

## Survey Report



### Business strategy and technology priorities in the wealth management industry

*Examination of top US wealth management firms*

---

Balaji Yellavalli  
Infosys Ltd.

Jaroslav E. Knapik  
Datamonitor

In targeting the various segments of the wealth management market (including the growing “mass affluent” segment), private banks, retail banks and brokers rarely talk of standalone product-centric strategies for securing their piece of the market. Wealth management services based on a narrow product portfolio are being replaced by “integrated financial solutions”, incorporating numerous transactional and investment products and services with a strong advisory component -- an approach which previous generations aspired to but failed to actually execute. This study, conducted by Infosys and Datamonitor in the spring of 2007, targeting 50 Wealth Management operations in the United States, highlights the trends, priorities and investment strategies of wealth managers as they target an increasingly wealthy world.

## Business drivers & IT budget

Perhaps not surprisingly, this study confirms that, given the growth in both the number and holdings of mass affluent and high net worth individuals, banks are increasing their emphasis on maximizing existing client revenue. 76% of survey respondents cited “revenue generation” and “client retention” activities as top drivers behind IT decisions over the next two years. Among the leading strategies, investment in new and existing distribution channels, particularly direct, lower-cost channels such as the Internet, and increasing marketing efforts (each over 70%) are most popular.

Less emphasis will be placed on hiring new financial advisors (38%). These “customer-focused” drivers will result in increased overall investment in CRM systems, which were cited by 65% of US wealth managers as the top investment area this year. Both these observations -- lower emphasis on hiring new advisors and increased investments in CRM & front office applications -- are consistent with the high business priority accorded to improving ‘Advisor Productivity’.

The growth and importance of self-driven investing and the overall use of the internet for a growing number of communication possibilities (including Web 2.0 applications) is not lost on wealth managers, as the Internet (70%) was cited as the most important distribution channel for investment over the next two years. Perhaps the greatest advantage of a high-quality online platform is its potential for acquiring the most relevant information available, a necessity to equip a firm for the rapidly-changing circumstances in an evolving market. This also reflects the increasing desire of players to tap the ‘mass affluent’ segment which offers significant growth potential in the next couple of years. Providing high-quality self service mechanisms is a prerequisite to efficiently serve this segment, which will be characterized by higher volumes & lower asset sizes compared to the traditional high net-worth & ultra high-net worth segments.

In addition to strengthening priorities for targeting the emerging market, the wealth management industry is challenged by growing regulation. Regulatory compliance has emerged as a top business priority (40% of surveyed firms) matching the emphasis on business growth. Companies see large portions of IT budgets consumed by regulatory compliance, including Sarbanes-Oxley provisions, the USA Patriot Act and Basel II, and a majority of FSIs are currently looking at ways to use their existing technology for more than one compliance initiative. The dialogue regarding compliance now spans groups and business operating areas, with the aim being to establish “holistic” compliance management strategies. Furthermore, recent legal actions have put compliance in the spotlight, placing the importance of sound corporate governance and ethical compliance practices closer to overall financial performance.

The strong market conditions are helping the vast majority of firms maintain, or even increase, IT spending levels. IT spending growth among wealth managers is positive, with firms increasing budgets an average of 12%. Conversely, budget declines will affect only 1 surveyed firm, and even this firm expects a relatively modest 5% decline. Wealth managers show a bullish attitude towards the future, with IT trends balanced against strong cost reduction pressure.

## Creating a governance framework for monitoring data

Increasing compliance requirements and competitive pressures have resulted in greater data management and storage needs. Establishing a governance framework for monitoring data has emerged as a top investment area (Figure 1). CIOs increasingly recognize that as an opportunity to invest capital on new technology, consolidate older technology, and centralize data management operations because benefits of increased productivity, lower operational costs, shorter cycle times, and better risk management will outweigh risks. US financial institutions focusing on wealthy clients have expressed a relatively high satisfaction level for their governance efforts for data monitoring, as the area is one of the most important technology and business initiatives, even outpacing investments into revenue generating activities. Wealth managers are now turning attention to reference data repositories, where satisfaction is relatively low. 'Visibility' control was cited as an above-average priority for the year reflecting the high emphasis on Information Security given the explosion of data across the enterprise.

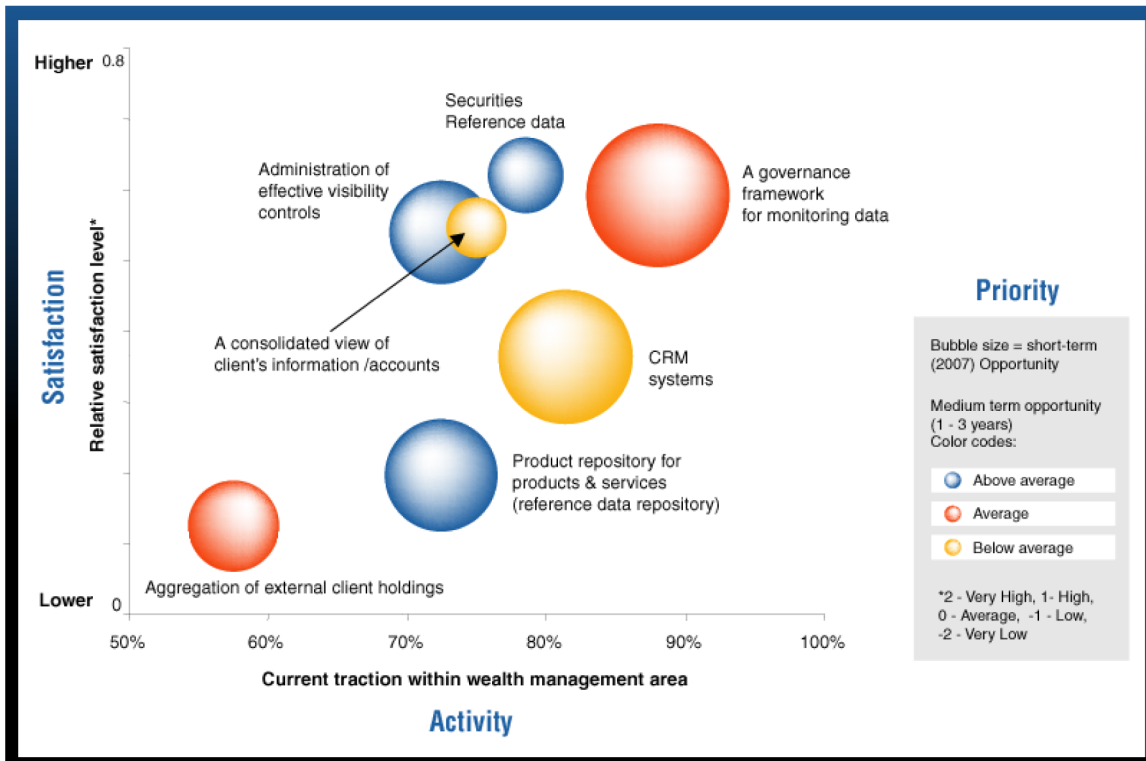


Figure 1 - Priorities within data management initiatives amongst wealth managers

Source: Infosys – Datamonitor Survey

As regulatory changes require firms to focus their resources on compliance-related initiatives, the attention shifts away from revenue-generating activities. Figure 1 indicates that a “governance framework for monitoring data” is a higher (nearer-term) priority than CRM systems, and generating more activity. Although wealth managers are continuing their CRM enhancements this year, the survey measured a slight decrease in investment intensity, at least over the next year. The declining intensity of CRM investments may be related to the lack of current infrastructure environment, including legacy systems and poor data warehousing, as evidenced by poor satisfaction levels. Wealth managers in many cases must invest in infrastructure to fully optimize CRM.

Driven by client servicing requirements and the high level of historical investments, the majority of US wealth managers are at a relatively high satisfaction level with the existing account and client view applications. The aggregation of external client holdings scored lowest on the satisfaction scale within all surveyed data management areas, however intensity of investments remains constant on average level in short and medium term.

## Enhancing analytics

Due to the increasing popularity of managed accounts, and the growth of international stock exposure in the average portfolio, clients increasingly require aggregated view of their accounts. Fully 40% of the survey respondents indicated an absence of global data aggregation for client reporting.

That said, a growing number of accounts and sub-accounts, and specialization involving more parties in the management process, translates into a preference for performance reporting based on either account group (93% of respondents) or account level (89%), with slightly less focus on asset classes (76%). With respect to performance measurement, 92% of interviewed respondents support custom account grouping, while 73% of respondents support legal account groups. With the need for consolidated data within banks well acknowledged, most respondents already provide consolidated clients' reports and statements (72%) and allow the same view of customer data for advisor and end-users (80%). Due to increased online activity, financial institutions have well-established on-line interfaces (75%) although some areas, such as total view of customer assets (58%) or custom reporting (53%) which require more sophisticated analytical CRM applications, remain somewhat underdeveloped. Business intelligence solutions are primarily being used for profitability analysis (client profitability 72% and product profitability 70%) with fewer focusing on marketing campaigns (56%).

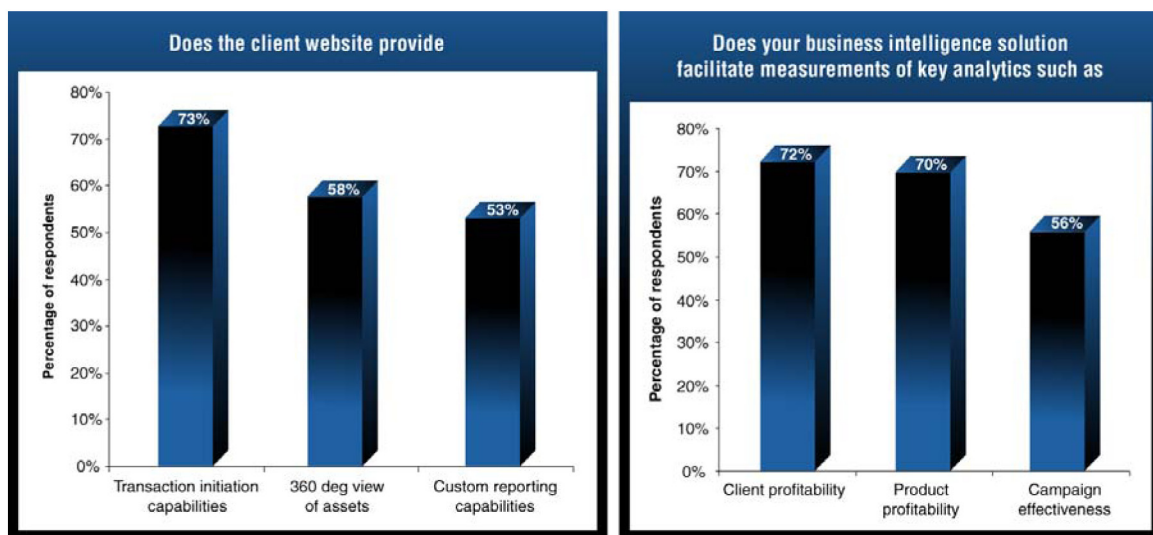


Figure 2 - Online and analytical functionality amongst wealth managers

Source: Infosys – Datamonitor Survey

With the maturing market for business intelligence solutions, American wealth managers will begin to shift their use of BI tools from portfolio analysis to cross and up-selling campaigns, as well for basic advice for self driven investors. The compliance needs will drive centralized views and common data repositories (*Figure 2*).

## Unified compliance on the agenda in 2007

The satisfaction level of existing anti-money laundering (AML) solutions remains relatively high, and given the timeframe for implementation by regulators further investments, are expected to remain at a moderate level. Currently wealth managers are shifting their compliance focus to create a unified framework in order to efficiently manage current and future regulatory changes and related systems enhancements or upgrades (Figure 3).

Managing client risk overall and a putting a quantitative KYC framework in place to measure client risk is expected to be a significant market opportunity in both the short and medium terms. Basel II implementation across the globe is affecting US financial institutions as well, but so far US banks exhibit a more cautious approach due to uncertainty of the outcome. Recent US federal bank and thrift regulators agreements on new capital standards are clearing the way for further risk management investments. Beginning in January 2008, eleven US banks will be required to use the new rules.

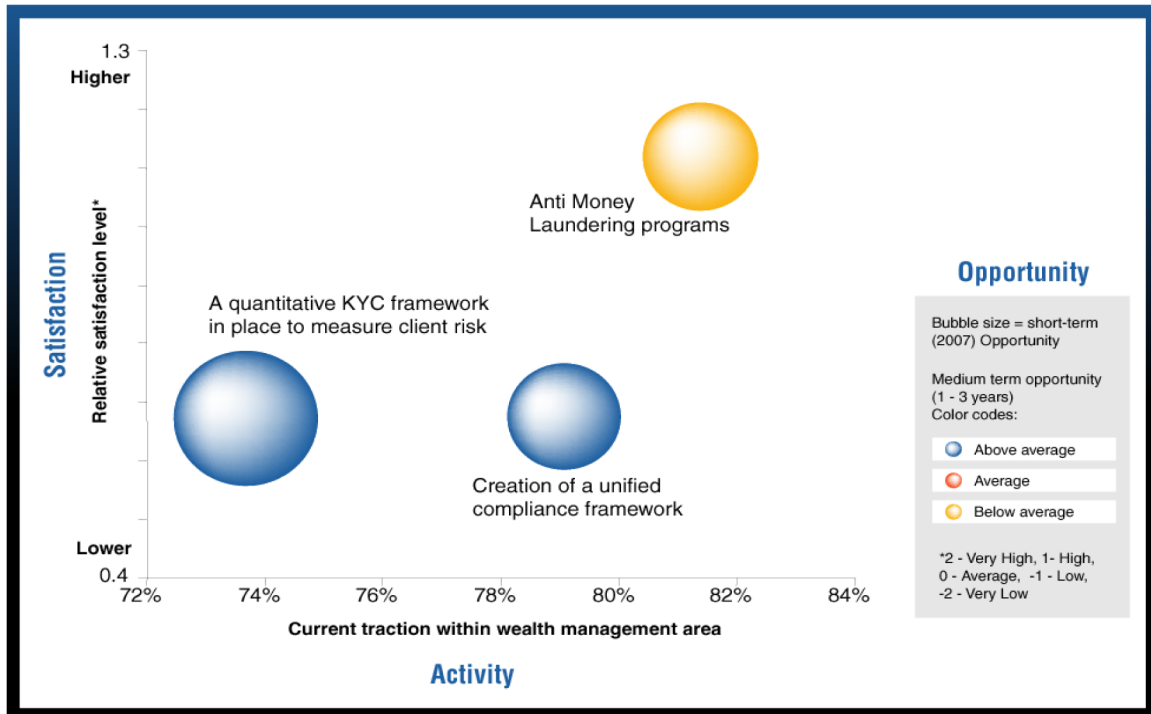


Figure 3 - Priorities within risk management and compliance initiatives amongst wealth managers

Source: Infosys – Datamonitor Survey

## Mass affluent segment drives faster account opening processes

Given regulatory pressures and the growing need for unified compliance management program, integrated desktops are expected to receive greater investment priority (Figure 4). The need for faster time-to-market, utilization of cross and up-selling capabilities, and the attention given to the mass affluent marketplace creates a need for automation and centralization of point-of-sale applications, led by consolidation of ‘account opening’ and ‘account view’.

An examination of account origination practices divide survey respondents into two camps: leaders (66%) who can complete origination within 4 hours and laggards (34%) who can take up to one week to complete the origination. Clearly the industry in general has made significant progress in building a streamlined and fast origination process. The growth and acceptance of automation, increasing competition and ever-demanding clients’ expectations drives a faster and “seamless” origination process, thus laggards need to make shortening origination time a top priority.

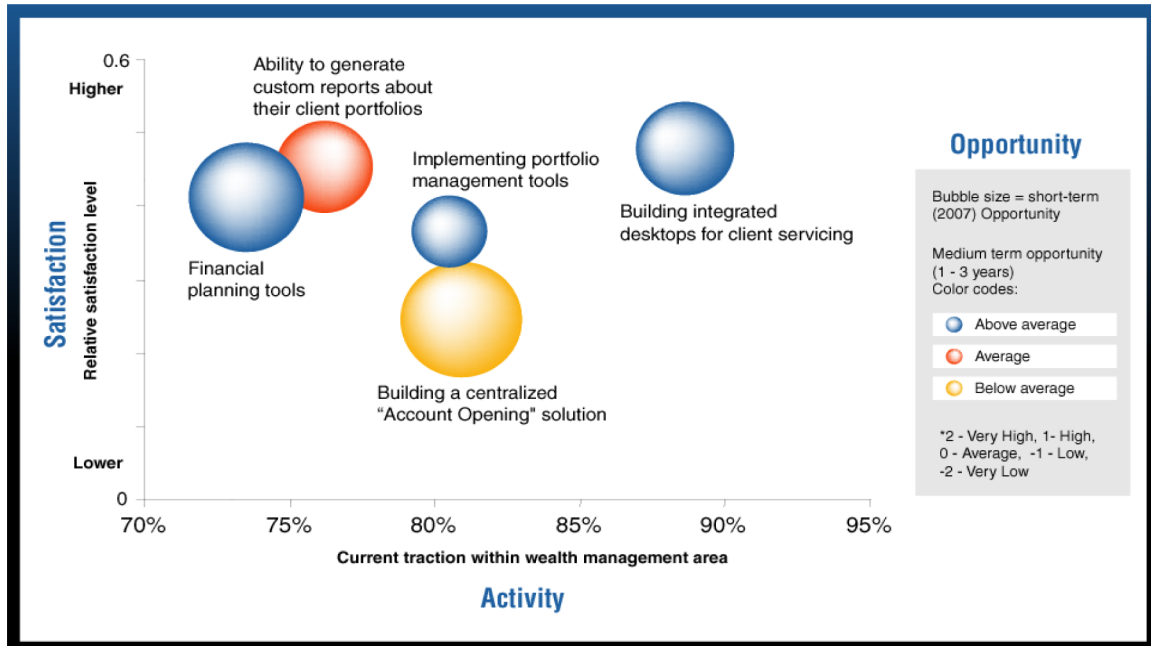


Figure 4 - Priorities within Front-office and account planning tools initiatives amongst wealth managers

Source: Infosys – Datamonitor Survey

Traditional wealth management applications such as portfolio management and financial planning components remain medium-term investment areas, given the focus on client servicing and advisor productivity. With the increased significance of managed accounts as well as growing demands for performance reporting primarily by high net worth customers bankers have been implementing custom reporting capabilities into their systems. With majority of project already started and relatively high satisfaction level investments in the area will be decreasing in medium term.

## Conclusion

Providing a seamless and rich customer experience with a focus on quality will be the key differentiator among the wealth management firms to maintain leadership in the market place. Regulation remains a top priority and the compliance needs will drive centralized views through integrated desktops and common data repositories. Wealth managers are shifting their compliance focus to create a unified framework in order to efficiently manage current and future regulatory changes and related systems enhancements or upgrades.

Client-centricity over product-centricity is the wave of the future in Wealth Management for the high net-worth segment. With increasing sophistication of the clients and the increase in demand for timely and relevant information Internet will become the most desired distribution channel over the next two years. Focusing on client relationship servicing model and advisor productivity will be of high priority and could lead to further investments in operational and analytical CRM systems, portfolio management and financial planning tools. BI tools will be leveraged to shift focus from portfolio analysis to cross and up-selling campaigns, and to provide basic advisory services for self driven investors.

The desire to share the flow of information across the enterprise will necessitate the establishment of a governance framework for monitoring data and centralizing data management operations. The benefits of increased employee productivity, lower operational cost structure, shorter cycle times, and better risk management will outweigh any potential risks. Recognizing and investing in the aggregation of clean customer, product and reference data along with customer transaction data across the enterprise is vital for CRM optimization and critical for the success of the Wealth management firms in the future.

### About the Authors

**Balaji Yellavalli** heads the solutions and consulting group in the Banking and Capital Markets vertical practice at Infosys Limited. He focuses on Wealth Management, Retail Banking, Regulatory Compliance and Customer Data Integration. At Infosys, Balaji has played multi-faceted roles across consulting, vertical market solutions and client relationship management. He brings over 17 years of professional experience spanning business consulting, IT strategy and strategic sourcing.

**Jaroslaw Knapik** is an analyst with Datamonitor's Technology practice where he specializes in retail banking technology. He has published reports on Wealth Management Technology, Banking Core Systems, Emerging Markets for Retail Banking Technology in Asia-Pacific, and Global Banking Technology trends, and his work has been cited in numerous industry and trade publications, including *Financial Sector Technology or Continuity Insurance & Risk.*"

## About Datamonitor

Datamonitor is the world's leading provider of online data, analytic and forecasting platforms for key vertical sectors. We help our clients, 5,000 of the world's leading companies profit from better, more timely decisions. Through our proprietary databases and wealth of expertise, we provide clients with unbiased expert analysis and in-depth forecasts for seven industry sectors: Automotive & Logistics, Consumer Markets, Energy, Financial Services, Healthcare, Retail and Technology. Datamonitor maintains its headquarters in London and has regional offices in Frankfurt, New York, San Francisco and Sydney. See [www.datamonitor.com](http://www.datamonitor.com) for further details.

## About Infosys Limited

Wealth Management is a key focus area for Infosys' Banking & Capital Markets group. Infosys serves some of the largest wealth management firms by leveraging its extensive domain and technical expertise across front office, mid office and back office functions. Leveraging our industry solutions in risk & compliance, data management, enterprise agility and technology optimization, we have help our clients successfully implement strategic initiatives in the US, Europe and Asia.



For more information, contact [askus@infosys.com](mailto:askus@infosys.com)

### About Infosys

Many of the world's most successful organizations rely on Infosys to deliver measurable business value. Infosys provides business consulting, technology, engineering and outsourcing services to help clients in over 30 countries build tomorrow's enterprise.

For more information about Infosys (NASDAQ:INFY), visit [www.infosys.com](http://www.infosys.com).