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Smart strategies for growth

A study of the UK Wealth Management Industry

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"Wealth managers have historically had very high cost-income ratios and in today's environment they have simply got to get much more efficiency into their operations and much more productivity out of their workforce." —Ian Woodhouse, PwC

A "hot", but also hotly-contested market

The UK is undoubtedly a very attractive market for investment managers right across the wealth spectrum. Compared to markets such as the US and Australia, penetration is still believed to be relatively low at the more modest end, and recent pension reforms have added further huge opportunities to tap the billions of unmanaged wealth held to exist. At the upper end, the UK's populations of high and ultra high net worth individuals are impressive and continue to grow strongly.

The UK stands as a powerhouse on the world stage, with the wealth of its HNW population rising 1.1% over 2015 to now stand at £2tn ($2.53tn). Moreover, in the years to 2025, the UK is tipped to drive 10.5% of HNW growth worldwide, making it the fourth strongest market globally, behind only China, the US and India.[1]

The UK's broad asset management industry is now estimated to oversee a total of £5.7tn in assets,[2] with it posting a meteoric rise from £2tn to £5.5tn between 2003 and 2014.[3]

The UK exerts a very strong pull abroad too. Overall, its industry runs £2.2tn in assets for overseas clients, of which £1.2tn are European—a figure representing 37% of total European assets and which is more than the French, German and Italian industries combined.[4]

In wealth management and private banking specifically, the UK industry is currently estimated to run £734bn in assets,[5] generating revenues of £1.45bn in the first quarter of 2016 alone.[6]

There are some 200 institutions operating as wealth managers in the UK today,[7] and foreign players continue to pile in to add to the new domestic firms regularly springing up to tap the market's growth potential. London's status as a pre-eminent financial services hub (along with its lifestyle appeal) means that the wealthiest individuals from all over the world choose to make the capital their home. Yet there are also abundant pockets of wealth in other regions too, and so we see wealth managers being well represented in over 60 locations across the UK today.[8]

Despite the uncertainties created by Brexit, all manner of institutions are well justified in having high hopes for the UK market.

The picture is more complicated than one of untrammelled growth, however. As elsewhere in the world, firms working in the UK face weighty margin pressures off the back of the ever-increasing compliance burden, a persistent low-yield investment environment and competition from low-cost providers. Just as in other markets, robo-advice poses an increasingly pronounced threat to traditional providers in the UK.

Moreover, clients all over the globe are becoming more demanding and less loyal than ever and, with the biggest wealth transfer in history upon us, institutions will need to find ways to engage with a new, digitally-native generation for whom established financial brands might hold little sway.

1. RBC Wealth Management/Capgemini, *World Wealth Report 2016* (June 2016) https://www.worldwealthreport.com/
2. Investment Management Association, *UK: A Global Investment Hub* (September 2016) http://www.theinvestmentassociation.org/assets/files/about-industry/20160922-ukaglobalinvestmenthub.pdf
3. Investment Association, *Asset Management in the UK 2014-2015: The Investment Association Annual Survey* (September 2015) http://www.theinvestmentassociation.org/assets/files/research/2015/20150914-ams2014-2015-summary.pdf
4. ibid Investment Management Association, *UK: A Global Investment Hub*
5. Wealth Management Association, "Who We Are" (Accessed November 2016) http://www.thewma.co.uk/about-wma/who-we-are/
6. Compeer, *UK Wealth Management Industry Report 2016* (June 2016) http://www.compeer.co.uk/uk-wealth-management-industry-report-193.html
7. ibid Wealth Management Association
8. findaWEALTHMANAGER.com, Panel member information on office locations, Q1 2016

> "Increasingly, automation initiatives aren't just about taking costs down but also reducing risk. Institutions want to tackle inaccurate data capture and asset valuations, and communication flows that go to clients delayed or wrong in some way. The desire for a 'golden data source' has really come to the forefront."
>
> —Christian Edelmann, Oliver Wyman

Smart growth strategies required

Against this backdrop, it is clear that sustainable success is no longer simply a question of increasing assets under management and client numbers alone. Recent thought-leadership content from SS&C Advent has echoed a sentiment long espoused by *WealthBriefing* research: that rather than focusing on growth in bare terms, forward-thinking firms should be focusing on smart growth—that is, building a stronger, leaner, more agile business that is ready to adapt to, and even capitalise on, the rapidly-shifting industry landscape.

As well as offering huge growth potential, the UK investment management market is also one of the world's most variegated. It is a home to providers ranging from the full-service wealth management arms of international banking groups, to private banks, independent boutiques and asset/fund managers of all stripes. All of these may vary dramatically as to their business and operating model, targeting possibly very different types of clients at disparate levels of wealth. It therefore needs to be recognised that each institution will be seeking to grow in its own unique way.

That being said, common challenges mean there will be business goals shared almost ubiquitously among firms in the UK (along with those in the rest of the world). It is the aim of this paper to unpick which strategies they are pursuing most rigorously to achieve the kind of sustainable, smart growth necessary to thrive—and not just survive—as the industry and clients themselves evolve.

This research is based on surveys and interviews carried out with CEOs and other C-suite executives at 20 leading wealth managers operating in the UK, ranging from those owned by global financial services groups to traditional private banks, and everything in between (meaning that the sample could be said to be largely representative of the UK industry).

WealthBriefing and SS&C Advent are very grateful for these business leaders' insights, as well those of the expert contributors named in this report, and would welcome any feedback arising from them.

The automation imperative: seeking efficiencies "business as usual"

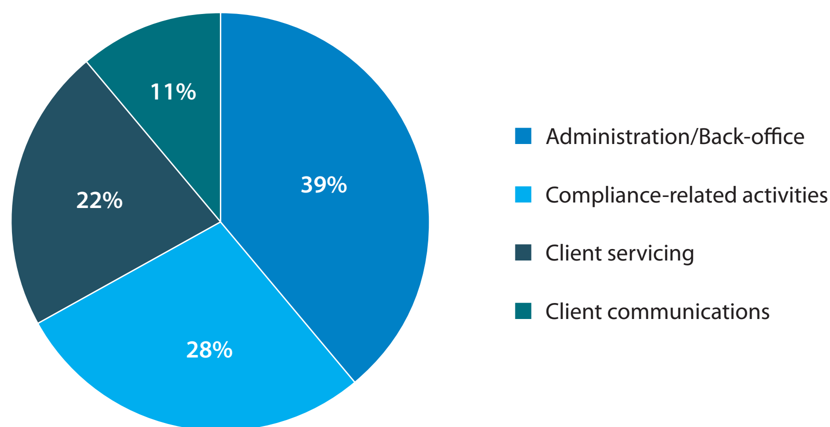
In recent years the wealth management industry's evolution has been characterised by an ongoing shift away from labour-intensive ways of working and towards greater standardisation and automation wherever possible.

The ever-rising compliance burden and spiralling costs mean that in all but the lowest-volume, highest-value areas of the industry (like the family office space), heavy reliance on manual processes has become untenable. The sector has long recognised that having staff (particularly those that should be generating revenues) tied up with administrative tasks and laborious workarounds is serious drag on profitability, as well as increasing risk to the business.

As Christian Edelmann of Oliver Wyman observed: "Increasingly, automation initiatives aren't just about taking costs down but also reducing risk. Institutions want to tackle inaccurate data capture and asset valuations, and communication flows that go to clients delayed or wrong in some way. The desire for a 'golden data source' has really come to the forefront."

Figure 1: **Back-office savings most strongly sought**

Where would your institution most want to make efficiency gains?



The result is that technology is now seen as something of a saviour—even in this high-touch "people business"—to the extent to which 44% of wealth management professionals say it is critically important to meeting compliance obligations, for example.[9] As a result, investment in IT has soared right across the sector.

As Ian Woodhouse of PwC pointed out: "Wealth managers have historically had very high cost-income ratios and in today's environment they have simply got to get much more efficiency into their operations and much more productivity out of their workforce." It is therefore as to be expected that this study found pursuing greater automation to be very much a "business as usual" strategy for UK wealth managers, if not perhaps absolute top priority: it is high on the agenda for over three-quarters (77%) of firms (see Figure 5, page 8). The question of where precisely firms would most like to make those efficiency savings is more nuanced, however.

[9] *WealthBriefing/SS&C Advent, Technology and Operations Trends in Wealth Management 2017* (December 2016)

[10] ibid

[11] *WealthBriefing/Avaloq, Evolving Operating Models in Wealth Management* (May 2016)

Back-office efficiencies front of mind (even before compliance)

The financial services industry's journey towards maximum automation may be well underway, but full digitisation is still quite rare and progress has been uneven across operations generally. Advances in Straight-Through Processing may have seen settlement cycles slashed from over a week as (relatively) recently as the 1990s, to most now having ambitions of real-time. However, in this and other standardised areas, real-time processing often still remains the ideal rather than the norm, and paper persists in many corners of operations. This and the perennial connectivity and dataflow issues presented by legacy, siloed systems mean that the quest to eradicate manual work is far from complete.

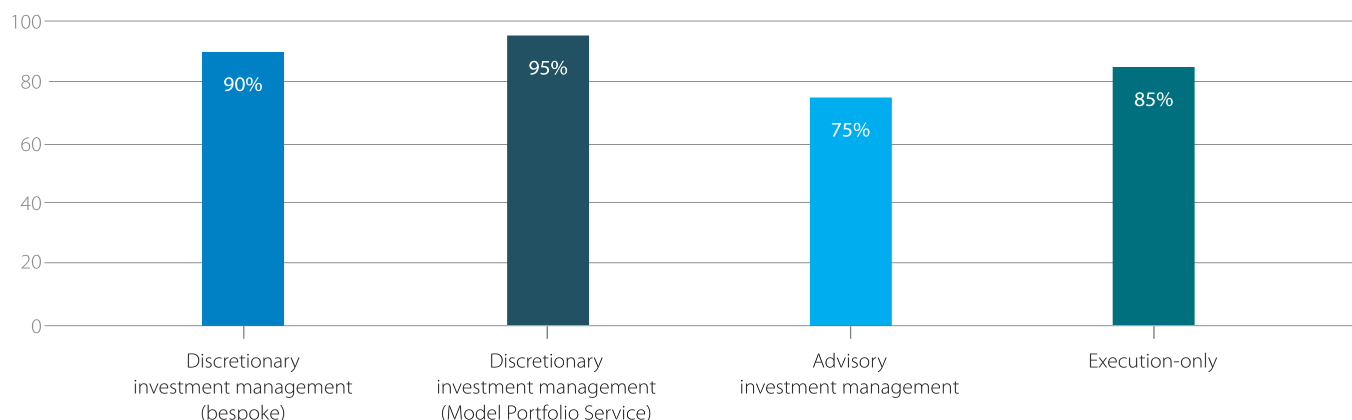
Correspondingly, although great progress has been seen industry-wide in many back-office and administrative functions, this study shows that UK wealth managers feel far greater gains remain. Close to four-in-ten C-suite executives say their institution would most like to make efficiency gains in administrative and back-office functions, making this their first priority ahead even of the perpetual (and growing) drag on profitability that is regulatory compliance. This is despite 73% of wealth managers globally expecting the pace of regulatory change to increase even further over the next three years.[10]

Looking at AuM correlations, it was found that larger firms are pursuing back-office efficiencies most rigorously, while smaller players are focusing more on reducing the regulatory burden—a finding that stands to reason, given the very much smaller compliance teams the latter will likely have. Generally, however, administrative/back-office savings are being put quite significantly ahead of those that might be sought in compliance.

This seems to be a function of institutions seeing easier, possibly more profitable wins in the former area and very much greater risks in the latter. In recent years there has been a marked trend towards firms wishing to focus on core business and re-divert resources usually spent on standardised activities towards value-adds, and today 56% of institutions see this as a top priority.[11] Meanwhile, *WealthBriefing* research has repeatedly found that wealth managers are much more open to new ways of working, such as Business Process Outsourcing, in the most standardised "behind the scenes" activities, rather than those where reputational or regulatory risk might be more of a concern.

Figure 2: **Discretionary remains dominant, with CIPs core today**

Which investment options does your firm offer?



Efficiency ambitions not *all* back to front, however

The digitisation of the sector may have largely originated in the back-end and be progressing towards the front-office, yet perhaps surprisingly we see that almost a quarter of the wealth managers sampled most wish to make efficiency gains in client servicing. Here, the prevalence of model portfolios in the UK is significant, as is the increasing acceptance of digital front-office tools.

As Figure 2 shows, the "traditional" investment approach (i.e. personally-tailored, discretionary portfolio management) seems to still dominate the UK market, with 90% of respondents offering bespoke—despite the very much greater costs that may imply.

However, it is clear that firms in the UK have also fully embraced the scalability and cost-efficiencies Centralised Investment Propositions can confer, while seeming to shy away from the resource-heavy (and possibly profit-light) nature of providing advisory-only: an overwhelming 95% of firms offer model portfolios compared to only three-quarters providing advisory services.

In contrast to markets like Asia, the UK can be said to be overwhelmingly discretionary in flavour (for the time being at least). But, the extent to which the availability of true tailoring is determined by client preferences, or by what wealth managers themselves prefer to offer, is debatable.

Discretionary certainly seems to be favoured by the majority of clients in the UK: for example, year to date, an average of 62% of the HNWs coming to online matching service findaWEALTHMANAGER.com requested this kind of relationship.[12]

Yet at the same time, the labour-intensiveness of providing truly bespoke discretionary portfolio management appears to be increasingly making this the preserve of wealthier investors only. Although some UK firms do offer this at investment levels of £100,000 or even lower, most are seen to be setting thresholds of £1m or well above. In fact, several of the larger wealth managers operating in the UK today are known to set the bar for bespoke at £10m. (It should be said, however, that models are often tailored to individual clients' requirements to quite a large degree.)

[12] findaWEALTHMANAGER.com, User figures Q1-Q3 2016

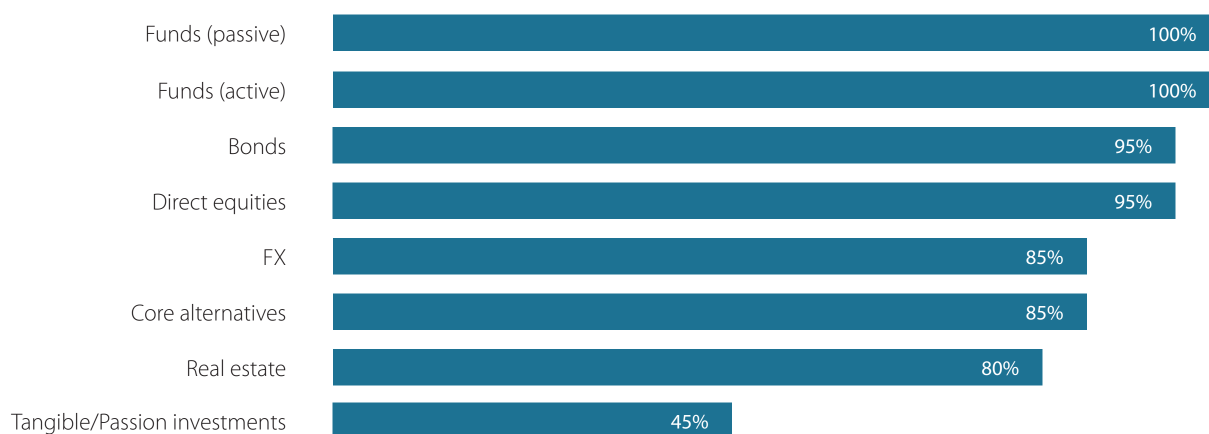
Although several UK wealth managers do still make a virtue of bespoke portfolio management and stock-picking, there is some debate as to how much of a value-add this is unless "extreme personalisation" really is warranted. While different firms have differing USPs, there seems to be growing enthusiasm for greater automation in portfolio management across the board, something likely bolstered by the increasing sophistication of automated solutions.

"Much of the efficiencies we want to achieve are in actually *managing* the investments. If relationship managers are intensively involved with running portfolios, that's a big distraction. It's a big change of mind-set, but spending less time doing that means having more time to be out there gathering assets. That's where the main game is going to be."

—CEO of a £500m AuM boutique

Figure 3: **Funds absolutely core to the UK investment offering**

Which of the following are included in your institution's investment offerings for private clients?



As the CEO of a £500m AuM boutique said: "Much of the efficiencies we want to achieve are in actually *managing* the investments. If relationship managers are intensively involved with running portfolios, that's a big distraction. It's a big change of mind-set, but spending less time doing that means having more time to be out there gathering assets. That's where the main game is going to be."

This comment certainly reflects what SS&C Advent is seeing in the UK market, Paul Bebber said, observing that industrialising the investment management process has to be a top priority for most firms in the UK—and elsewhere—today. "Investment managers operating at any significant volume of business have to find efficiencies in portfolio management, potentially with automated rebalancing often seen as the first item on their agenda," he said.

The prevalence of model portfolios in the UK wealth management market doubtlessly has a significant bearing on the typical investment range on offer. The ubiquity of funds is unsurprising when we consider how they can allow the execution of investment views on a huge range of markets, sectors and themes in a way that is well suited to a models approach, and which may be very cost-effective for both institution and client.

Institutions are doubtless cognisant that the consumer press has done much to promote the cost-effectiveness of funds-based (and passive) investing, with messages including that for a £10,000 investment, it can cost seven times more to build a "DIY" portfolio of shares rather than buying an equivalent fund.[13] Indeed, recent years have seen a proliferation of firms that construct model portfolios exclusively from Exchange-Traded Funds, and competitive pressure from these low-cost providers—especially robo-advisors—will only increase.

The transparency of funds-based offerings may also be said to carry compliance benefits over individual stock-picking, particularly from a Treating Customers Fairly perspective. Arguably, the increased focus on suitability from the Financial Conduct Authority (alongside other global regulators) is also in evidence. The creeping homogenisation of investment offerings towards "vanilla" assets that are easier to market and document suitability for has been well noted by industry commentators (although this may be more pronounced at the lower end of the wealth spectrum).

That funds, bonds and equities are easier to price and therefore report on will also be a factor as firms seek to keep advisors' workloads manageable amid the often quite high client-loading figures discussed later in this paper. Here it is of note that in 2015, *WealthBriefing* research found that 21% of relationship managers have to spend over two hours preparing for each annual client review meeting, with 43% saying that a great deal of manual work is required for this task.[14]

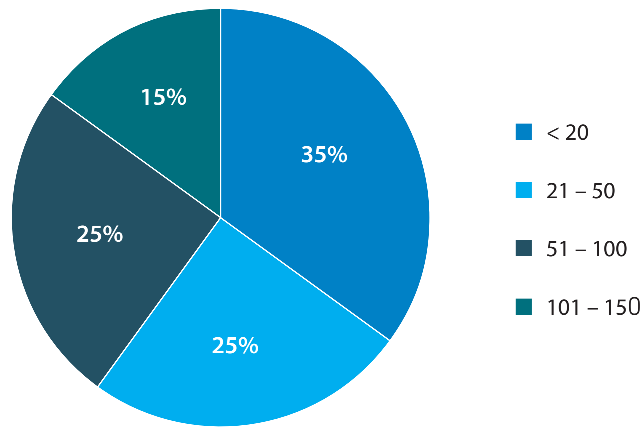
It is to the credit of the UK industry, then, the majority of the firms included in this study provide almost all of the asset classes under assessment. We even see that 45% participants include tangible/passion investments in their offering, although this may only be for higher-value clients.

[13] Oxera, *The Contribution of Asset Management to the UK Economy* (July 2016) http://www.oxera.com/getmedia/4f076fb9-776a-436d-8e2c-5fa1d2324e81/The-contribution-of-asset-management-to-the-UK-economy.pdf.aspx?ext=.pdf

[14] *WealthBriefing/SS&C Advent, Help or Hindrance? The Link Between Technology Provision and Advisor Productivity* (June 2015) http://cdn.advent.com/cms/pdfs/papers/ir-wealthbriefing-technology-provision.pdf

Figure 4: **A very much heavier client burden for some RMs**

What is the average client loading per advisor at your institution?



Omni-channel the number one growth strategy today

Given the very much higher personnel costs associated with client-facing staff, the automation imperative clearly spans the front, as well as middle and back-office. The need for firms to achieve efficiencies in client servicing and communications becomes even more apparent when current client-loading figures are taken into account.

As Figure 4 underscores, the highly diverse nature of the UK wealth management market—and in turn of the firms included in this study—means there is great variance in client-loading levels, but it is clear many advisors in the UK have large books to contend with. Although 60% of the sample have advisors managing fewer than 50 client relationships each, at the same time 25% have 51-100 clients and 15% even more than this.

Such figures may still be substantially lower than is typical in the mass affluent space, where client books of up to 300 or even more may be seen, but they still underscore how desirable a higher degree of automation in client servicing and communications will be for many firms—particularly given the amount of relationship managers' time which is likely to be eaten up by administration and compliance-related tasks today (anecdotally, some say as little as a third of their time can now be deployed with clients).

As several interviewees pointed out, automation in client servicing and communications is also very much about reducing regulatory risk.

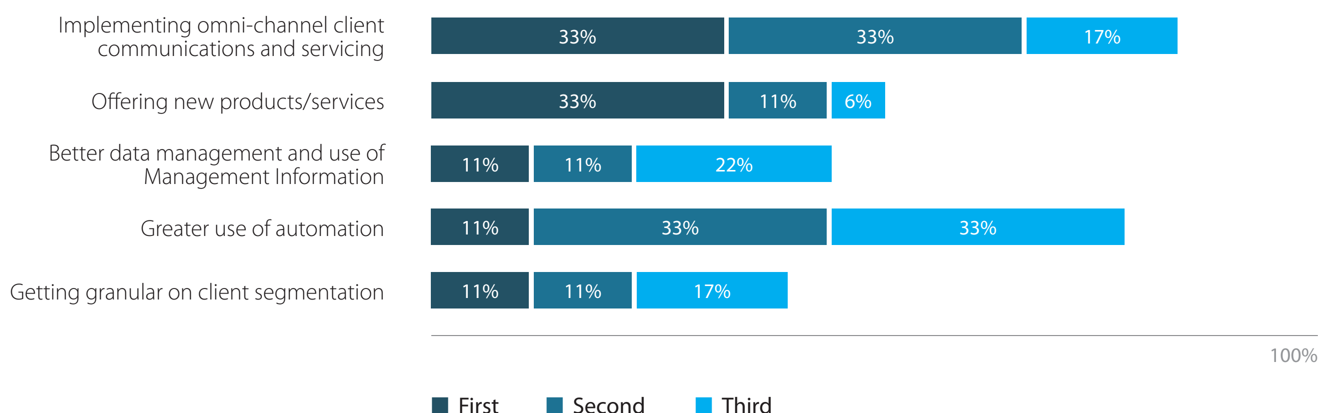
Here, the Head of Investment Management at a £800m AuM wealth manager said:

"Automation is about robust audit trails as much as efficiencies. Rather than scatterings of information on clients, you need a CRM system that enables you to capture every meeting and phone call—one that, when the phone rings, can detect that number in your address book and automatically log that call so it's never lost.

"Those are the sorts of things we need to implement, both for evidencing and to reduce the time required for writing endless notes."

Figure 5: Omni-channel core to growth

What are the top three strategies your firm is pursuing most strongly (or most interested in)?



It is difficult to escape the term "omni-channel" today but, as Figure 5 indicates, the term more than merits its place at the forefront of industry dialogue. Arguably, the most striking finding of this study is that a third of C-suite executives say their institution is pursuing digital methods for client communications and servicing as their main method of achieving growth.

As previously discussed, 22% of UK wealth managers say client servicing is the area where they would most like to achieve efficiency gains, while 11% are looking to streamline client communications. But the industry's focus on omni-channel interactions is obviously about far more than efficiencies alone—although these may be very great indeed.

The issue really at stake is delivering an enhanced client experience that satisfies sophisticated digital service expectations and so increases loyalty, wallet share and brand promotion among existing clients, while simultaneously helping to attract new assets. At root, it is no less a question of how relationship managers and the wider institution can hope to do this unless they can communicate with clients (and prospects) when and via the channels they prefer. More and more, this means digitally: only a third of UK clients still prefer general communications with their wealth manager in the shape of letters or calls, as opposed to digital methods such as email, client portals, apps and webchat.[15]

Developing mobile capabilities remains a huge focus. In a world where these devices are increasingly people's main way of accessing the internet, and the average person touches their smartphone display an incredible 2,617 times each day,[16] it is unsurprising that a third of advisors believe that having mobile access to portfolio data and analytics would greatly enhance their ability to serve clients.[17]

Indeed, as Paul Bebber pointed out, although there tends to be a lot of thought put into securing advisor buy-in for new technologies, it is often more the case that pressure to invest is actually coming from client-facing personnel. "Often when we go out into the market, it is advisors themselves asking why they don't have the latest tools," he said. "Having the ability to produce bespoke reports on a tablet while meeting with clients is something that gets relationship managers particularly excited, for example."

However, while giving clients and advisors the ability to access portfolio information via tablets and smartphones may have rightly been the priority hitherto, now the concept of multi-channel communications and servicing is becoming far broader. As wealth managers move to match other industries (and indeed retail financial services), it is more about how multiple tools and platforms can be combined to deliver a seamless, personalised digital experience geared towards relationships being deepened and business being actually transacted conveniently. Information is increasingly being communicated in both directions in a true digital discourse.

Digitisation in client onboarding is a case in point, with mobile apps, digital signatures, biometrics and workflow tools being brought together by forward-thinking firms to massively streamline what has historically been a very paper-heavy process indeed and bring delays in being able to do business down from possibly months to days (or even hours).

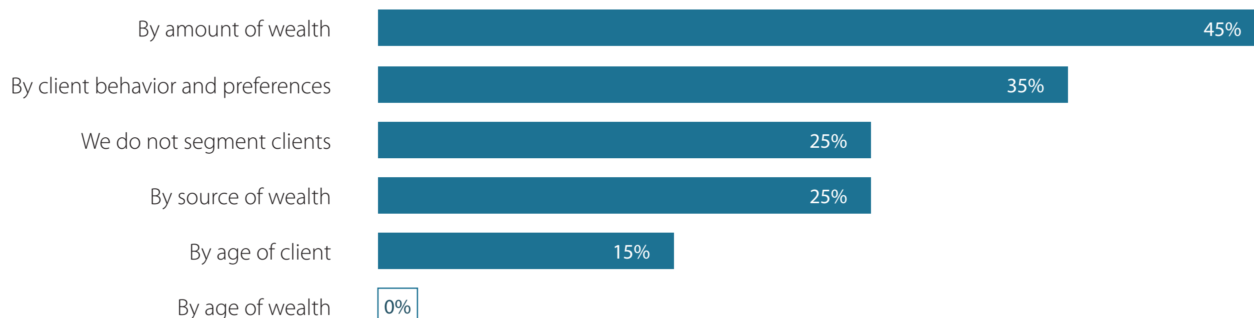
[15] findaWEALTHMANAGER.com, *Maximising Multi-Channel: Unpicking Clients' Communication Preferences,* (April 2015)

[16] dscout, *Putting a Finger on our Phone Obsession* (June 2016) https://blog.dscout.com/mobile-touches

[17] ibid *WealthBriefing/SS&C Advent, Help or Hindrance? The Link Between Technology Provision and Advisor Productivity*

Figure 6: **Traditional segmentation techniques still prevail**

Which of the following methods of client segmentation does your firm utilise?



Meanwhile, there is increasing recognition that far from being novelties, social media, instant messaging and video calls can be cost-effective, highly-engaging means of client interaction. While in-person meetings will remain central in wealth management, hybrid communication and servicing models that unite the best of the digital and physical worlds seem to be very much where things are heading. Significantly, the move towards omni-channel has even trickled through to the relationship-dependent, somewhat technology-averse intermediaries sector. Around a quarter of UK IFAs predict a fall in face-to-face client meetings over the next five years and a corresponding greater reliance on Facetime and Skype.[18]

Precise segmentation an under-used strategy

As the start of this paper set out, the UK may be a "hot" market, but it is also a hotly-contested one. Competition is fierce for an increasingly empowered and discerning client base—one that may be getting larger, but is correspondingly more diverse. To win in this environment, wealth managers really need to be playing to their strengths and focusing on their "sweet spots" within the addressable market.

As Ian Woodhouse observed: "In the past things tended to be fairly homogeneous. But now, here in the UK, as elsewhere, we're going to see a dramatic re-segmentation of the customer base to acknowledge that different clients increasingly want very different things. The issue then is how does the wealth manager deal with the fragmentation? How do you meet all those different needs and still make money?"

A big part of the answer, if current industry dialogue is any indicator, is better use of client information. The cost pressures the wealth management industry faces would logically dictate that institutions would be paying great attention to precisely segmenting clients and prospects. Firms will naturally want to focus their energies in areas which maximise revenues, and ensuring investors are being offered appropriate products and services is as much about protecting profitability as it is regulatory compliance.

But although granular segmentation techniques are being increasingly espoused by industry luminaries, this doesn't seem to have translated very convincingly into the strategic plans of UK wealth managers as yet: according to this study, it is a top growth strategy for only one in ten firms (see Figure 5, page 8).

Moreover, as Figure 6 shows, a surprisingly high 25% are not formally segmenting their clients at all, while those that do are tending to rely the bare metric of the client's level of wealth (and therefore the revenue they generate). Where that wealth came from and whether it represents "new money" is taken into account far less frequently—if at all. As James Edsberg confirmed: "Most institutions are still relying on the blunt criteria of an individual's investible assets rather than other, needs-based segmentation approaches."

"We're going to see a dramatic re-segmentation of the customer base to acknowledge that different clients increasingly want very different things. The issue then is how does the wealth manager deal with the fragmentation? How do you meet all those different needs and still make money?"

—Ian Woodhouse, PwC

[18] Investec Wealth & Investment, "Clients and advisers still value the human touch despite rise in digital" (July 2016) http://wealthinvestment.investec.co.uk/about-iw-i/newsroom/press-releases/clients-and-advisers-still-value-the-human-touch-despite-rise-in.html

> “Most institutions are still relying on the blunt criteria of an individual’s investible assets rather than other, needs-based segmentation approaches.” —James Edsberg, Gulland Padfield

Correspondingly, it was found that just 15% of respondents segment clients according to their age, despite the fact that the UK’s recent pension reforms very much impact the savings plans of HNW individuals (in particular the lifetime allowance). The lack of focus on age also seems to be incongruent with the fact that products orientated towards goals-based investing are of most interest to firms today (see Figure 7, page 11). Furthermore, although it would be unwise to unilaterally assume older clients are less open to omni-channel servicing and communications, a case could be made for younger clients certainly being more so.

Summarising Gulland Padfield’s view of the situation, Edsberg argued that while some firms seem to still be using “bespoke” as a reason not to attempt an intelligent segmentation strategy, this is extremely unwise. Not only are the costs of a truly bespoke offering unsustainable, but firms using this as a “cover” for segmentation weaknesses also risk disappointing clients who expect providers to cater precisely to the unique needs signalled by their profile. As such, a significant opportunity exists for firms eager to leverage modern segmentation strategies.

“Our recent annual review of the client strategies of the major private banks concluded that many have only just begun to explore how to serve those clients who share specific needs in common,” he said. “Technology provides the key that might close this gap between the promise and the reality of client segmentation through the capture and better use of management information.”

This study confirms that there are encouraging moves afoot, finding that over a third (35%) of UK institutions are segmenting clients according to their investment behaviour and preferences in areas such as communications. Although *really* granular segmentation appears to be at a fairly nascent stage, it seems that a growing body of institutions are starting to leverage the advanced data management and analysis capabilities now available to them. This chimes well with a third of survey respondents having said that offering new products and services is a top growth strategy for their firm (Figure 5, page 8). A desire to uncover emerging needs and hone offerings to better meet them was mentioned by several of the executives interviewed.

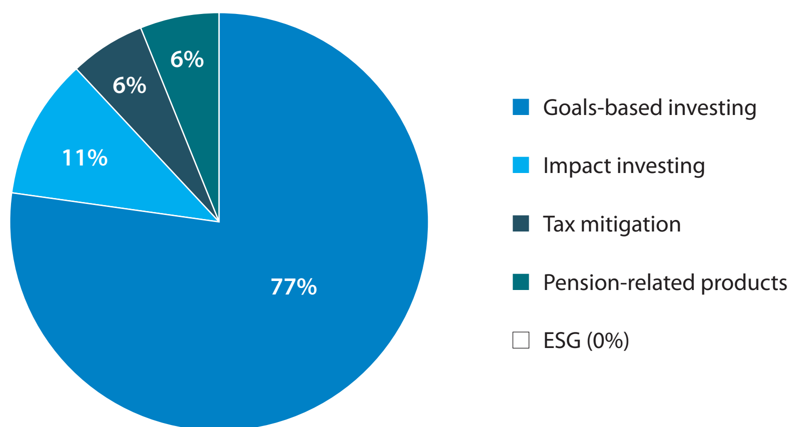
Modern segmentation strategies

In addition to the factors already mentioned, the contributors to this study also argued that a whole range of factors—including gender, family situation, lifestyle, career and risk-profile—could all prove rich seams of actionable intelligence for wealth managers. However, they also warned against overly reductionist approaches that assume, as one put it, “that women want X and millennials want Y”. Even worse, it was argued, is claiming to cater specifically for a certain group and yet not offering much of substance to support this.

What is required instead are product and service packages designed specifically for a set of target “micro-markets”, but which also allow for variation within these broad groupings. Not every person in a demographic category will behave (or think) in the same way and, as was pointed out, male and female client segments are likely to show as much variance intra-group as inter-group, for example. Consumers at all levels of wealth are now used to highly accurate personalisation in all areas of life, and the wealthy are likely to be particularly unforgiving of any clumsy attempts to group them.

Figure 7: **Goals-based investing a top priority**

Which new types of investment product is your firm most interested in developing, or has developed recently?



Importantly, risk-profile and financial sophistication are also areas where expectations may be confounded, as highlighted by the COO of a £1bn AuM UHNW wealth manager, a third of whose client base is comprised of professionals such as hedge fund managers. While these individuals may be highly sophisticated, their appreciation of succession and tax planning issues often needs amelioration, along with an understanding of the risks of being over-exposed to their own fund. Echoing the sentiments of many of the participants, this executive said: "Our clients tend not to fall neatly into discrete buckets—each one has a nuance which means they need to be treated differently in some way."

What seems to be the best path, then, is a dynamic segmentation strategy which acknowledges firstly that a client's profile may not mean they fit perfectly into one single "bucket", and secondly that their needs and preferences are likely to shift quite dramatically over time.

In segmentation—as in other key areas of strategy—gathering better quality client (and prospect) information and then making better use of this in ongoing analysis will be a pillar of smart growth.

Big ambitions for expanded offerings

As Figure 5 (page 8) shows, offering new products and services is a top growth strategy for a third of firms today. Furthermore, looking at AuM correlations, larger firms seem even more keen to expand their offerings (which is as may be expected, given the larger teams they can dedicate to this task).

The question of which types of new investment products UK wealth managers are most interested in developing yielded very interesting results. Despite the recent overhaul of the UK pensions regime (the rules of which very much affect the HNW community), wealth managers appear to have fairly muted interest in directly tapping these developments for growth. This may be a function, however, of the fact that full-service wealth managers that also offer financial planning comprised only 45% of our sample.

"Our clients tend not to fall neatly into discrete buckets—each one has a nuance which means they need to be treated differently in some way."

—COO of a £1bn AuM UHNW wealth manager

In segmentation—as in other key areas of strategy—gathering better quality client (and prospect) information and then making better use of this in ongoing analysis will be a pillar of smart growth.

Although UK wealth managers appear to be distinctly underwhelmed by the potential of ESG—with no respondents identifying this as focus—impact investing is getting more attention, this being cited by one in ten. Perhaps it might be said that the concept of "doing good while also doing well" is gaining increasing traction in a world where very impressive financial returns are increasingly difficult to attain.

Overwhelmingly, however, UK wealth managers seem most interested in the client engagement and loyalty gains achievable through products geared towards goals-based investing. Almost eight in ten see great growth potential here.

As contributors pointed out, it may be more accurate to think of this finding in terms of providing the right combination of products and services, rather than developing entirely new ones. As the Head of Platform at a £10bn asset manager said: "Broadly, I think what clients need is already available in the market. The challenge is presenting that at the time that clients have the realisation that they need it. It's about timing rather than completely new products necessarily."

A desire to more accurately assess what clients need and then to be able to offer that to them at the precisely right time (and via the right communication channels) is obviously what is driving the sector's determination to get a better handle on data.

Success increasingly determined by data

As highlighted in Figure 5, (page 8), although making better use of business data and management information was towards the bottom of the growth strategy rankings overall, it was nonetheless ranked in the top three by an aggregate 44% of respondents, and in first position by one in ten. While leveraging data may not be an absolutely top priority for UK wealth managers, it is high on their agendas generally. This, it may be assumed, is because getting a better handle on business data underpins the success of the other growth strategies firms might be pursuing.

Enhancing the accumulation, storage and management of business data is a highly significant industry theme which *WealthBriefing* and SS&C Advent's annual *Technology and Operations Trends Report* has been tracking the importance of in recent years.[19] Today, 73% of wealth management professionals globally hold better data management as a high priority at their firm and 30% say it is of maximum importance; this year, like last, virtually no respondents said that better data management is not on their firm's agenda. Correspondingly, 37% of firms are now collecting as much information on clients' profiles and objectives as possible, and a negligible proportion are content with doing the bare minimum in this regard.

"Broadly, I think what clients need is already available in the market. The challenge is presenting that at the time that clients have the realisation that they need it. It's about timing rather than completely new products necessarily."

—Head of Platform at a £10bn asset manager

Figure 8: **Data management a key priority for seven in ten firms globally**

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

Source: WealthBriefing/SS&C Advent, *Technology and Operations Trends in the Wealth Management Industry 2017*

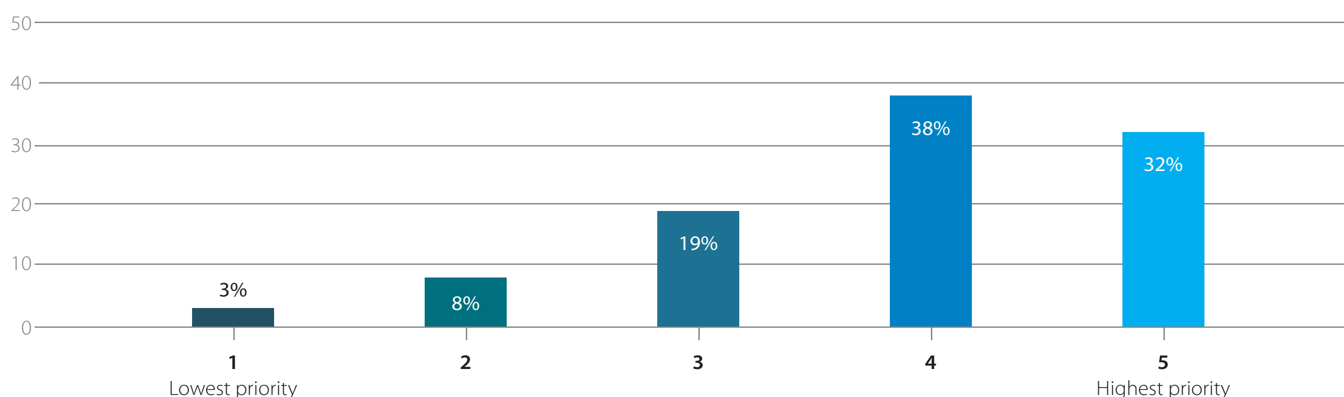
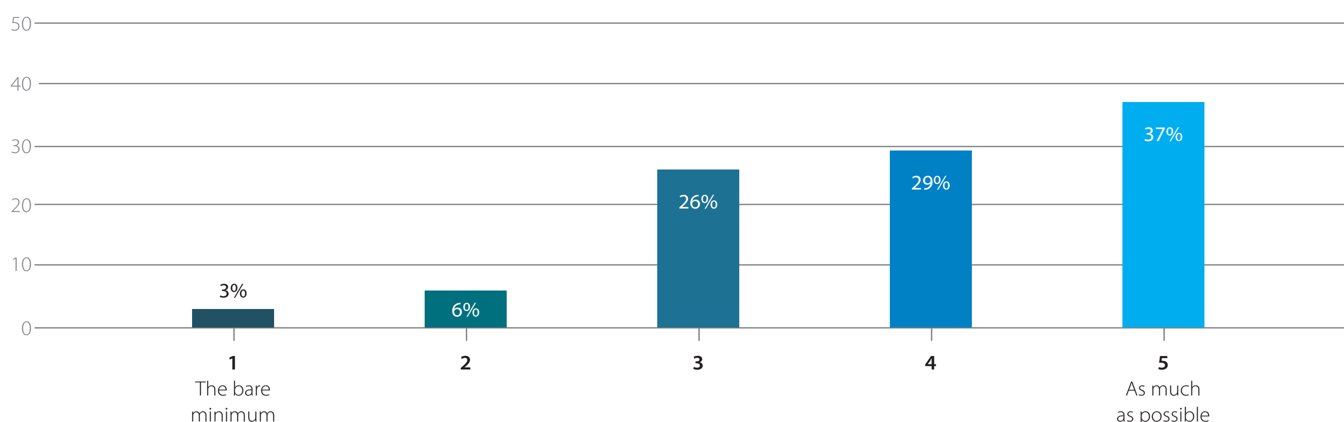


Figure 9: **Over a third of firms maxing out on client data**

How much data on clients' profiles and objectives does your firm currently gather and store?

Source: WealthBriefing/SS&C Advent, *Technology and Operations Trends in the Wealth Management Industry 2017*



Better data management is of course a matter of risk mitigation amid an onslaught of new (or tightened) regulations—and UK firms face a barrage of them at national, regional and supranational levels. *WealthBriefing* research shows evidencing suitability (a key element of the FCA's Retail Distribution Review) to be wealth managers' biggest compliance challenge globally, for example.[20] Meanwhile, the EU's MiFID II looks set to enter the statute books in January 2018 irrespective of Brexit, creating requirements to evidence the distinction between retail and institutional investors, and track products to ensure they are being sold to the intended client segments. Then, internationally, there are wide-reaching cross-border tax reporting and AML obligations for firms to also contend with. With 70% of wealth managers expecting the compliance burden to increase even more in the coming years, it is unsurprising that firms should look to have sufficient data in place to cover any regulatory eventuality.

What has the industry excited about enhanced data strategies, however, is that they can simultaneously boost growth and trim costs, while also reducing compliance risk (assuming, that is, security and rules like the EU's General Data Protection Regulation are well attended to). Wealth managers are already required to gather and store massive amounts of data on clients and their business activities. The challenge they now face is making the leap from merely having data, to actually *using* it.

[19] ibid *WealthBriefing/Advent SS&C, Technology and Operations Trends in Wealth Management 2017*

[20] ibid

Technological advances, in particular cloud computing and machine learning, have opened up a world of possibilities for wealth managers on the data front.

Technological advances, in particular cloud computing and machine learning, have opened up a world of possibilities for wealth managers on the data front. Yet, as the experts pointed out, ameliorative action is still generally required on the basics. Masses of information tends to simply get lost due to end-user computing and issues with unstructured, siloed data loom large. UK wealth managers are clearly eyeing the rewards of mastering them, however.

As discussed on page 12, enhanced data strategies underpin wealth managers' ambitions to track client behaviours and preferences with more accuracy, and so to market more relevant products and services at exactly the right time and to the right segments.

The better use of management information internally seems to be equally high on the agenda, however, although different focuses emerged across the individual institutions included in the study.

The COO at one multi-family office said:

"As a growing business, we are most interested in pipeline management information—what workloads, timeframes and conversion rates are, so that we understand the pattern around the client journey better. That also gives you a better cash flow planning for your business financials as well."

Although the implementation of enhanced data strategies may be something the industry is still grappling with, the case for them—on both the client and management information sides—is evidently accepted as being extremely strong from a profitability perspective. Yet while data and digitisation may seem to be an eminently "techie" facet of the industry's evolution (and one that is geared towards growth), it may in fact be that technological advances are more about a "people business" becoming better at being just that.

As Greg Davies of Centapse argued, improved data management will be absolutely vital in tackling the often intolerably high cost-income ratios wealth managers are seeing by ensuring that resources—and talents—are optimally deployed. This, however, is about far more than profitability alone.

"People need to be freed from the burden of tracking, interpreting and using data, with this given to well-designed, automated systems instead. That way advisors can focus on the human, value-added activities that deepen relationships," he said. "Giving clients emotional comfort on their investment journey is perhaps the most important thing of all."

So, while the routes to digitisation discussed in this research are certainly about fostering smart growth, they are fundamentally about delivering benefits for clients, advisors and businesses all at the same time. Improved customer journeys, sales and profitability await those that master these smart growth strategies, bringing them closer to the solution to margin pressures the sector so urgently needs.

Methodology

For this white paper, 20 senior wealth management executives were surveyed between August and September 2016 to give a well-rounded perspective on where avenues for growth are seen to lie in the UK.

Type of firm:

- Asset manager 5%
- External asset manager..............5%
- Full-service wealth manager....... 45%
- Investment manager 5%
- Private bank....................... 20%
- Single/multi-family office............5%
- Universal bank 15%

Level of AuM:

- < £100m 5%
- £101-500m.........................21%
- £501m-1bn..........................5%
- £1-10bn 26%
- £11-50bn...........................5%
- £51-100bn..........................0%
- £101-500bn 16%
- > £500bn 21%

Typical client net worth:

- < £1m............................ 20%
- £1-5m............................ 30%
- £5-10m.............................5%
- £10-20m 20%
- > £50m 25%

About *WealthBriefing*

WealthBriefing is the premier news, feature and information source for the global wealth management sector. This subscription-only service not only provides concise, up-to-the-minute information to leading wealth managers, private bankers, fund and asset managers, family office executives and intermediaries alike, but also offers its network exclusive thought-leadership on industry developments through its research offering and event programmes.

WealthBriefing is essential reading for all professionals working in the wealth management sector, with subscribers receiving daily news analysis to their inbox before 08:00 GMT every working day, as well as breaking news updates.

About the author

Wendy Spires is Head of Research at *WealthBriefing*. She has been a wealth management journalist and a research writer for over eight 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 a number of 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.

advent.com | emea@advent.com

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