

Recovering profitability with an efficient, quality client service

How technology enables wealth managers to serve their clients better while reducing operational costs

Wealth management is going through a structural crisis. Over the last few years, it benefitted from a sharp increase in revenues and profitability that was based on a management model that has known better days. In the context of constantly rising markets, wealth managers didn't have to twist their clients' arms to get them to invest in structured products that were very profitable for the Bank. Their clients were satisfied with the performance of their investments and hence the service received.

With the current financial crisis, the crash and the ensuing market instability have rendered this model less efficient: the substantial drop in share values decimated the wealth of investors who then turned towards products that were less risky but also less rewarding for wealth managers.

Private banking revenues, for example, collapsed. A McKinsey survey revealed that private banking profits fell to 2003 levels, a 42 per cent drop compared to 2007.

Faced with this crisis, wealth managers must think about adapting their management model so that they no longer have to depend on regular market increases for profitable business: instead they could apply a model that is less sensitive to fluctuations in markets that are currently unstable and, in any case, historically cyclical.

A single priority: serve the clients better

Clients have assailed their banks to change investment strategies and seek more detailed transparent information on risks to their investments and underlying products. Lots of them have changed banks through mistrust or dissatisfaction with the service.

Serving clients better to gain their loyalty has become a priority for wealth managers trying to improve profitability.

Private investors are demanding better service from their wealth managers. Several needs have come to light: for example, a) receiving detailed information on the value and performance of their investments in real time, b) exact up-to-date knowledge of the risks linked to their investments, c) advice and investment proposals that suit their objectives and risk profile, d) a tailor-made financial planning service, and, especially, e) proactive monitoring by the wealth manager so he or she can react rapidly to changes in the risk levels of their investments.

A PricewaterhouseCoopers survey in 2009 shows that client advisors should spend more time with their clients to improve service quality, limit the risks of losing the client and increase assets under management (AUM) (the most efficient way being satisfied clients bringing new assets for management or recommending their advisors to acquaintances). Currently, client relationship managers only spend 40% of their time with their clients while they spend 16% on administrative tasks.

Front-office IT is an efficient way to handle these questions.

Automating front-office processes

The key processes to prioritize in a front-office tool are opening client relationships, investment proposals, financial planning, performance and risk monitoring and client reporting.

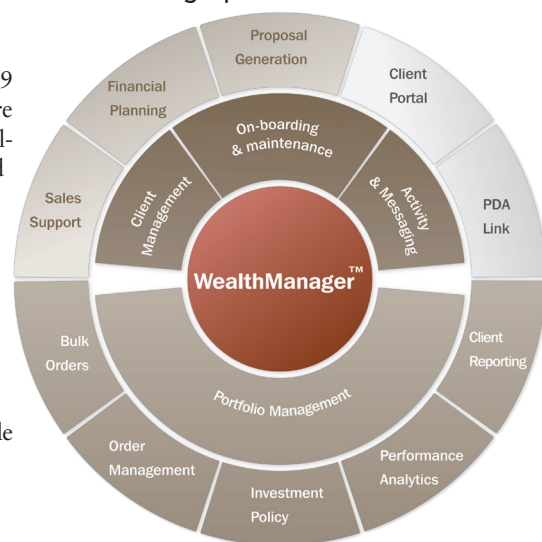
Client opening is often a long, costly process for the bank since Know Your Client (KYC) and Anti-Money Laundering (AML) regulations must be respected. As front offices do not have the necessary expertise, this process often involves teams from several departments such as Compliance and the Back Office with a concomitant waste of time and risk of error.

Automating such processes leads to real gains in productivity. In a context in which compliance rules are evolving towards greater investor protection, automation means the expertise is locked into the computing system.

By saving time on client opening, banks reduce internal costs and cut their client advisors' administrative workload. This allows them to increase revenue since the client's assets are transferred faster, which increases AUM and the generated income faster.

Automating other front-office processes offers the same advantages. Investment proposals, for example, require relationship managers to respect certain compliance rules and possess expertise in investment products. An automation tool for this process allows client advisors to directly access recommendations for products that best suit the client's investment and risk profiles, and directly generate the orders to implement the proposal.

For greater efficiency, these tools must be usable in real time during client interviews. A tool that cannot be used in such conditions loses a lot of its potential interest since client advisors



Example of a modular front office platform from Odyssey Financial Technologies

would have to continue spending time on administrative tasks.

Progressively deploy innovative tools

A complete front-office platform has the advantage of covering all the front-office processes: from client management to portfolio management, from investment advice to financial planning, etc.

It is even possible to make economies of scale by deploying the tools to third parties (Independent Financial Advisors) and private clients via an internet portal after due adaptation. This significantly improves service level for less cost.

The most innovative front office platforms often have the advantage of being modular, allowing the progressive or partial deployment of automated processes, depending on the needs of the bank. This reduces risk of failure and allows planning the technological investment progressively over a number of years, in line with priorities. It is thus possible to quickly deploy processes, such as client opening, that allow an immediate gain in productivity and plan other processes for later implementation.

Investing in front office IT is an efficient way of dealing with the issues facing wealth management, providing solutions that serve private investors better and increase front office productivity.

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