PERSPECTIVE

Gold Rush: The Shift Towards Wealth Management in Banking

Finacle from Infosys

Win in the flat world

The emergence of the "private banking" & "wealth management" segments in banking, which took seed in the late 90s, has since attained huge proportions and holds a lot of promise for banks and financial institutions today. A progression from the aggressive retail banking focus of most large banks across the world, wealth management is a reflection of the emerging trend of an altogether new set of clients, a subset of "individual" or "retail" clients, but with the potential to amass significantly higher levels of wealth. Naturally, such clientele require a higher level of personalization, both in terms of relationship management as well as product offering. To the banks, it means a big opportunity in terms of quantum of assets managed as well as ongoing fee income potential.

As was the case in retail banking, the initial wealth management offering was largely undifferentiated and commoditized, with some cosmetic changes by way of stratifying higher-end retail customers as 'Gold', 'Preferred', 'Platinum' etc., often based on very simple criteria like account balances, deposit/asset values etc. Apart from preferential interest rates or fees and some degree of personalized service, e.g. tagging a 'Relationship Manager' to a set of clients, there was no significant value added from the client's point of view. The 'Relationship Management' was often limited to calling the client at pre-determined frequencies, keeping track of her anniversaries, events etc. What was clearly missing was the concept of understanding the customer's current financial position, ongoing financial needs, funds flow requirements, risk appetite levels and providing a basket of investment options and value-added advisory services. The thrust was more on safeguarding the customer's wealth, resulting in mismatched offerings at sub-optimal returns.

However, this scenario has changed considerably since the turn of the millennium. The demise of the dotcoms, 9/11, SARS, rapid growth of developing economies like India, China, Russia, the Far East etc. as well as the boom in the equity markets has resulted in rapid and substantial wealth creation in the mass affluent segment. The wealth creation activity is no longer restricted to advanced markets as emerging markets are being tightly integrated with the global economy. New, wealthy investors, in large numbers, are arriving on the scene in an unprecedented manner. Their expectation: professional guidance from their financial services provider to grow, protect, and transfer their wealth freely across borders, to enable them to maximize their wealth as well as diversify their interests.

Banks have obviously acted swiftly in spotting and leveraging this opportunity to tap this rapidly growing and extremely promising segment and augment their revenues. The result: an intensely competitive environment with financial services providers outdoing each other in terms of promised returns, risk management, personalization of services as well as customer experience. Banks have also leveraged their distribution capabilities and captive customer base effectively to market a wide spectrum of 'wealth management' offerings to enable their clients accumulate, grow and preserve their wealth, tailored to customer-specific needs on cash flows, returns and risk appetite.

The wealthy customer and her financial advisor

Wealth management is a knowledge business and deals with customers who have specific short and long-term investment plans and cash flow requirements. They need to feel valued and unique; unsurpassed investment performance is one of their key expectations. It is critical for the financial advisors to understand not just their clients' risk disposition, wealth base and funds flow requirements, but also the banking & investment milieu, and arrive at a structured investment plan tailored to the client needs. This domain is still in a nascent stage and growing rapidly. This growth has primarily been driven by demographic and economic shifts, increased customer expectations and demands for sophisticated offerings, coupled with real-time information, personalized service, and most importantly, full control over their investment portfolio.

Apart from growing the net worth, the financial service providers need to address unique challenges in dealing with High Net worth Individuals. Managing such a relationship requires a different orientation & positioning from standard retail banking: one that is primarily driven by personalization, readiness of information and based on a long-term relationship with the customer and her immediate circle (family, friends, social circle etc.), whilst continuing to preserve very high degree of confidentiality in the client relationship. The relationship is essentially based on trust the customer reposes in her financial advisor. The advisor is expected to not just control and grow the assets but continuously aim to increase the rates of return and minimize risk and eventuality of loss. Typically, an advisor works with the customer in developing an investment strategy to achieve her financial goals. The appropriate mix of investment products like equities, fixed-income securities, mutual funds etc. are purchased and monitored in keeping with customer's strategy for principal growth, income and liquidity.

A key factor contributing to the growth of private banking services is the advent of advanced tools that help to better understand & profile customers, recommend, plan & forecast possible outcomes arising out of various investment options (what-ifs) etc., which financial advisors have been able to leverage strongly to give greater comfort to their investor clients.

The canvas - wealth management products and services

The perception that high net worth investors are unique with one-size-does-not-fit-all discipline, and require specialized products, services and treatment, forces the financial managers to create tailor-made wealth management solutions. Apart from traditional offerings, a financial service provider offers a specialized set of financial services (banking, brokerage, financial planning, estate management, taxation, etc) integrated together. Some of the products and services provided by the leading players in this domain are:

- Investment management: Investment management solutions incorporating advisory and investment services and address a range of objectives - from preserving principal with maximum current income to maximizing growth, revolving around diversified instruments like Money Market Instruments, Treasury Bills, equities, structured products, real estate products, private equity, Insurance and art.

- Portfolio management ranging from discretionary mandate to advisory mandate: In discretionary services, individual investment strategy is based on personal investment priorities and goals of the customer and is regularly reviewed and adjusted whereas in an advisory mandate the advisor constructs and manages customer's portfolio in accordance with the chosen investment strategy. Portfolios can be constructed around quantitative strategies, investment themes or areas of financial markets with attractive investment opportunities

- Online trading in various instruments which includes enter orders, review of account balances and transaction activity, get company profiles, market information, stock quotes, and pricing charts etc.

- Real estate management ranging from lease negotiations, property management including sales and purchases for residential to office buildings, warehouses and shopping centers

- Estate Planning where the advisor is responsible for the complex and time-consuming process of collecting, safeguarding, appraisal, managing and distributing the assets of the customer.

- Retirement strategies focuses on income generation, savings, wealth management and succession management aspects for the customer to determine what she will need financially to maintain her lifestyle throughout the retirement.

- Miscellaneous services ranging from traditional services like operative accounts, cash management, payment services etc. to customized solution like business succession plans, charitable giving, agency Services like escrow services, litigation settlements, business acquisitions etc.

Impact of technology and IT platforms on wealth management domain

Wealth management is an emerging area of interest for IT solutions companies. The domain stands to benefit from technology's ability to bring to deliver unique and sustainable business solutions. An ideal technology platform should enhance client focus and drive the full-lifecycle of integrated wealth management processes including sales prospecting, planning, implementing, monitoring, managing and reporting in an integrated and streamlined manner.

Some imperatives for wealth management solution providers are listed below:

- Most financial service providers use a myriad of solutions since most current solutions only partly address the gamut of wealth management needs. Integration with the core banking solution is non-existent in most banks offering a wealth management product. This results in non-availability of straight through processes, data warehousing solutions like integrated customer statements and one-view of the customer's relationship. IT companies need to work on developing a well integrated wealth management solution.

- IT service providers should design a single support system that drives rules-based, contextual selection of investments to build personalized and compliant investment portfolios. This integrated solution should provide solutions for different asset classes like mutual funds, securities, structured products, real estate etc. with focus on integrated CRM to financial planning.

- The solution should be equipped in providing summary and detailed information across the entire relationship hierarchy including household, clients, portfolios, accounts and holdings to all the stakeholders.

- The emerging need of this domain is to streamline operations which can enhance service levels for the end customer at reduced operational costs. This is achievable only by having a modular and functionally rich order management system which will help achieve straight through processes with minimum turnaround times and manual dependencies.

- An integrated solution which should enable advisors and relationship managers to capture, view, update and store complete investor profile information in a central repository and makes this data readily available for all downstream sales and advisory activities. The solution should necessarily be client centric with advanced tools for providing alerts and modeling capabilities.

- Currently, wealth management in the global financial services industry is mainly product-based with different parties providing financial products via independent channels. However, the Internet is transforming the global wealth management market by integrating individual financial services that can be distributed online through a central hub (which could be a portal or an aggregator).

- Use of computational tools, mathematical and statistical techniques, artificial intelligence for asset allocation in the solution to design, develop and implement innovative wealth management products and processes.

Conclusion:

Wealth management services are provided by banks, professional trust companies, and brokerages. The "high perceived value" of wealth management has more attraction than the "low cost transaction" for the retail market. Wealth management means taking care of the needs of clients, their families and their businesses as part of a long-term, consultative relationship. It's best conceptualized as a platform where a number of different sets of services and products are provided. This brings unique challenges for the service provider and opens up immense opportunities for IT players to offer solutions which can cater to the entire life cycle events of wealth management offerings. All in all, this is just the beginning of the new gold rush.

Authors

Ajay Kumar Bohra
Finacle - Product Manager
Wealth Management Solution
Infosys Technologies Ltd.

Raja Basu
Finacle - Associate Product Consultant
Wealth Management Solution
Infosys Technologies Ltd.

Win in the flat world

Infosys Technologies Limited, Plot No. 44, Electronics City, Hosur Road, Bangalore - 560100. India • Tel.: +91 80 28520261 • Fax: +91 80 28521747

e-mail: finaclemktg@infosys.com • www.infosys.com/finacle