

WHITE
PAPER

Trends in Wealth Management in EMEA



TABLE OF CONTENTS

[04]	1. Increasing Regulation FATCA OECD Tax Treaties Retail Distribution Review
[06]	2. Competition Winning offering
[07]	3. Building on Trust
[07]	4. Performance and Fees Achieving Returns
[12]	5. Improving Client Service a. KYC / Communications b. Transparency c. Risk d. Advisory
[15]	6. Reformulating Business Models Business expansion Managing costs
[17]	7. Leveraging Technology for Greater Efficiency a. Integration b. Performance attribution and reporting c. Research management d. Managed services
[19]	Conclusion

The outlook for the wealth management industry has become increasingly mixed over the last year, combining some reassuring bright spots with threatening clouds.

According to the results of a recent survey of wealth and investment managers conducted by Advent Software,¹ 64% expect net wealth around the world to increase over the course of 2011, while 8% expect a decrease. The remaining 28% forecast the year to turn out flat. This contrasts with last year's survey, which found 77% expected an increase in net wealth, 18% a neutral effect and only 5% predicted it to decrease.

Indeed, the optimism expressed in last year's survey proved well-founded. The latest annual *World Wealth Report*² from Merrill Lynch Global Wealth Management and Capgemini notes that the combined financial wealth of the world's high net worth individuals (HNWIs) grew 9.7% in 2010 to a total of US\$42.7 trillion, surpassing the pre-crisis high of \$40.7 trillion in 2007. However, the growth rate slowed from the 18.9% rise seen in 2009. Likewise, the number of HNWIs increased by a healthy 8.3% in 2010 to 10.9 million, but below the 17.1% jump seen the year before.

Meanwhile, Boston Consulting Group's *Global Wealth 2011* report³ predicts wealth will continue to expand, growing at a 5.9% compound annual rate from year-end 2010 to 2015, driven by financial market performance, GDP growth and increased savings. The report expects wealth to grow fastest in Asia-Pacific (ex Japan) at 11.4%, while growth rates in Western Europe and North America will be slightly below the global average.

However, despite operating against this backdrop of growth, the challenges for wealth management organisations of servicing this client pool continue to intensify.

HNWI wealth may have recovered from the steep falls seen during the financial crisis, but the experience has left its scars. Capital preservation has become ever more important, a need underscored by the volatile market conditions and uncertainty that has re-emerged through 2011. Clients also continue to press for more control over their investments, and transparency into the actions of their service providers. Furthermore, firms must contend with a more onerous regulatory environment, and growing competition and margin pressure within the industry.

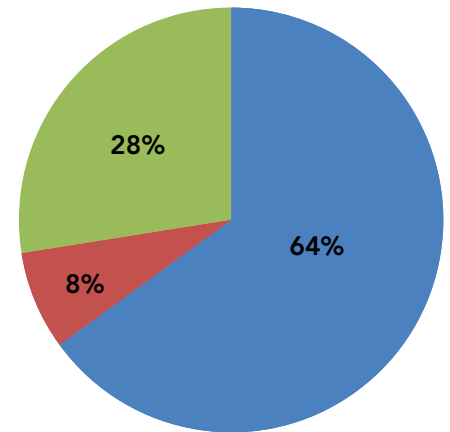
1 For the 2011 *Wealth Management Outlook*, Advent Software EMEA surveyed 79 Wealth and Investment Managers across Europe, the Middle East and Africa between 23 June and 7 July 2011.

2 *World Wealth Report 2011*, Capgemini and Merrill Lynch Global Wealth Management, <http://www.capgemini.com/insights-and-resources/by-publication/world-wealth-report-2011/>

3 *Shaping a New Tomorrow: How to Capitalize on the Momentum of Change*, May 2011

More Neutral Outlook for 2011

Q: How do you expect overall net wealth to evolve by the end of this year?



- Increase in net wealth expected
- Decrease in net wealth expected
- Neutral effect expected

This communication is provided by Advent Software, Inc. for informational purposes only and should not be construed as, and does not constitute, legal advice on any matter whatsoever discussed herein.

For many wealth managers it will become increasingly difficult to satisfy their clients' service expectations, meet their compliance responsibilities and earn a sustainable return on equity. Organisations with the proper skills and support infrastructure though face a world of opportunity.

1. Increasing Regulation

Increasing regulation—whether in the form of new regulations or amendments to existing ones—is having, and will continue to have, an enormous impact on industry participants. Among the welter of changes coming down the pipe, some of the more pressing include:

FATCA

The US Foreign Account Tax Compliance Act (FATCA) is due to take effect on 1 January 2013. Its goal is to prevent US taxpayers from avoiding taxation by using foreign accounts, and stop ineligible foreign citizens benefiting from favourable withholding tax rates.

As a recent KPMG report notes,⁴ FATCA will require participating foreign financial institutions (PFFIs) to identify direct and indirect account owners to determine if they are taxable US accounts i.e. clients who are from the US, or any client holding US assets. If they are, the PFFI has to disclose them annually to the Internal Revenue Service (IRS). Failure to comply will result in imposition of a 30% withholding tax.

Distributors classified as Qualified Intermediaries at present will become PFFIs. Independent distributors, such as private wealth managers and family offices, will need to register as PFFIs if they are not already and want to continue working with US clients or investing in the US economy. Alternatively, they can outsource functions to compliant organisations. Non-participation could put relationships with customers and service partners at risk.

To comply with FATCA, institutions will need significant information on their account holders—not least since, in effect, the onus is on non-US taxpayers to prove their exempt status. As a result, institutions will have to adopt a more intensive know-your-client (KYC) process, involving systems changes to capture the requisite information and staff training to ensure they are aware of their responsibilities and the impact on clients. Firms will then have to meet rigorous reporting requirements to provide the relevant information in a suitable format to the IRS.

⁴ *FATCA and the funds industry: Defining the path*, June 2011, KPMG International, <http://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/Documents/fatca-and-the-funds-industry-defining-the-path.pdf>

OECD Tax Treaties

The OECD clampdown on tax havens, spurred by the 2009 G20 summit, has put pressure on offshore wealth centres. As a result, a number of offshore jurisdictions have signed or are signing double-taxation agreements with other countries, and have instituted new policies on banking secrecy. For example, Switzerland has agreed to the exchange of information with a number of foreign tax authorities, which in some cases has forced Swiss financial institutions to provide details of individual clients and their holdings.

Forcing the introduction of more transparency in this way is having an inevitable effect on asset flows to offshore private banks.

Retail Distribution Review

The UK's Retail Distribution Review (RDR), which will also take effect from January 2013, will have a profound impact on all participants serving the retail investment marketplace in the UK.⁵

In a bid to promote competition and prevent distortion in the products and services provided to consumers, the RDR will put an end to the practice of bundling commissions into the cost of investment products. Instead, all payments will be made through 'adviser charges' to directly reflect the services being provided to clients. The intention is to create fee transparency, and bolster investor trust.

According to research carried out by global wealth consultancy Scorpio Partnership on behalf of Momentum Global Investment Management,⁶ more than 80% of independent wealth advisors are finalising their conversion to a fee-based business model to comply with the RDR. Along with this change in business models, firms will need to invest in systems that can streamline their cost bases and provide the functionality to improve client service. Furthermore, wealth managers must ensure their advisory staff meet the qualification requirements being instituted by the RDR, with the associated training costs that entails.

In the face of these cost and fee dynamics, the Scorpio Partnership research found that independent wealth advisors are moving up the value chain to target the top end of the mass affluent sector or the HNW segment, which provide more attractive business economics.

⁵ For more in-depth analysis see Advent Software's white paper, *The Retail Distribution Review: Is the Wealth Management Industry Ready?*, <http://www.advent.com/resources/white-papers/retail-distribution-review>.

⁶ *IWA market players redefine relationship with discretionary fund managers and upgrade segmentation as they prepare for life beyond RDR*, 20 July 2011, http://www.scorpiopartnership.com/uploads/pdfs/2011july_Scorpio%20Partnership_Momentum_Preferences%20and%20trends%20of%20the%20Independent%20Wealth%20Advisor_Press%20Release.pdf

RDR: The challenges for wealth managers

RDR Changes	Impacts	Challenges
Added qualification and ongoing training requirements.	Higher staff costs.	Ways to absorb costs include: <ul style="list-style-type: none"> ▶ Reduce profit margins. ▶ Limit employee remuneration. ▶ Increase client fees.
Better qualified staff.	Higher remuneration expectations.	Constrains managers' ability to limit remuneration to offset cost pressures.
Transparent charging regime.	End-clients and outsourcing partners increasingly price-sensitive.	Limits managers' ability to raise fees.

At this stage it is not clear exactly what form all the new legislation and regulatory amendments will take, or what their long-term effect will be. Nevertheless, what is evident is that changes to the global regulatory landscape will require additional investments by wealth managers, be it for staff, training or technology.

2. Competition

Retail, commercial and investment banking operations are coming under unprecedented pressure from a combination of tougher capital and liquidity requirements, funding constraints, a squeeze on margins and slump in securities trading volumes. By contrast, the Merrill Lynch/Capgemini World Wealth Report observed that: "Within diversified financial services firms, wealth management profit margins have been more stable than those of the broader financial services organization."

Given these trends, it is not surprising that a number of universal banks have already signalled a desire to step up their presence in the wealth management sector.

Nevertheless, the Merrill Lynch/Capgemini report pointed out that "wealth management margins have been steadily eroding each year since 2006. This decline occurred as Firms absorbed increased costs from compensation (recruiting and retention) and regulations (new burdens in processing, IT and training) while investors remained heavily invested in conservative instruments that generate limited fees."

The Scorpio Partnership research also highlighted the margin compression taking place in the industry, saying top line asset-based fee revenues charged by wealth advisors have fallen from an industry norm of 150 basis points to 100 bps since the financial crisis. The advisors surveyed expect the trend to continue, with fees hitting 75 bps by 2013–15.

Winning offering

In an environment where clients are becoming more price sensitive, and price transparency is growing, wealth managers need to ensure they provide a service offering that meets their clients' priorities.

According to the Merrill Lynch/Capgemini report, at present those include:

- ▶ Capital preservation and effective portfolio management.
- ▶ Specialised advice.
- ▶ More frequent/innovative communication.

The report went on to note that full-service firms are seen as better positioned to meet these client demands and have the financial strength to cope with the changing industry dynamics than pure-play wealth management firms or independent asset managers.

That contention appears to be borne out by additional Scorpio Partnership research, which found the top 20 largest wealth managers are gaining in dominance.⁷ Their share of the total assets under management benchmarked by Scorpio Partnership climbed from 77.1% at the end of 2009 to 81.6% a year later. The top 10 are even more dominant, controlling 67.9% of assets.

Nevertheless, the Scorpio Partnership study reported that smaller private banks achieved better investment returns in 2010, with firms managing less than \$20 billion in assets recording a growth rate of 12.4% on average. It was just under 10% at larger firms.

The key for smaller players, therefore, will be to continue to focus on delivering performance, and ensure they effectively communicate to clients the benefits they offer. At the same time, it is imperative firms continue to develop the high-value advice, investment and support services clients want.

Meanwhile, scale disadvantages will make it harder for smaller firms to absorb the rise in costs that are afflicting all industry participants.

Therefore, it is of the utmost importance that all wealth management organisations—and in particular smaller players—focus on bringing down costs (a topic we will return to later in the report).

⁷ Scorpio Partnership's *Global Private Banking Benchmark 2011* is its 10th annual Key Performance Indicator benchmark of the global private banking sector, July 2011, http://www.scorpiopartnership.com/uploads/pdfs/110707_Scorpio%20Partnership_PRESS%20RELEASE_2011%20Global%20Private%20Banking%20Benchmark.pdf

3. Building on Trust

The weaknesses exposed in the financial industry as a whole during the credit crunch and its aftermath led to a crisis of confidence as investors lost trust in their service providers. And without trust, clients and potential clients are understandably wary of handing over their money.

With the global economic recovery seen in 2010, and the resurging fortunes of the world's HNW population, trust has returned, according to the Merrill Lynch/Capgemini report. Its figures for 2010 show that 98% of HNW clients have trust and confidence in their financial advisors, compared to 59% in 2009. It also found that 88% of HNW clients have trust and confidence in their wealth management firms, up from 56% the year before.

Nevertheless, the wealth management industry is struggling to translate this restoration of trust and the rebound in HNW wealth into asset inflows. Scorpio Partnership's *Global Private Banking Benchmark 2011* reported a near 19% fall in the rate of net new money coming into the industry. The overall rise in assets under management in the sector, therefore, mostly reflects growth from market performance—which can be extremely fragile, as the steep falls in global equity market indices seen during 2011 demonstrate.

In this environment, the question facing wealth managers is how they can build on their revived reputations to cement their existing customer relationships and attract new clients and new money inflows.

4. Performance and Fees

The financial crisis left a deep imprint in the minds of many wealthy investors, with the volatility seen through 2011 serving as a further and unwelcome reminder. In response, HNWIs have changed the way they view their wealth manager relationships, becoming more focused on:

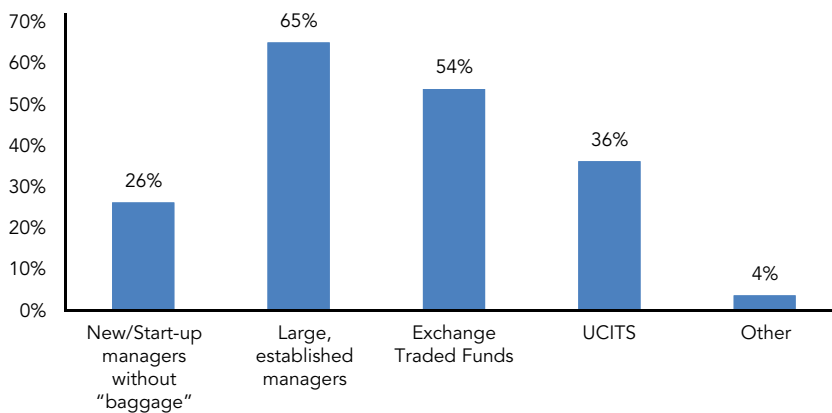
- ▶ The quality of investment advice and performance they receive—with a marked emphasis on capital preservation and enhanced risk management.
- ▶ Closer engagement in their financial affairs, including receiving frequent and transparent communication from their wealth managers in order to be more informed and involved in the management of their assets.
- ▶ The fees they pay for those services.

For firms, this is translating into more intense competition to attract assets, more focus on benchmarked performance, and greater pressure on the fees they are able to charge.

Achieving returns

Over the last decade the investment management industry as a whole has seen a surge of interest in passive investing, as clients sought to take advantage of vehicles offering buoyant market returns with lower fees. That trend is also in evidence within the wealth management sector, as seen, for example, from the significant allocations made to exchange-traded funds (ETFs). Indeed, Advent's Wealth Management Outlook surveys for both 2010 and 2011 found 55% of respondents consider ETFs in their allocations.

Allocating Money



Q: In the current financial environment are the fund managers you consider likely to include: (n=77—several responses possible)

The flip side with passive strategies, as the crisis demonstrated, is the potential for enormous losses when markets head south. Such exposure to the vagaries of broad market movements does not sit well with HNW clients' current focus on capital preservation and risk control.

Active management

These concerns were apparent from the Merrill Lynch/Capgemini report, which revealed that capital preservation is important to 97% of HNWIs, and for 42% it is extremely important. In addition, the report noted that 94% of HNWIs say effective portfolio management is important (with 30% considering it extremely important), and that 93% deem specialised advice to be important.

In short, while there is some demand to use passive strategies that provide market exposure at low cost, HNWIs also want their wealth managers to be actively engaged in achieving the client's long-term financial objectives.

**Actively-managed funds:
Aligning the interests of managers and clients**

Investors Want to protect and rebuild/grow their net worth. Therefore seeking strategies that combine:

- ▶ better downside **risk protection**
- ▶ search for **alpha**

Managers Keen to demonstrate they have **investment expertise**—either in-house or by picking third-party funds—that provides value to clients and differentiates their services. Opportunity to move up the product value chain in search of **higher margins**.

Search for returns

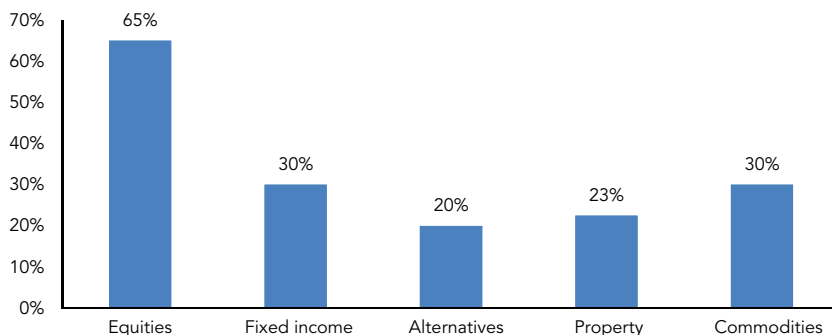
Capital preservation may be of paramount importance among HNWI, but the upturn in 2010 brought a resurgence in riskier investments, as managers and their clients seek out more attractive returns in the face of low interest rates and inflationary pressures.

For example, the Boston Consulting Group (BCG) survey reported that the share of global wealth invested in equities grew from 29% at the end of 2008 to 35% at year-end 2010. At the same time cash and deposits fell from 49% to 45%. Bonds made up the rest.

The Merrill Lynch/Capgemini report echoed the findings: its survey stated that equities made up 33% of HNWI clients’ holdings at the end of 2010, compared to 29% in 2009. The authors forecast the trend will continue, especially if there is a sustained economic recovery, with equities growing to 38% of HNWI holdings by the end of 2012, commodities and foreign currency allocations continuing to rise, fixed-income investments holding steady at 29%, and real estate and cash/deposit allocations falling.

Likewise, Advent’s *Wealth Management Outlook 2011* shows a similar bias of asset inflows towards equities over the first six months of the year.

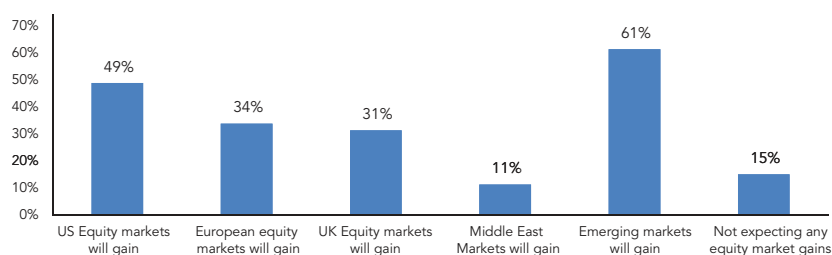
Shift in Asset Classes



Q: To which asset classes are you seeing the biggest inflows in the first 6 months of 2011? (n=77—several responses possible)

However, the survey reveals some tempering of risk appetites compared to the previous year's findings, when 76% of respondents saw equities accounting for the biggest inflows, with alternatives at 42% and fixed income at 28%. There is also less conviction that the different equity markets around the world will register gains. These shifts are hardly surprising, given the combination of the Arab Spring, resurgent Eurozone debt crisis, US budget debacle and the stalling global economic recovery, which together are fostering a climate of extreme uncertainty.

Equity Markets That Will Gain



Q: Looking ahead, what are your current expectations of equity markets overall for 2011? (n=77—several responses possible)

For wealth managers, the situation presents real challenges as they seek to juggle conflicting demands. On the one hand, clients' focus on capital preservation will make managers wary of committing to riskier asset classes, yet they cannot rely on low-risk instruments as inflation is eating into cash deposit interest rates and fixed-income yields. On the other hand, wealth managers are being called on to generate outperformance in order to justify their fees.

Faced with these demands, it is essential that firms:

- i) Have a clear understanding of their clients' risk profiles.
- ii) Formulate an asset allocation strategy that reflects those profiles and meets their fiduciary responsibilities.
- iii) Have risk management capabilities that help them achieve robust risk-adjusted returns.

5. Improving Client Service

Improving client service is a varied and never-ending task. However, in the current environment it comes down to a number of core elements.

a) KYC / Communications

As mentioned above, the FATCA legislation will up the ante on institutions' know-your-client processes. But KYC should not be seen purely as a regulatory requirement. Rather, capturing, storing and analysing client data—to better segment customers and provide the right products to meet their needs at any given time—is becoming an ever more crucial piece of the client servicing jigsaw.

Historically...

...firms segmented clients according to:

- ▶ Investable assets.
- ▶ Broad risk tolerance categorisations (conservative, moderate or aggressive).

The losses sustained during the financial crisis, with the evident lack of effective downside risk protection, exposed the shortcomings of these traditional client approaches.

Today...

...risk analysis is putting more emphasis on:

- ▶ Client goal assessment.
- ▶ Behavioural finance approaches that leverage risk profiling and suitability assessments to better understand those client goals.⁸

That requires more comprehensive KYC information...

...to enable wealth managers to understand clients' needs and desires, and thus help them formulate more appropriate financial plans. Going forward, firms will also be better placed to target relevant products and services at individual clients.

Crucially, the emphasis in the financial services industry is shifting away from explicitly pushing products, as was the case pre-crisis, to building a reputation as a trusted advisor. Communicating with clients to obtain detailed knowledge of their needs and wants will help firms achieve that role, and thus hold on to and develop those relationships.

⁸ For example, see Barclays Wealth's Risk and Rules: The Role of Control in Financial Decision Making for a discussion on developments in behavioural finance, <http://www.barclayswealth.com/insights/volume13.htm>.

b) Transparency

In the wake of the crisis, an ethos of transparency has become vital. The Merrill Lynch/Capgemini report, for instance, found that 93% of HNWI's said transparency on statements and fees is important to them.

One of the issues that became evident during the crisis was that many investors realised they had not entirely understood the investment strategies their managers were pursuing, or that there was a drift away from the original strategy agreed. In addition, since there was insufficient transparency into the actual portfolio positions, investors had limited ability to see where investment performance was achieved, or to understand the levels of risk they were facing.

With the benefit of greater transparency, investors gain more visibility into fee structures, the investment decisions taken, and the risk profiles of those investments.

Yet transparency entails not just giving investors more information, but providing them with explanations. As a result, wealth managers are being called on to communicate:

- ▶ Why they have made and are making the investment decisions they have.
- ▶ Why those investments performed the way they did.
- ▶ Why the clients are being charged the fees they are.

Communicating transparency

With HNWI's keen to be more involved in their financial affairs, and have a better picture of how their wealth manager is looking after them, communication has become integral to firms' service proposition. The trend is clear from the Merrill Lynch/Capgemini survey, which found that 84% of HNWI's say more frequent/innovative communication is now important to them. Furthermore, the report noted that HNWI's also expect more choice in the means of communication, for example by leveraging digital media and mobile applications.

These developments are being further reinforced as the industry's demographics evolve, with the emergence of more female, as well as younger HNWI's. In particular, the Merrill Lynch/Capgemini report pointed out that: "Younger HNWI's may also be more demanding of their Firms and Advisors in terms of transparency, efficiency, technology and convenience in everyday interactions, as many favour predominantly real-time digital media for communications and transactions."

c) Risk

Along with transparency, another major development to come out of the financial crisis is a heightened focus on risk. This emphasis includes both a greater awareness of the risks industry participants face, not least around issues such as counterparty risk, and a need to control risk in all its guises more effectively in order to generate substantive returns in a volatile world.

In this environment, wealth managers will need the ability to offer clients:

Scenario analysis...

...to demonstrate in a transparent and comprehensible manner the risks clients face by pursuing proposed asset allocation strategies and from investing in different products.

However, providing clear explanations is not always easy when dealing with investors not versed in complex risk topics. In such situations, some degree of investor education will be needed, to teach clients about the types of risks involved, and what impact they have on expected and actual returns.

Performance attribution reports...

...detailing the risks associated with the investments made, so clients can see the risk-adjusted return figures achieved. Going forward, regulators may also help drive this trend, by mandating investment managers deliver risk-adjusted information to end clients.

d) Advisory

As already noted, investor distrust sparked by the financial crisis means that, in many cases, customers want to be closer to their assets, and more involved in the investment process. As a result, clients have been far less willing to hand their managers discretionary mandates—which are attractive to managers as they tend to be ‘stickier’ and generate higher margins.

The BCG Global Wealth report noted that European onshore wealth managers have managed to increase the share of their assets held in discretionary mandates over the previous year. Some, for example, have had success by introducing innovative mandates based on ETFs—although ETFs are relatively low margin products. By contrast, the report found the proportion of Swiss offshore banks’ assets held in discretionary mandates, while rising, remains below pre-crisis levels.

With the renewed confidence in the wealth management industry there may be a longer term shift back towards discretionary mandates. In the meantime, those wealth managers that have, or can develop, strong advisory capabilities, often in addition to discretionary asset management services, will be better positioned to meet client demand.

To provide high quality advisory services, firms must be able to track all their interactions with customers. The reason is:

- ▶ It ensures they remain in **compliance** with their regulatory obligations, for example under the European Union's Markets in Financial Instruments Directive (MiFID).
- ▶ By providing a recorded history of everything discussed with each client—the services they are interested in, why they were sold certain products and not others, how their financial situation has changed over time—the firm can maintain a continuity of relationship and be in a position to best meet their needs for the future, even if the point relationship manager leaves the organisation.

Meanwhile, web-based solutions and mobile applications can facilitate a two-way exchange of information. For example, it gives clients a portal through which they can learn about products on offer or emerging trends in the industry, while providing the wealth manager with a fast and cheap means of communicating with clients.

6. Reformulating Business Models

Along with client specific areas of focus aimed at attracting new assets and holding on to them, wealth managers need to reformulate their business models to help spur revenue generation and improve internal operating efficiencies.

Business expansion

An obvious answer is to expand into new areas in a bid to source assets and boost/diversify revenue streams. Yet with many organisations also seeking to broaden their customer base and create more scale by spreading out to new markets, success will depend on each firm's ability to differentiate their offerings.

Targeting growth markets, especially those in Asia-Pacific, is one option. According to the Merrill Lynch/Capgemini survey, the region now has the world's second largest population of HNWIs, having surpassed Europe for the first time in 2010, while their combined wealth had already overtaken their European counterparts the year before. What's more, wealth in Asia-Pacific is growing fastest. The BCG report predicts Asia-Pacific (ex Japan) will see its share of global wealth jump from 18% in 2010 to 23% by 2015.

In light of these trends it is no surprise to find both regional and international wealth managers are pursuing aggressive expansion plans in these markets. Typically, international wealth managers target the region's offshore wealth, points out the BCG report. While the offshore emerging markets as a whole will remain a strong source of asset

inflows, the onshore Asia-Pacific market offers much more long-term potential for those firms with the right business model. According to BCG, this means:

- ▶ Moving down market to attract less wealthy and sophisticated clients than their traditional offshore and developed market investors.
- ▶ Developing innovative next generation products and services that foster growth and boost margins—for example, offering Renminbi denominated investment products, real estate investments and inheritance planning.

However, to move into new business territories firms need a flexible operating platform that allows them to offer differentiated services to each segment. And with more firms going after the same pools of money, improving operating efficiencies is increasingly important.

Managing costs

Cost/income ratios have become an increasingly prominent concern across the entire financial sector. Revenues have become increasingly constrained, while firms are wrestling with a host of cost pressures, including wage inflation, training expenses, higher regulatory capital and liquidity requirements, and ever more onerous compliance burdens.

Within the wealth management sector, Scorpio Partnership's Global Private Banking Benchmark 2011 found the industry's cost/income ratio had risen to 79.8% on average, with margin pressure intensifying across various measurements.

In the face of the on-going squeeze on margins and revenues, it is imperative wealth managers take steps to control costs. In recognition of the need for action, many of Europe's biggest banks have announced significant job cuts across their organisations in recent months. In some cases that is being combined with a simplification and delayering of their structures.

However, unless wealth managers ensure they have undertaken a strategic reengineering of their operational capabilities they will struggle to keep pace with evolving regulatory, product and client demands, and will lack the scalability to target areas of expansion as they arise.

7. Leveraging Technology for Greater Efficiency

An obvious way to cut costs, improve client servicing and foster revenue generating opportunities is through utilisation of a sophisticated IT infrastructure. Indeed, recognition of the benefits technology can offer was evident from Advent's wealth management survey. It found that more than half of respondents see IT as a way to improve services to clients, and over a third view it as a key contributor to efficiency.

Yet many wealth management organisations remain burdened by significant manual intervention in their operational processes, with the high staffing costs and error rates that go with it.

Such situations will be unsustainable going forward. The staff reductions and cutbacks of the last three years will put wealth managers in a position of having to do more with less across the board—whether it is in the front, middle or back office. Since a return to pre-2008 staffing levels is not expected anytime soon, if ever, wealth managers will need to look to technology solutions that drive automation and enhance efficiency. Beyond traditional enterprise portfolio management systems, we expect, therefore, to see greater emphasis on automated solutions for customer relationship management (CRM), reporting, reconciliation and research management.

But, like everything, some technologies are better than others. So what should wealth managers be looking for from an IT platform?

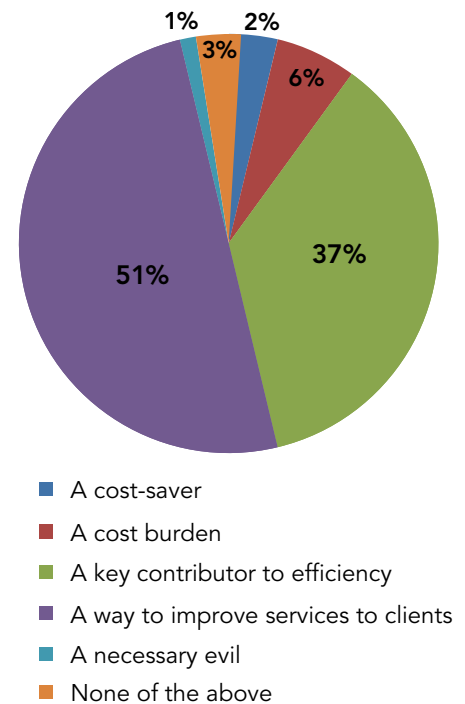
a) Integration

Automation requires an integrated set up offering a complete, straight-through environment that can handle each part of the processing chain, from front to back office, with a minimum amount of human involvement.

Furthermore, integration is not just about achieving internal automated connectivity, but in linking to external providers. One notable impact of the financial crisis is that organisations have been increasing their number of counterparties in a bid to diversify and dilute risks, and as they expand into new marketplaces. So it is imperative firms automate the links to this expanding roster of counterparties in order to minimise error rates, limit the pain of reconciling erroneous data across different systems, avoid data redundancy, speed up processing times and control operating costs.

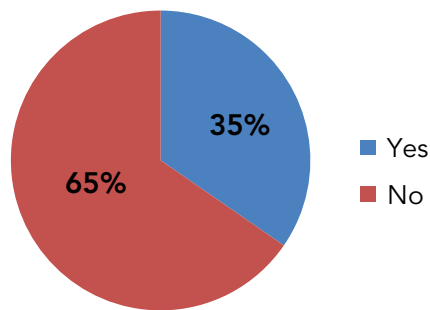
IT

Q: Within your organization, do you see IT principally as...?



Managing Your Research

Q: Does your firm employ a formal Research Management System (RMS) to centrally store and manage all research related information? (n=75)



b) Performance attribution and reporting

As discussed above, communication is crucial to maintaining investor trust and meeting their servicing expectations. Clients—whether individuals, families, or institutions—want more frequent yet comprehensible updates that give a breakdown of their holdings, show the transactions conducted and returns achieved by asset type, and allow them to monitor income and expenditures.

It is imperative wealth managers can meet these service requirements if they are to be successful. To do this, they must be able to gather details on a complex array of financial and physical assets, some of which may be handled by a range of managers, so as to obtain an aggregate view of the client's holdings and positions.

c) Research management

Wealth managers also face more pressure to communicate why they have made and are making the investment decisions they have, why those investments performed the way they did, and why the clients are being charged the fees they are.

Yet only 35% have a formal research management tool to keep track of all this information and have it available at the click of a button. Having such a capability presents firms with a great opportunity to gain a competitive edge.

d) Managed services

Having an IT platform that incorporates the various pieces of functionality is ever more essential. Yet for some wealth managers implementing the requisite software in-house involves a substantial investment they are hesitant to take on, especially during a period of such market uncertainty. For many investment management organisations, therefore, a managed service may offer an attractive, lower-cost IT alternative.

In particular, thanks to the development of cloud solutions, which have paved the way for Software-as-a-Service (SaaS) delivery models, users are now able to leverage a flexible and scalable technology platform that provides the functionality they require but without the burden of implementing and maintaining the software internally. Rather, the outsourcing service provider assumes responsibility for the technology's maintenance and optimisation, including daily monitoring of system performance and uptime, ensuring all interfaces are running properly, and implementing application upgrades to new releases as they become available.

In this way, the investment manager can take advantage of the latest technology innovations at a lower total cost of ownership, while maintaining a lean internal operational set-up.

Conclusion

The events of 2011 show the global economy—and Europe and North America in particular—is not over the financial crisis yet. The wealth of the world's HNWIs may have recovered over the course of 2010, but significant risks lie ahead.

In this environment, the challenge for wealth management organisations will be to prove to their clients they justify the renewed trust shown in them. For firms this means continuing to improve their levels of client service through the provision of valuable and independent advice, frequent and intelligible communications, and—most importantly—ensuring they have the portfolio and risk management skills to protect, and where possible augment, their clients' wealth. At the same time, firms have to find a way to tackle the growing cost, revenue and regulatory pressures facing the industry at large.

Sophisticated, yet functional technology that provides operating efficiencies to control costs, addresses firms' compliance responsibilities, better manages risk, helps generate investment returns and improves how firms communicate with clients will be a critical component in meeting these demands. Those organisations able to leverage the necessary infrastructure will be best placed to tackle the challenges and take advantage of the opportunities that await.



Find out more:
www.advent.com

ADVENT[®]
You can count on us.

ADVENT SOFTWARE, INC.

[HQ] 600 Townsend Street, San Francisco, CA 94103 / PH +1 800 727 0605

[NY] 1114 Avenue of the Americas, New York, NY 10036 / PH +1 212 398 1188

[HK] Level 8, Two Exchange Square, 8 Connaught Place, Central, Hong Kong / PH +852 2297 2280

[UK] One Bedford Avenue, London WC1B 3AU, UK / PH +44 20 7631 9240

Copyright © 2011 Advent Software, Inc. All rights reserved.

Advent and the ADVENT logo are registered trademarks of Advent Software, Inc. All other products or services mentioned herein are trademarks of their respective companies. Information subject to change without notice.

♻️ Printed on recycled paper.

WPWMEMEA0911E