Client-centric Wealth Management Platform (CWM)

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Introduction

This paper provides a context for organizing our thinking around integrated wealth management technology — a subject that is of crucial importance to c-level decision makers as they seek to manage and shift their businesses to meet the realities of a changing market. Technology is essential to managing wealth and is now one of the driving factors in the attracting and retaining assets and reducing cost structures.

Integration and Simplicity

The technology in use today by most wealth management firms is a collection of between 10 and 30 discrete 'applications' or point solutions; most are account-centric. Each of these point solutions have been installed at different times, either built internally or purchased/subscribed to from a vendor. Each has its own support requirements and each requires substantial budget to integrate data.

From the user's perspective, these diverse technologies each look and feel different and there are numerous different methods of navigating around the screens. In some firms, users still need to have multiple logons.

This fundamental lack of integration and the lack of simplicity from both the user's perspective from a support perspective means that the business is less flexible than it could be and more expensive to operate than it needs to be. It also means that for users of the technology, whether they are Advisors, Assistants, Compliance Officers, marketing staff, management, etc, there is a fundamental opportunity to improve productivity by increasing the degree of integration and simplifying and reducing the number of discrete applications to a range of 5 – 15.

The next generation of Wealth Management technology that is integrated and simplified, and by its nature client-centric, will have a strategic impact on revenue generated per advisor, the long-term cost structure of the business and the flexibility[1] of the business technology infrastructure.

Wealth Management Platforms: Meaning, Vision and Promise

The opportunity to fundamentally change the way wealth is managed lies in the difference between "*Platforms*" and "*point solutions*". In contrast to 'point-solution'[2], 'Platform' is a label that applies to a broader set of functionality than can be included in any one point solution, or small group of point solutions. Further, a "Platform" provides more than just business functionality: it provides a single, flexible, low cost architecture upon which new functionality can be built or 'plugged-in'.

The scope of functionality required to fully meet the needs of wealth management quickly confirms that investing in individual or small groups of point solutions is not ideal. This strategy is costly, creates

[1] 44% of respondents ranked existing information technology as the single largest factor most hindering change. It was ranked the single largest factor by far, ahead of regulation/domestic legislation which was selected by 30% of respondents: PWC, North American Private Banking / Wealth Management Survey 2000 pg. 8

[2] A listing of which can be found at Wall Street & Technologies web site: www.mediabrains.com/client/wallstreet/bg1/search.asp

complex systems architecture and does not allow for seamless integration. In demonstration of the breadth of functionality required by today's Advisor / Relationship Manager, the following is a discrete list of commonly required business functions provided by various point-solutions. It is worth noting that this list does not cover functions required by head office such as compliance monitoring, human resources management etc.

Common functions include:

- Stand-alone contact management (Outlook, Goldmine, Act!);
- Order management (equity, fixed income, and funds);
- Multi-currency portfolio accounting;
- Other (non-securities) assets and liabilities accounting;
- Proposal generator;
- Campaign management;
- Communication tools (web collaboration, phone, fax, e.mail, general correspondence)
- Performance measurement database;
- Intranet resources (product literature, etc.);
- Third party collateral (morningstar, research;
- Advice engines;
  1. Financial Planning
  2. Optimized Asset Allocation
     - Strategic – efficient frontier
     - Tactical – based on firm strategy/research etc.
  3. Specific Investment selection
     - Security; Fund; and/or Manager
- Service request and management mechanism;
- Account opening tool;
- Product-specific statements (e.g. WRAP products);
- Statement history / retrieval tool;
- Commission / fee calculator;
- Yield calculator;
- Office tools (primarily Microsoft Office for e-mail, word processing, spreadsheets and presentations);
- Market news and data;
- BackOffice date inquiry (3270 views to Holdings, Balances, Transactions, N&A records.)

These are not 'wish list' items, but instead, crucial functions that are used to varying degrees by different types of wealth management businesses. Currently, these items are supported by a variety of point solutions provided by third party vendors, the firm's internal IT department or sometimes they are installed by 'a friend' of the Advisor.

To excel in today's market, it is essential to offer these capabilities in one easy-to-use platform[3]. At x.eye we believe that this scope of functionality is in fact the true measure of a 'Client-centric Wealth Management Platform' (CWM).

CORE CAPABILITIES OF A WEALTH MANAGEMENT PLATFORM

The foregoing list can readily be grouped into six core areas of functionality required by wealth management firms. These core areas exist regardless of the Client Segment(s) that the firm chooses to serve and regardless of the Investment Style of the client. x.eye's platform either provides the functionality directly or by seamlessly integrating third party tools. The core capabilities of a wealth management platform, and in fact x.eye are:

1. **Relationship Management**
   - ✓ Tracking all contact interactions with clients and prospects, including meetings, conversation notes, action items and correspondence (including e.mail, web-collaboration, fax, corporate communications and advisors communications[i]).
   - ✓ Tracking interrelationships with accountants, lawyers, centres-of-influence, spouses, children and corporations.
   - ✓ The provision of a flexible correspondence engine, suitable for campaign management, generating proposals, **investment policy statements** and other materials that might be useful resources to the client and advisor in portfolio reviews.
   - ✓ KYC and detailed client profiling and Investment Objectives (quantitative and qualitative).
   - ✓ Collaboration via all channels (phone, internet, e.mail, fax etc.).

2. **Asset & Liability Accounting (also known as Portfolio Management)**

[3] '[Firms] must transform their businesses away from selling discrete products towards offering holistic wealth management solutions. Personal relationships and high levels of service will always be perennial success factors in this industry. However, looking ahead, survey respondents indicate that successful players will be those who also develop a reputation for delivering proactive, valued financial advice'. PWC 2000 Survey pg. 8.

[i] A note on Communication Channels, including 'On-Line' channels.
The role of communication channels is a difficult concept to grasp. We would all agree that it is ridiculous to discuss conventional mail as an exciting communication channel. It is there everyday, we use it, we expect it. Likewise, fax machines, the phone and in-person meetings are commonplace. E.mail has been a new channel of communication along with its cousin the web site. Together, they might be called 'on-line' channels. This on-line channel is the richest and most flexible to date and it raises the question: How best do wealth management firms use it to strengthen relationships, deliver superior service and educate clients and prospects? Accordingly, x.eye's view is that 'on-line collaboration' is simply a new channel of communication. It is however, the most exciting channel available yet, offering efficiency, improved service, and interactive tools like financial planning, advice engines, calculators, collaborative messaging, market data, on-line statement filing, perhaps bill payment, account management and e.mail. A good wealth management platform ought to be able to richly and naturally support this channel.

- ✓ Automatic tracking of official accounts (holdings and transactions) and easily tracking 'other assets and liabilities' (insurance policies, residences, art, investment loans, investment accounts held at other institutions, etc.). If the firm is able, external aggregation via vendors like Yodlee, CashEdge, etc.
- ✓ Consolidation and the provision of AIMR rates of return.
- ✓ Maturity ladders, cash flow projections, on-line historical aggregated / consolidated statements.
- ✓ A since-inception perspective.
- ✓ Model-based portfolio management

3. **Service Management**

   It is well understood in the industry that service is among the top three reasons a client selects an advisor[4].

   - ✓ Tracking service items throughout the organization and efficiently ensuring their completion.
   - ✓ Integrated messaging, agents and workflow.

4. **Statements & Performance Reporting**

   - ✓ Unlimited consolidation of statement data (internal and external aggregation) with a since-inception time-horizon, which improves on today's weak 'point-in-time' approach.
   - ✓ Appropriate market commentary, flexibility of content (mass-customization), delivery method (including e.mail) and frequency.
   - ✓ Graphs to communicate the numbers, including the market value since-inception, plus or minus and cash flows, and set against an agreed composite benchmark.
   - ✓ AIMR performance measurement across consolidated, multi-currency portfolios.

5. **Decision Support**

   - ✓ Market data (via Reuters, ADP, Bloomberg, ILX, etc.)
   - ✓ News (via 3rd parties)
   - ✓ Research reports (via 3rd parties or internally generated content)
   - ✓ Calculators (via third parties)
   - ✓ Financial planning software (via NetDecide, NaviPlan, etc.)
   - ✓ Advice engines (via third parties)
   - ✓ All of the above are essential resources used by the advisor in reaching decisions and dispensing advice. These resources, by their nature, are general and need to be used differently for different types of clients and Advisors. Wealth Management firms generally have their own preferences in these areas and therefore this category of functionality benefits dramatically from the existence of an open Wealth Management Platform whereon true integration can occur.
   - ✓ Modeling and model-based portfolio management

[4] PWC's North American Private Banking/Wealth Management Survey 2000; pg. 38.

6. **Business Management**
   - ✓ Compliance oversight & surveillance tools
   - ✓ Management reporting at all organizational levels
   - ✓ Service monitoring
   - ✓ Performance measurement (account, client, advisor, branch, region, and corporate levels)
   - ✓ Client profitability
   - ✓ Substantial custom management reporting functionality is expected in this category.

The amount of functionality that is required by Wealth Management firms is vast. While it is desirable to minimize the number of vendors supplying solutions, no single vendor can deliver even average solutions in each and every category, in one 'integrated wealth management platform'. In the writer's opinion, none should.

The ultimate solution then, is an open, extensible Platform. The Platform vendor will provide the broadest and deepest set of the required functionality, however — and equally importantly — they will also provide the architecture to easily integrate 3rd party point-solutions or extend the platform with custom-developed functionality suited to the specific firm.

The concept of 'integrate or extend' is powerful because it creates an environment free from the limitations so often found with point solutions. An example that makes this tangible is Financial Planning which requires a deep understanding. This is an example where it is better to integrate a third party solution than for the Platform vendor to attempt to provide such a solution. Having said that, the financial planning solution benefits dramatically by being seamlessly integrated into the platform where data is automatically synchronized between the platform and the planning package. Hours of saved key stroking time and accuracy are the result.

The Platform will also provide for situations where, for example, a firm decides it wants to build its own engine or application, which cannot be found in the market. The Platform will make it practical for firms to do so. Although these applications exist as a separate entity from the platform, they will be able to leverage the common functions and web services offered by the Platform.

In addition to functionality the technical attributes of the platform are also important. The attributes that the writer contends are important are at least the following:

- ➢ A single database that is scalable, cost-effective[5], multi-lingual[6], client-centric[7]. **[8] ;
- ➢ An extensible[9] database**;
- ➢ An open data access layer**;

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[5] The production equipment should cost between $50 to $200 per user for the middle and database tiers. This environment should scale to 25,000 users.
[6] This includes screens, client correspondence and statements.
[7] Client information, including names and addresses, are in the db once-and-only-once.
[8] ** Denotes that these attributes are minimum requirements of a Platform.
[9] Extensible in this context, is analogous to "SDK's"

- Provision of Integrated messaging and agent/alert services;
- Provision of Document Management services;
- Provision of Scheduling and Reporting services;
- Provision of a Single user access / permissioning model** ; and
- Provision of an extensible, personalised[10] User Interface**.

So far, Functionality and Technical attributes have been discussed and defined. The concept of a platform has been touched on and needs some further elaboration.

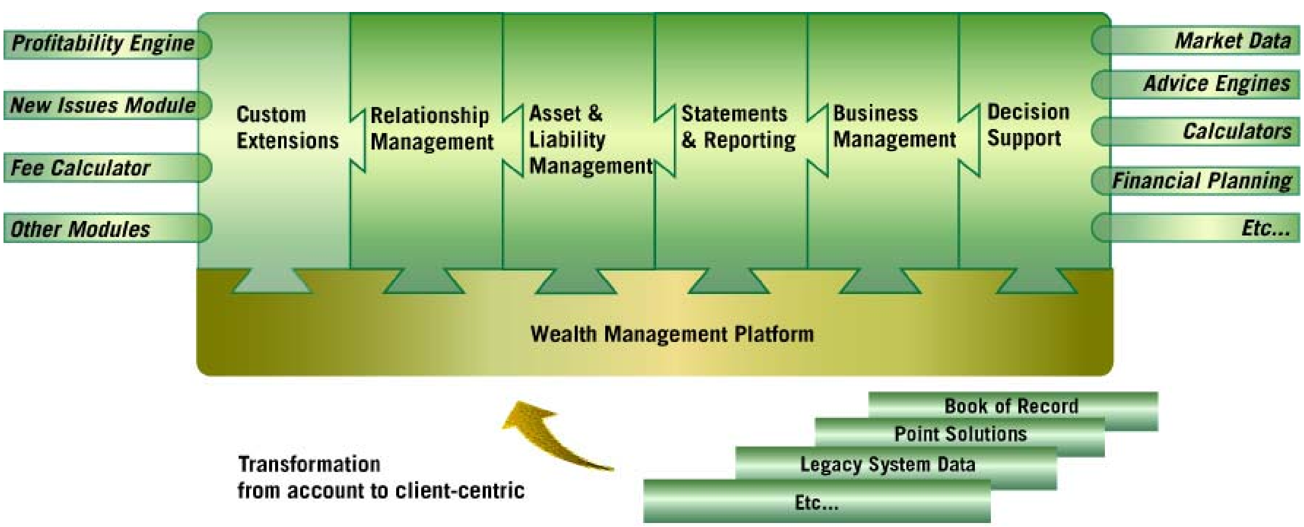
The term 'Platform' can be generically defined as:

'a raised floor or stage upon which to perform'.

Within the wealth management context this can be translated to:

'a technology framework upon which a diverse range of functionality can be choreographed into one truly integrated (and graceful) solution'.

With this definition in mind, the generic Client-centric Wealth Management Platform (CWM) Platform can be represented as follows:



The Client-centric Wealth Management Platform (CWM)

[10] Personalized in this context, embodies the ease with which each user can tailor the UI to their needs.

The Platform, with its attributes, is essential as both the stage and as the enabler for providing functionality.

Without the Platform, functionality is simply a collage of point-solutions.

Without the Platform, integration is limited and very expensive.

Without the Platform, firms face extreme rigidity, making it unnecessarily difficult and expensive to implement new strategies.

Without the Platform, clients can feel the affects of the business silos.

Without the Platform, service is hampered and a holistic approach to wealth management is near impossible.

Conclusion

The promise of the 'Platform' is the radical reduction in cost structures, substantial Advisor productivity gains, dramatic improvement in client service, a greater 'share of wallet' and higher Assets Under Management per advisor[11] and a flexible, agile, lower cost technical infrastructure. The cost of the platform described above is between 0.75% and 2% of gross revenue, the benefit of such a solution is an increase in AUM of at least 8%. The 'Platform' is the answer for wealth management firms seeking a technology solution for the next generation of wealth management.

Ken Roebuck

Co-President, x.eye incorporated

[11] A key benefit / metric of a Platform ought to be to boost the Assets Under Management per Advisor by between 5 and 15% on average through productivity gains, improved service and better collaboration tools.