HELP OR HINDRANCE? THE LINK BETWEEN TECHNOLOGY PROVISION AND ADVISOR PRODUCTIVITY

WealthBriefing

SS&C | ADVENT®

Published by:
CLEARVIEW FINANCIAL MEDIA
Heathman's House
19 Heathman's Road
London, SW6 4TJ
United Kingdom

In association with:
ADVENT SOFTWARE
127-133 Charing Cross Road
London, WC2H 0EW
United Kingdom

Author: Wendy Spires, Head of Research, ClearView Financial Media Ltd
Graphic Designer: Jackie Bosman, ClearView Financial Media Ltd

© 2015 ClearView Financial Media Ltd, publishers of *WealthBriefing*

All rights reserved.
No part of this publication may be reproduced in any form or by any means, electronic, photocopy, information retrieval system, or otherwise, without written permission from the publishers.

CONTENTS

FOREWORD

WealthBriefing and Advent have partnered on a number of research projects in recent years to investigate key technology and operations trends in the wealth and asset management space. As with all *WealthBriefing* research, these reports have been designed to give industry participants a useful benchmark of where their firm stands against its peers and to offer best practice insights on where industry leaders are focusing their efforts. In examining current and future drivers of technology investment, we have sought to address both the opportunities and challenges institutions face today. There may be an acute need for technology enhancements across great swathes of the industry globally, but implementing these will be a complex journey for many firms.

Technology investment in the wealth and asset management industry has been and continues to be uneven for a whole host of reasons. The result, as will be discussed, is a widening gap between the leaders which have made systematic, forward-thinking investments and those institutions which have yet to leverage all the business benefits modern technology systems have to offer. Even within this first group, there are pioneers rapidly increasing their lead on less innovative peers, and in a variety of senses.

The industry is facing the tripartite pressures of increased (and increasing) regulatory scrutiny, rapidly-evolving client preferences and margin pressures simultaneously, and, while technology enhancements are not a panacea for these longstanding challenges, they are certainly forming the foundation of tackling them for many firms. Those institutions which have made strategic investments in their technology systems are known to be reaping huge rewards across risk mitigation, client engagement and operational efficiency – and are likely to be benefiting from a far happier workforce as a result, as well as a healthier bottom line.

This report looks at technology investment through the lens of advisor productivity and explores just how much of a help – or indeed a hindrance – institutions' systems are for their advisor force today. It covers many elements of advisors' professional practice, ranging from the practical manageability of running a significant client book on both the relationship and portfolio management sides, through to broader considerations, such as whether they feel facilitated to deliver the optimum investment outcomes for clients and maximise the quality of their engagement with them.

One of the biggest strengths of *WealthBriefing's* research platform is our unrivalled access to a global community of front-line wealth management professionals. After a decade of publishing cutting-edge news and analysis spanning every element of the wealth management industry, practitioners see our publications as a trusted forum for sharing their views and expertise, allowing our research team to gather candid commentary on a wide range of topics. We then synthesise these insights with the latest thinking from senior wealth management executives and consultants – and increasingly end-clients themselves as well – to arrive at a 360-view of developments in the sector.

We are particularly pleased to have been charged with exploring the link between wealth managers' technology set-ups and advisor productivity. While much of the industry dialogue on technology is naturally focused on improving operational efficiency, this is our first look at the topic in direct relation to advisors' daily working lives. As this report will set out, there are many facets to this topic, but each and every one has huge potential to impact the ultimate profitability of institutions.

The role of the wealth management advisor has expanded and evolved to the point where an "old school" approach is increasingly untenable, just as it is hard to imagine a future for low-tech institutions. Our research shows that IT is now a regular board agenda item at most firms, which is unsurprising given that technology underpins so much of the business of wealth management today. It follows that technology provision is front of advisors' minds too.

We look forward to continuing to trace the growing importance of technology to advisors and would welcome feedback on any of the issues raised in this report.

WENDY SPIRES
Head of Research
WealthBriefing

EXECUTIVE SUMMARY

CLIENT-FACING TIME AND PRODUCTIVITY CURTAILED

- A total of 25% of advisors rate their firm's platform as poor/very poor in terms of helping them support existing clients and win new ones.
- 21% are spending upwards of two hours on preparing for an annual review meeting with an existing client; 79% spend over an hour.
- 48% of advisors spend upwards of two hours preparing a proposal and preparing to pitch to a prospective client; 84% spend over an hour.

MEETING PREPARATIONS MARKED BY MANUAL INTERVENTION

- 46% of advisors have to access three or more systems to prepare for an annual client review meeting.
- 43% of advisors say that a significant/very significant amount of manual work is required before an annual review, while only 10% have very little manual work to do.

REPORTING WOES ARE WIDESPREAD

- Detailed insight into portfolio performance and risk is the most important capability to advisors in terms of optimising their performance, followed by the ability to offer consolidated wealth overviews and full multi-asset class coverage.
- 25% of advisors rate their ability to deliver the optimum reporting solution to clients as poor/very poor and a further 31% say it is only average.
- 33% of advisors believe that not being able to deliver consolidated reporting across custodians is a significant/very significant impediment to their ability to offer holistic advice.
- 33% of advisors say that mobile access to portfolio data and analytics represents a significant/very significant enhancement to their ability to serve clients.

INADEQUATE AUDIT TRAILS ARE CAUSING COMPLIANCE CONCERNS

- 25% of advisors rate the audit trails generated by their firm's investment platform as poor/very poor in terms of helping them to satisfy regulatory obligations such as evidencing investment suitability; a further 25% give only an average rating.
- 44% of advisors say the audit trails generated by their firm's investment platform are poor/very poor as regards helping clients understand why certain investments have been selected and how they have performed against expectations; a further 22% give only an average rating.

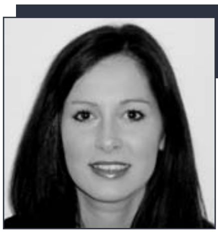
INVESTMENT CHOICE AND FLEXIBILITY ARE LACKING

- 14% of advisors rate their firm's systems as poor/very poor in terms of giving them access to the kind of interesting investment opportunities they need to engage well with clients; 26% give an average rating.
- 11% of respondents rate their firm's investment platform as poor/very poor as regards giving clients the investment flexibility and choice they need to achieve their financial objectives; 24% give an average rating.
- Alternatives (and particularly derivatives) coverage seems to be lacking.

TECHNOLOGY IS BECOMING A REAL RECRUITMENT AND RETENTION ISSUE

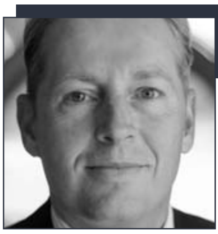
- 76% of advisors say a poor investment platform would be a significant/very significant factor in their decision to change employer.
- 73% of advisors would be likely/very likely to carry out some kind of due diligence to ascertain the quality of a prospective employer's investment platform, if they were thinking of changing firm; 44% said they were very likely to do so.

RESEARCH ORIGINATORS



WENDY SPIRES
Head of Research - WealthBriefing; Report Author

Wendy Spires has been a wealth management journalist and a research writer for 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 client onboarding practice, 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. Her special areas of interest within wealth management are client experience issues and digital engagement, as well as wider technology trends.



MARTIN ENGDAL
Market Strategist & Director of Business Development, EMEA - Advent Software

Martin Engdal is market strategist and director of solution marketing at Advent EMEA. In this role, he has responsibility for the strategic positioning of Advent's solutions in EMEA and for driving business development efforts in Europe, the Middle East and Africa. Martin has been with Advent for 11 years, and has worked in several senior sales/marketing and business development roles supporting the significant business growth of Advent in EMEA. Prior to joining Advent, Martin worked as an investment manager at ABN AMRO Asset Management and Nykredit Asset Management, and as director of global pre-sales at SimCorp.

EDITORIAL PANEL

DERMOT CAMPBELL
Chief Executive - Kuber Ventures

Dermot Campbell spent eight years with UBS Wealth Management as a director covering a number of roles, including director of wealth planning, head of the intermediaries client management team and senior client advisor. Prior to his time at UBS, Dermot worked for a number of London-based financial advisory firms, where he built strong relations and cemented his ever-growing network. Dermot is both a highly experienced Chartered Financial Planner and Chartered Wealth Manager, drawing upon his technical knowledge and wealth of industry experience in equal measures when driving Kuber Ventures forward.

PAULINE EGAN
Director - Galinago

Pauline Egan is a strategy and client experience consultant, with over 20 years' experience in financial services. Her focus is on enabling clients to increase shareholder value by identifying client needs, and refining and implementing strategy to deliver a superior client experience. Pauline spent the early years of her career working with ABN AMRO in Dublin and Amsterdam. She later joined Royal Bank of Canada (RBC Wealth Management), working in both the Channel Islands and London. At RBC, she led the affluent business across EMEA, was head of London and latterly head of strategy and business management with executive responsibility for marketing and communications.

GILLY GREEN
Wealth Industry Practice Leader - Knadel

Gilly Green, Knadel's wealth industry practice leader, has 26 years' experience across wealth management, including sales, distribution, client servicing, investment management, middle/back office, and custody - as both a practitioner and management consultant. Gilly's expertise includes leadership, management and advice on major change initiatives, from initial strategy and design of pragmatic solutions, through to implementation programmes. Prior to Knadel, as head of product and strategy within EMEA Wealth Management at Northern Trust, Gilly developed the family office proposition, refined the offshore client services model and managed the client service team. Other roles include associate director at ACT Financial Systems, responsible for acquisitions and product development, and time at Coutts and TSB Group.

KEITH MACDONALD
Partner, Head of UK Wealth and Asset Management Advisory - EY

Keith MacDonald is a partner in EY's global financial services practice and heads the UK wealth and asset management advisory business. Keith has led a wide range of strategic and transformational programmes across the industry, in both the UK and internationally. He leads EY's service development and thought-leadership in the wealth management and private banking sector, and is a regular contributor to conferences and publications. Prior to returning to EY, Keith was a partner at Ernst & Young and vice-president at Cap Gemini Ernst & Young. From 2003 to 2010 he led Capco's retail/corporate/wealth practice.

EDITORIAL PANEL CONTINUED...

NICK McCALL
Chief Executive - Falcon Private Wealth

Nick McCall has an extensive background in international banking and has held the position of COO/CFO of Clariden Leu (Europe) Ltd. Nick transferred to Clariden Leu from Credit Suisse, where he held the position of director, head of country management and governance, regional management with responsibility for governance of Credit Suisse activities for EMEA. He joined Credit Suisse First Boston in November 2000, when the firm merged with Donaldson, Lufkin & Jenrette International. Prior to serving as treasurer for DLJI, Nick worked in various roles with Merrill Lynch, Banco Bilbao Vizcaya and Lloyds Bank International.

TOM PRICE-DANIEL
Head of Financial Technology and Wealth Management - Alderbrooke Group

Tom Price-Daniel is a senior executive search and talent management professional with experience across financial services and technology. He leads Alderbrooke's Technology and Wealth practices, where he manages retained assignments and human capital projects. Tom has experience with a broad range of international financial institutions and fast-growing technology companies that have featured in The Times 100 Fastest Growing UK Companies, FinTech 50 and Future50. Alderbrooke is a group that helps clients improve performance through their people. This is done by utilising innovative proprietary diagnostic tools, executive search, and board and leadership development programmes.

DARYL ROXBURGH
Global Head - BITA Risk

Daryl Roxburgh spent the first part of his career at leading private client and institutional investment managers. Starting as a private client fund manager at Buckmaster & Moore, he progressed to general manager, private clients and ultimately IT director for what had become Credit Suisse Asset Management. Daryl then consulted for M&G before moving to Prudential Portfolio Managers as director, global head of IT. After time with City Consultants, Daryl joined BITA Risk in 2004, where he leads the design of its private client suitability and risk management applications. A founding director of London Quant Group and a contributor to a number of investment books, he also recently joined the WMA Indices Committee.

STEPHEN WALL
Senior Analyst, Wealth Management - Aite Group

Stephen Wall is a senior analyst with Aite Group, specialising in the international non-US private banking and wealth management sector. His main areas of focus are the sector's business and competitive landscape across onshore and offshore jurisdictions and its evolving demands and influences, among them new markets, competition, client demands, regulation and technology. Stephen has more than thirteen years of research experience, with over seven as a market analyst and consultant in global wealth management. Before joining Aite Group, he was an independent analyst and writer focused on global wealth management. Prior to that, he worked with the specialist business strategy consultancy Scorpio Partnership.

IAN WOODHOUSE
Director, Private Banking and Wealth Management - PwC

Ian Woodhouse is a key member of PwC's EMEA private banking and wealth management practice leadership team and the firm's customer operations competency area. He has over 20 years of experience in assisting private banks and wealth management firms achieve success with change and transformation initiatives. He and his team support private banks and wealth managers to better and sustainably grow their revenues, increase productivity and keep their businesses safe through meeting their regulatory obligations in the evolving landscape. Ian is a recognised expert in the sector and lead author of PwC's highly-respected *Global Private Banking and Wealth Management Survey*.

ADDITIONAL CONTRIBUTORS

WealthBriefing and Advent would like to extend special thanks to the following individuals for contributing to this report. Like those of the panel, their thoughts were invaluable.

- **Dudley Edmunds, _Owner_ - Culliford Edmunds**
- **Iain Tait, _Partner and Head of the Private Investment Office_ - London & Capital**
- **Rosie Bullard, _Senior Portfolio Manager_ - James Hambro & Partners**

SECTION 01

Multiple Drains on Advisors' Time

CLIENT-FACING TIME, PRODUCTIVITY CURTAILED

There is no doubt that the shape of a typical advisor's day has changed significantly over the years as the regulatory burden has increased. Just how much time front-line staff are actually able to spend engaged in proactive discussions with clients today is the subject of much debate. It is often said that at many wealth and asset managers advisors are able to spend relatively little time with clients, with the majority eaten up by pitch/review meeting preparations, dealing with client queries and, of course, satisfying compliance requirements. Administration may also be a big time-drain if there is a shortage of support staff, with duplication of work common on the flipside.

"The productivity of advisors generally isn't great in terms of client-facing time," said Ian Woodhouse. "If you took the UK market, for example, given the recent regulations, the client-facing time for many advisors is probably only about 40% of the total.

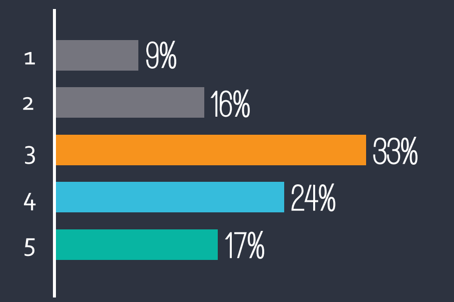
"Client-facing time has been slashed and I think 75/25 and even 80/20 is seen right across the industry. That needs to change," said Martin Engdal. "There will be huge fluctuations from firm to firm, but obviously you want your client advisors to be spending time with clients."

The client-loading figures overleaf underscore just how scarce a resource advisors' time is given that, according to the OECD, the average full-time employee works 1,765 hours a year. Having more time eaten up by non-revenue generating activities than is necessary is as undesirable for the advisor as it is for the institution.

It seems that a great many advisors are effectively being held back from doing what they were hired to do – and what they will be rewarded on the basis of: their ability to secure positive investment outcomes for existing clients in order to extend these relationships and to bring in new assets. While there are challenges other than technology inadequacies at play, the negative impact legacy systems and poor integration are having is clear.

A quarter of advisors judge their firm's platform as poor/very poor in terms of it helping them win new clients and support existing ones. The majority (33%) give their platform only an average rating and only 17% gave the highest score. As discussed below, a range of factors are adding up to a sub-optimal technology experience for many advisors – one where manual drudgery is eating into client-facing time and a lack of automation means the compliance burden weighs far heavier than it needs to.

HOW USEFUL IS YOUR FIRM'S CURRENT TECHNOLOGY IN WINNING NEW CLIENTS AND SUPPORTING EXISTING ONES?



1 - *Not useful*
5 - *Very useful*

"THE PRODUCTIVITY OF ADVISORS GENERALLY ISN'T GREAT IN TERMS OF CLIENT-FACING TIME. IF YOU TOOK THE UK MARKET, FOR EXAMPLE, GIVEN THE RECENT REGULATIONS, THE CLIENT-FACING TIME FOR MANY ADVISORS IS PROBABLY ONLY ABOUT 40% OF THE TOTAL."
- Ian Woodhouse, PwC

IN FOCUS: CLIENT-LOADING AND REGULATION CREATE A HEAVY BURDEN

As the table below illustrates, client-loading figures vary very widely in the wealth management industry – largely according to the type of offering and size/complexity of the clients concerned. For example, Goldman Sachs, which asks for a minimum investment of $10 million, assigns 20-30 clients per advisor in the US, whereas First Republic, which requires $0.5 million, assigns 81. There are no shortage of top 40 wealth managers where advisors serve well over 150 clients each, however, and this figure seems to be about average in the RIA space. Meanwhile, in its 2013 *Client Landscape* report, Ledbury Research estimated that the average advisor in the UK has 165 clients.

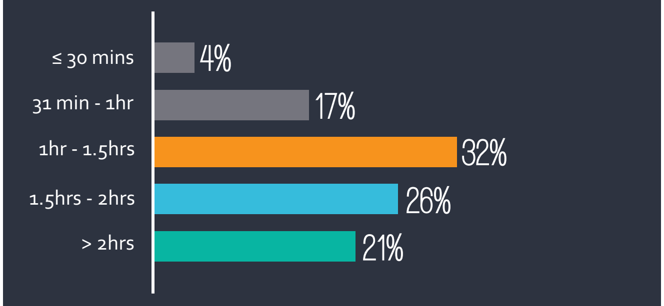
It is important to note of course that higher client-loading does not necessarily imply any detriment to service if automation and other enhancements are saving advisors an appreciable amount of time. It appears that around 10-20% of the participants in this study work at firms which have already made extensive technology investments. In its 2014 *Global Wealth Management Survey*, McKinsey noted that client-loading was increasing in many areas and said of North America: "Wealth managers are introducing better client management systems to facilitate higher client loading".

INSTITUTION	NUMBER OF CLIENTS PER MANAGER
Janney Montgomery Scott	175
Robert W Baird	171
Suntrust Banks	145
BB&T	120
Neuberger Berman	101
Key Private Bank	95
First Republic	81
Wilmington Trust	76
Fiduciary Trust Co. International	52
Credit Suisse	50-60
Fifth Third Private Bank	45
Atlantic Trust	42
Capital Group Private Client Services	38
BNY Mellon Wealth Management	25-30
Glenmede	25
Goldman Sachs	20-30
SCS Financial	11
Brown Advisory	10
Bessemer Trust	6

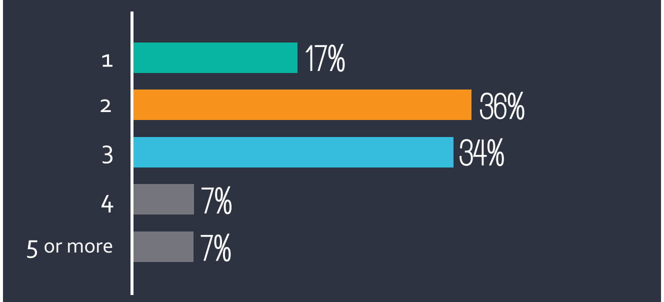
Source: Barron's ***Top 40 US Wealth Managers 2014***
(Nb only firms which disclosed client-loading figures are included)

MEETING PREPARATIONS MARKED BY MANUAL INTERVENTION

ON AVERAGE, HOW MUCH TIME DO YOU SPEND PREPARING FOR AN ANNUAL REVIEW MEETING WITH AN EXISTING CLIENT?



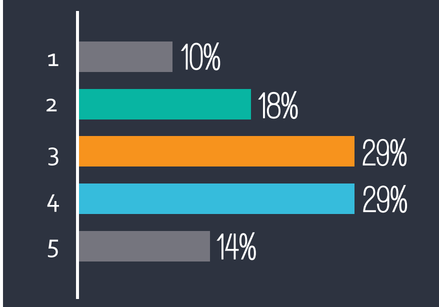
HOW MANY SYSTEMS DO YOU NEED TO ACCESS TO GATHER THE INFORMATION REQUIRED FOR AN ANNUAL CLIENT REVIEW MEETING?



Just over a fifth of advisors are having to spend over two hours preparing for an annual client review meeting, while for almost eight in ten this is the work of over an hour. It is not difficult to see why: it seems that approaching half of advisors find preparing for an annual client review meeting an arduous process that is characterised by disparate systems and manual intervention. Some 46% of advisors have to access three or more systems when preparing for an annual review; correspondingly, 43% of participants report that a significant/very significant amount of manual work is required. Just one in ten advisors said they have very little manual work to do.

The presentation of performance analytics is discussed more fully in Section 3, but it is worth noting here that wealth managers are under increasing pressure to convince clients of the value of their advice – and the firm-wide expertise they are getting access to – due to the proliferation of low-cost options. As Section 5 sets out, given the difficulties many advisors are facing on the technology front and the variation in investment levels across the industry, advisors are likely to be increasingly inclined to ascertain the quality of a prospective employer's technology set-up before joining.

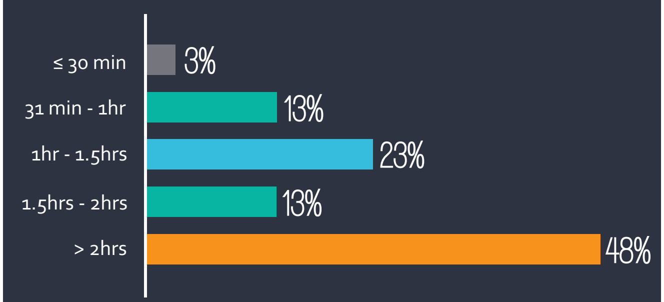
HOW MUCH MANUAL WORK IS REQUIRED TO PREPARE FOR AN ANNUAL CLIENT REVIEW MEETING?



1 - *Very little*
5 - *A great deal*

PROPOSAL GENERATION AND PREPARING TO PITCH

ON AVERAGE, HOW MUCH TIME DO YOU SPEND COMPILING A PROPOSAL AND PREPARING TO PITCH TO A NEW HNW CLIENT?



Almost half of advisors are having to spend over two hours preparing an investment proposal and preparing to pitch to a prospective client. Only just over a tenth are able to prepare for a pitch meeting in under an hour.

This came as no surprise to the expert panel, who observed that the fact that 84% of advisors are spending upwards of an hour (if not double that) on preparing to pitch is a function of advisors having to fashion pitch-books and presentations from disparate systems, some of which were not designed for the task. "Typically a firm will be using Word and PowerPoint, with the advisor copying and pasting as they pull research information and market views together, while they try to get information on the client's current portfolio and pull together a proposed portfolio," said Daryl Roxburgh. "Then they may carry out risk analyses on the existing and proposed portfolios, along with building in any information on the client's profile and questionnaire/ KYC data they have too."

Half of advisors have to access three or more systems to prepare for an annual review meeting, but they may well need to draw on an even wider range of systems and external and internal data sources to prepare for a pitch. Add to that efforts to make a presentation visually appealing and it is easy to see why these preparations might be even more laborious than those required for an annual review. Pitch preparations appear to be a real challenge for twice as many advisors as reviews.

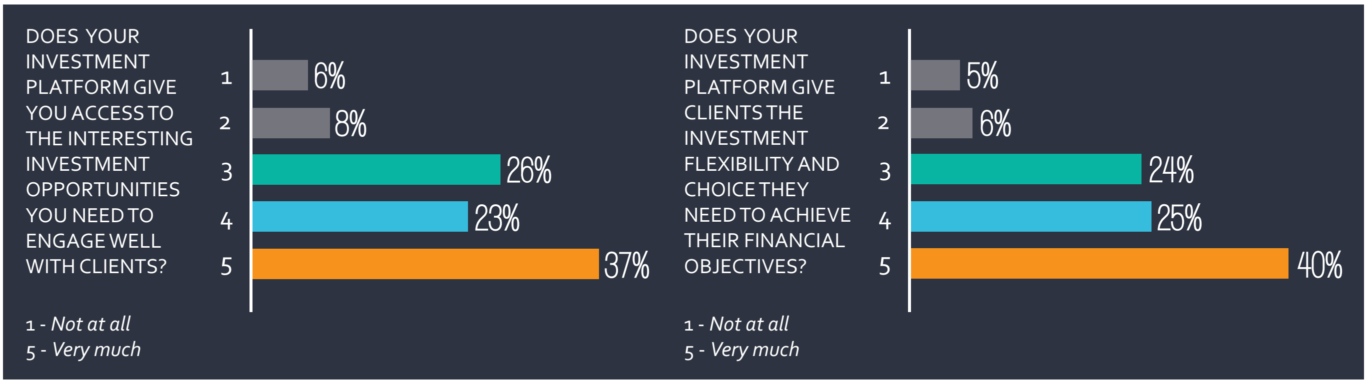
The reverse of these manually-intensive processes could see proposal generation (and the necessary analytics) reduced to minutes, with data automatically pulled in and analysed from multiple sources. This, Roxburgh observed, easily shaves an hour off preparation time while also allowing for consistent branding and better audit trails and accountability, in that "the firm knows what's actually gone out to their clients".

However, Roxburgh and several other contributors also made the salient point that automation is only part of the story and that the time-savings that automation provides also have an important role in allowing for greater customisation and showcasing of the advisor's skills. They argued that balancing risk and reward in a carefully calibrated asset allocation and populating portfolios with the optimal investment instruments for each individual client is an *art* as well as a science. Being able to spend time carefully refining a system's outputs because the "heavy lifting" has been automated is likely to garner far superior client outcomes. Moreover, while regulators want to see robust, replicable processes and customers being treated fairly they certainly do not want to see "cookie-cutter" investment advice either.

JUST OVER A FIFTH OF ADVISORS ARE HAVING TO SPEND OVER TWO HOURS PREPARING FOR AN ANNUAL CLIENT REVIEW MEETING. ALMOST HALF OF ADVISORS ARE HAVING TO SPEND OVER TWO HOURS PREPARING AN INVESTMENT PROPOSAL AND PREPARING TO PITCH TO A PROSPECT.

SECTION 02

Investment Choice and Enhancing Client Engagement



Four in ten advisors don't believe they are facilitated by their firm's systems to offer the kind of interesting investment opportunities that enhance client engagement. Meanwhile, a third do not feel positively supported in offering clients the flexibility and choice they need to achieve their financial objectives. On the former front, 14% rated their firm's systems as poor/very poor (26% as average); on the latter 11% scored poorly/very poorly (24% as average).

According to Stephen Wall, these findings are symptomatic of an increasing misalignment between the range of products/investment solutions clients are interested in and actual offerings caused by a prevalent "institution-to-client" approach - whereby firms stick with what they can cover easily from a research or due diligence perspective and exclude the rest. "I believe the asset class line-up of any wealth manager will need to shift to being more client-centric and less institution-centric," he said, adding that while meeting clients' evolving wants and needs is certainly not easy, the two sides need to be "meeting in the middle more".

PORTFOLIO CUSTOMISATION

Catering well to clients' requirements (and pre-empting them with modern data analytics) is foundational to business growth on several fronts, the experts said. Greater investment choice leading to better investment outcomes and more satisfied clients can clearly deepen wallet share and increase referrals. However, as Wall pointed out, innovation in asset class coverage can be a key differentiator and instrumental to *winning* new clients. Impact investing is offered properly by only a tiny proportion of institutions, but is likely to be hugely popular with Next Gen investors, he noted; likewise trade finance, which will be familiar to most business-owners and yet is almost completely ignored by institutions as an investment opportunity.

For Nick McCall, the industry's highly competitive nature means the investment solutions offered need to be far more reflective of specific client tastes – particularly when it comes to areas like ethical investing, as he has seen at his own firm. Falcon Private Wealth recently won a client when competing against two global organisations because they were not able to satisfy the individual that they would be able to highly customise a portfolio. "This investor had preferences around not being in arms and so on, and actually told us our system had won it," said McCall. "We were able to satisfy him that we could be highly-specific on portfolio construction and that if his investment advisor tried to buy something inappropriate the system would prevent this and give him an alert."

WHICH ASSET CLASSES/INSTRUMENTS DOES YOUR FIRM'S INVESTMENT PLATFORM SUPPORT?

Almost 70% of respondents described their firm as an active management, open-architecture house and correspondingly the vast majority offer cash, equities, fixed income, funds and ETFs/ETPs. However, there do seem to be gaps in coverage which could be holding advisors back - from both an investment performance and client engagement perspective. As the chart on page 14 shows, when it comes to the capabilities that will best help them perform, multi-asset class coverage came third overall on the advisor wish list. Meanwhile, a tenth of participants report that their firm's investment platform does not support alternatives including hedge funds, commodities, property, VCT/EIS vehicles and tangible assets, while almost a quarter lack derivatives.

Of course, some firms restrict their investment offering as part of their USP, such as only using ETFs to keep costs down (8% of the survey sample are passive-only). Many more will prefer to stick to asset classes they feel most comfortable advising on – either from an expertise or risk perspective. However, these conscious choices aside, it seems that technology challenges are what is preventing many firms from incorporating new asset classes and instruments into their offerings.

PERFORMANCE AND DIVERSIFICATION

Amid today's unusual investment conditions, performance and diversification considerations are prompting advisors and clients to look beyond traditional assets, the experts noted. Investors are hungry for returns - the 2014 RBC Wealth Management/Capgemini *World Wealth Report* found that 45% of UHNW investors were focused on growth, compared to 28% in 2013 – yet they are harder to find today. There are predictions that far higher allocations to alternatives will become the norm as the low-yield environment seems so entrenched, while correlations among traditional assets are another factor. "The broad alignment between the volatility of equities and bonds is greater than many might think these days, so a diversified asset allocation needs to consider sub-segments, liquidity and additional investment principles, such as directional/arbitrage," said Gilly Green.

The maturation of the digital wealth management sector also looks set to fuel appetite for greater investment choice. As Aite Group observed in its 2014 *Digital Wealth Management Market Update* robo-advisors are no longer restricting themselves to passives and have started to offer sophisticated premium services to retail investors, including tax-optimised active portfolios and access to hedge fund strategies. Alternative investments may also offer attractive tax-efficiencies which means that the very broad range of assets coming under this umbrella term is matched by a similarly broad spread of appetite among HNW client segments.

Turning specifically to derivatives, from a risk perspective wealth managers may not feel comfortable with advocating the speculative use of these instruments (it goes without saying that instruments like futures, options and warrants can be highly useful in a hedging context). However, margin trading products such as CFDs have become popular with retail investors globally despite their risk characteristics. In fact, to cater to demand, private banks and wealth managers have started to offer both portfolio managers and end-clients access to products like CFDs through (largely white-labelling) partnerships with online trading platforms. Notably, FX figured most highly among the "other" asset classes survey participants said they were able to offer.

IN FOCUS: STRONG DEMAND FOR ALTERNATIVES

- The RBC/Capgemini *World Wealth Report* found that globally HNWIs held 13.5% of their wealth in alternatives (including structured products, hedge funds, derivatives, foreign currency, commodities and private equity) in 2014, up from 10.1% the year before.

- Global **hedge fund** assets reached a record $2.82 trillion in January 2015; in a July 2014 study by Credit Suisse 97% of institutional investors, including wealth managers and family offices, said they would be highly active in making allocations to hedge funds in the latter half of the year.

- The 2015 Knight Frank *World Wealth Report* found that 35% of advisors expect their clients to increase their allocation to **property** over the coming year.

- According to Cebile Capital, European family offices today are allocating around a quarter of their portfolios to **private equity** (mostly in venture capital), compared to 15% five years ago.

- The Coutts Index, which tracks **tangibles** like trophy property, fine art and collectibles, rose 82% between 2005 and 2013 against the MSCI All Country Equity Index's 53%.

TECHNOLOGY CHALLENGES

Hedge funds, commodities, property, VCT/EIS vehicles, tangibles and derivatives clearly all have very different characteristics, which means that supporting alternatives from a systems perspective can be particularly complex.

Where firms can first face challenges, Daryl Roxburgh explained, is in the ability of their front/back office systems and data providers to generate "good" asset classifications to build the hierarchies that are the starting point with carrying out risk analytics and building portfolios. Then there are administration and valuation vagaries particular to each type of sub-asset class. As Gilly Green notes, private equity is especially challenging, firstly because systems need to be able to record the commitment amount and the subsequent calls made upon it; and, secondly, because of valuation complexities, where partnerships sometimes publish valuations half a year in arrears. There can also be issues due to the frequency of valuation points for REITs, direct property and commodities, she said.

Dermot Campbell also noted the difficulty of obtaining reliable price information, particularly if the asset is not listed, but he also observed that because alternatives can be quite niche and require specialist administration it can be difficult to have a "one solution fits all approach". His firm, Kuber Ventures, is developing an alternative investment platform which will connect (on an API basis) with mainstream ones to allow advisors to invest in a range of tax-efficient investment vehicles, such as those coming under the UK Enterprise Investment Scheme and Social Investment Tax Relief regimes. According to Campbell, without connectivity to such specialist platforms the cost of advising on more esoteric alternatives may seem prohibitive to many wealth managers – despite client appetite and their own keenness to offer them.

EVEN WIDER CONNECTIVITY KEY

The ease with which wealth managers can establish connectivity with external parties' systems will clearly have a huge effect on how wide their offering can be. Furthermore, with investment innovation continuing at such a pace and in so many areas these third parties will only grow in number.

For example, most clients will have at least a small exposure to cash and online cash management facilities are emerging to help advisors ramp up interest income amid persistently rock-bottom rates. In the UK (where there is some £2 trillion in cash deposits) Flagstone Investment Management has launched a service enabling switching between hundreds of accounts offered by on- and offshore banks in multiple currencies. The potential to access untapped cash assets here is obvious.

Meanwhile, Daryl Roxburgh noted that advisors today may also want to bring insurance-based products into their portfolio analyses and management, yet this is currently only well-supported in a financial planning context. The fact that life assurance is an increasingly popular means of tax-efficient investing and wealth structuring, and that clients using wrappers are far "stickier", should encourage greater collaboration between wealth managers and providers of these products, however. A 2015 NPG Wealth Management/Scorpio Partnership survey found that wealth managers expect insurance products to comprise 20% of clients' portfolios soon, with European demand particularly strong in Germany, France, Italy and the UK.

On the topic of connectivity, Ian Woodhouse also observed that technology will have to support greater collaboration *within* firms, with advisors having to consult hedge fund or property experts to better explain strategy and performance. "The whole game is changing. As an advisor today you need to speak to the investment strategist more; you need to speak to the investment specialist more," he said. "The only way you can do that is to be enabled by technology." Here again though, while there may be complexities around such collaboration, the opportunity to emphasise the broader expertise the client is accessing is surely not to be missed – particularly when social media and mobile channels present such efficient means of doing so.

KNOWLEDGE REALLY *IS* POWER IN CLIENT ENGAGEMENT

The first instalment of Scorpio Partnership's 2015 *Futurewealth Report*, entitled *The Art and Science of Relationship Management*, highlighted the need for wealth managers to leverage knowledge far more as a competitive advantage, since nearly half the up-and-coming wealthy surveyed for the report believe that they lack access to the guidance and information required to make informed investment decisions. Investors have real-time financial information at their fingertips today, but what they want their institution and advisor to provide is accurate, insightful guidance (which isn't easily sourced elsewhere) on how developments affect their financial goals.

To underscore the huge appetite for *insight*, while 59% of HNWIs believe that it is their advisor's duty to improve a client's financial situation, 42% and 37% respectively said their main remit is to provide investment education and deliver market updates. The report's authors therefore advised firms to support front-line staff with "the resources and insight they need on a broad variety of products and services". As discussed above, many advisors seem to be lacking this at a time of increasing investment innovation.

It seems that investors are seeking a navigator to guide them through choppy investment waters where old "rules" and expectations – particularly around historical returns – may not hold true.

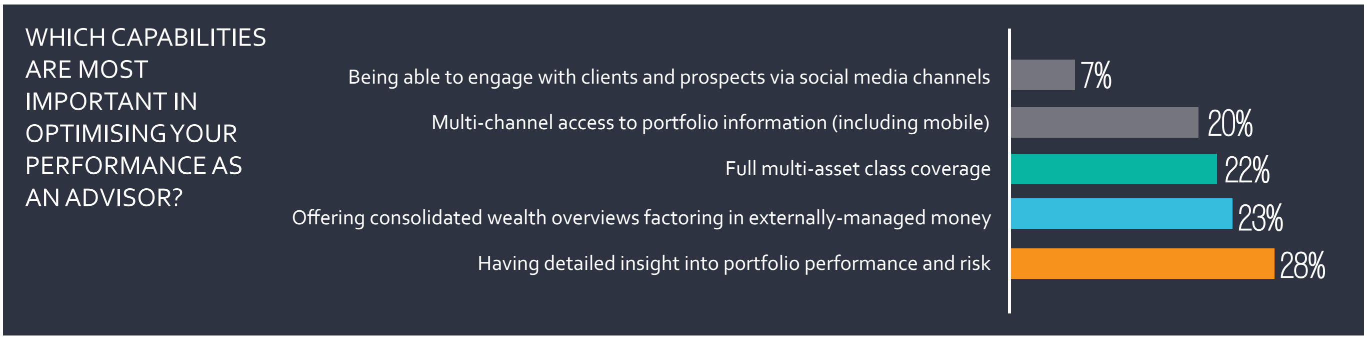
In fact, the study signposted a significant shift in the tone of wealth management relationships as Generation Y come to the fore. Investors under 40 feel it is nearly as important for their primary wealth manager to educate them on their investments (39%) as it is to improve their financial situation (47%). Wealth managers' success with this demographic will therefore depend on them filling "strategic, functional roles, while guiding and educating investors", the study said.

There are also regional variations at play when it comes to the type of role clients want their advisor to fulfil, which again calls for flexibility in systems to support differences in servicing models. While 42% of investors in the Americas want their advisor to create their financial strategy, this drops to 30% in Europe, where mentoring is given more importance.

In Asia, meanwhile, there is a far stronger focus on market updates. This corresponds with the fact that investors in the Asia-Pacific region feel most strongly that they do not have the guidance and information they need (51% said this, compared to proportions in the mid-40s for Europe and the mid-30s for the Americas). According to the 2014 RBC Wealth Management/Capgemini *World Wealth Report*, Asia-Pacific is almost drawing level with North America to become the world's joint-biggest HNW market.

SECTION 03

Real Insight on Risk and Performance

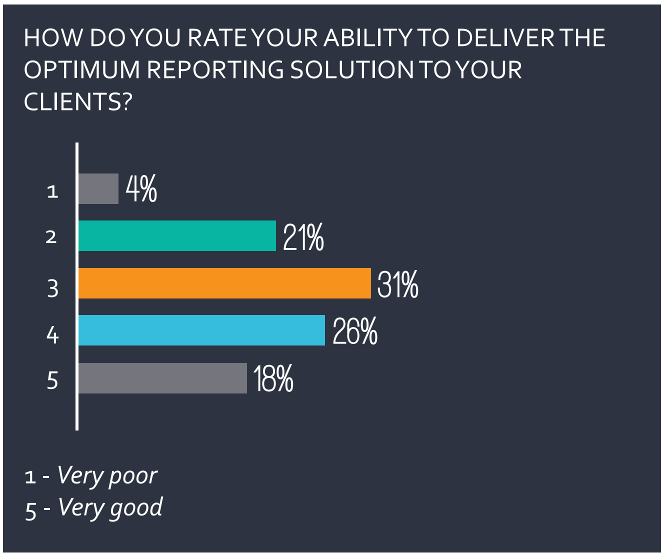


Predictably, detailed insight into portfolio performance and risk topped the list of capabilities which most boost advisor performance. As Rosie Bullard (who is a senior portfolio manager) observed, technology enhancements have been essential to improving advisor productivity across the board, but particularly in facilitating the quick reactions needed to maximise performance and effectively manage risk. "We have better analysis of portfolios when looking at asset allocation or portfolios' exposure to specific stocks, sectors and currencies," she said. "Speed of access to research has also improved with better technology, and this has improved efficiency in investment decisions."

Along with poor data, misrepresentation of performance and time-wasting, missed investment opportunities stand as one of the biggest risks presented by an outmoded, non-integrated investment platform, according to Stephen Wall. Not only will sub-par performance directly impact AuM fee revenues, clients are also likely to be particularly unforgiving today, given the hunt for yield and the fact that many have their fingers very much on the pulse of the markets. Superior portfolio insight is not just about returns in themselves, however, as advisors are playing an increasingly educative role.

There is actually a real need to manage clients' return expectations carefully today, as Iain Tait, head of the private investment office at London & Capital, pointed out. He observed that with decades of healthy equity returns and a bull market in bonds as a precursor, and then ample opportunities in undervalued assets following the crisis, historical averages and guidance may lead investors to expect an annualised balanced portfolio return of cash +7%. "However, as we look towards the future rather than the past, it is increasingly difficult to see how these return expectations can be met using the same degree of risk," he said. "The current investment landscape is unique and warrants an honest discussion with clients about future returns and why these may be at odds with those to which they have been accustomed." Yet, as the experts remarked, the opportunity does exist for relationships to actually be *strengthened* as a result of these kinds of discussions – provided advisors have information at their fingertips and are able to present it in an accessible, engaging way.

WIDESPREAD REPORTING WOES



It seems that over half of advisors are unimpressed by the performance reporting capabilities provided by their firm, with a quarter rating their ability to deliver the optimum solution to clients as poor/very poor and a further 31% as only average. Less than a fifth feel they have leading capabilities and advisors' dissatisfaction chimes with growing evidence suggesting clients are craving more technologically-enabled reporting provision too.

While wealth management remains a relationship business, the industry now serves a client base characterised by a strong appetite for digitally-disseminated information and which is more inclined towards independently comparing providers and their performance than ever. So, although Scorpio Partnership's 2014 *Futurewealth Report* found that HNWIs still place great store in the personal relationship side of their dealings with wealth managers, it was found that 92% are also using digital resources to inform their decisions. Around half said they were using digital channels to get information about markets/instruments and to monitor the performance of investments.

Of course, much of this activity will be taking place via mobile devices and social media channels, with investors accessing up-to-the-minute information that is rich in multimedia content. MyPrivateBanking Research estimates that 80% of the world's wealthy use apps or mobile websites for financial matters, amid tablet adoption rates so strong that even among the over-65s a fifth are daily users (according to various US and UK studies). Meanwhile, Ledbury Research estimates that 75% of HNWIs use social media.

In stark contrast, a 2014 Aite Group survey of US advisors found that the vast majority of clients still only have access to monthly or quarterly performance reports and that static PDF reports are still very much the norm, even when information is being shared through a client portal. Only 5% offered dynamic reports and 60% of respondents were not customising reports for any particular segment, despite the fact that reporting preferences will vary in even the most homogenous client bases.

These misalignments between provision and demand are particularly concerning given that performance reporting represents the "apex" of the client communications hierarchy and is a proof point in itself. It is where the institution/advisor proves their investment expertise and evinces brand values like cost-effectiveness, transparency or innovation. As it should also be a fundamentally client-centric communication, some advisors are understandably frustrated that clients are unable to receive their most important communication when and how they wish – particularly when even the most mundane consumer experiences have some element of customisation today. Research suggests that about a fifth of clients are receiving hardcopy mailed reports (the majority receive them as an email attachment) and while some clients will actually prefer this, it is easy to assume that many would like to see their data without a wait of a few weeks after the period end (and indeed "live", whenever they wish). Encouragingly, CEB TowerGroup has predicted that a fifth of wealth/asset managers will invest in a new client reporting automation system within the next two years (and almost a third will replace a legacy system).

"SOME PEOPLE DO THEIR OWN CALCULATIONS AND MANUALLY EDIT REPORTS, BUT THIS IS JUST NOT SUSTAINABLE." - Martin Engdal, Advent

TIME TO TALK

Satisfying the requirement from both regulators and clients for greater transparency and oversight calls for valuations/performance reports that are timely, accurate and presented meaningfully. But while enhancements like live reporting portals will go a long way towards meeting these standards, the time savings for advisors which come with the better use of technology are equally important. Their role in putting performance (and fee) figures into context is crucial.

Regulators globally have been forcing through ever greater transparency over performance and fees so that investors can better judge whether they are receiving good value. Yet despite their laudable principles, coping with these changes on a practical level – while also trying to articulate them well to clients – is challenging. To give one very apposite example, Canada's CRM2 reform programme will enforce Money-Weighted Rate of Return performance calculations (rather than Time-Weighted), meaning that in some instances previously positive performance figures will "turn" negative, leading undoubtedly to some very perturbed clients. More generally, unbundled fee schedules are making clients very much more conscious of fees versus net returns.

Advisors clearly need to be spending their time *explaining* data to clients, rather than preparing it. Yet as Ian Woodhouse observed, at best, many advisors are only able to spend 40% of their time with clients today.

LABOUR-INTENSIVE PREPARATIONS

While there is of course more to annual client review meetings than just discussing previous investment performance, these preparations will account for a large amount of the work required. Content may have to be selected from a variety of reports and disclosures, along with extracts from investment commentaries and other communications. As well as having to manually transfer data from one system to another, the expert contributors also pointed to the likelihood that advisors may need to create custom reports when certain asset classes are not well supported. The inefficiencies – and compliance dangers – inherent in such workarounds are obvious, however. "Some people do their own calculations and manually edit reports, but this is just not sustainable," said Martin Engdal. "You can do it if you have only a few clients, or just for really important clients on a monthly or quarterly basis, but if an institution is doing this across hundreds of clients or thousands, they need to find a way to automate it."

Inaccurate manual calculations are a clear risk, particularly given that research indicates almost 90% of spreadsheets have errors in them. However, Engdal observed that valuation errors can also arise due to deficiencies in an institution's underlying calculation "engine", time lags or poor systems integration. In one example he cited, a firm had been reporting the wrong asset values to clients, with advisors seeing different valuations on swaps or private equity depending on which system they were looking at. "It was a total mess because the systems didn't really talk to each other," he said. "They just had no control of their assets." As with tax reporting, providing inaccurate valuations is likely to be highly detrimental to client confidence, and therefore investment levels.

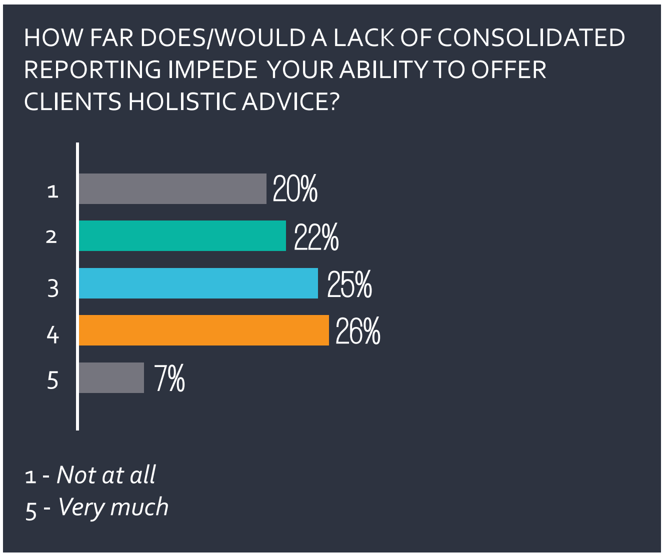
TAX REMAINS TOP OF THE AGENDA

One significant trend identified by Ian Woodhouse is that advisors are having to evince far broader expertise than traditional portfolio management skills alone, with tax considerations now a major area of focus alongside greater attention to investment risk. "Clients increasingly now ask what their portfolio return is after tax," he said, explaining that as the regimes affecting HNWIs become more complex (and punitive) tax considerations are also figuring more highly in their investment strategies too. So, while a firm may not be directly advising on tax matters, it remains a crucial part of the investment management conversation. "I think tax reporting will be on the minds of sophisticated investment managers and they would appreciate a system that can track and analyse that on portfolios," added Dermot Campbell.

Yet although the kind of sophisticated reporting which shows where intelligent investment advice has mitigated tax exposures will be highly instrumental to underscoring the value of advice, the experts cautioned that institutions need to make sure they are getting the basics right first – particularly where there are international tax reporting issues like FATCA and the Common Reporting Standard to contend with along with different regimes requiring information in different timeframes and formats. "You could have a brilliant relationship with your client, and offer lots of innovative tools for financial planning, portfolio performance and asset allocation," said Keith MacDonald. "However, if once a year they get an inaccurate tax report, and have to spend a fortune sorting out their tax position, then that's not a good relationship."

In addition to accuracy in tax matters, the panellists also highlighted the need for flexibility in systems since the goalposts continue to shift on all manner of levies. As Daryl Roxburgh observed, there are continuing calls to overhaul the UK Capital Gains Tax regime and if this came to pass both advisors and clients would be likely to want to consider several "what if?" scenarios for their portfolios and the realisation of gains. "Being able to deal with that kind of change easily is still a priority, as well as regulatory change," he said.

CONSOLIDATED REPORTING



Despite its obvious desirability, it seems that being able to pull in information on externally-managed accounts remains largely a "wish list" enhancement for most wealth managers. As such, Roxburgh believes that institutions are missing out on developing the kind of understanding of clients' overall asset allocations and risk positions which gives them "the ability to start pitching themselves as the trusted advisor around asset allocation".

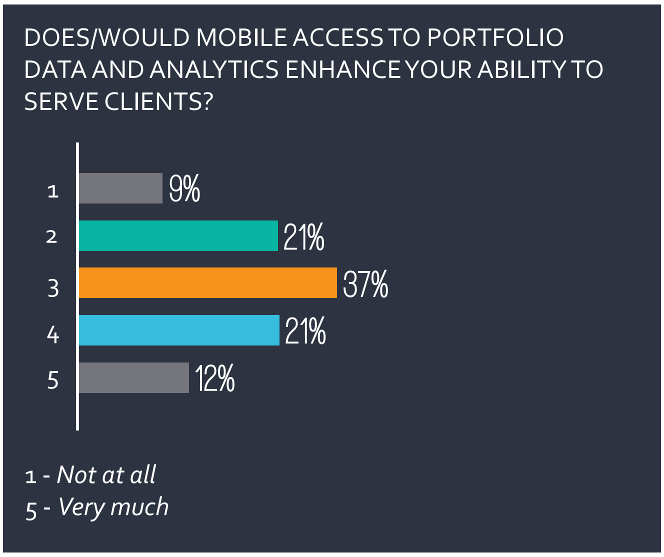
But it seems that advisors themselves are really feeling the lack of consolidated reporting across custodians too. A third believe this is a significant/very significant impediment to their ability to give holistic advice and, correspondingly, being able to offer consolidated wealth overviews which factor in externally-managed money came second in the rankings of advisors' most-desired capabilities. Proper client discovery and ongoing investment suitability checks will address an individual's total wealth, but consolidated reporting would give real insight into how away assets are being managed on an *ongoing* basis. Many would contend that proper advice is impossible without this, but the value consolidated reporting represents for clients can also lead to direct business growth.

On this topic, Nick McCall recounted how Falcon Private Wealth implemented consolidated reporting for one client who had been unhappy that his reporting across four wealth managers came in different formats from different custodians. With the client having ceded custody of all assets to Falcon's parent, the firm was able to offer a healthy discount on custody fees; it also significantly increased its share of assets since one firm was cut out during the transferral process.

As McCall remarked, for wealth managers themselves to offer consolidated reporting can be "phenomenally powerful" in client acquisition and retention, particularly since third-party providers of these services can be expensive. Yet as he and other experts conceded, the lack of consolidated reporting in the industry is predictable given how challenging it is to actually implement. "It's massively complex," said McCall, explaining that one major challenge is different custodians taking the pricing data for the assets on their books from different sources at different times. As elsewhere, less liquid assets with reduced price visibility can also create challenges since custodians might apply more subjective approaches to valuing assets, such as averaging over a quarter.

Clearly, consolidated reporting calls for significant efforts from both wealth managers and custodians to get the requisite interfaces and data feeds in place, and then to synthesise that information so it makes sense in one single report. It also hardly needs to be said that an institution would have to be very confident of its performance to promote the kind of direct comparisons consolidated reporting facilitates. However, the dearth of these facilities amid strong demand underscores how much of a differentiator consolidated reporting can be for firms looking to become the "alpha provider" with multi-banked clients.

MOBILE CAPABILITIES AND ADVISOR APPETITE



A third of advisors feel that mobile access to portfolio data and analytics represents a significant/very significant enhancement to their ability to serve clients, while multi-channel access to portfolio information came just behind consolidated reporting on the advisor wish list.

Mobile capabilities for advisors may be a fairly nascent area of development, but many expect that they will soon be ubiquitous. In its *Digital and Mobile Solutions for Financial Advisors 2015* report, MyPrivateBanking Research estimated that currently less than 15% of advisors are using an app provided by their firm, but predicted that the majority will be doing so within five years.

The strong "bring your own device" movement known to have emerged when tablets first became popular and yet were not being addressed by institutions is a testament to advisors' desire to keep up with their clients on technology. But while mobile capabilities are certainly about slick interactions with clients, there is also growing recognition that tools like mobile apps and social media communications are going to play an ever greater role in helping advisors serve a higher number of clients effectively too.

As Martin Engdal explained, mobile capabilities are at the centre of the boosts to advisor productivity his firm is working on with its Advent Direct platform. "With Advent Direct, everything that would be on a monthly report or statement will be accessible via a tablet or mobile phone, with advisors able to drill down into the detail via dashboards," he said, explaining that this will slash meeting preparation times as well as enhancing professionalism by eliminating the need for advisors to print reams of paper for client meetings. Of course, these capabilities won't mean that advisors can go into meetings entirely unprepared, since they will still have to explain the "story" behind a portfolio's performance in light of the firm's investment strategy, Engdal continued. They will, however, be greatly facilitated in taking the broadest possible view (in the shortest possible time), which may throw up interesting cross-selling ideas too.

Given what is on offer in other sectors, mobile capabilities are rapidly becoming the mark of professionalism and responsiveness in wealth management too – in pitching, onboarding and reviews. Correspondingly, investments into client-facing technologies are coming to the fore.

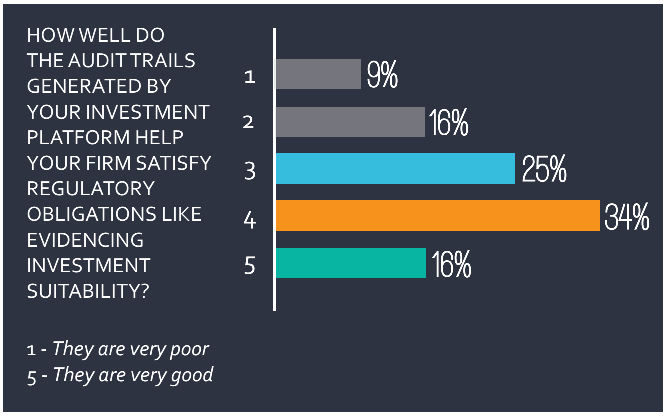
However, as with other technology enhancements, progress on advisor apps is likely to be highly uneven across the industry due to firms' very different existing infrastructures and therefore the amount of investment required to integrate mobile with the back-office and legacy front-end systems. Wealth managers could choose to take a fairly light-touch approach to data source integration and app features, but this would arguably be self-defeating since garnering the full benefits of mobile depends on full functionality.

Interfacing apps with PMS, CRM, IBOR, risk analysis systems and so on is undeniably challenging, but the benefits of being able to show clients customised reports and meaningful risk/return illustrations live in discussions are obvious, not only from a suitability perspective, but also to increase client engagement and understanding – which, of course, is the ultimate aim of current regulatory reforms.

IN ITS *DIGITAL AND MOBILE SOLUTIONS FOR FINANCIAL ADVISORS 2015* REPORT, MYPRIVATEBANKING RESEARCH ESTIMATED THAT CURRENTLY LESS THAN 15% OF ADVISORS ARE USING AN APP PROVIDED BY THEIR FIRM, BUT PREDICTED THAT THE MAJORITY WILL BE DOING SO WITHIN FIVE YEARS.

SECTION 04

Inadequate Audit Trails Cause Compliance Concerns



"YOU CAN HAVE THE BEST OF ALL POSSIBLE FRONT-OFFICE TOOLS THAT LOOKS FABULOUS TO A CLIENT, BUT IF WHAT COMES OUT OF THE SESSION WITH THE CUSTOMER IS THAT YOU HAVEN'T COLLECTED THE RIGHT INFORMATION AND STORED IT IN THE RIGHT WAY, THEN THAT'S NOT A GOOD OUTCOME."
- Keith MacDonald, EY

RISK OF REGULATORY CENSURE

Wealth managers need to be able to withstand intense and increasing scrutiny from regulators, yet it seems that in the eyes of advisors many firms' systems are lacking. On aggregate, 25% of advisors believe that the audit trails generated by their firm's investment platform are poor/very poor in terms of helping the institution satisfy regulatory obligations such as evidencing investment suitability. A further quarter said their firm's systems are only average in this regard, while just 16% gave the highest rating.

The fact that a quarter of firms are generating inadequate audit trails is particularly worrying in the context of the far greater attention regulators have been paying to investment suitability in recent years. Importantly, this "spotlight on suitability" is very much focused on evidencing rather than just outcomes. MiFID II will impose far more stringent suitability and appropriateness obligations across Europe and following its Retail Distribution Review reforms the UK regulator has already issued sanctions for inadequate *documentation* of suitability processes, even when no evidence of client detriment has been found.

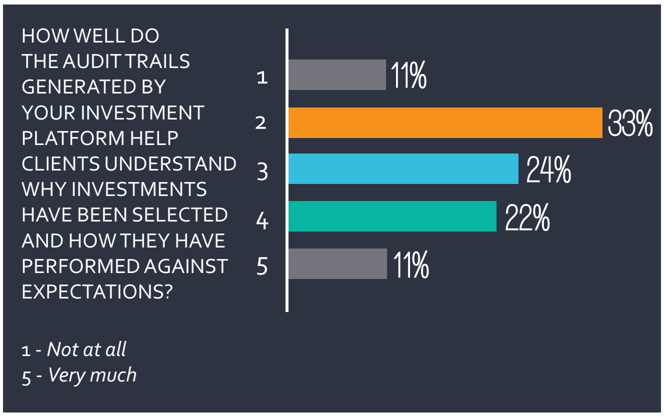
For Martin Engdal, the inadequacies revealed by the advisor survey match closely with what he sees in the market. "My feeling is that if you were to survey 100 European wealth managers on whether they really live up to their obligations on suitability and have full audit trails in place, I would think that perhaps 70% don't," he said. It is not necessarily the case that the requisite information isn't being gathered, but rather the complexity and time entailed in gathering it that is the issue, Engdal continued, since data is likely to be dispersed around different systems. Furthermore, in his view such painfully constructed audit trails are unlikely to be trustworthy "because you need to have date stamps on everything".

Aside from data dispersal, the experts observed that the key issue around suitability evidencing is the structure, and therefore usability, of the information being gathered. As Pauline Egan noted, the right conversations may be taking place and being recorded, but firms need to ensure that advisors are evidencing procedure systematically rather than "just writing copious notes". "I'm not sure of the extent to which systems are making that simple," she concluded. As Gilly Green also pointed out, often systems inadequacies create a culture of "let's do a file note" rather than doing things in a way that is retrievable and useful. What advisors need, she continued, is a CRM system which allows them to record a meeting and then pull out the exact information needed to make sure appropriate monitoring takes place. "I think getting it into a more form-based, interpretative format is really important and could vastly improve an advisor's productivity," she said.

Gilly Green also observed that mobile capabilities could have an important role to play in compliance as well as productivity if, for example, an advisor was able to complete meeting notes on a tablet on their way back from seeing a client. "We're still at the point where the client doesn't want the advisor typing away while they are sitting with them, but rather listening and talking to them," she said. "This makes that immediate 'let's get this down while it's fresh in my mind' important - not just from a productivity perspective but also from an accuracy perspective."

Making sure that advisors collect the right data at the right points throughout the client lifecycle is not just a matter of compliance, but also of improving the client experience and advisor productivity through eliminating the need for manually intensive follow-ups. "You can have the best of all possible front-office tools that looks fabulous to a client, but if what comes out of the session with the customer is that you haven't collected the right information and stored it in the right way, then that's not a good outcome," said Keith MacDonald.

JUSTIFYING CHOICES TO REGULATORS *AND* CLIENTS



One very important element of suitability and appropriateness evidencing highlighted by MacDonald is that of funds selection where a large institution working on an open architecture basis contains both a wealth manager and asset manager. On a like-for-like basis the wealth manager may prefer to recommend an in-house fund so that they can evidence appropriate investment costs more easily. "But that creates a conflict management issue where the regulator will be looking for proof that the institution isn't channelling funds inappropriately," he said.

However, on this theme we can also assume that many clients are themselves paying close attention to instrument selection now too, wanting to know that their advisor isn't simply reaching for the most convenient yet not necessarily the best, or most cost-effective, option. The huge popularity of ETFs across markets is a testament to investors' desire to execute their investment views as cheaply as possible when appropriate (ETFs/ETPs reached a new record level of investment in April 2015, according to ETFGI, with global AuM hitting $2.926 trillion). Indeed, HNW clients recently interviewed by *WealthBriefing* have explicitly said they want to know they are being put into the optimal share classes on funds as part of a generally more cost-conscious approach.

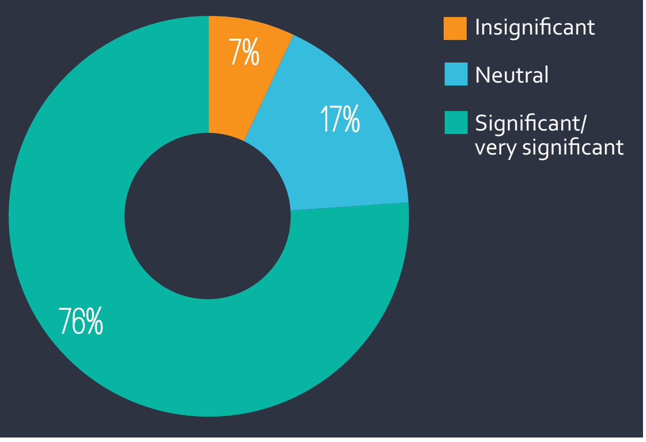
Unfortunately, it seems that wealth managers' are struggling even more on this point than they are with regulatory evidencing. On aggregate, 44% of advisors say their firm's audit trails are poor/very poor in terms of helping clients understand why certain investments were selected, and how they have performed against expectations. Just 11% felt able to give the highest positive rating, which again indicates both a widespread need for improvements, but also a real chance for institutions to differentiate themselves from their peers. As discussed on page 14, in terms of what advisors see as the biggest boosts to their practice, top of their wish list is having detailed insight into portfolio performance and risk. Being able to then convey that effectively to clients is just as important, particularly given that 2014 EY research cited by MacDonald found that while three-quarters of clients are happy with their advisors, two-thirds said they didn't understand the information they got from them and merely trust that it is correct.

"I THINK GETTING IT INTO A MORE FORM-BASED, INTERPRETATIVE FORMAT IS REALLY IMPORTANT AND COULD VASTLY IMPROVE AN ADVISOR'S PRODUCTIVITY." - Gilly Green, Knadel

SECTION 05

Technology and Advisor Recruitment and Retention

HOW MUCH OF A FACTOR WOULD A POOR INVESTMENT PLATFORM BE IN YOUR DECISION TO CHANGE EMPLOYER?



TECHNOLOGY A POWERFUL PUSH (AND PULL) FACTOR

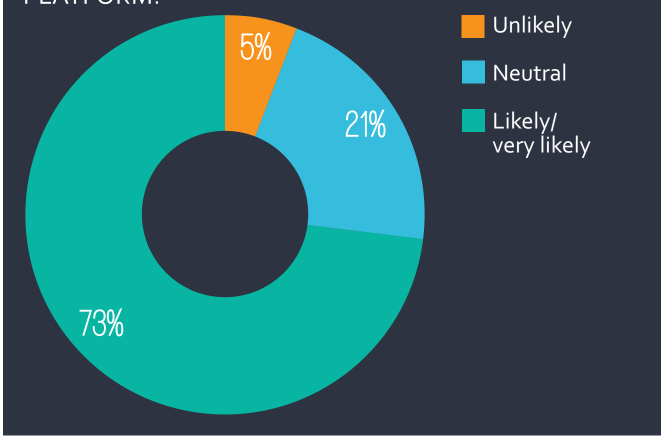
Given the constraints that a poor technology set-up imposes, it is unsurprising that three-quarters of advisors say an inferior investment platform would be a significant/very significant factor in their decision to change firm and a similar proportion would be likely/very likely to carry out technology due diligence on a prospective employer.

It is clear that a great many front-line professionals are unable to focus on revenue-generating activities as much as they would wish, simply due to their time being eaten up by activities like preparing for meetings: a fifth of advisors are spending over two hours preparing for an annual review, while almost half also have to spend more than two hours preparing to pitch to a prospective client. Manual tasks are losing them time which could be better spent engaging with clients and prospects to deepen wallet share and acquire new assets, but many professionals seem to feel hampered more broadly. A quarter of advisors see their firm's platform as poor/very poor in terms of helping them win new clients and support existing ones, not to mention the demoralising effect of duplicated, disjointed workflows.

While the panellists doubted that technology would be the sole factor prompting an advisor to move firm, they all agreed that poor systems could be a major contributor since, in the words of Keith MacDonald: "The life of a wealth manager in some institutions is really difficult because the tools aren't there to support them." Therefore, the experts suggested that an advisor's past experiences will have a great impact on how high up technology is on their list of priorities. "It's likely to be a case of 'once bitten, twice shy'," said Pauline Egan, who suggested that questions like "What is the front-office set-up?" and "Is there online valuation access?" will be increasingly common.

The survey findings indicate that a lot of manual work could be eliminated from meeting preparations, but there are a wide range of capabilities that advisors will also expect when being asked to manage a client book of any size today, the experts observed. At a basic level these include enhanced dealing systems that allow for speedier, more accurate transactions, order management systems which allow for portfolio changes to be applied across multiple clients and automated daily reconciliations.

HOW LIKELY WOULD YOU BE TO CARRY OUT SOME "DUE DILIGENCE" TO ASCERTAIN THE QUALITY OF A PROSPECTIVE EMPLOYER'S INVESTMENT PLATFORM?



DUE DILIGENCE REQUIRED

It is easy to imagine that an advisor who has been stymied by poor systems in the past will want to avoid repeating the experience and so will try to ensure that they are confident the set-up at a new employer will be satisfactory. However, as Tom Price-Daniel highlighted, things can also work contrariwise, with new recruits sorely disappointed because they have worked on positive assumptions about what will be in place. "There have been numerous cases of individuals joining firms with expectations derived from previous experience rather than ascertained fact," he said. "There is not nearly enough due diligence going on." According to Martin Engdal, one of the primary reasons technology has risen higher on advisors' agendas over the past five years (and will rise higher) is the widening gap between the leaders and laggards. "The industry is divided into those who've been really strategic about technology and invested wisely, and those which haven't done anything really yet," he said. "Also, there seems to be a bigger spread as to what really is best in class."

Advisors will naturally want to be competing on an equal basis with their counterparts at rival firms, and, as Rosie Bullard highlighted, poor technology can be detrimental across several areas of professional practice. "Technology is certainly an important factor to consider when choosing an employer," she said. "If systems are poor, this can have a significant impact if it takes longer to analyse portfolios, place trades or obtain research information, when that time could be spent with clients, managing portfolios or carrying out investment research." As discussed on page 11, the ability to devise interesting, highly-tailored investment solutions for clients seems to be lacking, despite this clearly being the best use of advisors' highly-valuable time in terms of their own – and the institution's – bottom line. "The issue can be summed up as every relationship manager requiring an improvement on what they can already offer, so they can have the opportunity to expand their book by either bringing in new clients or by increasing wallet share," said Dudley Edmunds.

Correspondingly, Pauline Egan believes the factor advisors will focus most on is the extent to which routine tasks can be automated, since this "dictates how much of their job is about administration rather than being in front of clients". Automation is also crucial in helping advisors fulfil increasingly onerous (and changing) regulatory requirements with both ease and the requisite thoroughness. "The audit trail is critical," Egan continued. "I'd be thinking about how simple the technology makes it to capture all of the suitability requirements you need to meet, for example." As has often been pointed out, advisors are not necessarily compliance specialists yet they are shouldering an increasingly heavy burden in terms of mitigating regulatory risk to the business.

PRESENTING A MODERN FACE

A firm's technological set-up will have a great impact on an advisor's ability to do their job efficiently and well (meaning in compliance with an alphabet soup of ever-changing national, regional and supra-national rules). But client-facing systems are increasingly also a concern at a time when sophisticated digital experiences are very much the norm. "Clients expect certain services, such as online access, and if there is no online facility or if it is a difficult online system to navigate, they can find this very frustrating," said Bullard.

Furthermore, as several contributors pointed out, wealth management is still an industry where advisors will be looking to take a significant proportion of their client book with them when changing institution and this becomes problematic if clients are effectively being asked to accept inferior technology provision alongside the perceived tribulations (and possible costs) of making a change. "The issue of moving clients might actually be a key factor. How on earth can an advisor justify moving his/her clients from one technologically-enabled environment to another that isn't?" said Gilly Green; while Martin Engdal observed that always wanting to offer something better is about an advisor's personal reputation too.

A desire not to disappoint clients will be common to all advisors. However, as Price-Daniel further pointed out, technology is paramount for those working with certain segments, as their ability to meet clients' needs may be platform-dependent. "Trading-heavy clients will require institutional-quality market access," he said. "If this represents your client base, then the quality of the platform (eventually) usurps relationship as the overriding factor, and you would not be enticed or retained by an organisation that does not have technology that mirrors this."

Recent thinking suggests, in fact, that clients are becoming increasingly loyal to institutions, rather than advisors, and that high-quality technology provision is something clients can become very attached to.

REPUTATION AND ROI

Advisors are increasingly likely to want to carry out technology due diligence before changing firm, but this will take various forms. As Green pointed out, "people talk within the industry", so many investigations may be informal. It was also noted that institutions tend to court media exposure for their technology investments, so advisors commonly know what competitors are using. "With some firms there is a widespread perception that they have a really good system, which plays in their favour," said Egan. However, she and others also cited recent recruitment projects where advisors have *directly* asked about a prospective employer's systems. According to Price-Daniel, there is a real need for proactive investigation as while technology leaders "rightly make a big deal of their capabilities", institutions that are aware of their limitations "will not want to draw attention to these during a courting ritual".

Seen through the lens of advisor retention and recruitment, as well as the productivity issues discussed elsewhere in this report, the massive indirect and direct impact technology systems can have on profitability is clear. A forward-thinking set-up is crucial for establishing positive brand credentials among both advisors and clients. Yet the direct impact on costs that automation and integration can have is another important reason that technology is a recruitment and retention issue among senior management too.

"Technology at C-level is front and centre", said Price-Daniel, explaining that senior executives recognise that smart technology can streamline processes to reduce the regulatory burden, increase the efficiency of advisors and improve wallet share – all of which can have a huge positive impact on cost-income ratios. Intensifying regulatory scrutiny (and a flurry of massive fines) has kick-started a wave of investments because, as several contributors observed, having the right technology in place to underpin robust regulatory compliance is now a matter of senior executives "being able to sleep at night". "At C-suite level technology becomes critical, because the firm just cannot run its operations in a controlled way unless it's got proper systems and management information," said Daryl Roxburgh. For his part, Price-Daniel is certainly seeing forward-thinking wealth managers highlighting their systems when approaching top managers. "When recruiting, wealth managers draw on their strengths," he said. "If technology is best in class or innovative then it can be an effective tool and at leadership level this is embraced whenever appropriate."

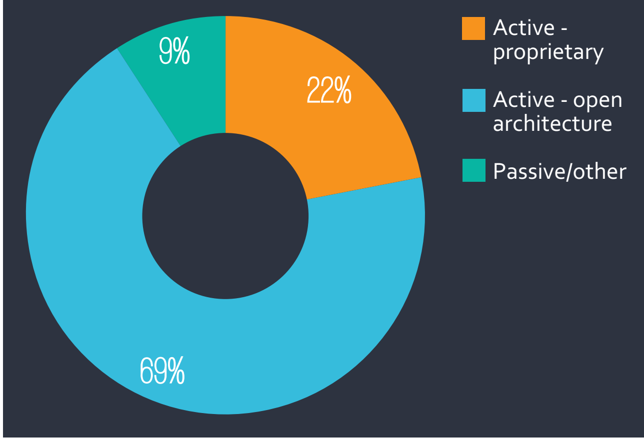
Those who will be shaping the future of an organisation will also be acutely aware of the impact technology innovation is likely to have on recruiting the next generation of advisors, the experts pointed out. "Younger advisors are more confident with technology and keen to use it; in fact, they're not happy if they don't have it," said Gilly Green, adding that their enthusiasm for new tools often piques the interest of older colleagues and helps to secure buy-in from all.

Yet a desire to leverage new technologies is not isolated to the young and there will be early adopters of all ages who will be frustrated by inadequate provision. Technology is set to become a crucial factor in advisor recruitment and retention – if it isn't so in the minds of many talented professionals already.

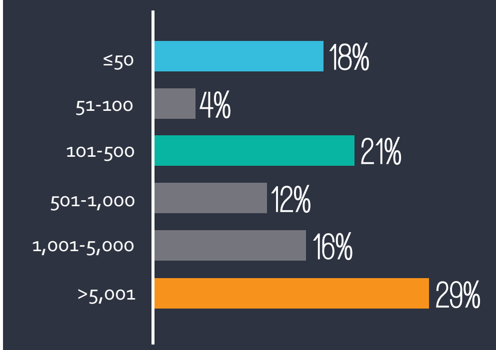
METHODOLOGY

This report was based on a survey of 90 wealth management professionals, carried out in March/April 2015. To contextualise the survey's findings in-depth interviews were carried out with 12 senior wealth management executives, strategy and recruitment consultants and technology experts, along with portfolio managers.

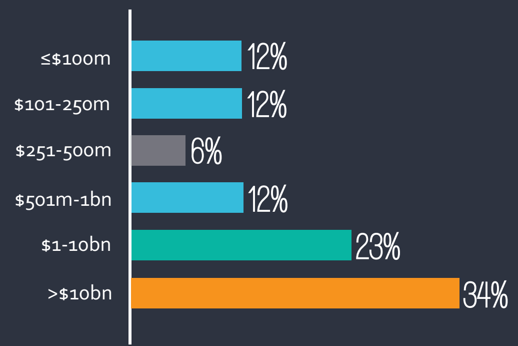
HOW WOULD YOU DESCRIBE YOUR FIRM'S INVESTMENT APPROACH?



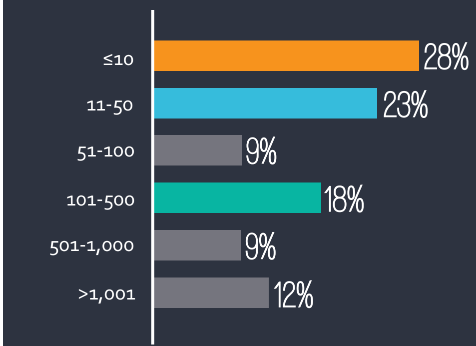
APPROXIMATELY, HOW MANY WEALTH MANAGEMENT CLIENTS DOES YOUR FIRM HAVE?



IN WHICH ASSETS UNDER MANAGEMENT BRACKET DOES YOUR FIRM SIT?



APPROXIMATELY, HOW MANY CLIENT-FACING ADVISORS DOES YOUR FIRM HAVE?



CONCLUSION

The survey on which this report is based suggests that around a tenth to a fifth of institutions *have* made the necessary strategic technology investments to cope with today's competitive and regulatory environment, and are reaping the rewards of that - in terms of increased operational efficiency, better risk management and happier clients and employees. However, the survey also suggests that a significant proportion of advisors working in the wealth and asset management space are dissatisfied with the technology systems at their firm – and on a whole range of fronts. Taken in the round, if we were to reduce the findings of this study to one key point it would arguably be simply that many advisors don't feel their firm's technology set-up is fit for purpose. Some six out of ten advisors don't feel that their institution's technology platform is particularly useful in terms of helping them support existing clients and win new ones, and a quarter actively think that it is poor in this regard.

The negative impacts of such sub-optimal technology arrangements are manifold. Advisors' (highly-valuable) time is being eaten up by activities which do not generate revenues and which are also likely to have a profound morale-sapping effect. Advisors naturally want to spend as much time as possible in proactive discussions with clients and prospects, yet it seems that in many cases they are having to spend very much more time preparing the information they need to discuss than they have as actual "face time". Automation currently stands at such a low level that just a tenth of advisors can prepare for an annual review meeting with very little manual work being required, for example.

Meeting preparations emerged as an area where advisors are really being hampered by poor technology systems, however the deficiencies suggested by the survey findings extend right across the client servicing cycle. Over a third of advisors do not feel enabled to offer clients the investment flexibility and choice they need to achieve their financial objectives; perhaps just as importantly a similar proportion do not feel able to offer the kind of interesting investment opportunities that optimise client engagement. As cost and regulatory pressures drive further homogenisation among wealth management offerings, investment choice may become even more of a differentiator, particularly given the low-yield investment environment and increasing interest in alternatives.

Reporting inadequacies are arguably what should have institutions most concerned however, with half of advisors saying they are unable to offer the optimum reporting solution to their clients and the same proportion having serious doubts about the quality of the audit trails generated by their firm's investment platform. Many advisors seem to feel their firm's systems could be more helpful in terms of helping investors understand why certain investments were chosen and how they have performed; yet even more worryingly, half are concerned over whether their firm is evidencing adequately from a regulatory perspective. With regulators the world over having adopted a very much more aggressive stance on suitability process documentation, the dangers here are clear.

As well as inefficiencies and business risks, it seems that many advisors are missing out on technology capabilities that are thought of as differentiating factors today but which may well be ubiquitous (and even hygiene factors) before too long. It should never be forgotten that wealth management is a highly competitive industry when it comes to both clients *and* advisors. Talented advisors do tend to move around the industry with some frequency and will have abundant comparison points in mind when considering the technology provision of current and future employers.

While it is unlikely that technology set-up would be the sole factor in an advisor's decision to leave or, conversely, join an institution, our findings confirm what many observers of the industry will instinctively feel: that given the central role technology plays in advisors' daily practice, quality of provision is increasingly a recruitment and retention issue. To paraphrase one expert, the lives of many advisors are being made very difficult today because they just haven't got the systems there to support them in their daily practice. At a time when modern technology can be so helpful in boosting advisor productivity, to be actually *hindered* by poor technology must be frustrating in the extreme.

WealthBriefing will continue to track technology developments in the wealth and asset management space, as will our longstanding research partner Advent. Both parties would welcome suggestions for future areas of investigation from members of the *WealthBriefing* global network, the Advent user community and beyond.

PLEASE DIRECT QUESTIONS ON THIS OR ANY OTHER RESEARCH PROJECTS TO: *wendy.spires@wealthbriefing.com*.

TO FIND OUT MORE ABOUT ADVENT'S SUITE OF SOLUTIONS PLEASE CONTACT: *martin.engdal@advent.com*.