

P E R S P E C T I V E

Wealth Management: Emerging Trends in a Dynamic Environment



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The wealth management industry remains as dynamic as ever. Market fluctuations across geographies over 2008 and 2009 have resulted in new trends in the wealth management space. Providers and consumers have revamped their strategies and needs and 2010-11 promises to be a year of hope. Providing wealth management services to individuals remains a top priority for financial institutions. As firms continue to move away from a transaction-focused revenue model to a diversified fee-based revenue model, the importance of attracting the affluent customers will continue to take centre stage.

Service providers are looking to change and streamline operations to improve efficiency and turnaround time. These changes are in tune with the dynamic nature of the wealth management markets which in reality require banks to have continuously evolving business models. The last five years have seen various technology and quality of service trends emerge, both of which are key areas of focus in the wealth management industry, and following the downturn are areas service providers are once again looking to invest heavily in.

Need 'Valued' and 'Validated' Advice

The downturn, over the last two years especially, has made investors more cautious. There are 'Do-it-Yourself' investors who are now moving into 'Need Advice' mode.

The advice required is not a one-time need as investors are looking for continuous collaboration with the advisors. 'Know-all' advisors, offering advice across different product types, suggesting unique product bundling, predicting trends in the local and global markets, and suggesting investment protection mechanisms, are key to the success of wealth management services, today.

Banks need to communicate with their customers 'effectively' and not just provide investors with general advice and research content. Investment decisions to be made in consultation with advisors should also be accessible over online service tools which would provide confidence to investors and also 'validate' investment strategies.

The strategy of some financial institutions in simply pushing products to the affluent or high

net-worth investors is not going to work in the long run. Customers are now looking for transparency and asking questions about the exact nature of investments. They are no longer looking for so called 'sophisticated products' which are not transparent on returns and the underlying investments. A trend that is surely going to force service providers to change from the 'product pusher' mode to a more transparent results-oriented mode of selling.

Private Banks Fight for the Turf

Private banks seem to be losing out on their traditional turf and need to revamp their strategies following the rise of serious competition from a host of service providers. Another significant trend is the host of mergers and acquisitions we are seeing in this space as multiple competitors in this landscape struggle to sustain the service levels and operational margins required.

Wealth management clients are demanding comprehensive and tailored services, with bespoke investment options. They are also keen to maintain relationships with multiple banks, to compare offerings and opt for the best. However, there is an emerging trend of consolidating assets under one service provider as the investment strategies across providers reflect trends which sometimes contradict and have resulted in multiple strategies for the investors. Banks are sparing no effort to strategically transform their product offerings and services, while revamping their technology infrastructure to differentiate themselves from the competition. The wealth management space is now being catered to by different types of firms including brokers, private banks, retail banks and insurance houses, all of them are vying for the same clients – the booming mass affluent segment and the high net worth segment. Wealth management firms are making strategic investments to differentiate themselves in the eyes of existing and would-be high net-worth and ultra-high net-worth clients.

Insurance firms, brokerage service firms and retail banks are investing heavily on the advisor centric model and each one is trying to be the chosen wealth manager for the retirement segment as well as for the younger generations.

This has resulted in direct competition in a space dominated, until recently by private banks and trusts. As a result, each of these players is looking at how best to differentiate its offerings. Clearly, then, as wealth management firms increasingly compete for the same high net-worth clients, and clients themselves become more demanding, the pressure is on firms to understand the essence of client needs in existing and growth markets, even if they have already developed an accurate understanding of high net-worth individuals in their established markets. Without this insight, firms will find it difficult to develop an attractive proposition. As a result, banks are moving away from the conventional pure product focus and focusing on total solutions that are completely oriented to client needs.

The Asset Mix: Remixed and Changing focus

The diverging investment environment in the two halves of 2007 helped define high net-worth asset allocation strategies. However post 2007, the start and the seemingly never ending downturn have resulted in beaten down portfolios, a liquidity crisis, significantly lower trading volumes and no alternative investment options. Advisors are now back to traditional methods of advising investors and also suggesting the right 'product mix'. Trends from US, European and Asian markets in late 2009 and early 2010 however show that the appetite for risk is back as there is year on year growth in the Investments in structured products/ alternative investments.

Key trends in high net-worth asset allocation strategies include:

- Cash deposits and fixed-income securities seeing a jump in asset allocations and currently accounting for 30 per cent of the portfolio
- Equity holdings remaining more or less constant
- Percentage of allocation to alternate investments and real estate going down significantly post 2007, however looks to be bouncing back in early 2010 with significant investments in structured products across major markets

- Capital Protection is emerging to be a key trend in investments

Banks have realised that product range and features are key differentiators in today's fiercely competitive and largely unpredictable market. The manufacture of products is not every bank's cup of tea and the 'gap' in product offering is catered to by distributing products originating from other issuers. While manufacturing products is definitely the way forward, distribution income continues to be a key revenue stream.

Banks have also realised the benefits of innovation in terms of product bundling and utilisation of customers' 'sleeping assets'. Loan products bundled with insurance, margin lending, self funding instalments to gain geared share exposure, and bundling of banking and investment products are some interesting products on showcase.

The Technology Perspective: The Constant 'Trend'

One could even disqualify technology as a trend and it is no longer a trend in the true sense. It's almost a hygiene factor that financial institutions need to continuously evolve their technology perspective for any business model or service model to be successful.

Wealth management platforms are integrating front-office with the middle- and back-office components to leverage an end-to-end solution. Platforms provide the technical infrastructure for wealth management services. Designed with open architecture, these platforms offer the ability to integrate with third party solutions, adding a broad range of features and functionalities.

- Automation will remain critical to profitability, productivity and the ability of firms to serve clients as a trusted advisor
- Service providers will require data aggregation and systems integration for efficiency and growth. Wealth management providers and private banks must focus on open standards for communication with external entities. Service-oriented architecture and web service standards will be the key components of current and future wealth

management systems as it will help technology vendors deliver flexible and cost effective solutions

- Investing in front office technology and enabling advisors with holistic customer data, product research access and online market trends would be one of the area's service providers need to urgently focus on

The Regulatory Impact

Every crisis results in new regulations and the downturn over the last two years has forced governments and regulators to extend their control into banks and institutions offering wealth management. While institutions may not be necessarily pleased with such controls, it has been accepted by customers as a welcome sign of future stability.

In Europe, USA and major markets of Asia there have already been moves by regulators to put in place checks and controls on structured product issuers, alternate investment managers and asset management firms. Offshore centres of global private banks are increasingly under the regulatory cross hair for compliance, audit and transparency in their business. Customers surveyed across geographies have now realised

the benefits of investment strategies that are transparent and compliant to regulations. There seems to be decline in interest in those complex tax saving investment strategies which have left them confused and distraught after the recent downturn. Service Providers need to rethink and realign their business to this growing need for compliance.

Ultimately, the greatest success will be realised by those banks that comprehensively understand their clients. They will be able to leverage existing strengths to transform and adapt their service delivery and technology to cater effectively to client needs in their target growth markets.

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Author

Abhra Roy

Product Line Manager

Finacle Wealth Management



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PERSPECTIVE

Universal Banking Solution | System Integration | Consulting | Business Process Outsourcing

Infosys Technologies Limited

Plot No. 44, Electronics City, Hosur Road, Bangalore - 560100. India
Tel.: + 91 80 28520261, Fax: + 91 80 28521747, e-mail: finacleweb@infosys.com
www.infosys.com/finacle

Join us on Twitter, LinkedIn and Finacle Whiteboard at www.infosys.com/finacle/networking.asp

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