WealthBriefing

EXCLUSIVE: Wealth Industry Leaders Debate How To "Future-Proof" Business Amid Regulatory Change

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2 October 2015

Figures from the industry met recently to discuss how to make their firms robust and flexible enough to deal with an ever-changing regulatory landscape while delivering top-notch client service.

A missing feature from far too many wealth management firms' boardrooms is discussion around what they mean by technology and their operating platforms; too often tech issues are delegated lower down the management chain, a top UK financial regulator has said.

The point, made by Robert Taylor, head of the investment management department at the Financial Conduct Authority, arose at the 8 September Breakfast Briefing event in London, organised by the publisher of this news service.

Taylor also stoutly defended moves by regulators to make the wealth management industry more professional, pushing back at suggestions that policymakers were piling unnecessary costs on the industry.

Taylor, speaking at the event to debate the topic "Future-proofing the wealth management businesses to accommodate regulatory change", was joined by Jonathan Rogers, partner within the financial services regulatory team at Taylor Wessing; Keith MacDonald, partner, head of wealth and asset management advisory at Ernst & Young (EY); Richard Charnock, chief executive of Standard Life Wealth, and Tomas Hazleton, chief risk officer of C Hoare & Co. The sponsor for the Breakfast Briefing was ERI, the banking software firm. (To see future events including Breakfast Briefings and Summits, click here, here, here and here.)

Debate covered territory such as the challenges posed by automated advisory channels; handling of client data and the amount of time still being devoted to compliance/regulatory activity by wealth management firms.

Kicking off the panel discussion, held at the Carlton Club in St James's Street, EY's MacDonald said compliance and regulatory activity "takes too much of our business and one of my tasks is to rebalance the amount of work that we do" [in this area].

Some 50 per cent of wealth management professionals see pace of regulatory work rising in the future, MacDonald continued, citing initial feedback from an EY survey that is underway.

"We are going to be sitting here in three years' time with another 50 per cent [of a survey respondent base] saying the same. I just can't see it [regulatory challenges] getting any simpler," he said.

Taylor Wessing's Rogers, picking up on the issue of regulatory workload, said that after a period when the agenda for regulatory change had been set by responses to the financial crash, the focus was beginning to shift. He said: "We are in a phase of focus on market competitiveness and raising conduct standards."

Rogers said that initiatives like MiFID 2 approached these issues across three broad areas: markets, duties and governance. In the market space, he referred to the focus on transparency of order data, increasing regulation of trading venues and interventions around issues that could disrupt efficient trading, such as algorithmic models. "The industry response here will need to be data-heavy, automation-heavy and reporting-heavy," he said. As for the "duties", he referred to a range of conduct changes, which in effect will act to refine and make consistent across the EU the quality of duty that investment firms owe clients. In the third area, "governance", Rogers said firms need to examine whether their structures were fit for purpose and referred to new features such as product governance.

"Given we have already travelled down some of these paths in the UK, whether compared to the weight and cost of implementation, the industry will feel that these changes are sufficiently progressive, is an open question," Rogers said.

Standard Life Wealth's Charnock said one impression he has is that asset management today is "much more" focused on the appropriateness to the end-consumer of investments. "We are seeing that already starting and there is now significant momentum," he said. He cautioned, however, that concerns about compliance with rules about suitability could "congeal decision-making".

Referring to Rogers' point about governance, the FCA's Taylor said "this is a debate about fully understanding risk management". "Do the leaders of the businesses that we oversee…are they asking the right questions about the risks and how they are to be mitigated as much as possible?"

"We have seen so many processes in the big investment banks turn into complete scandals," he continued.

Value for money

One area that the FCA and other European regulators are starting to examine is the question of whether clients are getting value for money and more work can be expected on this, Taylor said.

"Technology is forcing us to think of new ways of regulating the industry," referring to those business models making less use of direct personal contact and more automated processes.

Asked if financial technology firms can be repositories of best practice, Standard Life Wealth's Charnock quipped: "There are a lot of technology firms out there that believe they have the answer…and judging from the state of my email inbox, they're relentless!"

"We don't have in our industry a single `go-to' provider …a major reason for that is the complexity of operating models in our business," he said, referring to the wealth sector as a whole. On his own firm, Charnock said: "There is a shift in our company towards architecture of multiple components to build an end to end infrastructure."

Referring to technology providers in general, one interesting development, Charnock said, is of managed portfolio services being hosted by life company platforms taking platforms into a new market. These life co platforms will build greater functionality over time and eventually host a core discretionary service to compete with established DFM technology companies.

Grey zones

EY's MacDonald, reflecting on technology, said one of his least-favourite expressions at present is "configuration". "There are too many grey edges here and technology should be about simplifying things. I don't think the [tech] vendor industry is making things simpler," he said.

The FCA's Taylor, as indicated above, stated that one of the problems is that there are too few boardroom discussions as to what they mean by IT and their operating platforms, and that too often, this area of discussion is delegated. He said it will be interesting to see in future how much stress business chiefs put on technology when developing business models.

Out of a box

C Hoare & Co's Hazleton said that in the case of IT, "there is no out of the box solution…you have to integrate it… Private Banking operates in a very bespoke, high-touch and personalised manner."

At this point, Taylor Wessing's Rogers raised the issue of the "robo-advisor" trend that has become a hot issue in financial services recently and the scope for innovation when contrasted with traditional, face-to-face private wealth models. He said that regulators and the industry will need to think hard about how to practically determine ideas of "suitability" for clients across such radically different models.

During questions from the audience, Taylor was asked whether there is a risk of national regulators such as the FCA "gold-plating" European and other regulations, thereby driving smaller firms out of business and adding to the issue of the so-called "advice gap". Taylor responded by said that current regulatory changes were about pushing for higher professional standards. "I can tell you that 25 years' ago we started asking people for IDs. People though the entire industry would go under through asking that question. When I look at the regulation out there, it is about the client."

One test of professionalism is rigour in keeping records of client data – data that can be transferred. "We went to hire a lot of people who were good at people engagement but they were not very good at keeping records. This is about professionalism in the industry and we have, I can state, the highest standards in the world right now. I'm really proud of that," he said.

One problem, he said, is the case of firms who seek to cater to "professional" investors and yet on a rigorous definition of expertise, there are "very few people who are professional investors at all", he said.

Spend, spend, spend

Standard Life Wealth's Charnock was asked about the state of data in the industry, and responded that "whenever anyone talks `data' to me it is always about spending to cleanse data before we enhance the data we have got".

He felt that no-one in the private client industry had effectively harnessed 'big data for predictive analytics but went onto say that the large private banks would always have an advantage in this respect because money transmission inevitably creates a greater level of interaction with clients and therefore generate more data.

One of the prizes for the industry is that out of a potential £2.4 trillion-plus ($3.6 trillion) amount of AuM in the UK HNW segment. The wealth management industry currently oversees around £750 billion, so there is lots of headroom to exploit, he said.

When asked about further consolidation Charnock said "There are too many single-digit EBITDA-margin businesses today in private client management and this will drive future M &A."

EY's MacDonald said that in a large market such as the US, the sheer scale of the sector meant that narrow vendor functionality could achieve scale and be viable.