Preface

Hearty greetings from the Infosys Banking & Capital Markets team. On behalf of Infosys, I am delighted to present the first issue of our journal “FINsights”, a compendium of articles, which bring you insights into the technology powering the financial services business. The aim of the journal is to bring you the latest in technology, applied to your business scenarios, which will enable you to win in today’s flattening business world.

The first issue of FINsights focuses on the wealth management industry; an industry which is grappling with multiple challenges. An increasingly demanding and informed customer base, a challenging compliance environment and the jostling for a customer centric “trust” based role amongst trust banks, brokerages, insurance companies and family offices make for a very challenging business environment. This journal has a set of articles which look at these and other unique characteristics of the wealth management industry and I hope that they will not only make for enjoyable reading, but also help you in addressing some of your vexing business challenges.

I would like to thank all the contributors from Infosys Banking & Capital Markets group and also Alois Pirker from Aite group and Matthew Bienfang from TowerGroup for their insightful articles. I hope you will enjoy reading these articles as much as we have enjoyed putting them together. Please do not hesitate to get in touch with me in case you have any queries or comments. I look forward to your feedback and suggestions in making FINsights a relevant and topical journal.

Happy Reading!

Ashok Venuri
Senior Vice President and Head - Banking & Capital Markets Group
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From The Editors Desk

The wealth management industry is changing rapidly to meet the evolving needs of its participants. This is one area where true financial services convergence seems to be happening as trust & private banks, brokerages and retirement planning focused companies are all trying to get a bigger slice of the action.

Opportunities in new geographies and asset classes are driving a lot of the change in the industry today. These will lead to increased investments in the core processing platforms, as well as the need to tie the various platforms together. The need to bring systems together is very important to financial services firms from a financial planning & advice, customer data, client service and a Business Intelligence (BI) & reporting perspective. Open architecture is another very important consideration that is driving changes to the way the banks service clients. Further, the need to offer clients a wide bouquet of products is driving consolidation of information across the different products and asset classes. Changes in banker and advisor team structures as well as client segmentation for servicing will lead to better cost structures.

All of the above have technology implications for banks. Technology will need to be aligned with business to meet the needs of an agile organization that can respond rapidly to changing business circumstances. Technology itself is evolving rapidly and can sometimes drive changes in the organization through the ability to deliver more than what was hitherto considered possible. Information Technology (IT) organizations that are able to plan and react early, and then execute well on these changes are the ones that will succeed in meeting the needs of their business.

We are happy that this book addresses some of the biggest business challenges and technology implications addressing wealth management firms today. The debate on some of these topics is very timely. We hope that the journal will inform you and enable you to formulate a response to the many challenges facing our industry. We look forward to your feedback.

Happy Reading!

Balaji Yellavalli & Manish Jha
Editors
Business Challenges and Technology Priorities for Wealth Management

Wealth management firms face enormous business challenges. Correspondingly, they have a diverse set of technology opportunities to help address customer needs. Companies that can create an agile technology environment to respond rapidly to changing business challenges will emerge as clear winners in this competitive industry.

Ashok Vemuri
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The wealth management industry faces increasing challenges, as it seeks to evolve to meet client needs. Brokerages, banks, insurance companies and independent financial consultants all want a bigger share of the client’s pocket, by offering wealth management related advice. However, it is clear that organizations face considerable challenges in bringing the entire suite of investments, brokerage, retirement products, banking, credit, trust and custody services to their clients in an integrated model. While the largest institutions are indeed building capabilities to offer a variety of products to their clients under one umbrella, their ability to win over clients from the best-of-breed service provider will depend upon evolving an integrated service model that provides convenience and better services.

At the same time, the ethnic composition of the United States is changing, with a greater share of wealth in the hands of minority groups. Wealth management firms will have to be ready with targeted strategies to cater to these burgeoning ethnic groups, which often tend to display very different behavioral traits and purchasing preferences.

Globalization
The BRIC economies, made famous by Goldman Sachs research, will lead in growth over the next 3 decades. Hence, a large proportion of the explosion in wealth will be in the BRIC economies and other Asian and Latin American markets. Wealth managers will therefore have to look at their strategies for addressing the needs of this global market. It will involve building new relationships with partners to address these markets, building out new platforms, and most critically, hiring the right talent in the local markets to be able to offer the right services.

Demographic Trends
The aging of the baby boomers in the US will drive investments in the wealth management services that are specific to their needs. An analysis of the Survey of Consumer Finances and US Census data suggests that there will be a seven-fold increase in the number of high-net worth households over 65 years – high net worth households being defined as those with over a million dollars in investible assets. Within the next 15 years, the same high net worth households can be expected to hold nearly 70% of the total personal trust assets. These huge numbers will drive the opportunity for wealth management firms to offer services targeting this segment, including retirement accounts, estate management, business succession planning, as well as services targeted at liquidating the assets and philanthropy.

Compliance & Regulation
Driven by myriad regulations, compliance continues to be a key business priority. Compliance has many aspects: Know Your Client (KYC) regulations, Anti Money Laundering (AML), pre and post-trade compliance, employee surveillance, trading regulations like Reg NMS and MiFID and SoX and Basel related risk measures. We believe that organizations have begun to move from aiming to be compliant to satisfy regulators to organizing their compliance efforts to drive efficiencies from the process and even derive a competitive advantage by monetizing the efforts put in to meet regulatory requirements. We believe that talk of over-regulation in the US market will die down and organizations will focus their efforts on deriving the most from their compliance initiatives.

Fig 1: Business Drivers & Technology Implications

In this article we look at the top business challenges facing wealth management firms and the technology initiatives implemented in response to these.

**Business Drivers**
- Changing Demographics
- Regulation and Compliance
- Changing Business Model
- Open Architecture Adoption
- Customer Centrity
- Rise of the Mass Affluent
- Business and Personal Wealth
- Sophisticated Customers
- Onshore Business

**Technology Implications**
- Customer Data Integration (CDI)
- Compliance for Competitive Advantage
- Financial Planning Tools
- Client Reporting
- External Account Aggregation
- Platforms for Newer Asset Classes
- Advisor Workstation
- Information Risk Management
- Outsourcing
- Technology Adoption: SOA, BPM, BAM
Changing Wealth Management Business Model

The wealth management model has been fragmented due to the difference in the products that different wealth management firms considered their core offering: investments, brokerage, banking and credit, trust services and retirement or insurance. We believe the industry will move towards a common model with a relationship manager who is the primary contact point for the customer, and is supported by various product specialists. This will be driven by the need to cross-sell multiple products to the client, and the inability of the present structures to support this. Business development officers (BDOs) will continue to grow new accounts and relationships. Most existing resources will have to choose between a relationship management and a product specialist role, including portfolio management.

Business and Personal Wealth

Business owners and employed professionals will constitute the largest segment of the wealth management industry. Therefore, there will need to be closer links between both the small business operations and the mass affluent section of the bank, as well as between the investment bank and the private client services segment of the market. For small businesses, it will be key to receive seamless service between the business side and the private accounts. Transfer of businesses to successors and estate planning will form the core of the integration for business owners. Similarly, banks that can integrate offering from the private bank and offer them to their investment banking clients will form stronger partnerships with their most profitable clients.

Advisor Productivity

The advisors or relationship managers will require tools that will enable them to be more productive, and spend more time advising clients rather than performing transactional tasks. Information collection and transaction processing need to be pushed to the back office so that they can be performed economically. Advisors will also need the tools that will make them more productive, including CRM tools, unified view of the client, tools for collaboration with the back office, financial planning and advice tools, as well as access to market information and data.

Open Architecture

Open architecture will become a regular feature, even at smaller institutions. This is being driven by customer demand, and regulatory reasons for separating asset manufacturing from distribution. Wealth managers often face conflicts in recommending proprietary in-house products over third party ones, and this will bear increasing scrutiny from regulators as well as clients themselves. Open architecture will involve many challenges for integration of data from multiple money managers, and efficient overlay management will become a key differentiator for firms. Managed accounts will be managed at a household level, even though there are many
hurdles to be overcome for that to become a reality. We expect that standards from the Money Market Institute will evolve and occupy a key position in this space.

Onshore and Fee-Based Programs

Onshore assets will increase as a mixture of government threats and incentives persuade people to move money out of the offshore tax havens. Wealthy clients will assume confidentiality and security as basic elements of service. Therefore, while relationships and client servicing will remain central, product functionality, performance and returns will become increasingly important to driving fresh client and asset acquisition.

Accordingly, firms will face the challenge of retaining their clients in an extremely competitive environment.

Also driven by client pressures, we expect that the commission based business will further decline and two models will consolidate – the full service fee based model, and the discount brokerage model.

Technology Initiatives

Technology is expected to play a central role to the wealth management firm of the future. We expect that different servicing models will be needed for different segments of the wealth management market, in order for the firm to operate profitably. The servicing strategy in turn will need to be supported by having the right technology in place. We discuss below the top technology elements that could provide wealth management firms a competitive edge.

Customer Data Integration (CDI)

A multitude of product and geographic silos have resulted in an inability to have a unified view of the customer. We see firms integrating their client data to create the relationship hierarchy, and using such a unified view for servicing, reporting, analytics and compliance.

Compliance for Competitive Advantage

Over the past few years, organizations had their hands full complying with a steady stream of regulatory requirements, SOX, Patriot Act, Best execution, Employee surveillance etc. Given the tight deadlines, in a majority of cases organizations had to adopt tactical approaches to meet the regulatory requirements.

As compliance programs begin to stabilize and mature, there is increased focus on:

- Improving the efficiencies of the existing compliance program
- Monetizing the compliance IT investments and move from tactical to strategic solutions.

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**Fig 4: Advisor Information Flow**

**Customer Centric Advice Model**

Most wealth management firms will strive to become the ‘trusted advisor’ to their clients. This is especially true for the brokerage firms that were very transaction oriented and realize the need to advise their clients to promote stickiness of assets. To achieve this, firms will have to invest in financial planning and advisory tools, and to also have a unified view of the client. Ideally, they also need to be able to aggregate externally-held assets.

**Rise of the Mass Affluent**

The mass affluent segment, usually defined as those between half to two million dollars in investible assets, has been largely under-serviced by the wealth management firms till now. The level of services that the mass affluent receive today are akin to those received by the masses, rather than those reserved for the high-net worth clients. A number of firms having realized the opportunity to service this segment will invest aggressively in owning this market. However, the key to servicing this market is to lower unit costs through scale and by utilizing lower cost locations. Failure to find an appropriate servicing strategy for each segment in the market could lead to uncompetitive cost structures and margins for some firms.
Fig 5: Customer Data Integration (CDI) Imperatives

Financial Planning Tools
Financial advisors need various financial planning tools to do their job properly, especially in this rapidly evolving landscape. Asset allocation and product selection, along with a portfolio monitoring mechanism with automated rebalancing are all features that clients are thinking of investing in the development of these functionalities. The top challenge is to integrate these tools with existing systems and processes to ensure that data remains accurate.

Client Reporting
Some firms do not have the ability to aggregate asset classes into a single platform. Clients are increasingly demanding that they be able to see all the products they have purchased from company at a single portal or report. While a number of firms have embarked on these projects, very few are thinking ahead in terms of integrating non-investment products into these reports. A number of industry solutions for this have an investment management focused data model, making it very difficult to extend it for the banking, credit and trust space.

Similarly, clients have different channel preferences for delivery of their reports. Firm should plan their infrastructure such that it provides the same accurate data to multiple reporting channels, including the advisor dashboard, the client portal and account statements.

External Account Aggregation
In the race to become the trusted advisor, banks are trying to allow clients to see all their assets held outside the firm through a web front end. The external account aggregation solution should provide the ability to pull in detailed information and then to integrate that into the entire reporting. We believe that this service will take off only when the ability to integrate portfolios not only with account balances but also transactions, tax lots and positions is available.

Platforms for Newer Asset Classes
New asset classes and products are being developed everyday, especially to cater to the changing demographics and market segments. Systems are needed to handle structured products, fund of funds, and alternative investments. Similarly, derivatives trading and other capital market products also require a different set of systems. Geographic diversification brings its own set of challenges. Firms will need to invest in new platforms for handling different asset classes. The key to success may lie in selecting partners that understand the local market and then investing to integrate them so that the clients see a seamless provider.

Advisor Workstation
Most firms will need to provide more information and functionality through the advisor workstation. Given their profile of clients, financial advisors and Registered Investment Advisors (RIAs) need access to the same data that clients are able to view through the customer portal. In addition the advisor needs access to client information providing status of trades. The challenge is in doing this efficiently without escalating costs to a level where the whole function becomes redundant.
Information Risk Management (IRM)
Risks to organizations from data security breaches have been increasing exponentially. For wealth management firms, such breaches of data security can be fatal from a reputation risk standpoint. We therefore expect them to spend money to make this an area of focus. A good IRM program should assess information risks by documenting, analyzing, reporting and remediation of controls’ based risks.

If well managed, IRM assignments will result in the following benefits for firms:

- Regulatory Compliance – help the financial institutions assess the readiness for a compliance audit by federal regulators
- Alignment to Global Information Security Standards – Align controls to ISO17799/ COBIT /ISF / and NIST 800-14
- Robust Risk Management – identify potential risks through comprehensive assessment and recommend a remediation strategy
- Improved Competitiveness – As a result of greater trust in Information controls, there will be increased customer confidence & satisfaction resulting in better business competitiveness.

Outsourcing
Wealth management firms face the twin dilemma: data security concerns versus the need to drive down costs to be cost competitive. We expect that all wealth management firms will embrace outsourcing of non-core functions. In addition, we expect that outsourcing will enable clients to offer a greater set of services to their customers through standardized offerings like sophisticated portfolio analysis, portfolio performance and risk management, especially those geared towards the neglected mass affluent segment of the market. The biggest challenge is to find partners who share a common vision and are willing to commit resources into the solutions.

Technology Adoption for BPM and SOA
Technologies like Business Process Management (BPM), rules engines and SOA have the ability to transform the technology landscape at wealth management firms. Together, these technologies help make an organization more agile, by taking out the business rules from the legacy and into a new business rules layer that makes it easier to change and adapt to changing needs. The key challenge here is to deploy these without disturbing the legacy applications.

Conclusion
It is clear that technology can play a key role in preparing wealth management organizations for the significant challenges that they face. Change will be a constant and those firms with flexible architectures and rapid response times will be able to adapt to the changing eco-system. As the number of players jostling for a share of the wealth management pie is growing, the most successful firms will be those that identify their business challenges and attune their technology initiatives early to be able to meet the considerable challenges.

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He has written several papers and articles in the area of Global Sourcing and the high impact this model brings on business and technology transformation in the Banking and Capital Markets industry. He has written numerous articles in the area of Banking and has been published in leading Industry publications like US Banker, Wall Street and Technology etc. He has also been extensively quoted in New York Times, International Herald Tribune, American Banker, Forbes and has appeared on CNBC.

Mr. Vemuri joined Infosys in 1999 and has achieved notable success in multiple leadership roles. Prior to assuming his current position, he headed activities in Infosys’ Canada and Eastern North America Region and was responsible for an almost four-fold increase in growth in just two years. Under his leadership the Banking and Capital markets group has grown by six times in four years.