

The impact of the wealth continuum on analytical platforms

While a substantial increase in a client's assets is good news for the client, for the private wealth manager it is something of a double-edged sword. The needs of that client will change as they transition from one level of wealth to the next, and this has deep implications for the wealth manager. As clients move up and down what can be described as the 'wealth continuum' of the super high net worth towards one end, the high net worth in the center and the mass affluent at the opposite end, the demands for analytics such as exposures, performance, attribution and risk will change and evolve, at different rates depending on the clients' needs.

The large global wealth managers who have clients in each of the three categories require a highly flexible platform that can accommodate their clients' different needs – a platform with the scalability to react quickly, efficiently and with the functionality to meet the clients' changing requirements. At the super high net worth end of the wealth continuum, the analytic demands are almost on a par with those served by traditional asset managers. Large, diverse wealth managers have different platforms for each tier, or business unit. To effectively move a client from one business unit to another is challenging, as the client's full asset history often needs to be migrated between platforms. A platform is needed that can cope at every level of the wealth continuum, one that can deliver a custom solution at each of these positions on the continuum and one that is defined through configuration rather than implementation or migration.

Already a major headache in North America, the management of the wealth continuum will become a challenge in rapidly growing economies such as China, where clients can move from mass affluent to super high net worth relatively swiftly. An illustration of

"In Asia the number of billionaires has nearly tripled in the past two years to 332"

Forbes

this trend can be seen in the rapid rise of incomes among the super rich. In Asia, the number of billionaires has nearly tripled in the past two years to 332 (source: Forbes) and the pressure on their wealth managers to deliver the right service is increasing. In essence, economies with rapid growth rates will tend to produce an equally rapid throughput of clients along the wealth continuum. Tempering this assertion though, is the fact that the most rapid economic growth is occurring in emerging and therefore relatively immature markets, where there has traditionally been a relatively low demand for complex analytics among wealth managers.

The impact of the financial crisis, regulation and scandals

The financial crisis has also resulted in the wealth management industry viewing analytics in a very different way. Since 2008 there has been an increasing focus on portfolio analytics and compliance technology among wealth management firms and analytics are now a key deciding factor when selecting a technology platform. Some of the reasons behind this enhanced focus on analytics are the need to reduce operational risk and investor demand.

Regulatory pressure, too, is a prime driver. There are a wide variety of regulations around the world that wealth management firms and private banks need to comply with today. These include generic regulations such as Know Your Customer (KYC) and Anti-Money Laundering (AML), as well as market-specific ones such as Europe's Markets in Financial Instruments Directive (MiFID) and Sarbanes-Oxley (SOX) in the US among others.

Even as far back as late 2008, the China Banking Regulatory Commission (CBRC) issued a notice to strengthen its regulation of wealth management products issued by banks in China. This move followed on from an increase in customer complaints and disputes regarding new financial products that have recently entered the rapidly changing Chinese economic market.

Regulations such as MiFID have 'suitability' as a key tenet to enable investor protection, which involves ensuring that investments recommended are appropriate for the individual client situation and risk tolerance. MiFID is the main driving force behind the focus on wealth management governance in Europe. In the US, it is regulation as well as scandals such as the Madoff affair that are driving investment in performance and governance technology. The Madoff scandal, where Wall Street financier Bernard L. Madoff swindled investors of up to \$50bn, sent shockwaves through the investment community, eroding client confidence and refocusing advisors. In today's wealth management world, governance now embraces not just the existence of assets, but also their origin and assurances to the regulator and investor that those assets are being managed in line with mandates.

Private wealth managers are also concerned about risk management since sub-prime products were often sold as money market products. Now, wealth managers are reinforcing investor protection rules to ensure that investors clearly understand the investment strategy of the product they invest in. For instance, whereas pre-Madoff the fact sheet of a structured product would only highlight the risk-return potential, it now describes all the risk details explaining the worst-case scenario as well.

As a result, wealth managers are spending more in anticipation of a new regulatory environment and increased scrutiny related to due diligence on alternative investments such as funds-of-funds. These factors are changing the picture of wealth management and the need for higher service levels for clients.

The global wealth management map

The major retail wealth managers such as Citigroup, Bank of America, HSBC and Standard Chartered operate primarily in North America and Asia but that situation is changing as new wealth patterns emerge. For example, the number of billionaires in leading emerging economies has surpassed the number of those in Europe for the first time and is quickly closing in on the US, according to the Forbes Rich List 2011.

Indeed, according to the '2011 China Private Wealth Study' conducted by Bain & Company of more than 2,500 HNWI's, the number of Chinese high net worth individuals is projected to rise to 585,000 in 2011, nearly twice as many as in 2008. HNWI's are those with more than 10 million renminbi (RMB) in individual investable assets, or approximately \$1,500,000 at current exchange rates. The study also found that the fastest growth is coming from the 'super rich' - HNWI's with more than 100 million RMB in assets, or more than \$15,000,000.

In contrast to survey responses in the 2009 edition of the study, Bain found a greater diversification of wealth management objectives. Once again, wealth creation is the top priority of HNWI's, but wealth safety is now the second highest rated objective. The implication for wealth managers is that portfolio analytics will need to become more sophisticated as their clients become more risk-averse and demanding.

A rapid increase in assets means that wealth managers in China will need to manually adapt their existing analytical systems or consider another integrated platform that can accommodate the changing needs of clients.

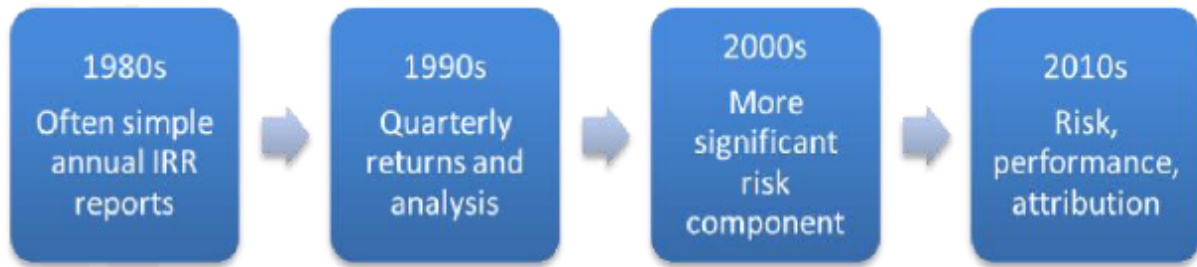
A new breed of investor

Client expectations of their wealth managers and advisors have also changed significantly over the past decade, with the industry now adapting product and service suites for a new generation of wealthy individuals and families.

This growing population not only takes for granted the more 'traditional' wealth management services of

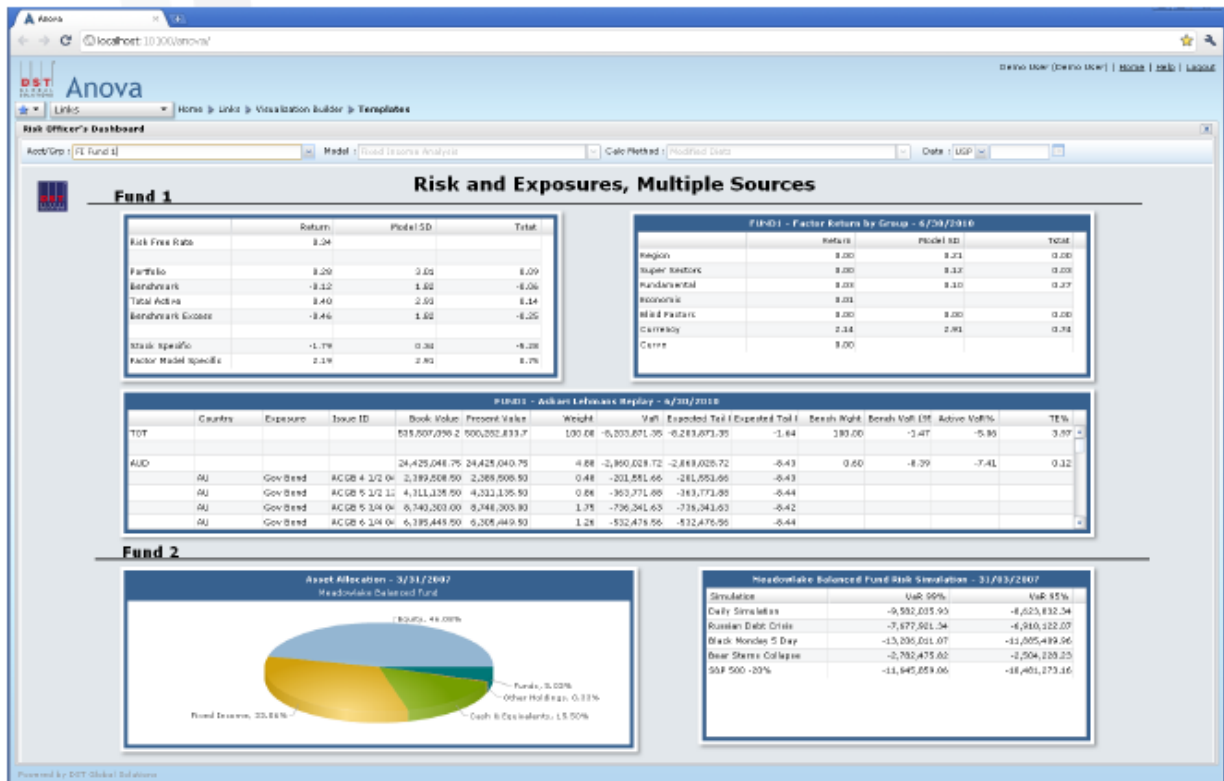
wealth preservation products and estate planning, but also a level of sophisticated asset allocation that everyone from the mass affluent to the new breed of millionaires have championed.

Figure 1: The increasing sophistication of investors



The increasing sophistication of investors is evident from figure 1. Historically, we can trace the demand for portfolio analytics among wealth managers and their clients from simple annual internal rate of return reports (1980s), then quarterly returns and analysis by position and asset class (1990s), then more detailed return analyses with a significant risk component (2000s) and finally to the current situation where full portfolio analytics embracing risk, compliance, attribution and performance are required (see figure 2).

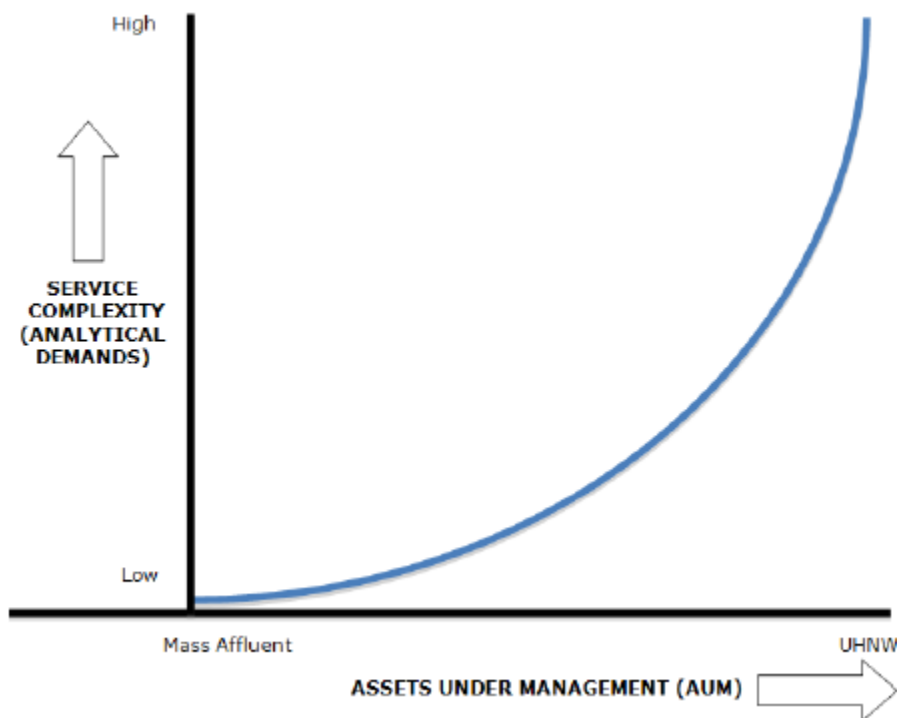
Figure 2: Excerpt from an analytical report for a High Net Worth Individual



The increased sophistication of this new generation of clients is evident in the types of products sought, their tolerance for risk and the way that they expect to view, monitor and manage their investments. These rapid changes in wealth patterns place extraordinary demands upon wealth managers and the array of analytical systems they utilise to satisfy their clients' demands. As net assets increase swiftly, the investor demands greatly enhanced and more granular performance analytics to ensure that the investment strategy remains on course. Across the whole spectrum of performance, attribution, risk management, compliance and governance, DST Global Solutions is seeing the greatest demand for analytics that can span the whole of the wealth continuum.

DST Global Solutions has major global and national wealth managers as clients, so it has deep, first hand experience of having seen this demand for flexible wealth management systems. In fact it was during conversations with one of these wealth managers in Asia that the concept of the 'wealth continuum' was created.

Figure 3: The Wealth Continuum



In figure 3, the x-axis represents the client's assets and the y-axis is the complexity of their demands. In simple terms, the more money the client has, the more transparency and detailed performance reporting they need. As they move up and down that continuum their demands for that type of data change. Therefore, a large investment management organization that provides private banking, wealth management and retail banking will have three distinct 'tiers' of client and it will need to supply a different level of service to each of those business units and the customers therein. As the client changes their status (for example, after a significant inheritance, a business sale or an IPO), they will need to be migrated to a different service model by the wealth manager.

The problems of migration

To accommodate this transition, the best-placed wealth managers will have just one analytical platform serving all the business units' needs that in turn serve their clients' changing needs. Many wealth managers, however, have different platforms across those business units and it is therefore very difficult to move those clients across those service levels. This is because those business units often operate in

silos and are not set up to facilitate the progression up and down the wealth continuum and therefore between silos. Most wealth managers have tried to provide a system based on legacy solutions that are not suited to client migration or increasingly complex requirements.

We know of one wealth manager that had clients in its private bank that no longer qualified for the private banking service. However, it was too difficult to move them off that platform and onto the wealth management one, so those clients were kept on the private banking platform. The end result is that clients are potentially receiving a higher level of service than they actually deserve, just because of the difficulties in migrating them across business lines.

An even worse scenario is that the wealth manager may be giving the client a lower level of service than they are entitled to and need, because of the difficulty in moving them up the wealth continuum – thereby increasing the risk of the client defecting to a competitor. Alternatively, the wealth manager may be supplementing the service with manual processes to get the client up to the correct service level, simply because they have not been migrated onto the alternate platform. This demands extra time and effort from the performance teams in that business unit.

Due to the fact that the requirements of these super-rich individuals are growing as their net worth and strategy complexity escalates, the demands at the highest level are now comparable to that of institutional clients. For example, one global wealth manager is implementing security level multi-currency attribution for some of their high net worth clients because that is the level of service they require. There is a need for a single analytical platform that can manage the progression of clients up and down this wealth continuum in order to ensure that clients receive the right analytics and enjoy continuity in their user experience.

A question of continuity

The client's asset history is the key problem when a wealth manager is considering continuity within performance and analytical systems. The wealth manager needs that historical data to give the investor a full perspective of his investment performance. This often results in a conversion exercise if the wealth manager uses different platforms for different tiers of client. Therefore, in the back and middle offices this results in a time-consuming, manual migration exercise. In effect, it is rather like the client on-boarding process: you off-board them from one system and on-board them onto another.

Delivering a consistent user experience

Wealth managers need to offer a standardized analytics package to their clients as far as is possible and feasible. The issue arises when a client breaches a major threshold in assets under management. The user experience then becomes a key consideration for wealth managers.

If the client is not transitioning from one tier to another while on the same system or an integrated analytics platform, then it is very difficult to give the client a very similar user experience on the new service level. The wealth manager might just be giving the client access to more functionality, but the client still needs to see and recognize all the analytics that they viewed previously. At the front end it might look completely different if the system's user interface has not been copied correctly. There is a danger of confusing clients if they log in to their performance report one day and everything is totally different, because the analytical systems powering the dashboards or reports offer completely different 'shapes' of information.

The concern here is all about maintaining a positive client perception and ensuring that the operational work that takes place in the background is seamless while migrating clients across wealth management tiers. There is a need for consistency in the user experience and this means that the migration process across service levels has to be flawless. If the wealth manager has all the back office systems lined up and 'pointing' at a particular analytical platform in order to supply an investor's data to that platform, as the migration takes place the IT team will need to re-point that data to the other platform. This will involve converting all the data on a one-off basis. If the wealth manager had all its clients on the same platform, irrespective of the tiers or business units they are in, it could simply allow access to different levels of

functionality – everything else remains the same.

Aligning with the wealth continuum

Ten years ago a major global wealth manager bought different analytical systems in North America, Asia and in Europe. This firm then implemented those systems separately. In the last six months, the firm brought all those analytical environments to North America so they run alongside each other, but clients are still on separate systems. This wealth manager is now moving all those systems onto one platform from DST Global Solutions – Anova*. In this way, the firm can take advantage of a global operating model and achieve the consistency of user experience required. Anova also brings benefits to the IT function, reducing the cost base by eliminating duplication, alleviating data management pain and minimizing the points of failure between applications and regional hubs within wealth management firms. Now, whenever this firm attracts a new client, they are on-boarded onto the same platform as all other clients. Through this migration to Anova, the wealth manager is centralizing all its analytics onto one system with one database. Now this firm is positioned to on-board their entire global private banking client base into one point, coordinated from North America. This is a good example of one of the largest private banks in the world aligning with this concept of the wealth continuum.

It's a recurring theme. If wealth managers don't position themselves to manage the global wealth continuum now, they are going to be forced into spending a lot more money on new systems and services in the future.

Conclusion

There is a need for wealth managers to future proof their businesses. There will always be clients moving along this wealth continuum, with the corresponding shift in analytical needs. And in emerging economies, requirements for superior analytics will only increase - as will regulation.

As a consequence, today's wealth manager needs to position for the next 20 years, not the next two years. By utilizing one system with a common operational model and the capability to scale as AUM scales, wealth managers can improve their business agility and performance while simultaneously harnessing synergies. Traditionally, global wealth managers have had significant resource pools working in geographic isolation. Now they look to leverage from complementary teams with a global outlook, improving efficiencies and removing duplication of effort, resources and skills.

*To learn how Anova can help wealth managers meet the challenges of the wealth continuum, please contact:



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