEAST WILLING TO OUTSOURCE?

In assessing the activities wealth managers are *most* willing to outsource, the picture for the top three in 2015 is broadly similar to that for 2014, albeit with shifts in the order of this ranking.

This year, asset management platforms and accounting and reconciliations were the joint top outsourcing options, with 49% of respondents in each case indicating a high/very high openness to this, followed by investment research at 48% (in 2014, the top three ran: accounting and reconciliations, investment research and asset management platform).

The fact that this top three has remained broadly similar is testament to the strong business rationale that can be applied to these outsourcing decisions – namely, the cost-effective access to computing resources that hosted asset management platforms can provide (such as in "cloud-bursting" high-volume activities) and the fact that both investment research and accounting and reconciliations can be seen as commoditised activities. Hosted asset management platforms have been a boon to start-ups and spin-outs needing rapid, cost-effective options.

More intriguing, perhaps, is the fact that wealth managers appear far more willing to outsource client accounting and performance reporting than previously, with 47% of respondents indicating high or very high openness to this option in 2015, against 34% last year. Fee transparency has made demonstrating how value has been delivered even more crucial and a desire to make dramatic enhancements through calling in specialists might be at play here.

Turning to the activities wealth managers are most reluctant to outsource, again the picture is largely similar to 2014. Respondents were most negative towards outsourcing client administration, with over a third (36%) indicating that their firm would be "wholly unwilling" to outsource this in 2015.

Deciding where to outsource - if at all - is a finely balanced decision, the panellists agreed, with the right mixture potentially looking radically different from firm to firm. Certain key principles are clearly dominating their decisions, however, and along with costs and compliance factors are questions around what institutions feel comfortable with letting out of their control and whether the activity in question is essentially commoditised or out of sight of the client.

PROXIMITY TO THE CLIENT

"We wouldn't outsource client support services for clients calling in, for example, as the person answering the call needs to be someone they have a relationship with and who in turn has a deep understanding of the client. That interaction is really important to us," said Mike Toole. "The closer the proximity of the action to the client the less likely I am to ever consider outsourcing because that's where we add value."

Interestingly, he further argued that this value is often about pulling together all the infrastructure required for a wealth management relationship and applying an immaculate client servicing overlay on top. "If we're outsourcing custodianship to a bank they are adding value through having a huge amount of systems and controls and accounting and compliance teams, but they are likely to be pretty crude on client service, so we're the interface," he said.

OUTSOURCING COMPLIANCE FUNCTIONS

Reluctance to outsource also remains predictably high among some parties when it comes to regulatory compliance and reporting: this year 20% of respondents said that their firm would not consider this at all. Yet at the same time 17% of those surveyed said that their organisation is either wholly willing to consider this type of outsourcing or already engages in it. This split, the panellists concluded, may be attributable to both the big risks *and* benefits wealth managers are thinking about when they make this choice.

In one scenario, those wishing to break into new markets may be wise to deploy local regulatory expertise where their own could be lacking; there may also be language or cultural barriers this approach could help overcome. On the other hand, wealth managers are probably right to take a cautious attitude to outsourcing such weighty responsibilities. As Chris Hamblin said: "You can outsource your compliance, but you can't outsource responsibility for it." In certain markets at least, great swathes of wealth managers are putting such concerns aside however. Research indicates that around half of US asset managers outsource all or part of their compliance functions[10].

"We wouldn't outsource client support services for clients calling in, for example, as the person answering the call needs to be someone they have a relationship with and who in turn has a deep understanding of the client. That interaction is really important to us. The closer the proximity of the action to the client the less likely I am to ever consider outsourcing because that's where we add value."
- Mike Toole, Artorius Wealth

FATCA FANS OUTSOURCING FLAMES

Thierry Haensenberger, SVP at AxiomSL (a provider of technology for FATCA compliance) believes that many institutions are still yet to get to grips with the big increase in reporting volumes that will come in 2016 when pre-existing accounts (those opened before 1 July 2014) come into the scope of the FATCA rules. This is in addition to accounts opened between July and December 2014, which firms were required to report on this year.

FATCA (and other incoming information exchange requirements) have resulted in a proliferation of fintech firms rolling out services intended to help institutions cope with the attendant compliance pressures and, according to Haensenberger, wealth managers are radically altering their stance on outsourcing where sensitive data is concerned, as part of a more strategic approach.

The sheer operational effort that would be required to produce reports for all jurisdictions internally is one driver, in Haensenberger's view, and one that particularly impacts smaller firms with an international customer base. Meanwhile, regulators have reacted to industry concerns by considering plans to relax data privacy rules to allow for third-party providers to produce those reports. Significantly, Luxembourg, which is one of the strictest jurisdictions when it comes to data privacy protection, is considering such a change.

There may be powerful inducements for institutions to lean on local or specialist expertise, and technology vendors and outsourcing providers may be in a good position to share best practice insights, but wealth managers should clearly not rely too heavily on third-parties in compliance matters, it was said. "In the end, compliance needs to be a best practice and that has to always sit with us – we have to own that best practice as a firm and indeed the regulator should expect that of us," said Kwist. "First and foremost in all of the jurisdictions that we operate in, we look for ourselves to be the primary experts and continually strengthen our internal processes and procedures without waiting for the regulators to ask us to do so."

LOCAL PROVIDERS

As they grapple with their technology and operations choices, wealth managers are having to balance a host of considerations which may mean that expediency triumphs over general principles on a case-by-case basis, the panel said. This can be particularly true of global firms having to satisfy esoteric local regulations or those looking to meet the needs of a relatively small client segment without making wholesale organisational changes or ramping up headcount.

Kwist, along with several other contributors, emphasised the need for wealth managers to keep an open mind on outsourcing and to be aware that the business case for it can suddenly become very much stronger for certain activities or in certain markets. "If there are vendors that are out there that can provide us with software solutions or other business process solutions that help us alleviate some of the pressures on the business with the services they provide then we'd certainly consider it," he said.

It is clear that there are many instances where outsourcing could really solve headaches, such as when carrying out KYC checks on prospective clients requires local knowledge. The crux of the matter seems to be that outsourcing has to *keep* delivering its promised benefits, the panel said, lest the approach becomes self-defeating – such as by increasing risks to the business, hampering efficiency or driving up overall costs.

"It's not unusual to have certain local bolt-ons - if there are regulatory or language or currency considerations - but we will only localise when we really need it," said Kwist. "Clearly our preference is to use a single global platform because we see that as the most efficient way and the one that will benefit clients the most."

Ashley Globerman, meanwhile, echoed the sentiment of Toole, arguing that outsourcing decisions are really about taking a clear-sighted – and competitive - view on where expertise, resources and energy can be expended to the best effect.

"In this current cost pressure environment, it is increasingly important to find an outsourcing partner that specialises in 'non-core' business activities, while you maintain supervision and responsibility over said services. Wealth managers are then given the flexibility to focus more on the aspects that really matter and connect them to their clients," she said.

The mixed picture revealed on attitudes to outsourcing regulatory responsibilities reflects that on outsourcing overall. As was found in 2014, a continuum rather than a stark polarisation of views was found across all of the outsourcing options under assessment.

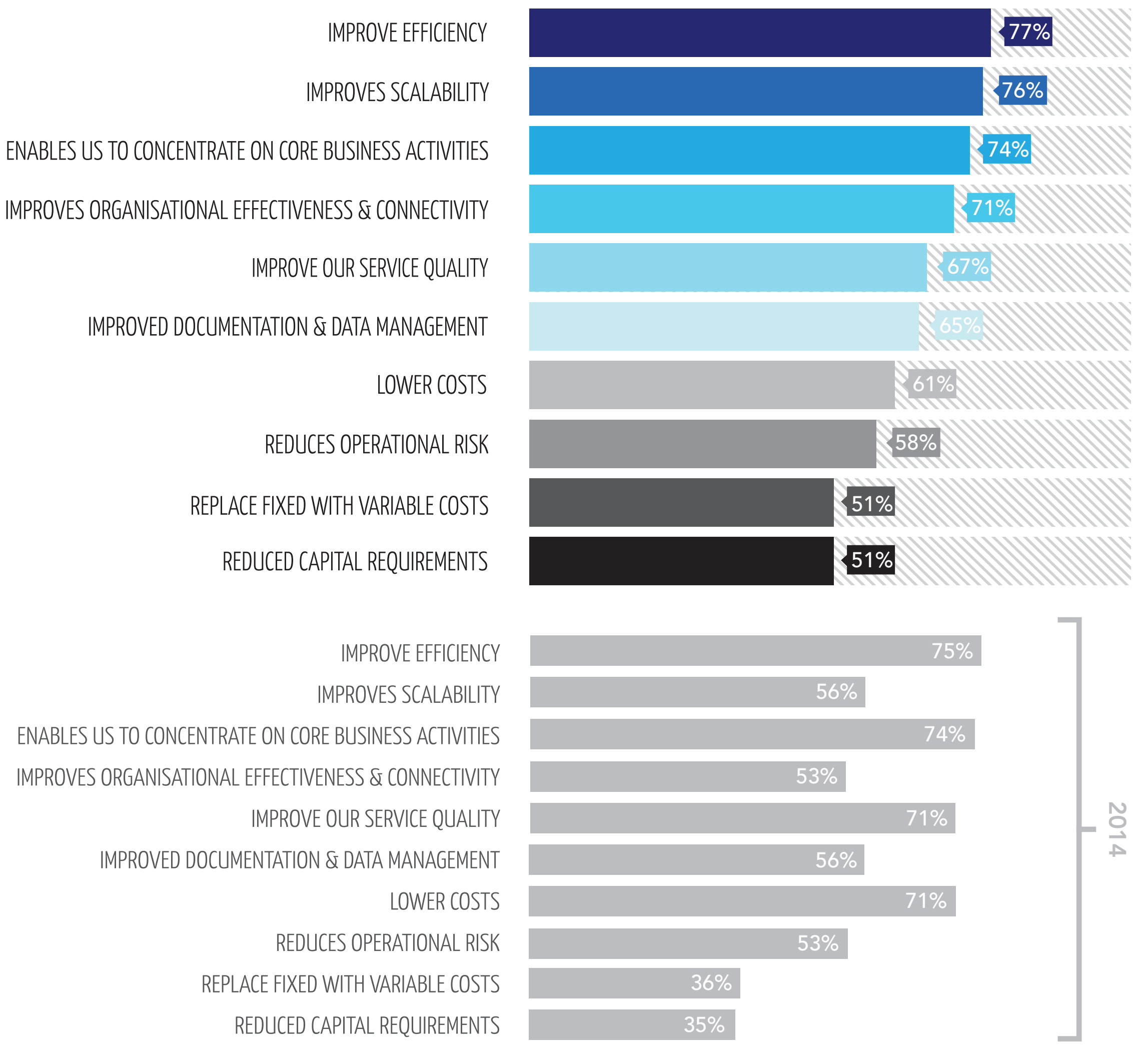
OUTSOURCING PRIORITIES SEEM TO BE SHIFTING

Looking at the key drivers of outsourcing, there seems to have been a significant shift in priorities comparing this year to last. In 2014, the reasons to outsource accorded most importance were (in order): to improve efficiency, to enable the business to focus on core activities, improving service quality and reducing costs.

In contrast, this year improving efficiency ranked first with focusing on core business third. Improving service quality, meanwhile, was nudged down to fifth place by two new entrants into the top-four priorities: improving scalability and improved

FIGURE 15

How important are each of the following possible reasons behind this strategic decision to outsource?
(Proportion indicating high/very high importance)



organisational effectiveness and connectivity. While in 2014 56% of respondents gave scalability as a strong/very strong driver of the decision to outsource this rose to 76% this year. The desire for improved organisational effectiveness and connectivity made a similar jump in perceived importance from 53% to 71%.

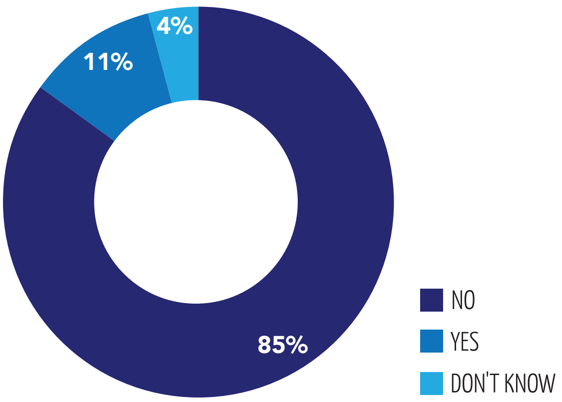
Interestingly, looking solely at which drivers for outsourcing were deemed critically important we see that improved documentation and data management attained fourth place in the 2015 rankings, with 42% of respondents giving a maximum score as opposed to 36% in 2014.

As discussed on page 23, over eight in ten wealth managers deem data management to be an important/even business-critical priority today and the majority are reported to be committed to gathering data on clients in the greatest possible depth. Arguably, these trends are inextricably linked to an increasing openness to cloud computing, it being a cost-effective means to access the data storage and analysis capabilities required to make gathering this information a worthwhile exercise.

INSOURCING SLIGHTLY ON THE RISE

FIGURE 16

Is your firm considering insourcing any processes/services or technology applications currently outsourced?



While the majority of wealth managers are increasingly reliant on outsourcing, a tenth (11%) of firms are looking to *insource* processes or technology applications that are currently outsourced – up from 5% saying this last year (EY found this among 4.2% of wealth managers the same year)[11]. Middle-office investment activities and software support were among the insourcing priorities identified this year.

The reasons firms may wish to insource are varied, but the expert contributors suggested that disappointment with outsourcing providers either in a lack of service responsiveness, finding the solutions provided not up to standard or on costs could all figure. Institutions may feel also that after a point insourcing makes sense from a cost perspective or may want more ownership of new innovations, particularly in client-facing ones like mobile apps that require ongoing development.

Most important, however, are the restrictions regulators are putting on outsourcing, Kwist noted. "This is a big development right now in the wealth management space. When you look at whether you want to be insourcing or outsourcing, the regulatory constraints around that are now really coming more to the forefront," he said. "The regulators are having more say over what you can and can't outsource and how you govern these outsourcing relationships. There's also more focus on ensuring client data protection, privacy and business continuity with outsourcing."

While regulators are increasingly sensitive to the risks around outsourcing generally, cloud hosting is something many are predictably particularly wary of and this, Kwist pointed out, leads to limitations. "There are multiple regulators in Asia that will not allow you to transmit any client data on what is essentially a shared cloud. That greatly limits what you can outsource given the growth in cloud-based technologies," he said.

"When you look at whether you want to be insourcing or outsourcing, the regulatory constraints around that are now really coming more to the forefront. The regulators are having more say over what you can and can't outsource and how you govern these outsourcing relationships. There's also more focus on ensuring client data protection, privacy and business continuity with outsourcing." - Jeroen Kwist, BNY Mellon Wealth Management

5 BETTER DATA MANAGEMENT DEEMED BUSINESS-CRITICAL

FIGURE 17

To what degree is data management a key priority in your firm?

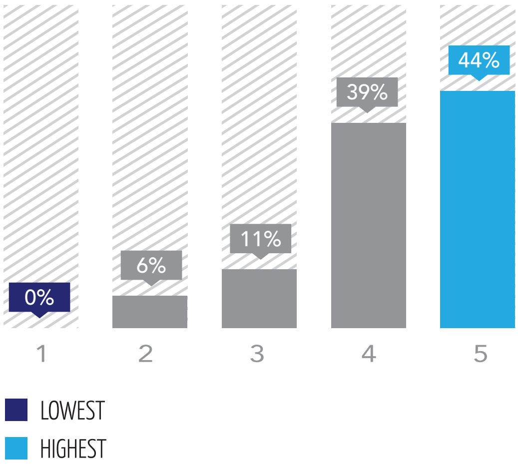
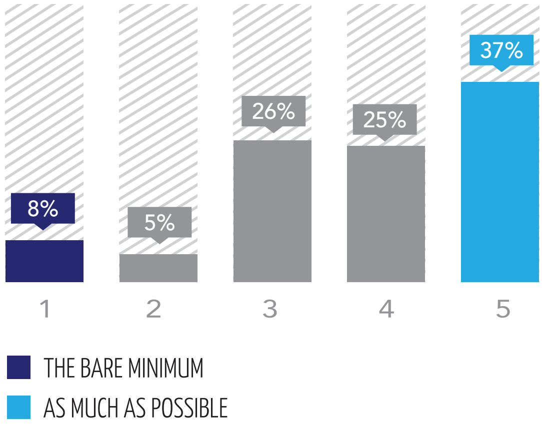


FIGURE 18

How much data on clients' profiles, objectives and behaviours does your organisation currently gather and store?



This year's survey explicitly asked about firms' approach to data management for the first time and revealed – unsurprisingly – that for the vast majority this is a key priority. Over eight in ten firms regard data management as an important issue, with almost half (44%) of respondents saying that it is seen as business-critical at their firm.

Wealth managers are being compelled to hold more information on their clients than ever for compliance purposes, with a wide range of requirements calling for data to be gathered and stored on both an upfront and ongoing basis.

The increasing digitisation of the industry is also bringing with it a huge expansion in the amount (and different types) of data institutions can seek to leverage, both to better know their clients' preferences and needs, and to improve business efficiency. Tech giants such as Amazon have set a new standard in data gathering and analysis which organisations the world over are now racing to replicate (indeed, financial services firms are already said to be looking to tap data talent from just these sources).

Given the business gains to be had from the better use of client data, and the risks surrounding any inadequacies, it is somewhat surprising that wealth managers appear to be differing so widely on their approach to gathering and storing data on clients' profiles, objectives and behaviours. Although 62% of respondents gave their firm a good or very good rating on this front, almost a tenth report that their firm is only gathering the "bare minimum" of client data. This, as Daniel Eriksson pointed out, is symptomatic of a lack of automation in data capture. *WealthBriefing* research has confirmed that this is certainly an issue at client take-on: well over half of wealth management professionals report that automation and straight-through-processing for client onboarding are at the lowest levels at their firm[12].

The expert panellists were unsurprised that 37% of wealth managers are now gathering as much data as possible on their clients, given the compelling reasons for doing so, and expressed concerns for the futures of those which are taking a minimalist approach. Such firms may find they lack vital evidence to defend themselves against client complaints in years to come, but more broadly they may be setting themselves up for some very significant challenges as regulatory requirements continue to evolve.

Regulatory compliance is very much a moving target, with new rules or amendments to existing ones coming thick and fast to reflect the shifting agendas of regulators and governments. Furthermore, the interplay between these regulations can also be uncertain too, with inconsistencies between elements of the UK's Retail Distribution Review and Europe's MiFID II rules being a case in point here. Many would therefore contend that gathering the maximum amount of client data is a wise pre-emptive move which will allow wealth managers to cope more easily with further regulatory changes and so minimise future costs and risks.

The fact that 63% of wealth managers see the pace and impact of regulatory change increasing over the next three years sits ill with the fact that 39% of firms are poor to average in their client data gathering efforts. Many today now hold that better data management is the foundation of a future-proof compliance strategy, yet it seems that serious problems could be ahead as wealth management becomes more digitalised and multi-channel service delivery grows. For example, close to half

(46%) of UK financial services firms regard new and changing regulations as a growing concern in terms of electronic message compliance. Meanwhile, almost 60% of firms do not have archiving systems in place for the most popular social media channels in a financial services context (LinkedIn and Twitter) or mobile/SMS text messaging[13].

PROCEED WITH CAUTION

There are virtually limitless possibilities on the client data front, but the expert panel cautioned that wealth managers need to be crystal clear – both internally and in what they tell clients - that they are doing this for the right reasons. This, they noted, is especially important in light of all the data wealth managers are able to glean from clients' online behaviour - and particularly their engagement through mobile devices – since there is a great difference between analyses clearly geared towards customisation and improving client satisfaction and what might feel like the firm overtly "spying" for its own sales and marketing purposes.

"Data management is something that a wealth manager has to be extremely careful with and I think the biggest question I would have in that scenario would be what is it being used for? Is it for them internally to try to acquire more clients or is it really to try to make the client experience better?" said Jeroen Kwist. "The data we gather from clients as part of our ongoing client management activities has to be kept confidential and only used internally to make the direct client experience better. It enables us to see what clients are really interested in and what works best, so we can then expand in those areas to make the client relationship with us better. However, in that process first and foremost is keeping that data protected and confidential."

According to Tim Tate, it is also arguably the case that while security and privacy considerations are critical, people's attitudes to data usage are continuing to change. In a world where social media, app use and online engagement dominate, people are creating a digital footprint which reveals a lot of information about themselves and their behaviour, often in exchange for convenience when using apps or shopping online. When companies mine that data and use it to tailor their marketing efforts, people generally accept that as part of a better, more personalised experience.

"People's attitudes have changed in recent years, they aren't offended by this type of targeted marketing anymore; many are actually expecting personalised content. Ten years ago they might have thought 'a company showing me that isn't coincidence, they're spying on me', but now it's just seen as normal," he said. "We have the likes of Amazon's *People like you* and Apple's *iTunes Genius* to thank for that."

Understanding clients' online behaviour can, in fact, be revelatory in terms of service enhancements, as Holger Spielberg illustrated with an example of Credit Suisse's recent data analysis efforts: having launched its Digital Private Banking platform in Asia-Pacific in March the bank quickly discovered that a large proportion of clients log into the system in the evening hours. "On aggregate, it seems that is when people start playing with their portfolios; that's when they can sit and have time to make trades and so on," said Spielberg. "It's about having a fundamental understanding of when people deal with things like wealth management. Maybe in response our relationship managers should be available at different times to what they are now."

QUALITY, NOT JUST QUANTITY

The possibilities for data gathering are huge, but the focus has to be on its quality and usability rather than quantity alone, the experts emphasised. As Eriksson said: "There are still firms that overpay for data through their inefficient management of it."

As Tate pointed out, we live in an ever-increasing world of data where the world's stock is doubling in size every few years, which makes storage a familiar (and growing) corporate challenge. It is not however, just a case of "more is better" when it comes to data, in his view.

"We're all storing huge amounts of data and at some point storage does become a massive issue. So there is the data storage part of big data, but then there is the question of how you *use* big data, and that to me is a question that is more about analytical power and analytical minds, rather than just 'having' data," Tate said. "You can have all the data in the world, but if you aren't smart about how you use it and what you're using it for then why keep it?"

> *"You can have all the data in the world, but if you aren't smart about how you use it and what you're using it for then why keep it?"*
> *- Tim Tate, Citi Private Bank*

Wealth managers' urgent need to wring competitive advantage from their data explains why they are an increasingly attractive market for technology specialists focused on data mining and visualisation. "It's about having data that's easily consumable so that users get the intended value out of it," said Eriksson. This focus on data's ultimate destiny applies not only to new data but also to the plethora of historical data institutions are likely to have lying unused - and perhaps even undiscovered – and which may stretch back decades.

As Spielberg pointed out, it is common, particularly for larger firms, to have masses of historical data but not real information, since data is "in different siloes, in different qualities and in different formats". Therefore, as Credit Suisse pursues its new digital banking agenda he said it is also focusing on improving the use of its existing data "to capture and harness what we already have and use it in a much more impactful fashion".

Spielberg described a tripartite approach to data management which seeks to better harness client data gathered for regulatory reasons, user information and the institution's insights on market developments as "one of the two strategic fundamentals of a digital business" (the other being, of course, a cutting-edge digital shop-front).

A desire to improve data management so that all these strands of information can yield real insights is likely to be common to all kinds of wealth managers, however. As the panellists pointed out, even those wealth managers with no real digital agenda could have a lot to gain in terms of optimising investment performance and risk management – but only if data is reliable, timely and easy to access (not to mention readily auditable too).

On this point, several of the panellists cautioned that firms need to make sure they are also investing meaningfully in a robust infrastructure while they make client-facing enhancements, lest the latter be let down by inadequacies in the former. A good-looking front-end has to be backed by a strong data management strategy so that clients and advisors are always seeing consistent and accurate data – and if going mobile then the same standards must apply. "If you're on a tablet you only get one shot with a client to make a first impression, so you have to have your data right and delivered within a second or two," said Tate. "The ultimate sin is to deliver bad data."

"If you're on a tablet you only get one shot with a client to make a first impression, so you have to have your data right and delivered within a second or two. The ultimate sin is to deliver bad data." - Tim Tate, Citi Private Bank

DATA DISCONNECTS

Making it so that clients, advisors, compliance officers, the investment management committee or senior executives are looking at the same, *correct* data at all times may call for quite a wide range of disparate proprietary and bought-in systems to be connected and synched-up perfectly. According to Eriksson, this has led to API development coming to the fore. "APIs have certainly become more important over the last few years and better APIs have certainly helped system providers to offer more efficient integrations," he said. "But there is a wide discrepancy on how firms choose to use APIs, which is often driven by understanding and competence in the area."

As discussed on page 12, large sections of the industry are actively opting for a best-of-breed approach to technology, while legacy systems remain an issue for many firms – with the result that automation and straight-through-processing of data are often lacking. Recent *WealthBriefing* research found that for almost half of advisors preparing for an annual client review meeting entails accessing three or more systems and a significant amount of manual work[14]. Quite apart from the inefficiencies here are the risks presented by data inaccuracies when investment decisions are at stake.

This issue of data synchronisation is likely to be further exacerbated by the omni-channel approach to client engagement and servicing which has emerged, the panellists pointed out, simply because institutions can tend to have inconsistent data-sharing across all their channels.

The huge proliferation in the amount of data institutions can utilise has to be matched by a commitment to *mastering* it. To achieve this, the experts said, wealth managers have to put the right (automated) processes in place to gather and aggregate precisely the right data and then have the computing resource and tools required to manipulate, enrich and report on it. It is therefore little wonder that wealth managers are increasingly attracted to the cost-effective access to massive processing power cloud computing offers.

The general view from the panel was that gathering data needs to be a well-structured process so that the right amount of the right data can be efficiently stored and manipulated for reporting on either internally or externally. Clearly, to avoid a "garbage in, garbage out" scenario wealth managers are going to have to think very carefully about the dataflows – and workflows – they will need to have in place as the industry continues to evolve.

6 MOBILE APPS: MUCH WORK STILL TO BE DONE

HNW individuals are generally early adopters of technology and their take-up of tools like mobile apps and social media has been rapid across age groups.

Next generation holders of wealth will have grown up with mobile devices and the over-65s are increasingly avid users of tablets, with around a fifth to a quarter in both the US and UK using them daily[15]. Across markets – and markedly so in many - large swathes of the wealthy are regularly using *multiple* financial services apps[16].

IN FOCUS:

UK smartphone snapshot

- A third of UK consumers now see their smartphone as their primary internet device (overtaking computers for the first time)
- 4G take-up rose from 2.7 million to 23.6 million over the course of 2014, greatly facilitating data-rich activities like instant messaging, video streaming, online shopping and online banking
- UK consumers now spend an average of 1hr 54min looking at their smartphones each day, with a third looking within *five minutes* of waking up[17]

The mobile (and data) revolution has created very high expectations of on-the-go convenience and the type of ultimate customisability pioneered by companies like Amazon, Google and Netflix in every aspect of life. Correspondingly, the technology we increasingly take for granted in our everyday lives is rapidly being translated into financial services.

In recent years the wealth management industry has been busily working to catch-up with the retail banking sector on the mobile front. The latter's more rapid progress has been fuelled by greater competitive forces, budgets and economies of scale, while the former has had to overcome far greater security concerns. Strong appetite from both clients and advisors for mobile capabilities has driven wealth managers on, however, and many have developed apps for both sides, making key interactions like annual review meetings a far slicker affair.

However, progress on mobile apps is proving to be patchy, according to experts in this area; perhaps partially as a symptom of the budgetary constraints and corporate inertia highlighted on page 14, it seems that many wealth managers have not been investing in their mobile capabilities as committedly as they should be in today's technology milieu.

"Overall, my impression is that at this point mobile is really not number one priority for wealth managers and private banks," said Steffen Binder, managing director of MyPrivateBanking Research (an organisation that produces an annual ranking of wealth managers' mobile apps). "Everyone is doing something - a little bit here, a little bit there - and there are a few banks which are really good, but the majority are *well* behind."

SO WHAT MAKES AN EXCEPTIONAL APP?

According to Binder, there are several features which together make for an exceptional wealth management app for HNW individuals.

"Clients need to get the sense that the app was designed specifically for them in terms of quality, design and functionality, and that their bank is taking into consideration that they are valuable HNW clients," he said. All too often, they are merely offered "re-skinned" versions of retail banking apps since just 63% of wealth managers have a HNW-specific offering[18].

In Binder's view, part of this specificity is recognising that HNW clients "are by the nature of things more interested in investing and so require in-depth tools allowing them to follow and analyse their portfolio, with details, like daily performance cutting across asset classes, or by currency". (This he concedes, however, is "easy to talk about, but not necessarily easy to implement".)

Correspondingly, he believes that providing high-impact investment research via mobile devices is particularly important for (highly mobile, highly entrepreneurial) HNW clients, since time spent sitting on a train or plane is the ideal opportunity to catch up with the latest reports.

Rock-solid security provisions are clearly paramount, Binder continued, since HNW clients are naturally higher risk. This, he explained, includes not only taking extra security measures in a technical sense, but also a robust communication strategy too. "Most online fraud is down to human error; it's the biggest factor," he said. "People use public wifi; they note down their passwords. These are simple things, but they need to be communicated about via several channels – in the app store and within the app, you need education and videos."

Once wealth managers have mastered mobile security they are then able to press ahead with providing secure communication channels like instant messaging or video chat for clients and advisors. This is an enhancement a small group of global wealth managers have already added to their apps, said Binder, and clearly has great potential to increase client engagement (although also probably great complexity with record-keeping and regulation). Institutions have been exploring biometrics like fingerprints, vein ID or voice recognition to improve security and obviate the need for tiresome passwords for some time now.

KEY AREAS FOR IMPROVEMENT

It seems, however, that cutting-edge app developments like instant messaging, biometric security and digital signatures, may lie very far off for the many firms that are still falling short on the basics, like focusing app design on too narrow a range of devices, Binder said.

"You really have to think through your responsive design and make sure you can accommodate your app to the 2,000 screen sizes and devices that are out there," said Binder. "It will be all sorts of generations of iPhones and Samsungs, but also very old phones that might be six or seven years old; it will be all the types of tablet; and then there's also this blurring of lines between tablet and smartphone as you have now phones with huge screens and hybrids that are between."

Exacerbating this issue is the fact that some institutions continue to neglect Android devices *completely* despite its huge user numbers, although it is easy to see why firms with limited resources might focus on Apple devices. "Apple has a high level of brand awareness and loyalty among its consumers. For enterprises, it could be more cost-effective to develop apps on iOS," said Ashley Globerman.

"Banks still have this mind-set that wealthy clients are typically Apple users, which might be true in Switzerland to a degree, where Apple has a very strong market share. But I think the minimum is to offer Apple and Android native apps, otherwise you won't reach a significant part of your target audience. In Asia, Android has a much stronger market position."

Yet for Binder, such firms are really restricting their reach. "Banks still have this mind-set that wealthy clients are typically Apple users, which might be true in Switzerland to a degree, where Apple has a very strong market share," he said. "But I think the minimum is to offer Apple and Android native apps, otherwise you won't reach a significant part of your target audience. In Asia, Android has a much stronger market position." He further believes wealth managers should also consider Windows Phone, as its market share is growing among a very specific professional and entrepreneurial segment who like to be able to easily connect with their "Windows world".

Accommodating all these permutations of devices is clearly going to be an expensive business, particularly when seen in tandem with another common failing: infrequent updates. "Wealth managers' publishing cycles are far too long. It takes them six, even twelve months for them to come out with new versions," Binder said. "So when there is a new operating system this makes using the old version of the app awkward."

APPS ARE *FAR* FROM ONCE-AND-DONE

According to Binder, *ongoing* investment is the most significant app consideration, beyond an initial outlay that he said will generally be a "six-figure number" overall, depending on the extent of external resources required (like having an agency programme the app) and integration costs. "Then they must come up with a new release every few weeks and have a testing cycle where clients come in and test the app," he said. "If you are going to do it properly then you have to outsource this kind of work to a good agency; then you have good technical support for users of the app."

Wealth managers' mobile motivations must be strong to justify this level of investment – and they are, according to Binder. Improving retention is the first, since offering a "great set of tools, analysis and research, as well as great service" are likely to make clients stickier amid such variable mobile provision in the market. Ideally, the aim is for clients to use the app(s) "day-in, day-out" and to this end wealth managers should probably consider lifestyle content and value-added services in addition to portfolio information, research and communications.

Binder said: "You have to look carefully at your clients' needs and preferences. Typically, shopping is extremely important to Singapore-based clients so if you can offer special deals to your valued clients via an app that will really bring you closer to them. Besides the core features, every bank should think about supplementary apps which cater to the specific needs of their clients and allow you to get closer to them by serving them with interesting content – be that for sponsoring, shopping or social responsibility."

However, institutions are going to have to work hard to accurately track the return on investment from their mobile efforts because "correlations can go both ways". "I'm sure that there is a very strong positive correlation between app usage and client retention," Binder said. "Longstanding clients are more likely to use the app because they are more accustomed to you as a bank; on the other hand, a good app is another reason to stick with the bank."

"Longstanding clients are more likely to use the app because they are more accustomed to you as a bank; on the other hand, a good app is another reason to stick with the bank."

MOBILE-FIRST

Perhaps far more significant is the fact that "mobile is a loyalty play, but also a new customer play" where direct ROI could be far easier to see. Evidence suggests that people are increasingly downloading apps from institutions that are *not* their banks, said Binder, and therefore a few forward-thinking institutions now offer research apps on general release which give access to 20-30% of the output offered to actual clients. "I think this is a very smart move," he said. "You whet the appetite of those people, and of course someone who is interested in this research is also likely to be HNW."

As discussed on page 13, institutions have to "move with the times" and go to clients where they are – which today is increasingly on a mobile device. According to Binder, many are simply failing to grasp just how mobile-orientated private clients can be.

"I think some institutions don't realise at this point that precisely their clients – the HNW individuals and families – are the most modern and sophisticated users of mobile devices," said Binder. "According to the last survey we did with HNW individuals in the world's five biggest wealth management markets, mobile has superseded desktop and notebook usage." He concluded: "You have to realise that you have to go to a mobile-first strategy. Nothing else makes sense, but we don't see that mind-set very often at this point. You find it here and there, but the majority are still a few years away from this strategic decision."

"You have to realise that you have to go to a mobile-first strategy. Nothing else makes sense, but we don't see that mind-set very often at this point. You find it here and there, but the majority are still a few years away from this strategic decision."

IN FOCUS:

Wearables - one to watch?

As wealth managers grapple with the mobile challenges just described, wearables have emerged as another exciting area of development. Whether they will really catch on in a financial services context is a matter of some debate, however.

Those with doubts may point to the tiny screen and therefore limited financial services functionality of an Apple Watch, along with the woeful aesthetics of wearables at present. Yet there are others who see wearables as the next logical step in providing seamless interactions to clients (some even view smartphones as soon to be obsolete).

"The usability of wearables in wealth management is in its nascence, but its potential to transform the way in which we communicate, make decisions or perform daily tasks is enormous. The same could be said of smartphones 10 years ago," said Ashley Globerman. As with mobile apps previously, she noted that with wearables most of the banking, portfolio management and trading tools have been focused on the non-HNW space until now, but this may be about to change. "Clients and advisors have more to do, yet are increasingly pressed for time; services or tools that can streamline and optimise their daily task lists are going to be very welcome," she said.

As well as a slicker, more engaging and interactive experience for clients, wearables applications for advisors are already in motion. "Major CRM providers are integrating with this technology which enables advisors to connect with HNW individuals, who are the likely buyers of wearable technologies," she continued. "Wearables in wealth can offer real-time alerts, client management functionalities, track user sentiment across social media, and log client interactions for compliance or campaign management purposes."

"Wearables are still in the early stages, so we can't project too much, but ultimately there is potential for this to be a new chapter in the industry," Globerman concluded.

REFERENCES

1 *Strategic Innovations in Risk Management* - Celent
2 Ibid
3 *Survey of IT in Wealth Management 2014* - EY
4 A Compeer/EY survey of CIOs published in March 2015
5 *Generation sceptic: Meeting the millennial standard,* part 3 of the 2015 *Futurewealth* series by NPG Wealth Management, SEI and Scorpio Partnership.
6 *Converting Compliance Challenges into Business Benefits: Optimising Client Onboarding in Wealth Management (WealthBriefing/*Advent, 2014*)*
7 *Help or Hindrance? The Link Between Technology Provision and Advisor Productivity – WealthBriefing/*Advent
8 As found by a 2014 Forrester Research survey of IT decision-makers
9 As predicted by Information Technology & Innovation Foundation in 2014.
10 *2015 C-Suite Survey* - Cipperman Compliance Services of Pennsylvania
11 *Survey of IT in Wealth Management 2014* - EY
12 *Converting Compliance Challenges into Business Benefits: Optimising Client Onboarding in Wealth Management (WealthBriefing/*Advent, 2014*)*
13 *The 2015 UK Electronic Communications Compliance Report* - Smarsh
14 *Help or Hindrance? The Link Between Technology Provision and Advisor Productivity – WealthBriefing/*Advent
15 *Adults' Media Use and Attitudes Report 2014* - Ofcom; Pew Research
16 *Global Survey of Mobile Disruption in Wealth Management 2014* - MyPrivateBanking Research
17 *The Communications Market Report 2015* - Ofcom
18 *Mobile Apps for Wealth Management 2015 – Innovation Leaders and Innovation Laggards"* - MyPrivateBanking Research

CONCLUSION

This year's survey has confirmed what most will already know instinctively: that a multitude of pressures are continuing to increase wealth managers' reliance on technology year after year, but also that this continues to manifest in very different ways.

The *Technology and Operations Trends Report* was devised to track the evolution of wealth managers' priorities at a time of great change for the industry, and to shine a light on all the factors affecting their technology and operations choices. Tracing how institutions' priorities have shifted over three years and mapping these against broader developments has been a fascinating endeavour. It promises to be increasingly so as the rate of technology change continues exponentially.

The days when technology was almost a peripheral issue in wealth management seem very long ago now and today it is at the centre of most organisations' strategic plans in one way or another. Much of this has been driven by the industry's urgent need to protect revenues and reputations, but there is of course a far wider change at play. Whereas once technology was a fairly peripheral issue in many individuals' lives, that is emphatically no longer the case. In a world where great swathes of people look at their smartphones within moments of waking up, technology is increasingly the window through which we view the world - and certainly a primary means of navigating through it. In the words of one of the contributors to this report, wealth managers have got to move with the times and be where their clients are. Today, that increasingly means online, on mobile devices and on social media.

As such, wealth managers have had to get to grips with the fact that arguably all companies are technology companies in a sense today. Even those with no real digital ambitions have had to develop these channels significantly simply to meet clients' baseline expectations of being able to do business this way. Meanwhile, those with a broader vision have seen that digital delivery is rapidly shaping up to be one of the most important differentiators at their disposal.

As this report discusses, the gap between the leaders and the laggards on the technology front is widening to a gulf in many areas. While some institutions are known to be spending hundreds of millions of dollars on technology upgrades, overall progress is proving very patchy indeed. As previous *WealthBriefing* research has highlighted, full automation of business processes still stands at very low levels and manual workarounds abound. There is still a lot of paper being used in the industry.

The need for many of these workarounds stems, of course, from the relentless regulatory pressures institutions are under and the difficulties of continually amending their systems and processes to comply with ever-changing rules. Therefore, we have a somewhat ironic situation where institutions' efforts to get their houses in order are being hampered by exhortations to do just that. The rapid pace and impact of regulatory change - which our survey respondents see as increasing even further in the coming years - has become the challenge from which so many others flow.

This year we asked wealth managers for the first time how much the compliance burden has hampered their strategic technology investments and sapped corporate energy that could be better deployed on real innovations. Predictably, their answer on counts was a lot. And so, while wealth managers may certainly see the need to forge ahead with modernisation, many have been forced to push these plans to one side or at least to find alternative, more cost-effective paths.

Against this backdrop, wealth managers' increasing openness to options like cloud computing and outsourcing is just as one would predict. While margins remain under pressure and competition continues to heat up, firms are seeking to do more with less and focus their resources where they will have most impact. While touchpoints with clients and information on them are still zealously guarded by the industry, there is a growing recognition of the myriad benefits judiciously deploying third-parties can bring. Indeed, in areas like mobile app development or social media compliance monitoring it is arguably better to bring in these capabilities rather than trying to maintain them in-house.

As has been discussed, however, these kinds of decisions are highly nuanced and also highly individual to each firm. And, with so many variables at play, the sheer variety in technology and operations strategies we are seeing today can come as no surprise; even the issue of single vendor vs best-of-breed divides the industry, as we have seen. Whether a greater degree of consensus emerges in the coming years will be very interesting to see. What is clear at present is that wealth managers individually are grappling with finding the right technology and operations strategies for themselves, for now and for an increasingly competitive future.

WealthBriefing and SS&C | Advent would like to extend their warmest thanks to all the wealth management professionals and executives who were kind enough to contribute to this report. As ever, feedback on any of the issues that emerged or ideas for further investigation would be most welcome.

Wendy Spires
Head of Research
wendy.spires@wealthbriefing.com

WealthBriefing
Heathman's House
19 Heathman's Road
London
SW6 4TJ
Tel: 020 7148 0188
www.wealthbriefing.com

Over the last 30 years of industry change, Advent's core mission to help our clients focus on their unique strategies and deliver exceptional investor service has never wavered. With unparalleled precision and ahead-of-the-curve solutions, we've helped over 4,500 investment management firms minimise risk, work together seamlessly and discover new opportunities in a constantly evolving world.

Advent in Europe, Middle East and Africa now has in excess of 250 clients spread across the region serviced from our offices in London, Stockholm, Zurich, Oslo, Copenhagen, Amsterdam, Athens and Dubai. The main solutions used by our clients revolve around our integrated middle and front office as well as our industry-leading research management solution.

The Solution

The Advent Asset and Wealth Management Platform is simple to use, cost-effective to run and allows managers to focus on their core business giving firms the edge they need to stand out in an increasingly competitive market. It is a true end-to-end solution for wealth managers and institutional asset managers. Spanning the entire investment management process, it delivers value across the entire enterprise, from front, to middle, to back office streamlining workflows and replacing complexity with simplicity.

Either cloud-based or locally installed, the Advent solution integrates many critical business functions such as:

• Portfolio and client relationship management
• Trading and compliance
• Automated data collection and reconciliation
• Performance measurement
• Decision support and business intelligence reporting
• Revenue forecasting and management reporting
• Web based client statement generation
• Easy third party integration

For more information:

Advent Software
127-133 Charing Cross Road
London
WC2H 0EW

Web: www.advent.com
Email: emea@advent.com
Tel: 020 7631 9240

WEATHERILL

Weatherill Consulting was founded in 2008 and draws upon the experience of its CEO, Bruce Weatherill, and his associates.

Bruce was a Partner at PricewaterhouseCoopers for over 20 years and, until he left the firm in June 2008, was a Global Leader of PwC's Wealth Management practice, driving its biennial *Global Private Banking and Wealth Management Survey*. At PwC, he provided a range of audit and consulting services to a variety of wealth managers internationally, working with global institutions as well as smaller niche entities, listed companies and start-up operations.

Weatherill Consulting provides strategic advisory and consulting services to the boards of private banks and wealth and investment management firms around the world. Operating as a sounding board to senior executives, Weatherill Consulting brings to bear over 35 years of international experience to help wealth managers, both onshore and offshore, meet the challenges they face. A unique methodology of measuring and realising the benefits of "Trusted Advisor Status" has been developed to assist wealth managers improve their offering for HNW clients, increase profitability, enhance their brand and provide truly "value-added" services. Also, in conjunction with ClearView Financial Media, he has published reports on technology and operations trends in the wealth management industry and, with ComPeer, a review of execution-only brokers in the UK.

Bruce is a Non-Executive Director of a number of financial services companies - including Fidelity UK Holdings Ltd and ComPeer – along with being chairman of ClearView Financial Media Limited and JDX Consulting Limited. He is also deputy chairman of the Chartered Institute of Securities & Investments' Wealth Management Group.

Key Services

- Challenges to business strategy, market entry and business model propositions
- Strategy consulting on client-centricity and how to achieve and measure "Trusted Advisor" status – a key part of which is assessing value to an organisation by using a unique "Value of Trust" framework and methodology
- Facilitation of board and management-level strategy sessions, retreats, and workshops
- Training for wealth managers and professional staff within the wealth management industry
- Research, design and execution of thought-leadership reports on key issues within the wealth management industry

Contact:

Bruce Weatherill
+447889 123255
bw@weatherillconsulting.com
www.weatherillconsulting.com

EXCLUSIVE GLOBAL INTELLIGENCE FOR WEALTH MANAGERS

WealthBriefing is the premier news, features and information source for the global wealth management sector. Our premium service for subscribers provides daily news analysis emailed to you before 8.00 GMT every working day. As well as through your PC or laptop, this can also be accessed via your mobile phone. This service also allows full access to this site's subscriber area, which includes a database of articles and news going back to 2001.

Our Expert View section also gives subscribers extensive insights from industry insiders on issues including compliance and tax. Although aimed principally at front-office decision makers, *WealthBriefing* is useful for everyone within wealth management organisations, including middle- and back-office staff. Our distinguished Editorial Board ensures that nothing is missed and that the needs of subscribers are fulfilled at all times.