

Wealth managers need to think of new ways to future proof their operating models and bring down cost to serve while delivering attractive customer experiences in the physical and digital worlds.

Future Proofing Wealth Management: Time to Take Efficiency and Resiliency to the Next Level

November 2020

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Introduction

Once a profitable and sustainable business line, wealth management has come under intense pressure to change in the digital era. The reasons for this are manifold and include a certain resistance to change, a prohibitively high cost to serve, new digital players offering similar returns at a fraction of the cost, and a growing compliance burden. Additionally, there are various external factors such as generational wealth transfer, changing expectations to (digital) customer experiences, and a decline in customer loyalty.

Wealth Transfer: Getting Relevant to the Next Generation

Over the next decades, a stunning \$32 trillion of wealth is forecast to transfer from baby boomers to millennials. This means that by 2030, Generation Y and millennials will hold 50% of the global wealth. Much to the dismay of the wealth industry, the expectations of these generations, as well as their lack of trust in their parents' advisors and financial services in general, will keep incumbents on their toes to retain assets.

Obviously, these sentiments toward traditional wealth managers may change as the next generations mature. Yet for this to happen, the wealth industry must change and accelerate its digital transformation journey. Generations X, Y, and Z live and breathe digital, forcing wealth managers to dust off their images, brush up their services offerings, and create engaging digital experiences.

AT A GLANCE

WHAT'S IMPORTANT

- » Change is imminent and necessary. The wealth industry needs to address its high cost to serve to stay competitive in an increasingly digital era.
- » Operational efficiency, despite being a priority for years, has not improved sufficiently. 30% of wealth managers feel they have had limited success so far. A new approach to drive operational efficiency is needed and will ultimately deliver better customer experiences.
- » Staff need more flexibility and the right tools to drive the digitalization and automation to turn legacy processes into smart, digital workflows.
- » Workflows that streamline the process from initial client engagement to offering appropriate products simultaneously solve several issues for firms. Chief among the issues addressed are the inertia of advisors, regulatory challenges, and predictability of product sales related to specific cohorts among clientele.

Simply adding a few digital channels and tools will not do the job; what is required is the ability to deliver an orchestrated, personalized, contextual, and simple customer experience based on the customer's preferences, life goals, and objectives. Only if the client determines the rules of engagement — whether preferring a physical, digital, or hybrid transaction model — do wealth managers stand a chance of retaining assets when the baton is passed. Contextual also refers to the need for a broader offering to help the next generation achieve their goals; these goals can include a preference for green and social investing, support for the modernization, transformation or divestment of core businesses, or protection and growth of traditional asset.

Seeking Alpha: How to Compete If Not for Returns

Another challenge is the surge of passively managed funds, such as index funds, which keep outperforming actively managed portfolios and funds at considerably lower cost. In combination with robo-advisors, which are getting smarter and moving beyond mere portfolio rebalancing, these passive investment trends put real pressure on investment advisors to demonstrate value. In response, wealth managers either need to specialize in more distinctive services that address the complex needs of high net worth (HNW) customers or diversify and expand their customer base to previously neglected segments, such as the affluent and mass affluent. Examples of more bespoke services include tax planning, trust and corporate services, family governance, wealth planning, or estate planning (re-registration), which tend to be more risky or complex in nature or simply have been neglected for too long. Re-registration, for instance, offers an opportunity for established wealth managers to leverage their client relationships to raise sensitive discussions on matters such as client incapacity, death, or other sudden shocks to protect the family and ensure a smooth wealth transition. In uncertain times such as those we are experiencing today — where COVID-19 has eliminated any predictability and, in the worst case, creates new realities within days — these discussions become more relevant than ever.

We also see the beginning of a trend toward outcome-based business models across financial services. While the wealth industry may try to resist to protect its generous fees, clients will challenge wealth managers to prove their worth. Ultimately, this means changes to incentive structures and stronger alignment of advisor key performance indicators (KPIs) with client goals. Regulators are going in a similar direction. In the United States, the Securities and Exchange Commission's Regulation Best Interest rule has become a reality, while the Department of Labor's fiduciary rule has been revived recently. This means greater pressure on fee transparency, acting in the client's best interest, and transformation toward a fee-based approach for portfolio management over a commission-based approach. The days of clients taking all the risks while wealth managers earn fees on transactions, no matter the outcome or conflict of interest, are coming to an end.

Has "High Tech, High Touch" Failed, or Has the Industry Failed to Embrace It?

For more than a decade, the wealth industry has promoted a "high tech, high touch" model, where technology and digital support and supplement the traditional relationship-focused operating model. The result was an often front office-centric investment strategy to leapfrog into digital and scale relationship management productivity. Yet many wealth managers underestimated the complexity of delivering these experiences without addressing the foundation — the modernization and automation of the middle office and the back office.

Ten years in, operations are still heavily reliant on manual processes, staff must navigate various siloed systems and interfaces, and a lack of agility and flexibility is stifling innovation. This situation has led to long turnaround times, operational bottlenecks, limited staff productivity and satisfaction, prohibitively high cost to serve, and mediocre digital customer experiences. This operational challenge puts traditional wealth managers at a clear disadvantage to the growing number of fintechs, neobanks, and digitally transformed peers.

Further, there is also the question of customer profitability. Digital transformation is changing the dynamics of the game, and HNW and ultra-high net worth (UHNW) segments may not be as profitable as thought because of the high level of personal support and complex advisory services needed as well as the tendency to diversify assets across various firms that characterizes individuals in these segments. In response to these needs, some firms from reevaluating profitable target audiences and leads to negligence of the profitable segments of the future, such as HENRYs (high earners, not rich yet).

Keeping Pace with Compliance

Compliance and financial crime risk add to the complexity of running a wealth management business. Frequent scandals, such as the Russian laundromat or the FinCEN files scandals, raise doubt about the willingness or ability of financial institutions to address anti-money laundering (AML) and ensure compliance with know your customer (KYC) and customer due diligence (CDD) obligations. Noncompliance, however, has become a serious business risk given record-breaking penalties imposed by regulators around the world.

Wealth managers must improve their ability to ensure compliance regarding not just AML but also regulations such as the second Markets in Financial Instruments Directive (MiFID II) or Regulation Best Interest. Furthermore, cybersecurity, investor protection, privacy, data security, client and regulatory reporting, proactive risk management to counter fraud, and enterprise risk management remain high on the list of regulatory hot topics and will likely require more action in the future. Hence stronger compliance and integrated risk management processes driven by automation and improved detection capabilities (continuous controls monitoring) will remain critical success factors for the industry.

Operational Transformation Is Key to Future Proofing Wealth Management

The list of challenges the wealth industry is facing is diverse and long, but it ultimately boils down to three factors. Traditional wealth managers' cost to serve customers is too high and becomes prohibitive when in competition with new players such as robo-advisors. A Deloitte study from 2016 calculates that even though robo-advisors charge much lower fees for their assets under management (AUM), one account manager would need to manage only an average of €48.8 million in order to cover the costs and operate viably. This is less than half of what an advisor in an established wealth management firm needs. The lean organizational structure of robo-advisors allows them to operate at nearly 40% the costs of an existing wealth manager.¹

For robo-advisors, the automation of investment processes allows one account manager to serve up to 20,000 clients, whereas service staff employed by traditional wealth managers usually assist one to three advisors who manage 60–150 client portfolios.

¹ *Cost-Income Ratios and Robo-Advisory: Why Wealth Managers Need to Engage with Robo-Advisors*, Deloitte, 2016

Certainly, not every customer will be satisfied with a fully automated robo-offering, but many will consider a hybrid model that combines the personal touch of a traditional wealth manager with the efficiency, speed, and lower cost of an automated wealth advisor. Needless to say, clients will evaluate cost and performance of any advisor more carefully in the future, which means that wealth managers will have to adjust pricing to stay in the game.

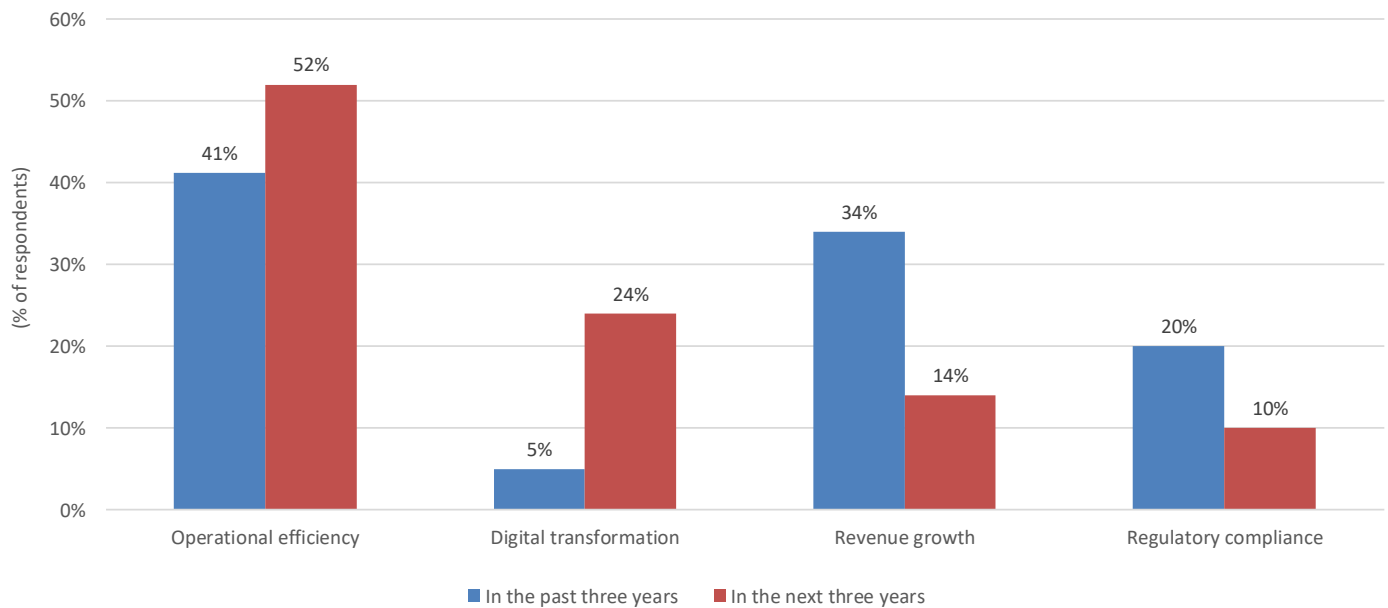
The second factor forces wealth managers to deliver better, faster, and more scalable services and experiences to match the expectations of the digital era. Some customers will insist on hand-holding by their advisors, whereas others will embrace more digital, self-service models. To unlock the full potential of new front-office tools and capabilities requires fully digitalized and automated middle- and back-office capabilities. In effect, this requires operational efficiency driven by automation and data insights to deliver personalized, digital experiences in real time.

The third factor is that regulators are expecting wealth managers to automate processes to reduce vulnerabilities for fraud, eliminate profit-seeking behaviors, and improve risk management. They also expect more automated and standardized reporting to improve their ability to supervise and monitor the industry. Process automation and data analytics will be instrumental to ensure compliance and resiliency in the digital era.

As a result of these three factors, operational excellence will become paramount for the wealth sector. Figure 1 demonstrates the need for operational efficiency in the years to come, as one in two respondents to IDC's 2019 *Global Wealth Management Survey* said operational efficiency is their main priority.

The pandemic will only intensify the need to supplement the personal touch with digital tools and experiences because direct customer contact will remain impossible for a while and phone conversations will not suffice to address complex topics sufficiently.

FIGURE 1: **Primary Strategic Objectives in Global Wealth Management**

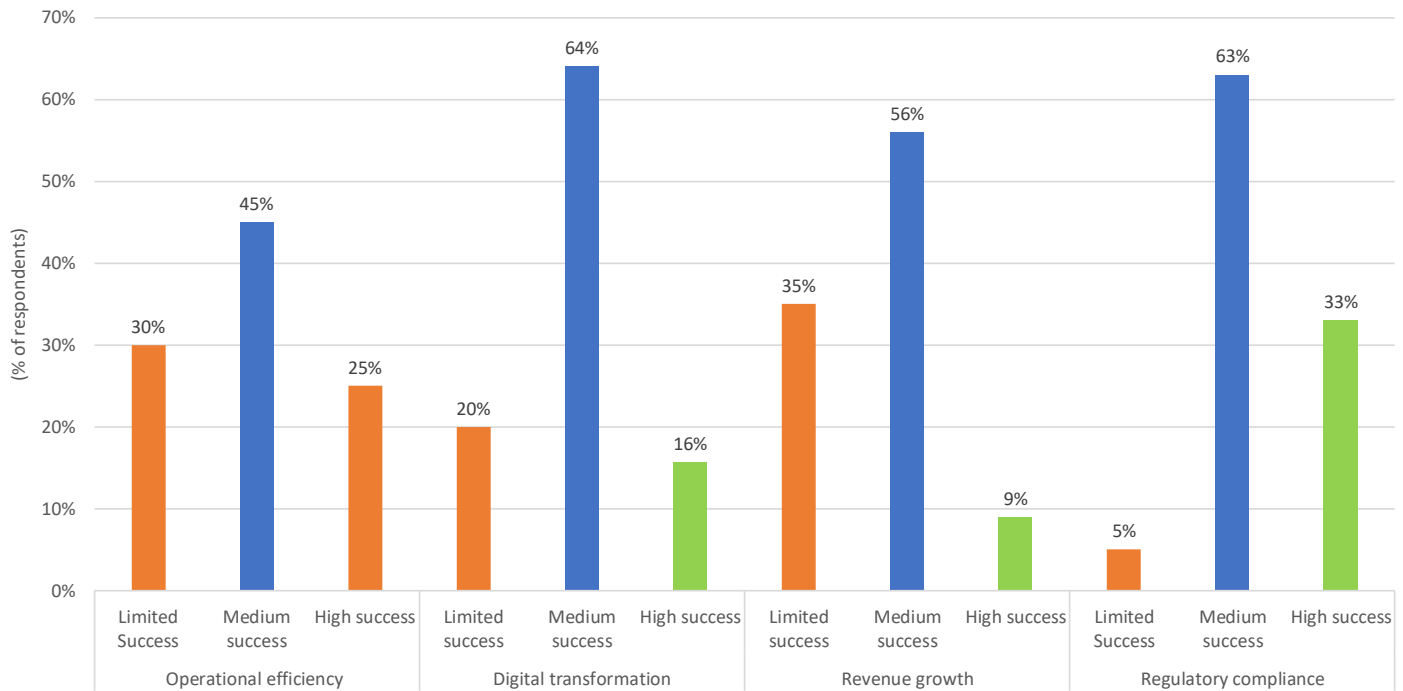


n = 100

Source: IDC's Global Wealth Management Survey, November 2019

Less clear is the progress that wealth managers have made in operational efficiency over the past three years, where 41% of survey respondents indicated it is their main priority. Figure 2 shows that 25% consider their progress toward operational efficiency highly successful while 30% see only limited success thus far. These findings clearly indicate some room for improvement.

FIGURE 2: *Perceived Success in Strategic Priorities*



n = 100

Source: IDC's Global Wealth Management Survey, November 2019

Operational risk is at the top of the list of biggest challenges around operational efficiency. Eighty-six percent of responding wealth managers stated that managing fraud and cybercrime, such as conduct risk, poses the biggest challenge. In Europe, the introduction of MiFID II has increased both the operational complexity of the investment advisory business and the inherent conduct risk for wealth managers. In North America, regulators are shifting to a more data-driven approach, requesting comprehensive data sets up front to run analyses to identify unusual or anomalous accounts and advisor portfolios and understand associated behavioral patterns to address conduct risk.

Operational efficiency was followed by the automation of more complex processes and the fear of having hit an efficiency plateau, each of which was cited by 57% of respondents to IDC's *Global Wealth Management Survey* as an operational challenge. These latter two challenges go hand in hand as the wealth industry has been struggling to automate and modernize large parts of its process and legacy IT infrastructure. Lack of funds, lack of scale, and the prevalence of aging specialist software solutions and homegrown IT solutions complicate things.

Modern business process management and workflow management platforms offer a way out by connecting to and integrating various systems of record and business applications to allow the optimization of existing workflows. Furthermore, they accelerate the use of new technologies, such as machine learning, robotic process automation, and smart automation to digitalize workflows end to end and take automation to the next level.

Considering ServiceNow

Founded in 2003, ServiceNow is an enterprise platform-as-a-service firm that serves multiple industries, including the wealth management sector. In this context, the Santa Clara, California–based company specializes in helping wealth managers transform their operations to enhance customer and staff experiences, improve resiliency, manage operational risk and security, and increase staff productivity while reducing costs.

ServiceNow enables wealth managers to accomplish these goals through its Now Platform, which serves as a single platform for all workflows across any system or infrastructure, and its Financial Services Operations product, which is designed to help financial institutions overcome operational challenges, including:

- » **Operationalize client relationships** by digitalizing processes to improve customer self-service, create end-to-end visibility of the planning process, and deliver a proactive, guided discovery and advisement experience
- » **Transform branch workflows** to digitalize wealth and health assessments and respond in real time to asset outflows as well as to improve advisor and client collaboration
- » **Streamline onboarding** to improve end-to-end visibility for clients and advisors and drive straight-through processing to deliver a better customer experience while creating a reliable, digital audit trail

These challenges apply not only to an institution's customers but also to an institution's internal staff and executives. ServiceNow's Financial Services Operations product is aimed at an institution's staff, both in the lines of business and in the back office, to empower wealth managers to reimagine any process as a digital workflow and thus enhances productivity, improves compliance, and creates intuitive experiences for users and customers. This focus on people applies particularly to internal areas such as regulatory compliance, where transparency is needed to demonstrate evidence-based adherence to regulations and laws.

Challenges

ServiceNow kicked off its verticalization strategy some years back and is now offering a growing portfolio of specific solutions and digital capabilities to support wealth managers in their modernization and digital transformation strategies. ServiceNow is mostly known for its horizontal workflow management capabilities; for this reason, it is important that the value and impact of some of its successful implementations at well-known financial services providers be communicated to the market.

As a platform player, ServiceNow also finds itself in a position not of "we build this product" but of "we make what you have better." This means ServiceNow needs to solve the problems involved in stitching together, improving, or recreating operational processes that are disjointed and/or overly reliant on human resources. These problems often involve multiple lines of business and operational areas, making it difficult to work with a single executive (outside the COO) to help drive operational improvement through platform implementation. Process optimization and workflow digitalization

fundamentally change the way frontline, middle-office, and back-office staff work and interact with each other. Putting users in the driver's seat to transform processes in an agile and bottom-up manner is both an opportunity and a challenge. The outcomes generated by some of ServiceNow's customers make this a worthwhile improvement, allowing them to break free from legacy constraints.

Conclusion

The wealth industry is facing some tough realities, and the one thing that is certain is the need to change. Wealth managers need to think of new ways to future proof their operating models and bring down cost to serve while delivering attractive customer experiences in the physical and digital worlds. A hybrid model that enriches customer relationships with digital capabilities is a feasible strategy but depends on the sector's ability to increase operational efficiency and drive automation in the middle office and the back office.

Efficiency has been a key priority for years, but success has been limited in many organizations. This calls for a new approach that helps inject agility, productivity, and efficiency without throwing out business systems that are of value or creating new complexities and legacy systems. Platforms are opening such a new approach by integrating systems, business applications, and data while giving users the flexibility and agility to digitize and optimize legacy processes and turn them into intuitive, automated, and smart workflows.

Smart, digital workflows are essential to deliver better employee and customer experiences by accelerating business outcomes, errors, exceptions, and callbacks and essentially improving productivity and satisfaction of staff by allowing them to focus on value-adding tasks rather than mundane tasks. For the "high tech, high touch" model to succeed, digital workflows need to run seamlessly across the entire enterprise.

About the Analyst



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Thomas Zink is Research Director for IDC Financial Insights and leads IDC's European financial services research. Thomas' core research coverage includes digital transformation in banking, retail payments, global transaction banking, and wealth management. His key focus for the next year is on open banking and the emergence of an interconnected, collaborative, and accelerated ecosystem. For almost a decade, Thomas covered financial services, and particularly wealth management, in the Asia/Pacific region for IDC and other research houses before relocating to IDC Europe in 2016.

MESSAGE FROM THE SPONSOR

For over 10 years, ServiceNow has been helping institutions improve experiences and increase the resilience of their technology. With a large number of wealth and asset management firms as customers, we have deep expertise in enabling the digital enterprise. In recent years, our capabilities have extended beyond IT to create a powerful Platform for transformation, and our latest Financial Services product drives even closer alignment between our customer needs and the outcomes that we deliver. To learn more about ServiceNow in financial services and our Financial Services Operations product head to <http://www.servicenow.com/finserv>.

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