Next-Generation Wealth Management

Exceeding expectations through responsive, dynamic client reporting

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Introduction

Client expectations of their wealth managers have changed significantly over the past decade, with the industry adapting product and service suites for a new generation of wealth creators.

The industry is still growing, and fast. The wealth of high-net-worth individuals is expected to grow by 6% annually, while over the next 15 years those older than 65 with investable assets of more than $1 million are expected to increase sevenfold[1]. This wealth is being passed on, with a staggering $41 trillion[2] expected to be transferred between generations over the next 50 years.

This growing population not only expects the more "traditional" wealth management services of wealth preservation products and estate planning, but also a level of sophisticated asset allocation that the new breed of millionaires have championed.

BRIC economies (Brazil, Russia, India & China) are among those that have experienced a rush of sudden wealth in recent years. Countries such as India, with a GNP growth rate averaging at 8%, are creating more millionaires every year than many of their western counterparts.

These Internet savvy entrepreneurial millionaires expect something very different from their wealth providers than simple estate planning and expensive lunches - a change in attitude to greater sophistication that is being mirrored, if at an ironically slower pace, in more advanced markets.

1. IBM Wealth Management Survey 2005

2. Boston College Social Welfare Research Institute, from 1998 through 2052 in 1998 US dollars

The informed client & diversified products

The increased sophistication of this new generation of clients is evident in the types of products sought, the level of risk tolerance, and the way that clients expect to view, monitor and manage the performance of these products.

Seeking New Products

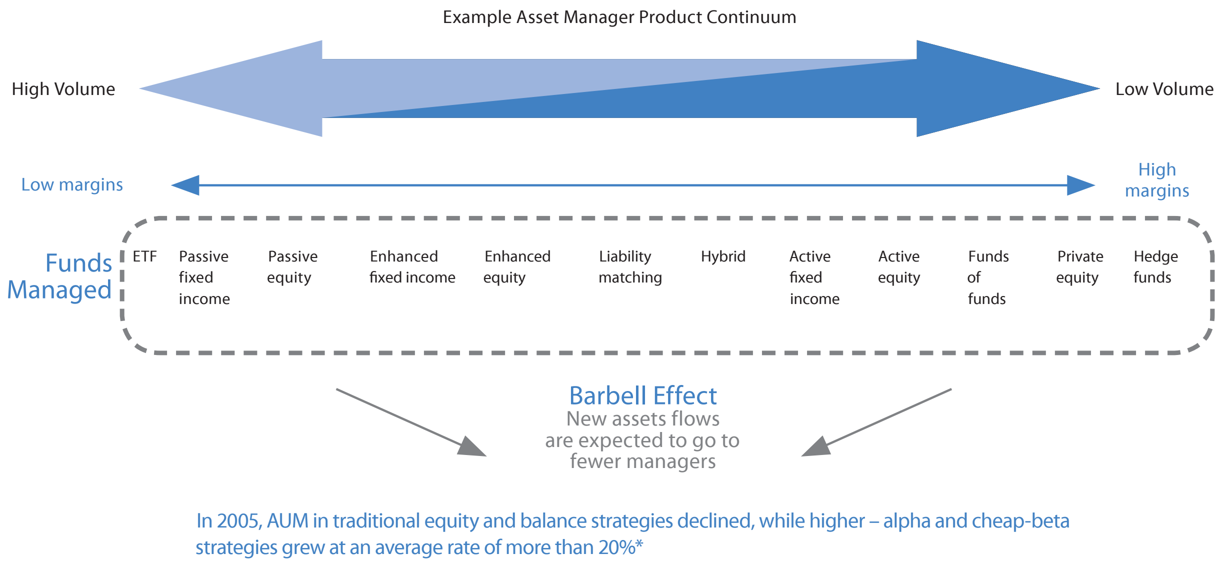
Greater sophistication can clearly be seen in the asset allocation of clients.

In 2005, assets under management (AUM) in traditional equity and balanced strategies declined, while higher-alpha and cheap-beta strategies grew at an average rate of more than 20%[3] as seen in Figure 1 below. Indeed, many private banking institutions are now following a policy which ensures that at least 10% of a client's portfolio are held in alternatives (such as hedge funds and private equity).

Taking more risk is not the goal here; the aim is to use innovative and clever strategies to diversify risk and return in a portfolio. Clients still expect accurate pricing and performance information on these 'alternative' investments - just as they expect with their more traditional stocks and bond based investments.

It is here that wealth managers face one of their biggest challenges. What do they do when clients expect on-demand, real-time, single-view reporting on such a diverse range of assets and allocations - which their systems are not used to dealing with?

Figure 1 – Assets are flowing to passive and alternative products at the expense of traditional enhanced and active funds



Source: IBM Institute for Business Value analysis, *McKinsey/Institutional Investor U.S. Institute Asset Management Benchmarking Survey.

3. IBM Wealth Management Survey 2005

The Google effect

Demand for greater sophistication in investment reporting has been accelerated by the telecommunication age, and clients' own experience of the power and usability of the Internet. This tool enables them to track their business and the markets they invest in; giving them real-time information at their fingertips.

The Internet has raised client expectations of their service experience. Clients now expect immediate reporting and a high degree of personalisation and management of the information they require to make their next decision. In this Google-driven world, the delivery of real-time investment information to clients within a highly flexible, dynamic and compelling user experience has become essential.

Not only does this new generation have the confidence to take risks following success from their entrepreneurial achievements, they also have the tools at their disposal to invest in this way. Naturally, they expect their wealth providers to keep up with this trend.

The issue explored

"Clients select on the basis of the quality of client service and reporting. They seek delivery versus image, which the banks view as paramount". [4]

A decade of research into the wealth management market by IBM has noted repeatedly that client reporting is the key to keeping clients happy and getting new money into an institution. Clients rank 'quality of client servicing and reporting' as their number one criterion in selecting a private bank as Figure 2 outlines.[5]

One of the biggest reccurring issues in wealth management is that of client reporting, with banks also ranking this as a key factor in why clients choose them.[6] Getting this right provides a clear competitive advantage. (The top reason for clients leaving a bank, as ranked by both clients and their banks, is "dissatisfaction with the service provided", followed by clients perceiving that they have had "poor investment advice")[7].

Figure 2 – Clients are more demanding in selecting a wealth manager – client vs. bank view

What criteria do clients use to select a private bank?
Clients' versus banks' view

Clients' opinion	Rank	Banks' opinion
Quality of client service and reporting	1	Image and reputation
Confidentiality and security	2	Quality of client service and reporting
Quality of investment advice	3	Quality of investment advice
Image and reputation	4	Referrals from existing clients
Referrals from existing clients	5	Investment performance
Investment performance	6	Confidentiality and security

In today's climate, banks not only face the issue of having to provide a wider range of products to an increasingly sophisticated clientele in a diligent and appropriate manner, but also having to inform this market-savvy client base of these complicated investments in a compelling way.

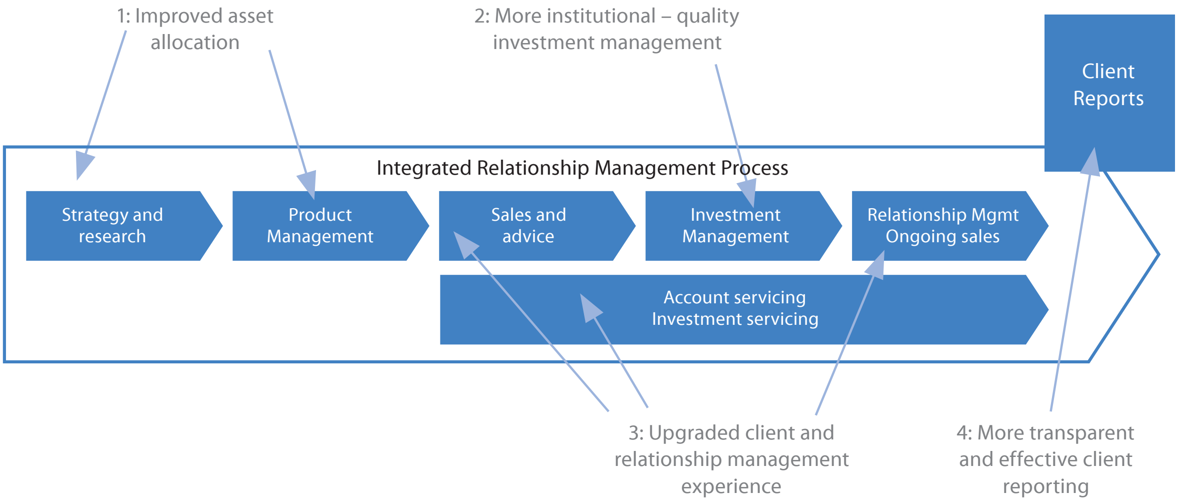
[4, 6, 7] IBM Wealth Management Survey 2005

[5.] As demonstrated in the IBM Wealth Management survey 2005, ranked as the number 2 reason by banks for the question "Which criteria do clients use to select a private bank"

While no one can underestimate the importance a relationship manager (RM) plays in ensuring clients are happy, appropriately advised and well informed, RMs are only as good as the tools available to them. As clients continue to seek accurate online access to performance information with dynamic tools for self-analysis, the RM community needs access to an even higher level of information manageability – so that they can tailor, contextualise and drive the value of the information and service they provide to the client. The value banks and RMs add to their clients is highlighted in Figure 3 - the wealth value proposition.

If the report presented to the client does not encompass the bank's value proposition and brand; is not aggregated, accurate or relevant, how will the RM be able to sell the reputation and integrity of their institution? With 'image and reputation' also among the most highly ranked[8] reasons clients choose to bank with an institution, this issue cannot be ignored.

Figure 3 – Four key changes in the wealth value proposition



[8] 'Image and reputation' ranked number one for new clients selecting a private bank, according to the IBM Wealth Management report 2005

Regulatory considerations

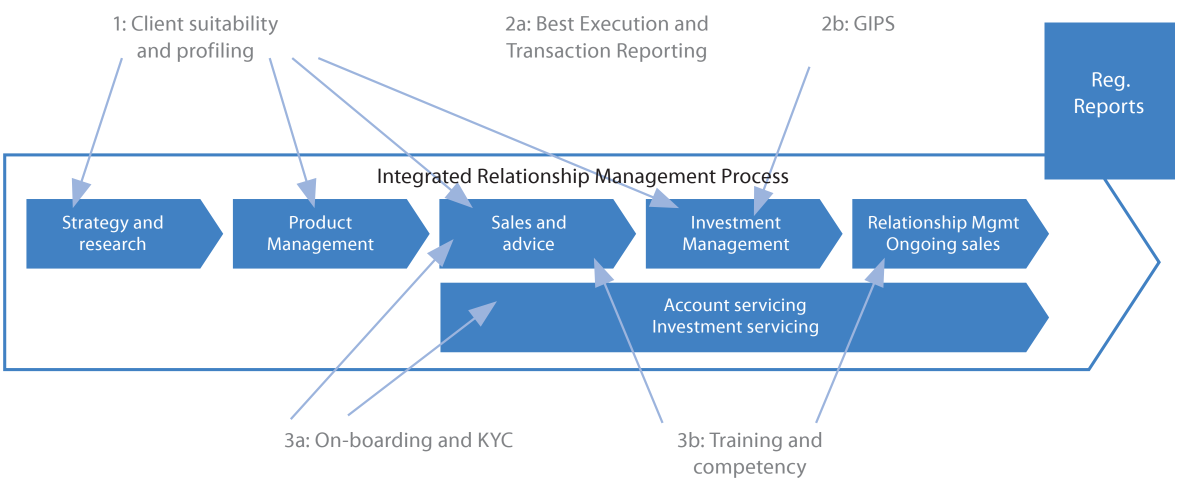
Likewise, if a relationship manager (RM) does not have holistic, cross-product access to their client accounts, how will they show that objectives are up to date and being met, or that strategic asset allocation makes sense and is working?

The Markets in Financial Instruments Directive's (MiFID) stringent standards demand that a strict 'Know Your Client' (KYC) policy is enforced to ensure products and services are suitable for individual clients - and are introduced and executed properly. The aim is to better integrate Europe's financial markets, a major part of the European Union's Financial Services Action Plan (FSAP).

If these key compliance areas are not clear from a reporting standpoint, it makes it difficult for regulators, such as the Financial Services Authority (FSA), to assess an institution's adherence to guidelines in a positive light. Key areas of regulatory activity that directly impact the wealth value proposition are outlined in Figure 4.

Global Investment Performance Standards (GIPS) is another reporting guideline that aims to ensure consistency in the way investment performance is presented. GIPS is a level of reporting standard that many of the ultra-high-net-worth clients opt for when choosing a reporting method, and therefore wealth manager. Given that these individuals are the jewels of any RMs client base, it makes financial sense for institutions to ensure client reporting is as sophisticated as the products this covers.

Figure 4 – Wealth Value Proposition



Technology as part of the solution

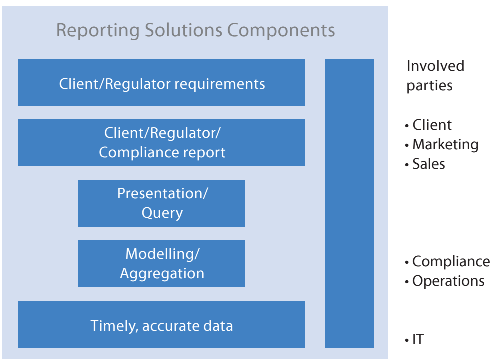
Banks must address several key issues to ensure client reporting can be leveraged as a brand differentiator.

The requirements, although easy to identify, present some tough demands technically:

1. It must be possible to build reports that rapidly pull together reliable, accurate information from multiple sources to present a holistic, customised view of the performance of a range of products;
2. Clients need to be able to see, at a glance, the performance of their portfolios in context – i.e. compared with historical performance and with the performance of alternative products;
3. Information must be tailored to the individual's needs and preferences and provide goal-based (rather than fund-based) views of progress;
4. It must be possible to perform 'what-if' projections and analyses to enable cost and performance comparisons;
5. Ideally, information must be available in real time, at any time, often over the Internet (using the latest Web 2.0/Rich Internet Applications (RIA) technology) offering the most sophisticated and dynamic interactive web experience and
6. The online reporting interface must provide a rich, dynamic user experience.

Modern client reporting tools and front-office tools can certainly fulfill many of the above requirements. However, technology is typically only one element of an overall business solution. Other key elements include a deep understanding of client requirements, compelling and informative report structures and enhanced data quality. This involves multiple stakeholders and a strict data governance process.

Figure 5 – Compliance for wealth managers can be used as a service differentiator



Arriving at the right solution

Delivering this next generation of rich, dynamic and holistic client reporting tools across the myriad of new investment products offers wealth managers clear competitive advantage, while ensuring that critical regulatory considerations are met.

The experience of IBM in business consulting, integration and software coupled with the specialist solutions of Actuate, the market-leader in sophisticated and dynamic client reporting technology, offer an integrated business solution for client reporting - as seen in Figure 5. This ensures wealth managers proactively service a growing client need that directly impacts revenue generation.

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