Spotlight Feature

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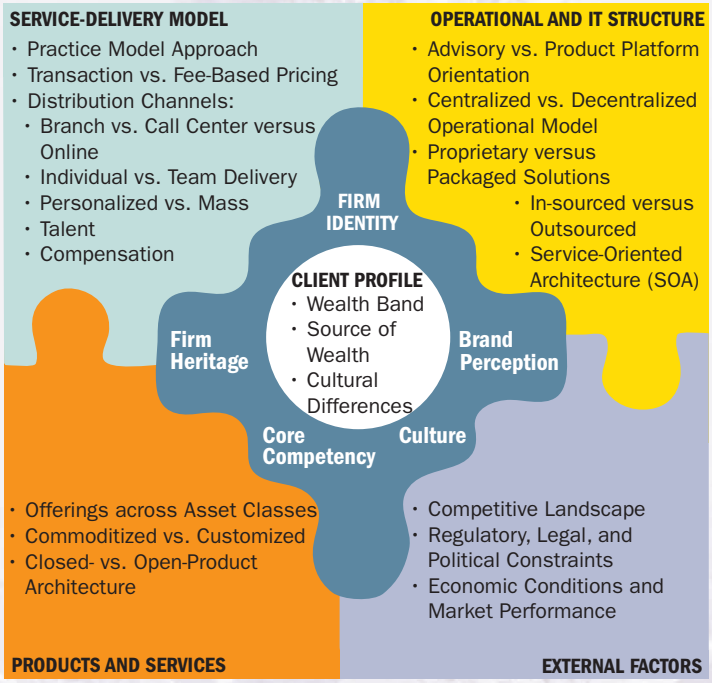
Spotlight: Wealth Management Firms Adapt to Meet Unique Needs of Growth Markets

The global pool of HNWIs is shifting in a way that presents enormous potential for wealth management firms. World wealth continues to grow broadly, despite fluctuations in markets and economic conditions, and global demographic and economic trends are bringing entirely new segments of clients into the HNW band all the time.

Some firms have already begun to grow and transition successfully into new markets, despite the volatile times, but the task is not an easy one. It requires firms to assess their own capabilities, strengths and limitations, and, most importantly, adapt existing go-to-market strategies to the unique needs of growth markets, both at home and abroad.

Not all firms will find the transition easy, or even viable, given their existing service models and information technology (IT) and operations structures. Fundamentally, the cost/benefit analysis of a short-term approach versus a long-term growth strategy for each market is needed. The question is: How much transformation will be required—and what specific issues of execution are involved to deliver a service proposition that clients demand and deserve, especially when those clients hail from unfamiliar territory?

Figure 12. | **Wealth Management Strategy: The Sum of Many Parts**



In reality, designing a winning strategy, particularly for growth, means defining an effective model that incorporates a host of complex factors. While these factors are obviously interrelated, each must be resolved to pursue growth rationally—while taking into account what the firm is, and what it wants to be.

In designing a winning growth strategy, firms particularly need to look at six key dimensions. (See Figure 12.)

- Target-client needs
- Firm identity
- Service-delivery model
- Operations and technology
- External environment and factors
- Products and services

Client needs are the nucleus of any wealth management solution, so firms have to understand and respond to those needs first. However, they also have an opportunity to influence many of the other dimensions of the strategic equation—albeit some more than others.

Above All, Growth Depends on Winning Over the Client

HNW clients are demanding comprehensive and tailored services from the multiple firms with whom they do business; wealth managers are waging an impressive response to differentiate themselves. In the ensuing competition, however, different types of wealth management firms have begun to vie for the same clients—as well as for those they traditionally have not served.

Wealth management firms are making strategic investments to differentiate themselves in the eyes of existing and would-be HNW and Ultra-HNW clients. For example, retail banks and insurance firms are investing in advisory services to become wealth managers of choice for the burgeoning retirement segment, and to establish links with those in younger generations who will be beneficiaries of intergenerational wealth transfer. This move has taken them into territory once dominated by private banks and trusts—forcing those players to look at how best to differentiate their own propositions for their HNW and Ultra-HNW clients. Some private banks and trusts are looking to institutional capabilities, such as overlay management tools (once reserved just for fund managers), to offer clients more comprehensive asset allocation, rebalancing and portfolio oversight. Investments in reporting capabilities, which offer clients more detail and analysis of their comprehensive holdings, are on the rise. Other wealth management firms are investing in "client experience" initiatives to bring a more personalized, family office-like service to HNW delivery, or introducing customizable client solutions to respond to

the growing demands of clients, who want improved visibility into embedded risk, holistic analysis of their assets and other benefits. These strategies all complement retention, while offering the potential for organic growth, but only if firms can execute them effectively.

Some leading firms have adopted more qualitative traits to define their HNWIs, such as demographics, investing behavior, geographic scope and source of wealth, since clients can no longer be segmented simply by their level of wealth. This approach helps them to distinguish and better serve clients—even among those in the same wealth band. For instance, comparing investing approaches and goals may reveal significant differences among a wealthy entrepreneur, a HNWI whose wealth is inherited, an affluent entertainer or sports figure and a baby boomer who has just cashed out a hefty retirement-savings account. By recognizing such distinctions, firms can tailor their approach—and some are going so far as to deploy teams of specialists dedicated to individual micro-segments.

Cultural factors are another variable when expanding into new regions. Consider, for example, the differences between wealthy individuals in Asia-Pacific and those in the Middle East—two fast-growing HNW sectors. In the Asia-Pacific region, many HNWIs are first-generation, self-made entrepreneurs, with limited access to sophisticated wealth management services. In the Middle East, most wealth is inherited, and cultural and religious constraints mean Sharia-compliant products and services are a must to meet client needs and expectations.

Clearly, then, as wealth management firms increasingly compete for the same HNW clients, and the clients themselves become more demanding, the pressure is on firms to understand the essence of client needs in existing and growth markets, even if they have already developed an accurate read on HNWIs in their established markets. Without this insight, firms will find it difficult to develop a distinguishing proposition.

Growth Can Elude Firms that Aim to Be What They Are Not

In seeking to capture a new market, firms also can hone their growth strategy and more easily differentiate themselves by looking first at who they are in the context of the wealth management process—their history, core competencies and brand identity. While many firms purport to be capable in all aspects of wealth management—from the advisory component to trading and execution—firms tend to excel in one area or the other, based on their history.

In short, if a firm's identity and capabilities do not align well with the needs of the target market, it will need to bolster its position—either by developing the missing capabilities or acquiring them via a joint venture or other partnership. A self-diagnosis is therefore needed before deciding which tactics to deploy to attain growth. It is especially important for firms to acknowledge and account for their roots. After all, different wealth management firms develop their value proposition from polar positions. (See Figure 13.)

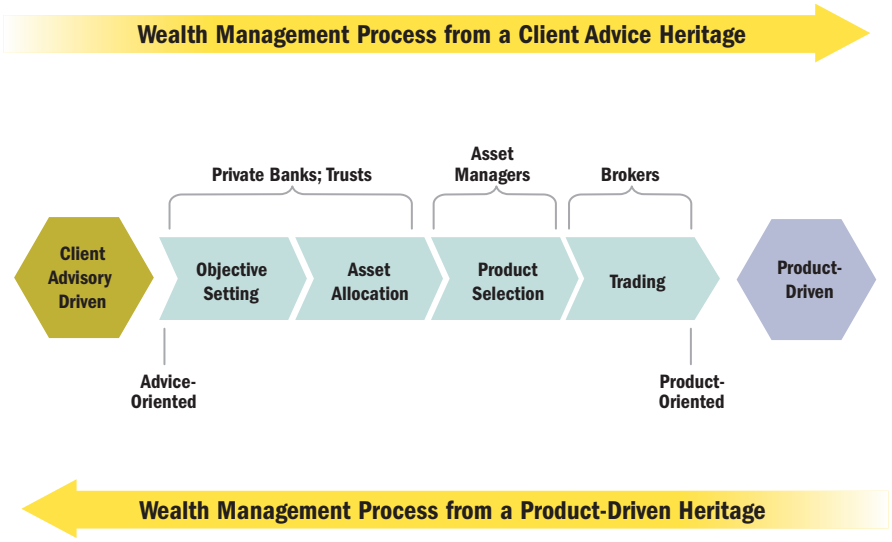
Firms with an advisory-centric approach focus on holistic client needs, develop a strategy to meet clients' financial objectives and execute against those needs with the product mix at their disposal. In essence, they are focused on the art of translating client needs into financial objectives. At the other end of the spectrum, firms with a product-centric approach excel in understanding market opportunities around specific products and how best to bring these products to clients. Both approaches combine the science of execution with the art of delivery—an "art" at which some are better than others, due largely to their respective heritages.

A firm's self-assessment also takes place, of course, against a backdrop of evolving client, market and competitive trends. These shifts are transforming the way clients perceive value in wealth management firms, and the way in which different wealth managers are positioned to deliver that value back to their clients. As a result, the approaches and models that have driven success in one market may not form the best basis for an appropriate and effective strategy for targeting growth in new markets. So, firms looking to develop winning value propositions for both existing and target growth markets need to resolve whether those propositions can comfortably coexist in the firm.

External Factors and Products/Services Need Attention, but May Not Be Big Growth Levers

When firms seek to develop an effective organizational model for growth, they consider external factors, a dimension in which they may find they have relatively little influence. For example, the regulatory environment and privacy laws may dictate or restrict what types of products can be sold to certain clients and limit the ability of "foreign" firms to serve local-market clients without investment in local infrastructure. In such circumstances, firms may have to reach clients

Figure 13. | **Wealth Management Value Chain**



through a partnership or joint venture. Economic conditions, market stability, political factors and the competition of local financial institutions are other contributing factors. Brand is another issue: A firm's brand may be perceived in a positive light in their local market, but acquire negative connotations in other markets—sometimes compounded by political, economic or popular sentiment. These issues all impact the go-to-market strategy.

Meanwhile, as the wealth management market continues to mature, and becomes more global, products and services are becoming more commoditized, making it more difficult to differentiate on product. As a result, firms need to make strategic decisions as to whether they will simply provide commoditized products, or focus on unique, customized product solutions. They also need to decide whether to restrict their offering to proprietary products, or embrace an open-architecture model. In some markets, private banks are partnering with the institutional side of their businesses to find unique private equity placements or IPO participation for their HNW and Ultra-HNW clients—i.e., one-off opportunities that are hard to match. In new markets, some firms have taken the lead from the results of their self-assessments and focused on products or advice, depending on their innate strengths and weaknesses.

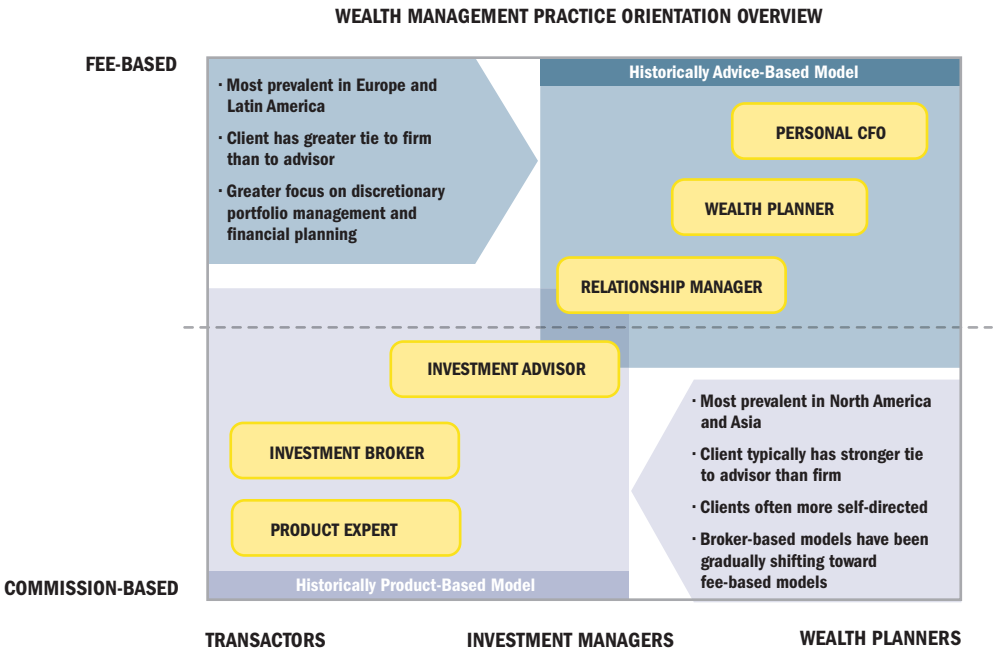
Aligned Service-Delivery Models Can Drive Significant Value

In contrast to external factors and products/services, service-delivery models can be directly influenced—and they offer significant potential for driving value in new markets. Leading wealth management firms have always known one-size-does-not-fit-all in the HNW segment, but the imperative when targeting new markets is to design a service-delivery model that is flexible enough in its architecture to accommodate diverse client needs and the diverse advisors serving them—even for firms that are not able or keen to invest heavily in the underlying technology.

Over time, many firms have acquired or developed a full spectrum of services through mergers and acquisitions or organic growth strategies, but the root of their service models often lies in their heritage, affecting key variables—from advisor talent to distribution channels, practice models and pricing structures. Successfully deploying the right type and combination of solutions is as much art as science, and may prove to be the critical differentiator—or the critical flaw—for a firm moving from one market to another.

A closer look at the typical wealth management practice models highlights how firms operate and deliver value. Practice models generally fall into three major categories: Transactors, Investment Managers and Wealth Planners. Each has a direct correlation to the preferred pricing structure—i.e., fee- versus commission-based. (See Figure 14.)

Figure 14. | **Wealth Management Practice Orientation Overview**



Transactors:

- Product Expert: Handles high-volume transactions involving sophisticated products or asset classes, such as foreign exchange derivatives
- Investment Broker: Handles transactions involving basic asset classes, such as equities, fixed income and options

Investment Managers:

- Investment Advisor: Offers strategic investment planning, as well as playing a hands-on role in constructing, reviewing and rebalancing client portfolios
- Relationship Manager: Establishes and nurtures client relationships, delegating portfolio management to internal or external managers

Wealth Planners:

- Wealth Planner: Offers holistic advice in accordance with client's finances and short-/long-term goals, such as real estate, retirement and generational wealth transfer
- Personal CFO: Aspires to provide quasi family-office services, often acting in a lead discretionary role coordinating with the client's other trusted advisors

The significance of these practice-model categories is that each reflects a different advisory approach, borne of a different perspective. While some firms claim to have a single practice orientation, many actually use multiple models in and across regions—and often leverage different models within their core markets to capitalize on the strengths of individual advisors. As they move into new markets, firms can create or exacerbate friction among the different advisory approaches they use. Importantly, practice orientations need not be mutually exclusive, but the mix of intra-firm practice models does need to be consciously managed.

When firms move into new markets and need to adapt existing service models or deploy new ones, management of coexisting service models can help them to flourish. This dynamic is also a factor for firms that consider partnering with or acquiring a local firm, or simply hiring local talent. For instance, a failure to understand the implications of prevalent practice models and those followed by new rainmakers can cripple the best-formulated strategy.

Locally dominant wealth management players are already testing their approach to service models by straying from what was once their base market to pursue opportunities. Most, however, still have a lot of work to do on the "art" facet of service delivery—the dimension in which leading firms are rallying their talent, organizational culture and distribution models to pursue new markets. In the successful pursuit of growth, however, it's incumbent upon firms to fill any critical gaps between the identity and strengths they have and those they need to deliver service excellence in a new market.

A Rightly-Sized and Executed IT Strategy Can Reduce Risks of Entering a New Growth Market

New service-delivery models also pose a challenge for operations and IT because they add complexity and stress to the already complex task of supporting core wealth management activities, and meeting associated demands of risk, compliance and data management. For instance, middle-office staff, and integrated workflows and tools, are especially critical in cementing new-client relationships. During the relationship's "on-boarding" stage, firms must be able to execute key middle-office activities effectively, such as setting up new-client portfolios and establishing initial statement cycles, to support both advisors and clients during the transition.

Simply stated, the imperative for firms is to develop from the outset an IT strategy that meets their operational objectives for new markets. Accordingly, leading firms are already assessing their existing operations and IT structures to gauge the degree to which they can be applied to other markets. In the process, it is not unusual to find strategic "blind spots," especially when planning to serve a global constituency of HNWIs, advisors and operations personnel.

After all, globally relevant and effective platforms can deliver myriad capabilities, from integrated front, middle and back offices, and multicurrency and multijurisdictional transactions, accounting and reporting, to full tax optimization, business-rules automation, straight-through processing and personalized user experiences.

However, to support new service models, it is imperative to discern and plan which capabilities are critical to success, and what options IT has for delivering them. Moreover, those plans must be executed to full effect—which can be tough in practice. In theory, for example, firms often plan to pursue global scope, scale and governance through an incremental expansion of existing platforms into new markets. Then, however, they allow one-off IT decisions for individual new markets—decisions that seem more expedient at the time, and for which there is a more tangible business case in the near term. As a result, though, the initially well-conceived service model and IT strategy are compromised—potentially constraining the effectiveness of advisors and the entire operation, and posing significant risks to the brand as it seeks to establish a place in the new market.

By contrast, an IT strategy that is aligned to the growth strategy and is well defined and executed—leveraging core business platforms and enhancing operational capabilities—can substantially reduce the risks of entering a new growth market. However, no single technology, product or sourcing strategy offers the complete solution; so, given the array of IT options, how do wealth management firms pursue a strategically sound path forward, attaining scalable operational best practices?

Heritage, it turns out, plays an important part in a firm's existing operations and IT structures as well as its service model—and therefore affects its attempts to achieve global scale and effectiveness. The differentiation among firms is not absolute, but, in general:

- "Transactors" typically have invested in large proprietary end-to-end IT systems, optimized for capturing economies of scale in execution volumes, and they usually have mature, differentiated wealth management processes and robust front- and middle-office IT capabilities.

- "Wealth Planners" have typically sought to capitalize on high-touch relationship management and specialized wealth management processes, so they leverage boutique front-office IT capabilities and back-office and execution platforms, based on application service providers (ASP) or commercial off-the-shelf (COTS) solutions.

Like the service models themselves, IT and operations structures have typically grown out of the firm's historical needs and approaches, potentially leaving a gap between the existing structure and the one needed to support the firm's growth strategy. To fill that gap, wealth management firms of all types have a range of go-to-market options—from installing quick-hit information-sharing systems that augment manual processes and workflows, and running regional operational and technology centers, to establishing robust service-oriented architectures (SOAs) with fully integrated transaction, accounting and reporting platforms.

For example, firms entering a new geographic market may not have a clearly defined operating or practice model, so investing in an overly integrated IT structure is neither appropriate nor necessary—and could end up constraining the practice model as it evolves. In such cases, it is rational and viable—and relatively quick—for the firm to move forward with a set of manual processes and limited information-sharing (e.g., via manual data entry). In effect, this approach focuses on defining the required processes, then automating and optimizing them—and that may be all that is required to execute transactions effectively (e.g., in the local currency), meet local compliance mandates and fulfill a high-touch service pledge to clients. As the new market's business scale grows over time and the business case is proven, firms can undertake the next stage of IT/operations evolution.

Similarly, some firms have a siloed approach in existing operations—perhaps as a result of acquiring firms with different systems in the past, or reflecting some legal need to hive off certain activities—and it may be senseless to deconstruct those silos simply to enter a new market. In fact, firms may be able to operate quite effectively with a technology silo, a middle-office silo, and so on, overlaying requisite capabilities and reconciling across the silos to meet operational and service-model objectives like achieving a top-down view of a business line. These silos may or may not converge at some point on a single processing site or technology platform, but firms nevertheless can achieve some standardization of processes—providing standards around risk and compliance, how customers are serviced, the look and feel of reports, and so on—across the different silos.

Another option is to adopt a service-oriented architecture (SOA) approach: A business-driven paradigm that injects operational flexibility through a framework of business activities, services, policies, practices and software. SOAs are a pragmatic choice in cases where core IT platform capabilities and operational scale are fundamental to business-case realization, and SOA adoption is viable for all firm types, large and small. The SOA approach:

- Provides a standard way of representing and interacting with software assets.
- Supports the creation of new internal applications from existing components.
- Simplifies the integration of core functions and third parties in legacy applications and elsewhere.

As such, SOA allows for judicious incremental IT investments, which can unlock value embedded in mature legacy platforms, while providing contemporary capabilities, such as fluid workflows, improved straight-through processing, business-rules automation and business-activity monitoring.

Clearly, there is no universal remedy for structuring IT and operations in existing or new growth markets; the solution depends in large part on the business case—and the state of the existing model. To select the most appropriate and viable path forward, firms must iterate around some key considerations, including:

- Stability and efficacy of the existing IT capabilities and operating model, and their applicability to target markets
- Scale of the target market
- Sophistication of required capabilities
- Level of integration needed in IT/operations
- Availability and maturity of industry utilities, components and service providers

Wealth Management Firms Encounter New Challenges When Addressing Growth-Market Needs

Figure 15A. | Global Private Bank Uses Advice to Target Lower Wealth Tier in Emerging Markets

Situation

This private bank successfully serves both HNW and Ultra-HNW clients in its home market. As part of a broader growth strategy, it had invested heavily in a comprehensive reporting platform that allowed advisors to view clients' relationship holdings and serve them across regions. It rolled out the same advisory model and platform around the globe, differentiating itself by using a holistic advisory approach.

Growth Strategy

The bank was able to expand into emerging wealth markets in Asia by configuring the existing platform and limiting the functionality and complexity for a more-simplified advisory approach, in line with a tiered service model approach.

Lessons Learned

By utilizing an existing platform, and understanding local-market needs and expectations, the bank successfully differentiated itself by delivering sought-after advice to a lower-tier wealth segment.

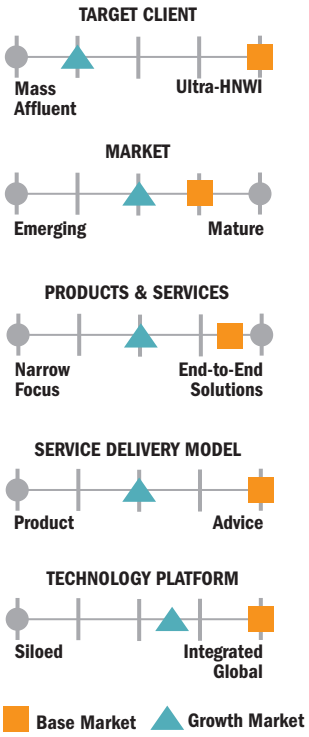


Figure 15B. | European Private Bank Struggles to Extend Offering Overseas

Situation

In its home market, the bank serves HNW and Ultra-HNW clients from all over the world, providing a breadth of services to clients, including advisory and concierge services, but limited in the way of innovative products.

Growth Strategy

In both mature and emerging markets, the firm has led with the brand cache, but limited its service offerings and advice, instead looking to attract various wealth segments with some unique product propositions, but limited. The organizational model retained domestic orientation, and each market deployed their own siloed technology platform.

Lessons Learned

While enjoying moderate success, the firm has struggled to gain top billing in many markets. The siloed technology platform has inhibited the firm's effectiveness in growth markets by limiting access to home-market assets. Additionally, while struggling to gain traction, the private bank remains committed to its heritage domestic model, having strong convictions it will significantly differentiate them in their growth markets. As a result they have conceded convergence with the target market objectives will exceed originally forecasted timelines.

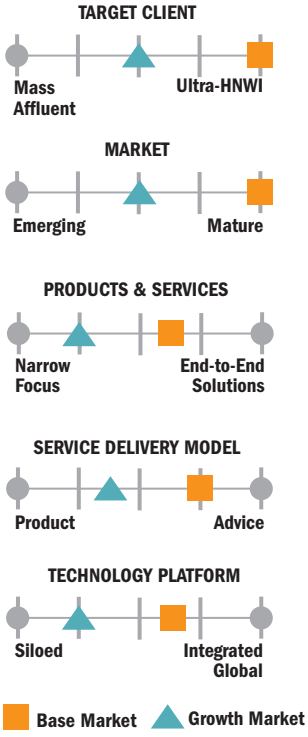


Figure 15C. | Brokerage Firm Overcomes Technology Constraints to Capture Emerging Market Ultra-HNW Clients

Situation

In its home market, the firm focuses heavily on its advisory process, and has invested in an extensible platform that serves Mass Affluent and HNW clients. However, because the platform was only U.S. dollar-based, it was difficult to extend the platform for global scale without major overhaul and investment.

Growth Strategy

Instead, for its international growth strategy, it focused on the Ultra-HNW client segment, which it believed was looking primarily for unique product propositions—such as structured products and unique private equity participation.

Lessons Learned

Despite a U.S. dollar-based technology platform, the firm understood the needs of targeted Ultra-HNW clients, and paid much attention to cultural differences. It has succeeded with the product approach in emerging Europe and Russia, as well as in the Middle East with its Sharia products.

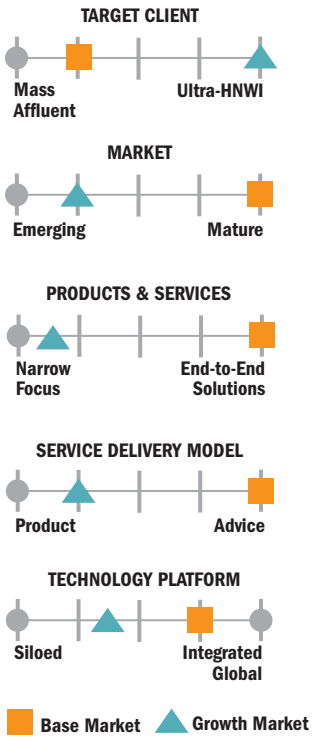


Figure 15D. | Boutique Bank, Misreading Needs, Fails in Bid for New Latin American HNW Clients

Situation

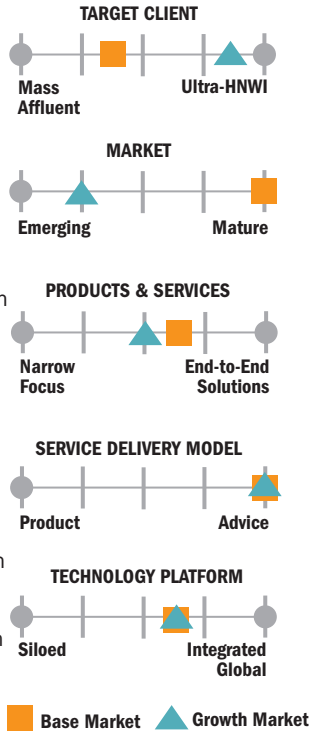
A small boutique private bank, serving HNW clients in its home market with advisory services, had a limited technology platform, but had access to a wide array of products for its clients with an open-architecture.

Growth Strategy

The firm decided to target the growing Latin American base of millionaires by locating itself in Miami, Florida, a travel and business hub for many Latin American clients. The firm assumed it would also gain some U.S. HNW market share as a secondary target due to the location. It hoped to gain market share with its highly personalized approach, advice, and the open-architecture.

Lessons Learned

The boutique bank did not succeed with its plan, assuming that the Latin American clients needed the same products as U.S. HNW clients. It failed to offer the products and services that Latin American clients needed when offshoring their money to the United States, with requisite tax advice.



Conclusion

The hallmarks of wealth management—sophisticated, discerning clients; complex services; and stiff competition—are all compounded in the HNW segment, where firms have long deployed superior talent, expertise and technology to differentiate themselves. The stakes are rising anew, as global economic and demographic trends produce new growth opportunities, forcing firms to search for go-to-market strategies able to attract new client segments through organic growth. In the process, firms are tackling an eternal dilemma: How to execute successfully to capture growth opportunities, differentiate themselves among target clients, and—ideally—become a firm of choice for the HNW and Ultra-HNW clients they serve.

When seeking to enter new markets, wealth management firms inevitably encounter challenges they do not face in their established markets. To define and execute a successful growth strategy, firms will need to respond to all the forces described, and ask and answer serious questions around the key dimensions of strategy. For example:

- Do we have a comprehensive understanding of client needs in our new target markets?
- Have we made an honest assessment of who we are and who we aspire to be?
- What are our long- and short-term growth strategies?
- How do we best leverage our existing capabilities and strengths to determine the most pragmatic and effective service-delivery model and operational/IT capabilities for enabling success in new markets?
- How can we improve speed to market entry, and what strategic sourcing options make the most sense?

Ultimately, the greatest success will be realized by those firms that comprehensively understand their clients, and are able to leverage their existing strengths to transform and adapt their service delivery and technology to cater effectively to client needs in their target growth markets.

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