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DIGITALISATION OF WEALTH MANAGEMENT IN AN INTERNATIONAL CONTEXT

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A paper in the ERI Thought Leadership series

INTRODUCTION

The last few years have proved that the global wealth management industry weathered the global financial crisis relatively well, demonstrating to markets, regulators and clients that it has the skill, resilience and innovation not just to survive turmoil, but to build from it.
The fundamental premise of wealth management, being able to provide strong asset growth and steady profitability with low capital requirements and a degree of liquidity, remains. Yet the industry's greatest challenge surely lies ahead, to find ways to win and nurture client trust and confidence, while reviewing and refreshing its business and operating models.
The pressures range from the geo-political to the client-specific, and wealth management firms will have to keep an eye on everything to ensure the growth of their own businesses as well as meeting the increasingly complex needs of their international clients. Digitalisation presents the most coherent opportunity to do both.

THE CHALLENGES

Wealth managers are well aware of the demands of their operating environment. Studies undertaken in markets around the world throw up the same issues: the burden and cost of global regulatory scrutiny, volatile and highly competitive markets, increasingly demanding and sophisticated clients.
The pace at which these interlinked forces are converging on the sector adds to the urgency to find effective, affordable and flexible solutions. Yet too often, organisations are locked into outdated structures and practices, delaying the adoption of changes required to deliver sustainable success, while the cost of doing so rises.
The global financial crisis has largely receded and despite pockets of volatility, a measure of stability has returned to most markets. Forward-thinking organisations need to understand the potential of digitalisation and use it to enhance customer loyalty and future-proof their business.

START WITH THE CLIENT

Wealth managers often profess that everything they do is driven by their clients. But they too frequently retain service structures and business models which have stagnated while the needs and preferences of their target customers have changed.
Most managers will testify that the source of wealth has broadened considerably in the last two decades, from inherited fortunes to self-made money, from the West (mostly Europe and the US) to the East (notably Asia), and from the maturing Generation X to the younger Generation Y. Wealth management implies real-time, global reach and multiple channel service delivery.
Today's wealthy are international and highly mobile, with diverse and complex relationship networks. However, evolving interactive technology empowers them to monitor or directly manage their multi-asset investment portfolios in any location and at any time. They are able to supplement traditional contacts with cyber networks for data and information, and take financial advice from successful peers rather than a single designated advisor.
Too often, the value proposition of wealth managers seems stuck in the early 20th century. Advice is dispensed from a formal office, obliging the client to travel to meet their relationship manager. Reporting is static and mechanistic, and perhaps outdated before it is even received. Despite claims and promises to the contrary, overall service delivery is slow, costly and incomplete, posing a range of risks to both the client and the provider.
Undoubtedly, some clients will always prefer traditional channels, and firms will have to make a judgement as to how they can continue to support them. A prestigious corporate address and a dedicated client relationship manager may remain a revered tradition, but today's sophisticated client demands a richer overall experience. The future of wealth management belongs to a complementary but more responsive business model.

INDUSTRY PRESSURES

All wealth managers face the increasing business and product complexity and the rising cost of implementing and monitoring new regulations. Currently, EU directives and other rules relating to banking run to more than 60,000 pages. For the US, regulatory legislation covers more than 30,000 pages.
National regulators – supported in most markets by both indebted governments and the general public -- are continuing to drive for global fiscal co-ordination, reducing global tax arbitrage opportunities through automatic information exchange. Tolerance for lapses, however unintentional, is low, and increased scrutiny is inevitable across the wealth value chain.
Managers can usually deal with scheduled regulatory changes, but the present environment of national, regional and international drafts, consultations, revisions, inconsistencies and interpretations of legislation presents more uncertainty than ever, and hikes compliance costs.
A truism in the industry is that smaller players will be hit hardest by these challenges, but larger managers, shackled by capital intensive, capacity-constrained legacy systems, risk being out-paced by newcomers able to leap-frog competitors with bespoke applications.
The operational and reputational risks related to outdated or unstable technology are compounding. While investment strategies, products and advice have traditionally formed a managers' shop window, the rapid, effective responsiveness of both core and

digitalised systems are a critical factor in risk management, and therefore always material for investors.

Such simultaneous, multi-faceted pressures are transformational. The only way firms will be able to deal with these is a step change towards digitalisation, deploying and consistently updating industrialised smart technology which improves core processes in a standardised, compliant and secure way.

Too many firms are relying on a rigid, pressured IT framework which has not been adapted in years, which increasingly limits the business and services a firm can offer, or a collection of ill-matched solutions weighing the firm down with expensive servicing, updates and delays. In today's volatile markets, wealth managers need a global, multi-channel, round-the-clock infrastructure which is built on flexible modular architecture and plug and play functionality.

DIGITALISATION

Digitalisation refers to the use of industrialised, smart technology designed to lift client service to a higher level. Far beyond automated straight through processing, which is a reactive post-order response, digitalisation aims to interact with the client where and how they prefer, with a full suite of personalised, real-time data, information and analytics.

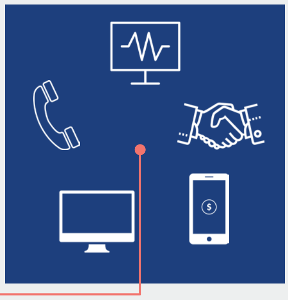
It describes a way of doing business rather than a product or a delivery channel, and it acknowledges the changed reality of the wealth sector where target clients tap a range of information sources to compare goods, services and prices, but feel no particular loyalty to any one provider.

Digitalisation for the finance sector borrows from the wider consumer experience where customers use phones, tablets, apps and social networks to research and leverage their interactions and buying power. It delivers a richer client experience, connecting and supporting the user, whether by video, tweet or text. Face-to-face engagement, so important to Generation X, is far less critical to Generation Y used to Facebook, LinkedIn or WhatsApp.

For both the client and wealth manager, digital technologies can be convenient, cheap, quick and simple, but such powerful interaction implies sustained investment to ensure secure and engaging content. Speed, informality, transparency and connectivity are paramount. Relationship managers remain vital to monitor contact, but their role is evolving to become more facilitative than purely advisory.

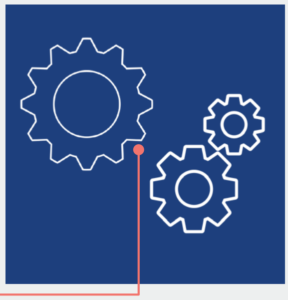
Intelligent mobile technologies offer great potential to leverage client relationships and streamline the overall business, yet take-up among wealth managers has been slow. Viral connectivity challenges established structures where control, sentiment and information are all traditionally centralised. In contrast, technology providers are delivering powerful but dispersed and collaborative interfaces through an expanding range of mobile applications.

Omni-channel experience



Digital Experience

Digitised processes



Operational Excellence

Digitised business

- Product & Services Innovation
- Financial Communities

SECURITY

All corporate change, especially where it involves technology and cyber security, carries risks. Cyber security ranks high on the risk rankings of most organisations, even if they operate mostly through traditional channels. It is also inextricably linked to client trust. As IT moves closer to the user, product providers will nonetheless have to step up their security provision.

Transitioning, and a series of 'bolt-on' security solutions rather than an integrated strategy, act as a point of weakness for criminal attack. Information assets held on third party servers or in the Cloud can be exposed, and outdated technology renders both firms and their clients vulnerable not just to the initial hacking and theft of data, but to subsequent stakeholder redress through litigation and regulatory action.

Mobile applications are a new focus for malware and cyber threats, since security on other devices has improved significantly over the last few years. The anti-virus software, personal firewalls and other protective measures for apps are far less developed. Confidentiality and data integrity can be compromised by free but malicious or fake apps which can listen to, modify or share data from phone calls and text messages, without the knowledge or consent of the user.

However, the best technology providers and wealth managers counter these risks by putting security infrastructure at the heart of their business and product range. For each piece of malware written, there is now automatically-updated protection designed to block or corrupt manipulative and fake apps. Clearly, investment in such technology builds client trust in online and mobile services.

The impact of these cyber-security and connectivity issues on the wealth management industry is only just beginning to be felt. Wealth managers who can embrace and embed coherent and secure digital solutions will be best placed to retain the next generation high-value clients all providers compete for. Conversely, those who cannot optimise digitalisation are increasingly vulnerable to encroachment from disruptive technologies from non-traditional players who will erode market share and pressure profit margins.

DISRUPTIVE CHALLENGERS

The pace of digitalisation and connectivity is increasing exponentially, opening up unprecedented reach to potential clients, wherever they are located, and across time zones. New cross-sector solutions offering compelling value are being adopted even faster than previous technologies. Consumer appetite for these, especially in revenue-rich markets, shows no sign of waning.
The usual barriers of cost and time to build client networks are falling. New players are leveraging technology to reduce costs and deliver client-focused service on highly scaleable, flexible platforms. Meanwhile, the social, peer-recommended element of digital technologies addresses many of the trust issues traditional finance channels still battle with.

Challengers to financial service providers may not even be from the finance sector. They may be industry-agnostic aggregators, who can offer increased transparency to consumers, innovators who meet client needs in new ways or dis-intermediators who target specific groups with enhanced interaction. All are already starting to affect both the revenue sources of wealth managers, and their cost of doing business.

WEALTH MANAGERS' RESPONSE

Wealth managers are not helpless in the face of these powerful forces. Many firms have proven effective at corporate innovations that drive efficiencies, maximise economies of scale, leverage powerful platforms or deploy technology to move up the value chain. Standardised business process outsourcing, including maintenance and updates, largely removes the need for costly in-house IT expertise.
Digitalisation is the next opportunity in the search for wealth management business. Creating and sustaining a powerful and secure digital front-end offering is where future competition and differentiation is focused. The benefits accrue not just to the clients, but to the company itself, where more mobile and interactive advisors are freed of routine tasks which have been automated.
These trends are already shaping the value propositions and operating models of wealth managers. IT has moved from the back office to the boardroom, charged with providing a secure, robust 'anywhere, anytime' structure on which the overall business rests.

The need for efficient back-office processing, which should also be leveraging feature-rich digitalisations in all its processes, is as strong as ever. At its best, such an operating model will be able to foster customer loyalty and boost brand awareness and value.

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