

Technology and Wealth Management Best Practices for Capturing Profitability

The combination of an accelerated growth in the ranks of the wealthy, demographics of global aging, increasing access to quality information on the wealthy and their portfolios, and the sophistication in technology solutions, have all made wealth management one of the fastest growing and highly competitive segments in the financial services industry. The question is how to pursue what seems to be a lucrative market opportunity and achieve sustainable profitability targets. As wealth passes to the new generation, either from a huge intergenerational transfer or from the enormous shift as baby boomers retire, it will move into the hands of the “new wealthy” who are more technologically skillful and accustomed to making financial decisions and participate actively in the management of their wealth. To compete successfully, financial firms need to develop technology friendly solutions to drive their business models. Along with the new “smart” technology platforms, is the need for wealth managers to build personal relationships with the new wealthy on a larger scale than ever before. Wealth managers need to demonstrate how to increase investment returns, create sustainable high quality client experiences, use business intelligence toolkits to prospect new clients, increase advisor productivity while institutionalizing client loyalty, and above all, achieve profitability — even while driving down operational and vendor support costs.

To meet all these challenges effectively, wealth management service providers need an integrated wealth management platform that is seamlessly interconnected—using a “componentized architecture” as a lever for sustaining profitability and competitive advantage. These component-based platforms also offer sophisticated data services for managing the flow of data from internal sources across the wealth manager’s operations, as well as from external sources relevant to managing a customer’s total global portfolio of assets. This highly rules-based architecture also needs to harvest and make optimum use of existing technology assets that are a differentiating “secret sauce” of the wealth manager, and allow continuous integration of new, value-added, crucial functionality either through third party components or bespoke development.

Wealth management is a huge market opportunity, but the question is who will be in the winners’ circle for achieving the desired level of profitability?

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Wealth Management Services - Huge Opportunity

Global wealth has been growing at an astonishing rate, both in the numbers of wealthy individuals, and their investable assets under management (AUM). Global wealth is expected to top US\$44 trillion (6% compound annual growth rate - CARG) for High Net Worth (HNW) and Ultra High Net Worth individuals (UHNW) by 2010, and by some estimates will exceed US\$75 trillion by 2012. From 1996 to 2005, the wealth of HNWs grew at a CARG of 8%. Over just the last 5 years into 2007, growth accelerated to 11% per annum exceeding previous estimates, reaching US\$50 trillion. North America is still the world's largest pool of wealthy individuals, with 2.7 million HNW individuals holding US\$20 trillion in financial assets. This segment is followed by Europe and Asia Pacific, totaling respectively 2.8 and 2.4 million HNW individuals with financial holdings of US\$17 and 9 trillion. However, this growth is expected to slow to an overall CAGR of 9% over the next 4 years.

With this size of assets underpinning the activities of wealth managers, it is no wonder that market players are ramping up their business platforms to launch into more aggressive rounds of attracting and retaining the business of the wealthy. And with an estimate that shows only 50% of these wealthy individuals currently under professional management, the opportunity for wealth managers is huge.

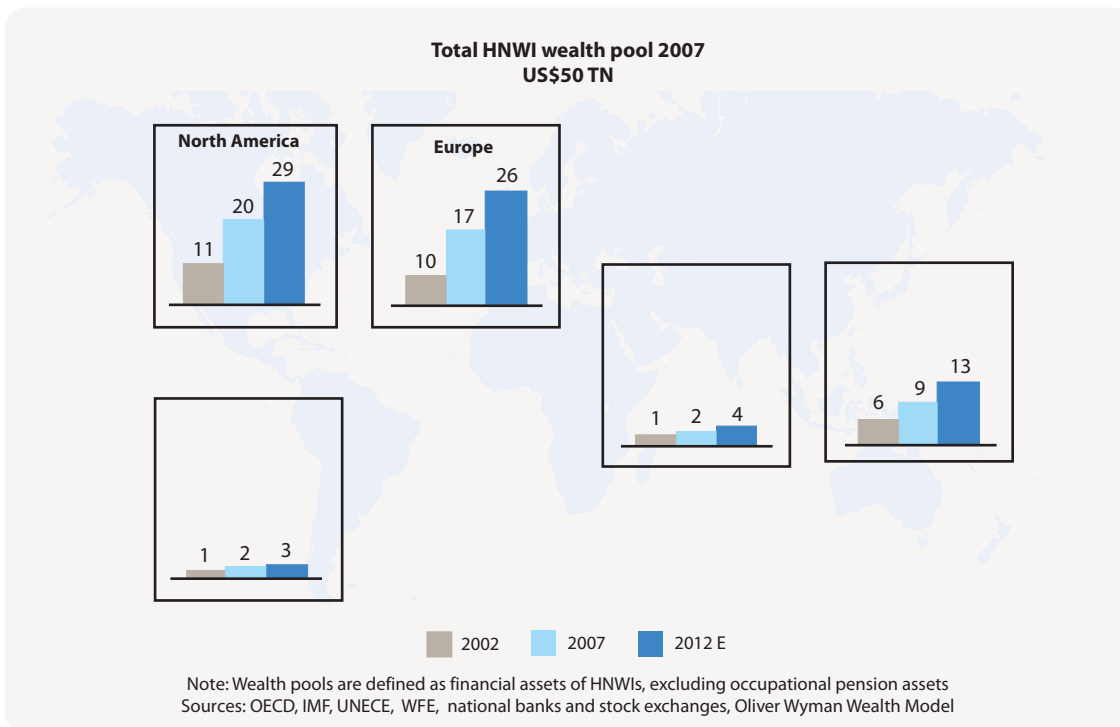


Figure 1: Total HNWI Pool 2007

The Baby Boomers Transition

Within the next two decades, mortality and inheritance events will globally transfer an estimated \$12 to \$18 trillion to a new generation. This shift, combined with the baby boomer generation's mass conversion from accumulation into retirement distributions, will add to the large number of opportunities for global wealth managers, as well as present new challenges.

The world is now witnessing the greatest inter-generational wealth transfer in history, as baby boomers retire and execute their estate plans over the next decade, coupled with the wealth transfer associated with the mortality of the currently retired generation.

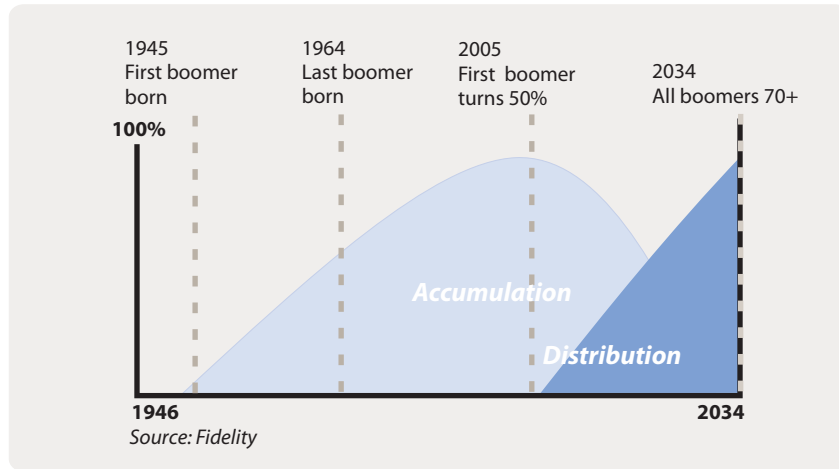


Figure 2: The Baby Boomers Transition

As wealth passes to the new generation, it will move into the hands of heirs and new retirees who are more technologically adept and are active participants in the management of their assets. To compete successfully, wealth managers will need to modify their operating models to create new customer experiences. Specifically, those who want to compete in the large mass affluent retirement wealth management services market will need to build trusted personal relationships on a mass scale. The mass affluent (those with investable assets ranging from US\$100,000 to US\$1 million) is an attractive \$3 trillion market opportunity apart from the traditional ultra-high net worth (UHNW) and high net worth (HNW) segments. To pursue the mass affluent opportunity most profitably and create the right customer experience, it is necessary to further segment the market on investor characteristics, such as investable assets, demographics, and spending behavior, in order to design appropriate products, levels of services, and delivery channels that will create investor trust, loyalty and profitability for the wealth management institution.

While estate planning, old age health care insurance and other similar issues may not be a priority for current earners and investors who are in the wealth accumulation stage; these issues move to the fore as one approaches retirement. This shift in priorities not only results in a change from using growth-strategy investment products to those of income producing ones, but also a change in the amount of time required from an investment advisor to support retirees or near-retirees. Wealthy retirees demand a more "high touch" model of interaction with their financial service providers, one that European wealth managers are well-versed with, and that has become synonymous with Private Banking.

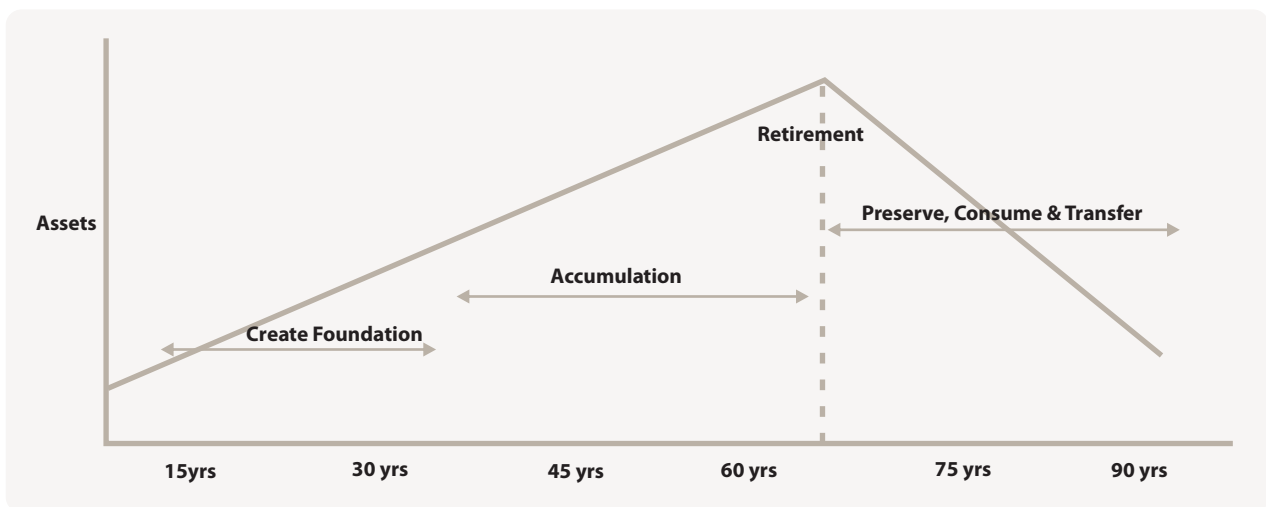


Figure 3: Stages in Wealth Management

The growth of the new Affluent segment of wealthy, and the enormous size of this transfer of wealth, will change the characteristics of client/advisor behaviors in three aspects:

- Demographic and economic shifts causing the majority of affluent assets being with the “new wealthy”
- Increased expectations and demands for more sophisticated and personalized offerings
- And most importantly, demand for transparency of portfolio performance and significant self-directed involvement with investment decisions

According to a study of the U.S. Census bureau and other data released in February 2007 by Phoenix Marketing International, about 70% of Affluent wealthy households already use financial advisors. Loyalty is seen as being hinged on the availability and quality of advice and finding solace in a trusted advisor relationship. And as these newly anointed Affluent individuals socialize with their more established wealthy brethrens, they will be looking for better services that previously were only available to the HNW segments of the market. Here lies an enormous challenge that will beseech wealth managers in pursuing this huge Affluent wealth segment in generating the expected profitability from this size of market opportunity.

Defining the Landscape of Wealth Management

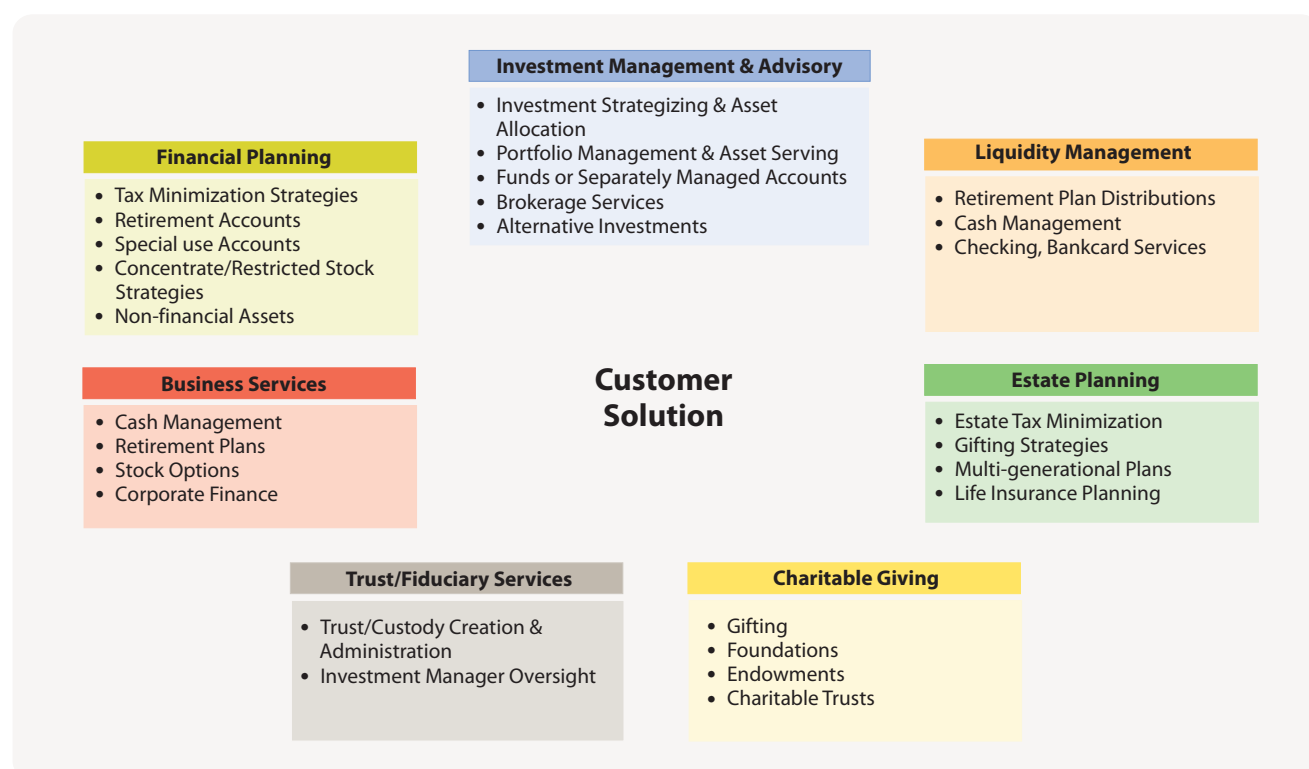
The problem with trying to define wealth-management technology is that the business model itself is very broad and deep in scope, crossing investment management, asset management, capital markets and investment banking. It is hard to pin down a single system or definition of wealth-management services or technology functionality. It essentially cuts across many different servicing and channel requirements needing a large portfolio of technology applications.

From a market perspective, what a wealthy individual needs in a wealth management solution depends on their stage of wealth-building/distribution, and specific on-going financial needs. And what a wealthy individual wants in products and services is often event-related, like retirement, care-giving, business liquidation or generational wealth transfer, all of which must be considered during financial planning. This can be a challenge for wealth managers who must profile their wealthy clients and determine the best solution that will create a satisfactory client experience and achieve profitability targets for the firm. Each individual’s situation, while seemingly unique, can be profiled for a class of products and services. For example, while calculators and planning tools might work for a Mass Affluent individual, a HNW individual will need more sophisticated tools, such as separately managed accounts (SMA), asset modeling, risk management, and tax and estate planning. The right technology tool to support the client at the right time in the client’s wealth event cycle is also important to consider since their wealth status can quickly change due to wealth creating events.

The diversity and range of investment management objectives aligned to investment strategies is also crucial, e.g., for preserving principal and maximizing current income versus maximizing the growth of the portfolio. These would require different wealth management solutions. If the HNW individual’s focus is retirement as an event, then the investment strategy would focus on income generation, protection of wealth and succession management aspects to determine what he or she will need financially to maintain their planned lifestyle throughout the retirement.

On the other hand, if the wealth manager is expected to support creation of the individual’s estate, then the issues are different. In estate planning, the advisor must consider how best to effectively manage the complex and time-consuming process of collecting, safeguarding, transitioning and distributing the assets of the customer. Depending upon the client needs, often a wealth manager will need to structure a customized solution that includes charitable giving, agency services like escrow services, litigation settlements, classes of beneficiaries, etc. This diversity of client requirements, particularly in estate and Trust planning, requires wealth management technology solutions to be highly flexible and customized to address the wealthy individual’s complexity in financial needs.

Broadly speaking, a customer solution must draw its requirements for specific components from the wealth management value chain that covers everything from financial planning or investment strategizing, to portfolio management and asset servicing. To enable a superior customer experience, the wealth management firm itself needs client profiling, prospecting, and contact relationship management.



Wealth Management Has Entered the Digital Age

The HNW and Mass Affluent segments comprise the largest share of the wealth management market, accounting for more than half of the total assets and revenues. This is true across all geographies. Mass Affluent investors have relatively modest economic clout as individuals, but as a group, they constitute an important target market for wealth management firms, and offer attractive potential to add to the firms' profitability. The intergenerational wealth transfer of HNW individuals will further expand the market size of that segment. These millionaire heirs are technologically adept and are comfortable with more complex institutional-like products and services. The degree of need a customer has for institutionalized product and service offerings increases with the size of investable assets per wealthy individual, and in turn, increases the level of sophistication needed for technology-based solutions to support the customer/advisor investment management activities.

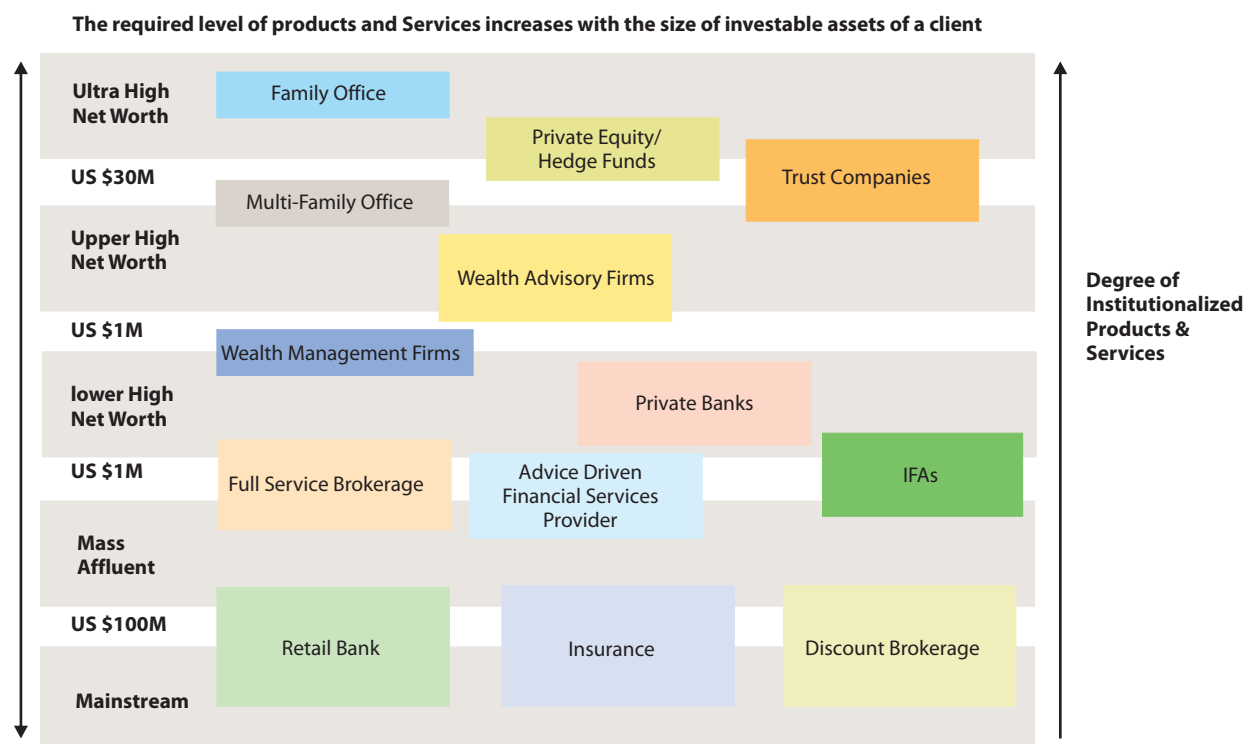


Figure 4: Depth and Scope of Wealth Management Products

Wealth management firms need to re-platform their offerings to adapt product and technology-based services from their institutional investment management offerings in order to create differentiated and sustainable competitive advantage.

Many of the large wealth management players are transforming their platforms to support these growing wealthy segments by leveraging their core strengths and making substantial investments in new capabilities. According to a report released by Data monitor, spending on wealth management IT in North America, Europe and Asia-Pacific will reach \$28.5 billion by 2012. Specifically, financial advisors are expected to increase their wealth management IT spending at a compound annual growth rate of 6.7 percent between 2006 and 2012, private banking firms 4.5 percent, retail asset management organizations 4.7 percent and retail brokerages 3.3 percent. The types of technologies in which these firms are expected to invest between 2006 and 2012 include:

- Internet and portal related technologies with an 8 percent compound annual growth rate
- Branch infrastructure (6.6 percent)
- Portfolio management (6.3 percent)
- Intermediary integration (6 percent)

When a wealth management services model is viewed from a technology perspective, the critical components of a solution are as follows.

Components of a Wealth Management Solution

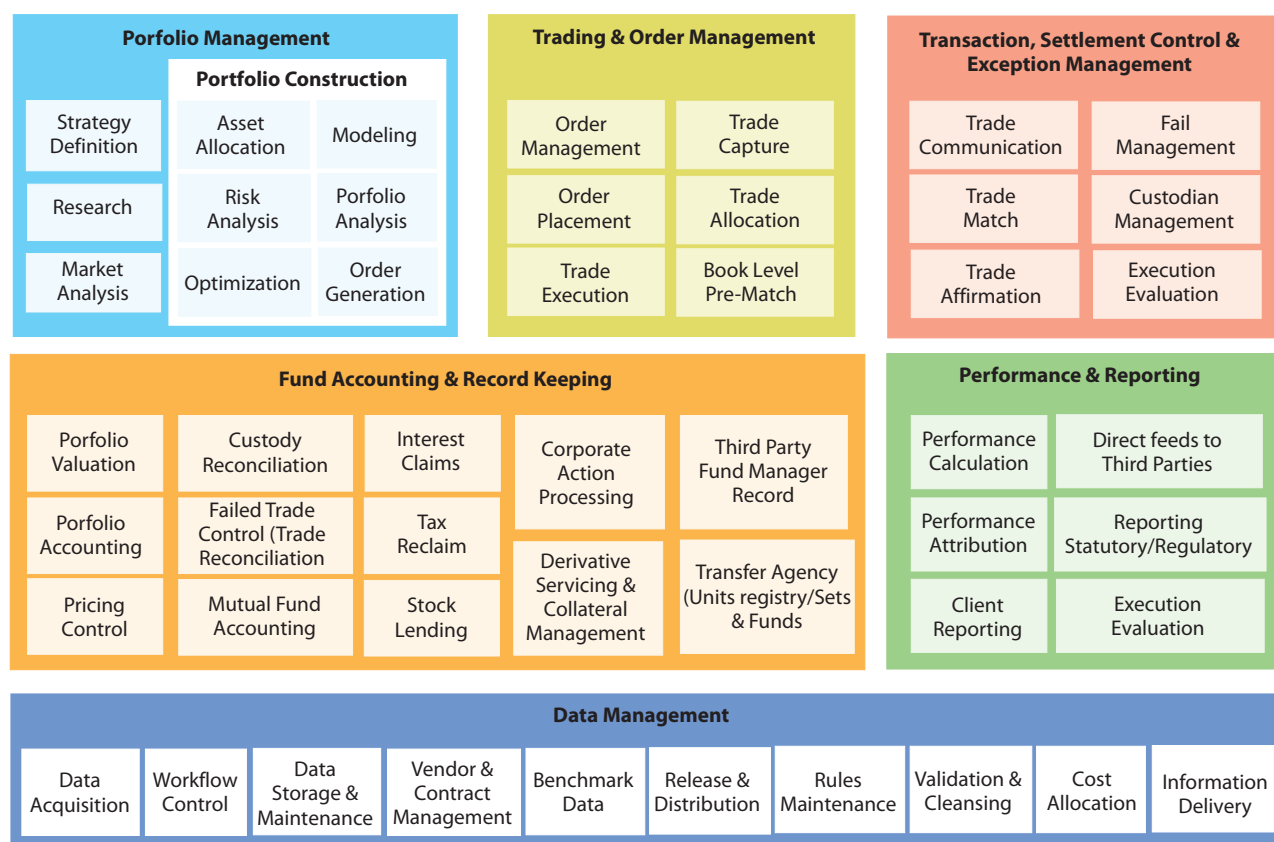


Figure 5: Components of Wealth Management Solution

Key to the advisor in the wealth-management space is having a holistic view of their customers and their total wealth picture, or a “360° View”. The wealth management technology platform needs to adapt to the way an advisor delivers service. It involves:

- Account Aggregation
- Financial Advisory
- Portfolio Management
- Customer-Relationship Management

Advisors need to see the full picture of their client's holdings. With a 360° view, they can provide financial-planning advice and make investment recommendations based on asset-modeling and constructed portfolios. Once the portfolio is executed, it needs to be monitored using portfolio-management tools. The advisor also needs a sales and contact management system for maintaining and developing client relationships.

Account Aggregation

Account aggregation enables the advisor to view all the client's assets in one place. Internal data, as well as “out-of-house” data on assets held by external providers should be aggregated for viewing. Several data aggregators provide external data aggregation services for wealth managers. Clients must provide authorization for their data to be aggregated which might include cash, equities, mutual funds, bond insurance products, annuities, structured products, and non-financial assets with numerous financial and wealth managers. These sources should all be considered for consolidation if the assets are relevant and material to managing the overall achievement of a client's financial objectives.

Financial Advisory

Once the advisor can review the client's portfolio of assets, a financial plan will be developed based on the client's financial objectives and goals. From this plan, assets that support the achievement of those targets will be assigned. The resulting asset-allocation model is then used to execute transactions to fulfill the model, and on an ongoing basis, used to balance the existing assets in the portfolio against those prescribed by the model. Preeminent is an understanding of the client's goals, life event requirements and creating financial plans for achieving targets. The financial advisor must provide direction to the client that supports, and is in alignment with, the client's financial plan and asset allocation.

Portfolio Management

Once a plan is developed, the asset-allocation model developed, the investments chosen, and the assets acquired, a robust system is needed to manage the performance of the portfolio. For the more wealthy HNW clients, the wealth management platform must be capable of calculating returns across multiple accounts, asset classes, and in some instances entities. In addition, the wealth management platform should support calculating a clients' income tax position by providing reports on tax liability, such as realized and unrealized gains and losses. Tax strategies and the success in achieving tax preferred goals should be part of the investment planning process, portfolio management, and client reporting, with clear transparency into the underlying layers of supporting data.

Portfolio analytics should also support the advisor in getting insight in managing a client's portfolio, such as:

- Attribution Analysis
- Style Analysis
- Portfolio Risk Statistics
- Portfolio Valuation Metrics

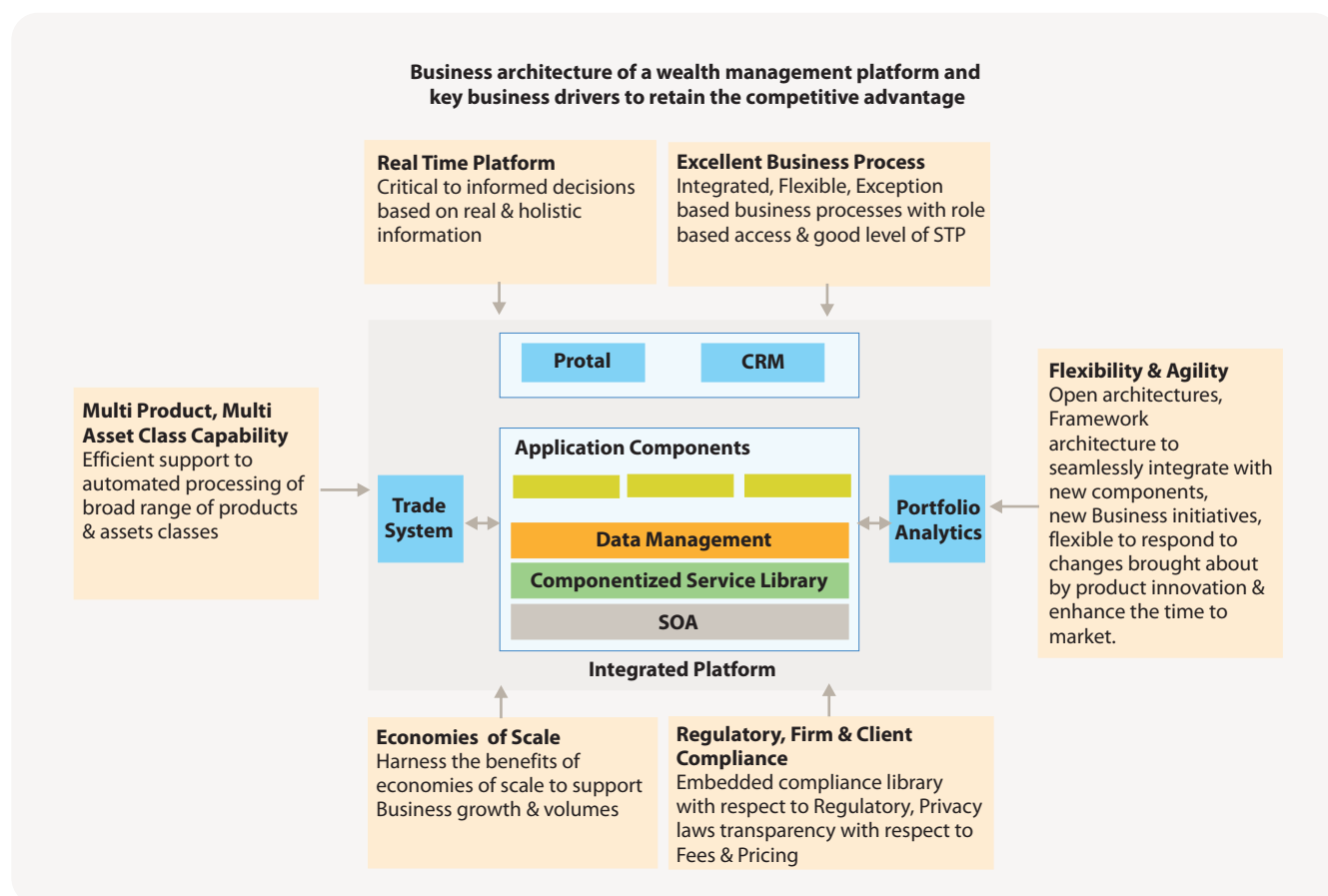
Customer-Relationship Management

Wealthy clients require "high-touch service," as compared to retail banking and consumer services customers, and an advisor is usually limited to working with 5 to 10 HNW active clients at a time. The challenge is how to increase the productivity of these expensive advisors without degradation in the quality of service. The relationships are highly personal with advisors often knowing personal details about their clients and families.

For advisors to be productive, they need a good CRM solution to retain key information on the client's household and support the cross-selling of investment products. Alerts should create timely visibility on events that impact the client's portfolio or actions the advisor should take regarding the management of the portfolio. One of the key challenges for a wealth management CRM is pulling data from various systems, product areas, and operations to provide timely information that is crucial for managing the relationship with the client.

Key Functionalities of a Wealth Management Platform

Six critical business drivers to a wealth management platform should be considered for sustaining profitability and competitive advantage.



Real-time updates and data feeds are essential to enable investors to make informed decisions at critical times. Intra-day pricing will allow adjustments to portfolios and support investment activities that must be proactive and timed with movements of the markets.

Excellent business processes will enable the wealth manager to operate from an efficient cost base, reduce error correction, and support more complex products. Staffing is more effective with less training. In addition, wealth managers will be able to provide better and more responsive service to clients with more transparency.

3-Ms, Multi-Asset, Multi-Product, and Multi-Accounting/Currency is critical for processing the various classes of investments in different geographical regions and reporting in the client's resident accounting and currency base. While the multi-base accounting and currency is attributed more to overseas clients of global wealth managers, investors domiciled in the same geography as the wealth manager are also asking more frequently for portfolios stated in multiple accounting/currency bases.

Open Architecture to support flexible and agile platforms will allow a wealth manager to add business services as needed. Technology components can also be upgraded with improved functionality more easily with a Services Oriented Architecture (SoA). Open platforms also better support powerful data management capabilities for aggregating, exchanging, and presenting both internal and external data, and more robust alternatives in portals and web services.

Compliance and Risk Management for the wealth management firm and client to meet regulatory requirements and manage credit, market, and operational exposures to events that can negatively impact portfolios and profitability. These issues become more crucial to alternative asset classes and complex portfolio strategies.

Economies of Scale to support increases in levels of business volume and extending the business into other market segments and geographies without a corresponding increase in the wealth manager's cost base. Premiere business services must be appropriately-scaled to support and attract wealthy investors who transition from a lower segment into a higher segment, such as when going from Affluent to HNW due to a wealth creating event.

An Integrated Wealth Management Platform

Traditionally, different technology solutions have been implemented along the wealth management value chain. For example, a wealth management firm might use different technology solutions for financial planning, brokerage processing, portfolio management and analytics, and performance reporting. Each of these applications, in turn, can have its own data model with different views on what defines/describes the client, advisor and firm. In addition, the timeliness and accuracy of the data can vary impacting the effectiveness of making meaningful investment decisions.

While the original intent of assembling best-of-breed functionality as point solutions may have provided a good level of needed functionality at one time, the resulting platform of co-mingled technology generally leads to number of critical issues:

- Data management for timely, accurate client views requires manual re-keying to create client and household consolidation
- Multiple access points into multiple applications is needed to manage a client's activities and portfolio, versus a single cohesive advisor desktop.
- Scalability is often limited because of the inflexibility of extending multiple systems to accommodate business expansion. In addition, advisors often tend to use toolkits, such as Excel and Access, to address deficiencies in the disparate applications, and address client questions such as "How is my portfolio doing?"
- Advisor/client collaboration is limited since most of the point solutions used in platforms are desktop based and not distributed via web services on the Internet.

Many of these integration problems with best-of-breed platforms can be resolved through a common data services facility which can support the entire spectrum of activities across the wealth management value chain from financial planning to performance and client reporting, along with relationship management and the mid and back office operations activities. One view of how these data services might look from an architectural perspective is as follows:

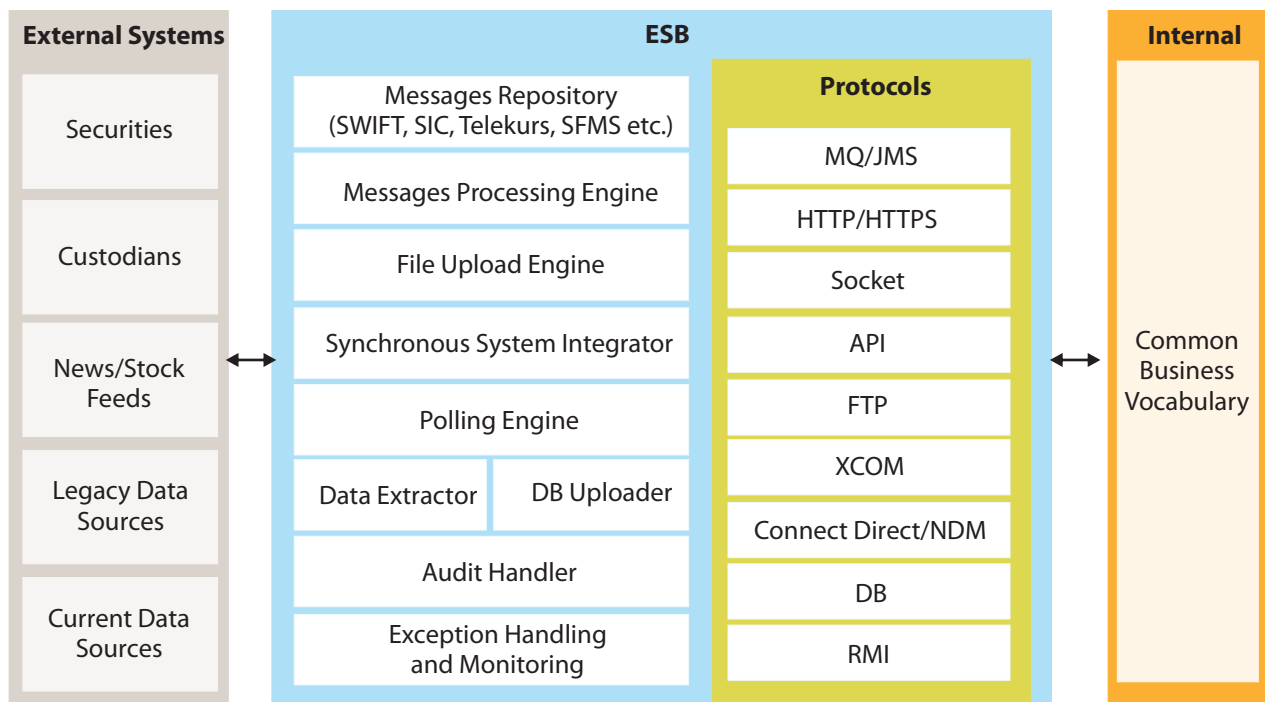


Figure 6: Service Architecture

Integrated wealth management architecture can be viewed as a composition of four distinct, yet highly synergetic, application tiers, i.e., Boundary Layer, the Data Model, the Application Layer and the Interface Layer.

- The Boundary Layer for External System interface abstracts information from third party data providers and supports brokerage, Order Management System (OMS), market data, banking and third party aggregation platforms.
- The Data Model within the ESB supports comprehensive views to the client, the advisor and the wealth manager operational groups.
- The Application Layer for Internal Systems consolidates business applications for supporting clients, customer servicing, reporting, alerts, performance analytics, tax reporting, entitlements, transaction processing, family office servicing, trust processing and estate planning.

If built on a modular framework that is aligned to needed service levels, the platform will provide flexibility to incorporate third party and proprietary business services like portfolio accounting and performance management without sacrificing data and workflow throughput. The Interface Layer enables a user to interact with the wealth platform from different channels.

Common Mistakes That Can Impact Profitability

One-Size-Fits-All

The wealthy have varying needs and preferences for services from a wealth manager. Attempting to design a single wealth management offering that must appeal to everyone, without analyzing segment characteristics, can result in the wrong product mix or a misaligned services approach that is necessary to develop loyal client relationships. Wealth management firms should identify segments they can serve most profitably based on key organizational strengths, the customer wealth profile and characteristics, and the ability to extend the base of business, rather than trying to attract and serve all segments.

Lack of a Wide Range of Products and Services

Wealth Managers should review their range of product and service offerings to ensure it is sufficient to meet a broad range of a client's financial needs. A majority of the affluent clients believe that wealth managers can't be objective unless they sell or recommend a wide range of products and services offered by many providers. To compete successfully and retain/build each client's AUM, firms need open product architecture and organizational sourcing processes that support best-in-class products, regardless of who is the supplier of these products. Greater share of AUM per client leads to greater client profitability.

Wealth Management Services Not Structured to Satisfy Service Expectations Cost-Effectively

Personalized service is often at odds with the need to deliver more standardized services. Incorporating a self-servicing model, can lower the cost base. Balancing the need for automation and shared services with the unique needs of the different segments of affluent customers can particularly be a daunting challenge. Wealth Managers need to design a service model that provides lower-value services via lower cost channels that are equipped to provide the level of service that satisfies affluent customers, with personalized intervention when needed.

Lacking a "Trusted Advisor"

The quality of advice is extremely important. Many financial institutions lack metrics and reporting processes to assess the quality of advisors. Even the support systems and infrastructure are geared toward a more narrowly defined interpretation of wealth management -- for instance, advisors' tools are still largely focused on rudimentary Planning and asset allocation models. More innovative tools for collaboration have recently been introduced with the ability to answer customer questions on such topics as planning for wealth events, changing stages in the wealth building cycle, or evaluating investing alternatives.

To meet the needs of affluent customers, firms must focus on providing meaningful advice, evaluation tools, client investment training, advice follow-up processes, and even organizational design around these core services attributes. Firms need to ensure that the quality of advice is measured periodically through direct client feedback. Advisors typically spend one third of their time on non-client facing activities, which adds little value to the customer. Technologies such as integrated account reporting, collaborative messaging, contact management and workflow management can help advisors work more efficiently. And with many customers to support, profiles that detail account profitability and suggest appropriate levels of service, can help advisors prioritize time spent on each account.

Best Practices

To surmount these common mistakes, wealth management firms need to ensure that the wealth management business processes, systems integration and support services are based on best practices. An integrated advisor/client desktop and open wealth management platform is key in addressing many of the crucial challenges facing wealth management firms and can drive better levels of business expansion and profitability. Some of the more important best practices are as follows.

Aggregation and Rationalization of Data

Firms need to aggregate all data related to the wealth management value chain from across the firm, including all products and client related data, into a data services management facility. Wealth managers need to analyze and correlate terabytes of customer data that is in different formats and stored in different repositories throughout, and from outside, the firm. It is essential to break down these data silos and provide repositories of consumable data via virtual access from any channel. Rationalizing multiple sources of the same data and creating a master data management structure will provide the needed intelligence to facilitate advisors in providing quality customer support and enabling productive interactions with wealth management customers. In order to achieve this, financial institutions should have integrated end-to-end automated workflow and data cleansing, consolidation, and presentation services.

With an integrated advisory desktop, different advisory specialists can collaborate on one customer using information that is sourced from one place. If an investor profile is multi-purposed and compiled from rationalized data sources across all client activities, it results in substantial time and cost savings as there is no need to re-key data, or have multiple sources with varying accuracy. This is particularly important when firms serve UHNW families whose data is often associated with a client's household and associated third parties such as accountants, lawyers and other advisors. By aggregating all client household wealth information, advisors are better equipped to service these clients

Master data management practices can also facilitate automated methods for monitoring portfolio performance, investment policy compliance, portfolio re-balancing, and adherence to other internal and external compliance policies.

Service-Oriented Architecture (SOA)

To ensure data quality and integrity, a wealth manager should utilize a Service-Oriented Architecture (SOA) wealth management platform where all product and client services are defined as business services, and data is aggregated from providers and made available in meaningful formats for consumption by users. An SOA platform can integrate existing applications in an open and extendable framework.

When implementing specific data aggregation services such as product catalogs, client relationship hierarchies and 360° views of total investible assets, it is best to use system mechanisms that employ a logical data model in order to avoid a lengthy data warehousing effort and save the cost of purchasing new database servers. A client relationship subsystem should provide a consolidation framework and repository for mapping the client's household relationships, the portfolio of assets, and the legal entity information into a single view that represents the multi-dimensional attributes of the entire relationship.

Product catalogs should offer comprehensive support for all types of financial products, their affinity to one another for cross-selling, and restrictions for use in certain client circumstances. It should enable a firm to easily group products into asset classes, risk categories and recommended product lists that are appropriate to various affluent segments and channels of service.

Integrated CRM

Wealth management firms need to have a highly contextualized CRM system based on current data so that advisors do not need to re-key client information into multiple systems. Firms need to optimize and integrate client-facing front office processes such as client profiling, on-boarding, and converting investment proposals to investment strategy execution. Good CRM systems should capture client and prospect information, conduct basic analysis, and generate compelling and compliant proposals. Investor and investment constraints should be automatically integrated into all of the wealth manager's processes so that advisors are in a position to act on alerts if there is any change in the investor's portfolio outside the parameters prescribed for their style and risk. This enables the advisor to be proactive in communicating with clients about relevant movements in their portfolio.

A good CRM platform will enable a team approach to performing client servicing, advising, and relationship management in order to institutionalize the client and reduce client attrition which is significant in the US; this is different from Europe where the team model is well established. It is estimated that in the U.S., up to 70% of the Broker/Dealer clients will follow their advisors to a new firm, compared to 16% of the clients in Europe who are with a firm using Advisor models. Teamed advisors can also be more specialized in a particular area, thus giving greater value in client interactions.

Setting a Clear Investment Policy Process

Wealth management firms need to establish a clear investment policy process and should be in a position to validate the adherence to a client's investment policies. A clearly stated policy and documented process are necessary to ensure regulatory compliance.

For example, in recent years, Reg 9 and other related client investment regulations have become more important given the severity of risks associated with non-compliance. Under Reg 9, U.S. national banks and trust companies legally have fiduciary responsibility for correctly investing their clients' portfolios. To pass a Reg 9 or similar audit, wealth managers need to demonstrate a clear and consistent investment policy process that includes an official Investment Policy Statement (IPS) supported by client reports that validate the adherence to the IPS.

Similarly, the Markets in Financial Instruments Directive (MiFID) that promotes rules for individual investors getting the best execution available, emphasizes the need for an IPS. In addition, wealth managers should have the ability to store investment guidance and constraints as part of the consolidated investor profile. Workflows that support adherence to a firm's compliance policies should trigger alerts to notify advisors and clients when portfolios are out of compliance.

Trends to Watch

Real Time

As wealthy customers demand more frequent and a higher quality of guidance from their financial advisors, and become more active in the investment processes and performance measurement of their portfolios, the need for real-time access to information becomes critical. Strong data management with highly integrated feeds from internal and external data sources will be essential for the real-time wealth management platform. Real-time securities pricing information greatly enhances the effectiveness and value of risk metrics and supports more informed, and better timed investment decisions.

Predictive Marketing

To grow the wealth management business profitably, wealth managers must have CRM capabilities that are highly analytical in using customer data to draw sophisticated insight and predictions around profiling and targeting profitable customer propositions. Wealth managers need to customize offerings and deliver value within efficient service models that balance costly resources against a high quality customer experience. Feedback on marketing campaigns, customer interactions, and customer transaction insights is crucial to the continual improvement of the success of the CRM analytics and predictive trending forecast.

Centralization

Going forward, wealth managers will need to institutionalize their knowledge about customers and their needs to allow for more timely advice, more consistency of client servicing across advisors, and a better customer experience in each of the access channels. More institutionalized customer information will also support the replacement of existing high-cost, decentralized delivery models with lower-cost centralized virtual models, thereby making more personal service available to more customers at a lower cost.

Outsourcing

The cost of developing and maintaining wealth management platforms and operations is a significant component of the overall cost base of the wealth manager. In addition, there are many wealth managers who are looking to develop integrated platforms with the characteristics described above. Integrated platforms with sophisticated wealth management functionality would take many years to set up, and require an enormous investment, along with the cost of maintaining them. Therefore, many wealth managers are more aggressively outsourcing large portions of their middle and back office technology and processes such as securities processing, settlement, trust accounting, reconciliation, and performance reporting. ASP models are also providing similar support in a more standardized model to smaller wealth managers.

Web Services

Wealth managers and wealth management servicing providers are making their platforms available to the wealthy end users and Independent Financial Advisors (IFAs) through private-labeled-hosted web services applications that allow an investor to directly collaborate with an advisor. For example, advisors can use a third party secure publishing platform which handles a variety of document formats such as HTML, Word, Excel and PDF, and is integrated with the wealth management processing platform.

Global Portfolio Management

Some of the wealth management service providers to HNW individuals need platforms that support capabilities relating to cross-boarder diversification of portfolios, multi-language/currency/accounting/and cross-boarder regulatory concerns, and can monitor and compare the portfolios against relevant regional benchmarks. Portfolios must be able to reflect these global differences when managing positions and reporting holdings, tax liability, and performance.

Hedge Fund Administration

With the growing use of hedge funds and structured products in the portfolios of HNW individuals, wealth management platforms are adding the capability to process and report on these assets. More complex hedging strategies and derivative products are often processed using different applications that must be integrated into the overall wealth management platform.

The Profitability Challenge

The challenge is daunting for wealth managers to achieve and improve upon their profitability targets while making the necessary investments in their platform. And it seems that the wealthy, particularly the more technology savvy, are looking for more self-managed services and capabilities from their wealth managers faster than what can be brought on-stream. Investments in capabilities to enable robust advisor/client collaboration must also be balanced with the productivity of advisors and growth of AUM. For instance, increasing the number of interactions between advisors and their clients can lead to improvement in client satisfaction but might also lead to lower advisor productivity.

The right service model, based on well-toned business services for a distinct wealth management segment, must be enabled with a low-cost technology platform which provides both a natural user interface for self-directing wealth management activities and high-touch talented advisor support when needed. It is with this new generation of a “smart” wealth management platform that wealth managers will be able to realize their share of the huge growth opportunity in wealth management and achieve profitability at the desired levels.

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