a meeting of MINDS

WEALTH MANAGEMENT & PRIVATE BANKING

XXI

Thursday 15 June 2017 - The Lanesborough Hotel, London SW1X 7TA

THE FINDINGS

Organised by:

owenjames

In association with:

scorpiopartnership
what wealth needs next

THE FINDINGS

Thursday 15 June 2017, The Lanesborough Hotel, Hyde Park Corner, London SW1X 7TA

CONTENTS

SUMMARY

The twenty-first Meeting of Minds Wealth Management and Private Banking took place on Thursday 15 June at The Lanesborough Hotel, London. This document summarises the key issues raised in the topics discussed during the roundtables that took place on the day.

A Meeting of Minds Wealth Management & Private Banking is a biannual strategic forum organised by Owen James which brings together the CEOs and CIOs of the private banks and wealth managers.

The agenda encompasses investment trends and the geopolitical climate impacting them as well as the day to day issues faced by those running these businesses. Participants enjoy access to strategic insight, active involvement in shaping the industry and networking at the highest level. The day is a blend of roundtable sessions addressing a pre-researched and pre-agreed agenda with open discussion led by objective and professional moderators; keynotes provided by external speakers whose remit is to spark debate and encourage fresh and original thinking; plus substantial networking both structured and unstructured.

To find out more about taking part, please contact Simon Black at Owen James: simonblack@owenjamesgroup.com or you can contact him at 01483 862 698.

THIS REPORT

The Roundtable Sessions were moderated by Scorpio:

- Cath Tillotson
- Seb Dovey
- Caroline Burkart
- Annie Catchpole
- Tasha Vashisht
- Mark Miles
- Daniel Gerber
- Leigh Cotterill

We are very grateful for the time and energy they have expended on making A Meeting of Minds Wealth Management and Private Banking a success and hope you will consider this report an interesting, thought-provoking and accessible read.

As ever your feedback is much appreciated. We would also like to thank the independent experts who were part of the sessions for sharing their knowledge and giving us their time and energy both in the run up to A Meeting of Minds Wealth Management and Private Banking and on the day.

THE SPONSORS

We would like to thank all our sponsors who make these Meetings possible. The following groups took part in the Meeting and their motivation for taking part is threefold:

- To be, and to be seen as being supportive of the industry;

- To understand the stresses and strains being placed on the industry and, where possible, respond to them;
- To talk openly with these business leaders with a view to ensuring that their businesses are strategically aligned.

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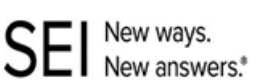



CLIENT ENGAGEMENT: THE SECRET TO A LONG AND HAPPY RELATIONSHIP

Expert: Paul Bebber, SS&C Advent

Facilitator: Cath Tillotson

Key message

The adoption of back-office and front-office technology is increasingly widespread amongst private banks. The aims now are to improve client interactions and make the human touch more valuable in conjunction with technology.

Headlines

- Technology does not have to replace everything but there needs to be a balance of advanced technology for the client's convenience and RM interaction for more complex needs.
- Offering a range of interface tools to allow clients to self-select how they engage with their wealth manager could be a better way to manage the challenges of client segmentation.
- Technology enables banks to reduce staff to client ratio and thus cut down on their biggest costs – human capital. However having high performers will become even more important in this more compact pool of talent.

Key themes

The expert set the scene by making participants aware of the increasing importance of front-end technology, and especially digital technology, to enhance client engagement.

The firm estimates that only 25% of wealth managers currently have an interactive digital interface for clients and has received more RFPs recently for digital engagement tools on top of the usual demand for back-office tools.

The expert also observed that the biggest shift toward offering an online interface for clients was in Switzerland. Five years ago, Swiss banks often did not send out statements, however now HNW clients can view them in almost real-time online.

These tools help banks to offer a fully customised client experience; all clients can interact with the wealth manager as they wish. As a result, these capabilities are superseding generic segmentation strategies (most notably the assumption that Millennials will prefer digital channels and therefore trying to identify which online tools meet the needs of this group most effectively).

The participants felt that future segmentation strategies will more likely be based on a client's preferences for meeting with the relationship manager and their communication preferences, rather than their age or source of wealth.

However, participants felt strongly that technology will not replace human interaction in the wealth management experience. High quality advice and advisers remain critical to the solutions offered by wealth managers.

Firms must therefore strike a balance between advanced and convenient technology for simple interactions and supporting clients' more complex needs with adviser support.

For example, giving clients the ability to look at portfolio snapshots and self-serve for simple administration tasks frees up the relationship manager to focus on having the "quality conversations" that clients need and expect.

The question was raised from one participant whose firm was resisting launching online tools whether clients become more 'needy' due to the abundance of information available to them at their fingertips.

The general view was that clients might access information more often, but generally only contact the relationship managers when they need expert input. This creates a degree of efficiency in the operating model that is beneficial.

Firms that want to take advantage of this efficiency however will need to provide education to their clients on how to use the tools effectively as widespread adoption will not happen automatically.

It is also important to consider whether the relationship teams at firms have the right knowledge and skills to manage the increasingly complex advisory tasks. The introduction of online tools often requires a parallel upskilling of the advisor teams.

The concerns of relationship teams also need to be managed. While many fear that their roles could be replaced by technology, it is important for management to emphasise that if wealth management firms fail to offer technology solutions to their clients, two out of three clients will consider leaving.

Participants also debated some of the practical challenges and opportunities of introducing new technology to enhance client engagement:

Opportunities:

- Enhancing internal CRM systems so that client contact can be managed seamlessly across the organisation – including transferring interactions from self-serve to RM and back again.
- Offering video chat functions, including one-way chats that would allow the adviser to be seen by the client on "phone calls".
- Using existing social media platforms for relationship-building communications and secure client microsites on the firm's platform for document exchange.
- Educational YouTube-style videos to reduce the amount of time spent by relationship managers explaining technical issues.

Challenges:

- Ensuring digital communication channels are not over-used, resulting in clients feeling they are being spammed by the organisation. This is a particular risk as a result of MiFID II enhanced communication demands.

Conclusions

Technology can be used to boost the value of human in the advisory role, rather than act as a replacement. It all comes down to giving clients choices that are convenient and accessible.

HOW TO BE A DIGITAL WINNER

Expert: Joe Parkin, BlackRock iShares

Facilitator: Tasha Vashisht

Key message

Following a sustained period of structural change within the retail wealth management industry, attendees agreed that 'digital' as a concept encompasses a wide berth of different things for the industry, acting as a tool for further client engagement as well as a force for market disruption.

Headlines

- In order to fully utilise the resourcefulness of digital innovations, some participants noted the importance of having a champion on the board to drive meaningful change within the firm.
- In the UK market in particular, the difficulty in quantifying the tangible benefits of digital solutions continues to be an important stumbling block in garnering further support for the utilisation of digital technology.
- Collectively, a number of delegates also warned that if digital innovations do drive increased efficiencies overtime, some consumers may expect to see a reciprocal fall in prices, adding further pressure on margins.
- While the value recognition of digital continues to remain quite broad depending on the subject in question, digital innovation continues to be seen as a force of positive change for the industry going forward.

Key themes

The roundtable discussion began with an intriguing presentation describing the seismic changes revolutionising the retail wealth management industry. From demographic changes in the market, to the

growth of independent advisory models; the wealth management industry is grappling with a number of structural forces which are all contributing to a noticeable shift in consumer behaviour.

Interestingly, the general consensus in the room was that the industry has now reached 'peak-regulation' in terms of big ticket reforms following the global financial crisis, with market players now shifting from a position of consolidation to a mind-set of actively thinking about how technology could enhance their propositions in the future.

More specifically, digital innovation was earmarked as one of those future technological innovations that could act to impart greater 'value' in the products and services distributed by wealth management firms. The rapid growth of robo-advisors was highlighted as a case in point. The combination of an advisory service, offering both human and digital interaction – the hybrid model – was cited as the most successful solution in terms of meeting the demands of consumers and tapping prospective growth going forward.

Nevertheless, in spite of all the discourse surrounding the innovative wonders of technology in the industry and media at present, a number of pragmatic, tangible lessons have to be observed in order for businesses to harvest the rewards of such technology. Firstly, firms need to have a clear and realistic approach when attempting to understand how digital solutions can better enable them to tap into elements of the market and/or drive efficiency savings. Furthermore, the economics has to make sense in order for the proposition to be viable in the long-term.

Attendees were open and vocal in their support for greater digital innovation within the wealth management industry. Moreover, it became apparent very early on in the discussion that many delegates had different priorities in how they wanted to utilise digital solutions for their business. Some noted the benefits of how digital technology could drive greater efficiency on the distribution side of their operations, while others illustrated the importance of how digital technology could help improve client engagement.

Needless to say, a number of participants raised the point that without senior level buy-in at the very top of the organisation, projects centred on fostering digital solutions are unlikely to get off the ground, primarily due to the long lead times involved when investing in digital solutions and reaping the rewards. Fundamentally, the difficulty in quantifying the opportunity cost associated with digital technology was observed as a key stumbling block in garnering further support for the proposition. On the other hand, this hasn't stopped the facilitation of innovation labs, with one delegate actively promoting the incentives of one such facility in his home market of Norway.

The session came to a close in a similar way to how it began, with delegates keen on discussing and listening to differing opinions on what this could mean for the industry. Interestingly, the advancement of digital technology in wealth management was hailed as a positive force for change amongst all participants, despite the collective realisation that this could add downward pressure on prices in a highly sensitive market. Yet, sentiment continued to lean towards optimism and interest moving forward.

Conclusions

- The US market is continuing to lead the way in terms of digital innovations and market utilisation. The UK, on the other hand, continues to face business and consumer hurdles.
- Digital, as a technological concept, continues to represent different things to different firms depending on their existing business model.
- In order for firms to fully capture the benefits of digital solutions, they must be aware that the benefits associated with such innovations may take a number of years to materialise.

Expert: David Imison, Schillings

Facilitator: Annie Catchpole

Key message

The collective brand and reputation of the Wealth Management industry is often misunderstood, misrepresented (by the press) and undervalued. Therefore, how can individual brands defend themselves against reputation damage, and what steps must employees take to protect their company's reputation? Defining brand values, hiring the right talent, and strengthening the client experience are all key.

Headlines

- The financial industry is still nursing the wounds of the global financial crash and now must react to recent reputational threats including cyber-attacks and the Panama Papers.
- Public perception and trust in the financial industry has been hit hard in recent years, and the press has focused heavily on the challenges faced by the industry and its professionals.
- Managing client expectations today means balancing the regulatory sea change and client requests of data and privacy.
- Defining brand values and hiring the right talent to help express those values through a collective voice is requisite.
- Improving client engagement and service is the bedrock measure needed to build and rebuild consumer and public trust.

Key themes

Although few industries were left unscathed by the 2008 global financial crisis, the public's faith in the financial sector was especially damaged, making professionals in the industry 'easy targets'.

More recently, financial brands and reputations have once again been shaken– with cyber-attacks, fake news, the Panama Papers, rogue employees, and regulatory slip ups taking up the front page of newspapers and media sources across the world.

There has undoubtedly been a shift in societal expectations and public perception of the financial industry as a result.

In a recent report, CityUK highlighted the important role financial and related professional services play in supporting jobs and growth agenda, employing over 7% of the UK workforce and producing nearly 12% of total economic output.

Yet despite the economic contribution and professional opportunity, delegates felt that the press continuously misrepresents the direction, ambition and integrity of companies working within the financial realm – often adopting a broad brush approach based purely on large-scale dilemmas. This has placed the industry and the various brands within in at the very bottom of the reputation heap.

Many individuals in the session expressed they often hear stereotypes comparing all those working in the financial industry to 'greedy and untrustworthy bankers' (despite the varying sectors such as insurance, wealth management, asset management, etc.). They have heard that the public perceives financial institutions to be scheming, working with governments to alter policies so as to safeguard the wealthy:

"There is a certain animosity that society has towards the elite, and those who earn a lot of money. The press covers this a lot, because it fits their narrative. We are commodities in the hands of politicians, which can sustain their strategies. But they never mention the good things we do. That never gets into the papers."

Firms across the board have reacted differently to this type of negative brand news. One individual in the session explained he sensed a relative 'paranoia' infiltrating itself into his company. So much so that an unwritten mantra is becoming engrained in employees' minds – anything they write down or say could end up on the front of the Financial Times. They think this in order to be increasingly aware of what they do and say.

"Reputation – it is easy to lose, but very hard to gain."

Other delegates confirmed the absolute necessity for the financial industry to break out of their old-fashioned chains, and apply fresh thinking to how they develop themselves and their brands. They recognise that whilst often times the reasons behind poor business reputation may be unfounded, every individual firm must do their fair bit to mitigate the extent of such comments.

The roundtable was then asked - have the millions that have been spent on brand re-launches, detailed customer care initiatives, and strategically driven value propositions achieved their desired effects? Delegates claimed that while the public continues to respond with a general shrug of the shoulders when discussing financial institutions, this is not necessarily the same reaction they receive from actual clients they work with.

Ultimately, the management of their HNW clients' expectations in these times of reputational upheaval must be dealt with carefully. Why? Because advising clients whilst taking into account transparency and privacy requires a delicate balancing act.

Delegates were also quick to note that this balancing act can easily turn into a catch 22 – the added dimension of human emotion that plays into the protracted litigation between regulations and what clients want can lead to frustration. Because whilst clients want their advisors to be increasingly sensitive with the personal data they handle, those advisors must be wary of the flexibility with which they handle this information because private data has become extremely valuable to journalists and cyber-criminals.

As a result, the roundtable agreed that improving customer service was the most important measure in cultivating or re-building a positive reputation for individual firms, but for the industry more widely, especially because clients place much more trust in the advisor they work with than the institution.

In fact, an individual who had worked in a large investment management firm in 2008 stated that following the crash, the firm conducted a client survey. Results showed that whilst client perception of the brand decreased drastically, the levels of trust clients had in their advisors remained the same.

Whilst rebranding can create opportunities to redefine brand values and re-educate staff to adopt new working methods, it is the consistency maintained at the face-to-face levels of client engagement and excellence that allows particular companies to thrive.

Conclusions

The discussion concluded by highlighting the three key steps financial institutions can take to protect their company's reputation and brand:

- Defining brand values and working to deliver values expressed through a collective voice
    - Many financial institutions have fallen into the trap of looking and sounding the same (in brand messaging, website tone, proposition statements). Firms must strive to better.

understand the specific areas in which they want to differentiate, and this can often be accomplished through fine-tuning brand values.
Do not overshoot. Expanding their reach and spreading themselves too thin exposes firms to reputation damage. Businesses should stick to what they are good at, and refine the value propositions linked to their successful business models.

- Hiring the right talent and educating the workforce to carry out brand's ambitions
    - Disasters can be averted if expertise is made available – appropriate and robust strategic decisions are those which have been analysed and tested from all angles. But if people don't know enough, they will not challenge situations they are unsure of. And if they don't challenge it can perpetuate into a bigger problem. Hiring the right talent and filling any gaps in the organisation is critical to bullet-proofing institutions.

- Bringing brand value to the client experience
    - The human factor undisputedly can act as the winning streak. Building relationships with clients can last the test of time (and of fluctuating markets).
    - Abiding by regulations whilst ensuring clients that their data is safe and will remain private can be achieved by implementing encrypted communication software.

OPTIMISING THE BIG THREE - DATA MANAGEMENT, CLIENT EXPERIENCE AND COSTS

Expert: Neil Smyth & Joey Cozens, Statpro

Facilitator: Seb Dovey

Key message

The session addressed the necessity and complexity of data management transformation. While data management requires substantial resources, the value of data is still "uncertain" and not established in the wealth industry yet. Attendees agreed that ultimately, the value of data is in client expectations - certain functionalities will be soon or already are regarded as a minimum standard rather than a premium service. The challenge remains to navigate the conflicting priorities and gauge what data solutions are going to be most appealing to clients in the long run.

Headlines

- The necessity to optimise banks' legacy systems and increase the digital functionality for clients
- The trade-off between costs and uncertainty around defining the real value of data for clients
- The cyber security, outsourcing and data protection risks of data management
- The lack of clear winners in data management and digital functionality providers in the market

Key themes

The session opened with a discussion on the necessity for the wealth management industry to optimise their data management. Attendees acknowledged that the industry has historically been slow in adapting new technologies and that the expectations of clients and regulator are the main catalysts of change.

The session evolved around the question of how to define the value of data. While data management requires substantial resources, the value of data is "uncertain" and not established in the wealth industry yet. One attendee mentioned an example of a firm building a "data lake". With tongue in cheek he added that

"[the firm] has no clue what to do with this data, but can afford to burn the cash".

All attendees acknowledged that despite substantial costs, better data management is inevitable. Larger firms are often "victims of their own success" and are left with many legacy systems to transform and standardise. These legacy systems are holding together only thanks to "chewing gum, sello-tape and rubber band". Many solutions are ad-hoc fixes lacking an overarching strategy.

Third party experts from the data management industry suggested that banks should focus on their core competencies and outsource the rest to data providers. Better data solutions improve the client experience and also enable relationship managers to better serve their clients. Data firms reaffirmed that they are not only best situated to understand the complexities of optimising data, but also to address the risks of cyber security and data protection.

One attendee pointed out that, contrary to popular belief, data theft is more likely to appear from within rather than from outside of a company. Many relationship managers are protective of their clients' data and often regard clients as "their" personal clients and not clients of the wealth management firm. This can be prevented when access to data is properly monitored, tracked and stored safely.

Another attendee opposed this view and suggested that the harsh reality is that there is no way to completely protect data. The ultimate decision needs to lie with the clients - how comfortable they are with sharing their data. This will allow certain firms to differentiate their value propositions as an offering without "any digital bells and whistles", but a high degree of data security and protection.

The session closed with acknowledgement that "data is the oil of the industry" and the question for the businesses is how to set the ratio between human and technology interaction. Ultimately, the value of data is in client expectations - certain functionalities will be soon or already are regarded as a minimum standard rather than a premium service. The value of data is even broader. Eventually, it will allow the talent within organisations to focus on value added tasks and provide a better service to clients. In the meantime, the challenge is to navigate the conflicting priorities and gauge what data solutions are going to be most appealing to clients in the long run.

WILL DISRUPTIVE TECHNOLOGIES LEAD TOWARDS DYSTOPIA OR UTOPIA?

Expert: Rod Bryson, Capgemini

Facilitator: Seb Dovey

Key message

Recent implications of technological advancements in robotics, artificial intelligence and crypto currencies were analysed. Attendees concluded that technology will neither lead to dystopia nor utopia,

but rather to a blend of technological solutions lead by human intuition and judgement. To encourage innovation within the wealth sector, the industry needs to stop being defensive and instead work together collaboratively.

Headlines

- Most current progress is evident in the area of robotics, but the main focus is cost reduction rather than developing expertise.
- Major developments in artificial intelligence have been achieved even though they are far from becoming mainstream yet, e.g. Google artificial intelligence program was able to win in ancient "Go" game.
- Majority of attendees agreed that despite recent technological developments human judgement and intuition cannot be replaced easily.
- Wealth industry cannot resist the necessity to innovate and, in order to do so, needs to encourage collaboration.

Key themes

The session opened with an expert view on new developments in technology and claims that

"technology will have a massive impact, even on industries and markets one would least expect"

Currently, most of the progress is evident in the area of robotics. The main focus of robotics is to tackle cost reduction rather than developing expertise. While developments in cognitive robotics and AI are slower and not mainstream yet, the advances are remarkable. Blockchain and crypto currencies are a "slow burn innovation", but once it becomes inter-connective across multiple platforms it will disrupt many industries.

Another attendee agreed that "technological utopia" might not be as far away as general belief suggests and used his experience of arranging an appointment with a Fintech partner as an example. All communication regarding scheduling of the meeting was arranged by "Joanne" - it was a shock for him to realise that "Joanne" is actually a programmed AI assistant and not a person.

Another attendee further reinforced this view and used the well-documented case of the IBM Blue Machine winning over a chess master as an example of machine learning capabilities:

"The chess master was astonished to see moves he had never seen before and acknowledged that he himself is learning from the machine. But the caveat is that the machine will ultimately learn faster."

That AI has real learning potential was proven recently when a Google artificial intelligence won the complex ancient game of "GO". This demonstrates the potential of cognitive learning of robotics is beginning to be discovered. Attendees acknowledged that a utopian perspective would lead to universal income and make producing goods and services a responsibility of machines, while a dystopian perspective would lead to massive unemployment and social unrest.

Ford car manufacturing was used as an example of major technological change that was believed to make factory workers obsolete. At the time critics were posing the question - "who is going to buy [Ford's] cars?", suggesting that majority of workforce will be made redundant and therefore have no discretionary income left to spend on cars. However, their fears did not materialise and instead job content was reinvented. Another attendee reinforced this view by suggesting that

"the human mind is endlessly creative and the right use of machines will lead to an explosion of creativity".

The majority of attendees agreed that, despite recent technological developments, human judgement and intuition cannot be easily replaced. Customers will always want a blend of reason and judgement supported by accurate technological solutions. The wealth industry cannot resist the necessity to innovate and, in order to do so, needs to start working together and stop being defensive. Technology can further help the industry to become more transparent and address the needs of customers in more efficient ways.

IS YOUR SEGMENTATION APPROACH "AGEIST" OR SIMPLY ABOUT THE MONEY?

Expert: Roopalee Davy & Homy Dayani-Fard, EY

Facilitator: Annie Catchpole

Key message

The challenge for wealth management professionals is to match individual client demands to the right set of financial solutions. Doing so successfully means understanding that one size does not always fit all, making good wealth management segmentation crucial.

As the Baby Boomers move into retirement or later life living, are advisors ensuring that their relationships extend to the rest of their family? Are they involved in estate planning? Similarly, following on from the recent inflated focus on Millennials, are firms paying enough attention to Generation X, or 'midults' – those clients in their 40s and 50s?

Headlines

- Segmenting client bases should reflect buying behaviours, needs and future aspirations.
- Regulation guides segmentation strategy due to the pressures on organisations to comply with new ways of conducting business – this opens up opportunities for firms to realign how they segment client bases.
- Internal systems and processes can be re-structured to facilitate a transparent method of working.
- Demonstrating excellent service is key when working with high net worth individuals, but integrating digital can be a huge value added when differentiating against competitors.

Key themes

A major challenge facing wealth management firms today is the pace at which client demands are changing. Different types of clients have pushed for different standards and experiences, demanding that the financial advisors with whom they work keep up.

And in fact, for the good of their customers and themselves, wealth management firms can and must develop a more sophisticated approach to segmentation in order to drive future long-term profitability.

Yet, in a world where the client experience bar has been set by the likes of Amazon, Uber and Google, and strategic activity is determined by the increasing cost pressures, wealth managers often feel at a loss as to how they must tailor their advice and strategies to account for the various client profiles they serve.

Initial discussion centred on the question 'How do you find the right clients, and what do you offer them once you have them?' What ensued was a thought-provoking discussion questioning the extent to which we ignore or over-analyse specific generations of clients.

The wealth management industry traditionally segmented individuals en masse, utilising age and wealth levels as key indicators. While this approach has worked successfully in the past, the modern-day clients' needs and values require a much more dynamic approach.

Delegates of the roundtable expressed interest in understanding how to integrate behavioural analysis into their segmentation strategies, as this could better enable them to anticipate future demand and develop value-based solutions. Yet, as one delegate rightly mentioned

"Segmentation for the sake of segmentation is irrelevant…"

Indeed, the segmentation of clients must strategically reflect not only their needs and ambitions, but the direction and positioning of the firm. With this in mind, the roundtable agreed that at a high level, segmentation can be guided by four core principles: regulation, internal processes, the monitoring of value and service, and data technology.

The roundtable agreed that while there is no one way to accurately diagnose client needs, fact-finding conversations at the start of each client relationship are requisite. These fact-finding exercises can come in the shape of simple conversations or fully-fledged client experience surveys.

Of course, refining the depth to which wealth managers understand and predict client needs does not need to be relegated solely to new relationships – these 'KYC' attitudes can be adopted at any point in a client relationship, so as to reaffirm and strengthen trust and transparency at all levels.

Embedding segmentation within a wealth management organisation can also lie in developing a technological environment that supports advisors in becoming more time-efficient.

Integrating technology platforms which enable flexible model-based portfolio construction and provide advisors with varied tools, offer wealth managers the resources necessary to execute more effective

segmentation strategies. Furthermore, technology systems can allow advisors to collect, manage and analyse vital client data.

But what does this mean for advisors' least profitable clients – do you need to 'fire' them if the firm can no longer deliver an appropriate service to them according to their newly developed segmentation? Delegates confirmed that in these situations, brand image must be carefully guarded, as turning clients down can lead to bad press. As a result, transparency with regards to the situation or 'pricing them out' can be solutions to consider.

Advisors must be matched to clients falling within their segmentation realm, based on commerciality, advisor experience and client needs. As one individual participating in the discussion explained:

"They are receiving the absolute best within the firm for what they can afford. We have a bigger toolkit but smaller margins – it is just that the level of service is lower for a $1 million client than it is for a $10 million client, as there's less customisation… so you have to account for that."

Delegates agreed that all products on offer are simple commodities – it is the way the advice is delivered and represented that differentiates offerings from the rest. As a result, wealth firms must play to their strengths and only allocate advisors to those clients that match their skill-sets and past experience.

Remuneration can also help advisors begin to think in segmented, strategic ways. Enhancing and developing a workforce that can produce wealth strategies that help clients feel less stereotyped and categorised according to wealth levels or age, will ultimately bring in more revenue and larger legacy client bases.

Advisors must prove they can challenge stereotypical assumptions about specific client groups and create bespoke strategies reflecting each and every individual situation.

Whilst a majority of delegates quickly agreed that they find it difficult to envision a world in which the wealthiest of clients would turn to robo-advice for the entirety of their wealth management, they agreed that hybrid models integrating the benefits of both robo-platforms and face-to-face advisor contact would probably pave the way of the future.

So, what does this hybrid model look like? High net worth individuals today want consistency, trust, transparency, service and convenience – they are very willing to pay if these areas demonstrate to be of the highest quality. Performance – according to some of the delegates – comes after these key areas, as they recognise that the market fluctuates. What they want is a consistency in the service levels they receive from financial firms:

"It is all about building relationships that see you through…"

Conclusions

- Current segmentation methods (based on wallet-share and age) greatly limit the success with which wealth managers can work with their clients.

- Segmentation enables firms to focus on both the quality of their client servicing as well as their business development efforts.
- The flexibility to segment and serve customers according to their specific behavioural traits, backgrounds and requirements is crucial in today's changing marketplace.

TALKING PRODUCTIVITY – HOW DO YOU CUT THROUGH THE NOISE?

Expert: Jaco Cebela, Multrees

Facilitator: Mark Miles

Key message

Traditionally, the wealth management industry is significantly behind the rest of the world when it comes to embracing digital innovation. With the ever-increasing levels of both cost and time pressures, it is becoming necessary to harness digital innovations to drive business efficiency and deliver increased value to clients.

Headlines

- We are now at the tipping point of digital innovation. Creating an 'idea' is key to innovation, and technology unlocks ideas.
- Advice to firms was to start small and simple, utilising technology to solve one problem at a time.
- The three examples discussed by the delegates, where firms are innovating are client on-boarding, client reporting and client analytics.
- Having the right culture to promote an environment that encourages digital innovation is of utmost importance.

Key themes

With the influx of so many different types of new technologies being introduced, it is difficult to 'cut through the noise' to find the starting point and focus required to implement a firm-wide digital improvement program.

Our expert advised that firms should

"*Start small and simple. Pick only one problem, and focus on fixing one problem at a time. Examine the process from start to finish, and focus on the digital solutions that can be used to fix the problem*".

From the discussions, there were three main areas that surfaced where firms are currently in the process of improving user technology; these areas are client on-boarding, client reporting and client analytics.

"*We should look to FinTech firms to get new ideas – they have a very quick client on-boarding process, clients complete an online questionnaire, and within 3 to 5 minutes, the clients are onboarded!*"

The on-boarding process at wealth firms is an entirely different matter, where the sheer amount of paperwork causes frustration for clients and the time taken to on-board clients would be closer to the 3 to 5 week mark.

However, this might soon change. One wealth firm is implementing a web-based on-boarding form, where prospective clients can fill out the forms online. This saves time, for both clients and advisors, as the instant the form is submitted, the client data is saved onto the company's database. This significantly cuts down on account opening timelines.

Client reporting is now automated, available to clients 24/7 online via client portals.

"Feedback from clients is very positive – they like having control and being able to see their portfolio immediately. Now, they can access their portfolio valuation at 9pm, without having to wait for a client advisor to send a report over email or (god forbid) in the post!"

Client analytics is the next step. Already, some firms have the capability to track and monitor how long their clients spend online, what pages they spend the most time on, what research articles interest them, and so on. In times of volatile markets, if clients are logging in more frequently, advisors will be able to tell if clients are feeling anxious about their portfolio holdings. Advanced portfolio analytics will also be able to alert advisors about client portfolios which have higher levels of risk exposure to certain company-related, industry or political events.

One delegate said:

"*It is about efficient resource allocation. Most wealth firms are currently using their most expensive resources as expensive administrators. We need to implement digital solutions that allow them to spend their time in front of clients, instead of pushing paper.*"

Another topic discussed was 'How to create a culture that fosters digital innovation.' We discussed the traditional 'command & control' culture of banking vs the newer 'collective & collaborative' culture at technology firms. It emerged that a two-pronged approach from both top-down and bottom-up would be the ideal environment for fostering digital innovation. It is important to have senior leadership who reward and recognise employees who create and support digital innovations.

Quite a few firms utilise business social platforms such as Facebook for Business to successfully create a crowd-sourcing, idea-generation environment, where employees can post their ideas, and anyone including the CEO can 'like' and 'comment' on it. This breaks down hierarchy enabling good ideas to be put forward and implemented rapidly.

Firms need to find the right balance between 'starting small and simple', but as one delegate said:

"Let's not forget to continue envisioning big and bold ideas on how digital innovation can revolutionise the wealth industry and make a real impact for our clients".

Conclusions

When digital innovation is executed correctly, it can remove a significant amount of process redundancy. In turn, this saves huge amounts of time and money, for both the clients and advisors.

SRI – WHERE IS THE BUSINESS OPPORTUNITY FOR YOU?

Expert: Peter Michaelis, Liontrust

Facilitator: Tasha Vashisht

Key message

Responsible investment tactics are becoming increasingly common among clients. However, the industry is struggling to catch up with a scalable responsible investing proposition.

Headlines

- Institutions already recognise SRIs - private clients will follow
- The wealth and investment management industry is at a point of change, with clients increasingly putting pressure on advisors to deliver ethical investment policies
- Formulating a single SRI policy is proving to be a challenge

Key themes

The initial discussion started with introductions and participants sharing thoughts on their experience with SRIs. The discussion attracted wealth management firms' representatives, private client investment managers and assets managers, and a provider of SRIs. The latter expressed an interest in hearing which difficulties wealth and investment industry players have with implementing SRI.

The general sentiment of the industry operators was that they understand and commit to SRIs as a concept and see it as an opportunity. However, it is challenging to translate client interest into a set of products and services. Currently, demand for socially responsible investing has not yet evolved into a clearly-defined offering for most of those present.

The discussion went on to present the view of an expert that the industry is at the cusp of change regarding SRIs. The main driving forces behind it are demographics and the nature of savings, connectivity, and, contrary to common misconception, existing evidence that companies that are better for society are performing better financially.

Demographic argument has to do with the fact that the NextGen / NewGen have strong values and cherish experience of the investment. However, midults are also taking opinions of other people, cross-check with friends, and are not just listening to their advisor. Connectivity between the individual investor and the firm invested in is important because clients will inquire why their portfolios have a firm that has been featured in scandalous media publications (e.g. Volkswagen). They will be asking their advisor *"why did you miss it?"* In terms of evidence in favour of financial performance of SRIs, recent experience of asking the question *"Over the last ten years has your ethical investment strategy underperformed?"* has shown that very rarely investment firms say *"Yes"*.

Ethical investing has grown rapidly in the last 15 years.

> *"I met one person who said that 'ethical investment is something only the teenager thinks about.' But the implication of that is that they grow up".*

Ethical investing has to do with the client relationship because they are interested in earning 4.5% on their portfolio and would like to know what kind of firms are invested in. Generating the return and also

fulfilling socially responsible investing is proving to be a challenge. There is pressure from clients to offer SRIs, but there is no "one-size-fits-all" solution. One of the participants suggested that SRIs should be part of the overall investment strategy, rather than offering a binary approach – either ethical investing or not.

SRIs are currently pushed by institutional investing. The general understanding was that where institutions are today, private clients will follow. There were remarks from participants that the industry was guilty of distracting the clients from ethical investing:

"We as an industry are good at listening to financial needs but everything else – we say 'it's too complicated".

An additional complication in terms of formulating an SRI offering comes from the fact that clients do not say what they want. Rather, they say what they don't want to hold – for example, tobacco company shares. This principle of exclusion contributes to difficulties of rolling out a responsible investing proposition to the masses as it involves a high degree of bespoke portfolio development.

Some tips from the crowd included focusing on where the future industry will be positioned, eg. tech-heavy healthcare. This principle allows the definition of an area where one can make an impact with the money. Another recommended approach was to look at big trends in the economy, for example, improving energy efficiency, or better lifestyle. An example was given of how macro trends relating to car passenger safety in the UK were used to select investments.

As a case study, Inditex' strategy of focusing on manufacturing close to home which meant faster deliverable times was showcased as socially responsible practice, even though the original motivations was not seen to be socially responsible, but rather efficient.

Another area discussed was transparency regarding the list of companies held in a portfolio. Occasionally, clients may have a binary view of a brand rooted in current affairs and will challenge advisors to explain investments that are undermined by a poor corporate responsibility reputation. However, this paves the way for a positive conversation that assesses the company's social responsibility profile at a global level.

Further to the dynamic of conversations with clients, participants noted that when impact investing is discussed, clients are looking for closer involvement. This requires expectations to be carefully managed.

By the end of the discussion, the importance of communication was mentioned. The definition of what is ethical will vary from client to client, and expectations with it. However, the industry is encouraged not to let difficulties in defining individual investors' SRI objectives hold them back in defining their offerings.

Conclusions

- Responsible investing is currently implemented on an ad-hoc basis
- Principle of exclusion is exercised by clients when opting out of ethical investing, which further complicates a SRI proposition development.
- Communication is key when implementing ethical investing principles – both the financial and social implications are important to discuss to manage expectations.

ARE YOUR CLIENTS DRIVEN BY RETURNS OR FEES? WHERE DO THEY PERCEIVE VALUE?

Expert: Christine Cantrell & Rob Thorpe, BMO Global Asset Management

Facilitator: Leigh Cotterill

BMO Global Asset Management

Key message

This session was an opportunity to take a detailed look at one of the most prominent trends in wealth management at present - charging structures. Delegates were able to better understand from the discussion how clients react to different approaches to fees, where the value in the relationship exists and what clients have come to expect.

Headlines

- The approximate distribution of wealth management fees lie between 0.4% and 2.0%.
- Cost transparency, financial advice and client service all drive "client value".
- Firms need to consider the impact charging structures will have on business models.
- Wealth managers can continue to deliver "client value" while maintaining margin.
- An augmented service approach should include a combination of financial advice and investment advice, at competitive industry cost.
- Wealth managers need to better understand client outcomes, through costs and service expectations, to demonstrate client value.

Key themes

From an industry perspective wealth managers are under pressure to consider their pricing model. While from a client perspective there are growing price pressures that the investment industry now faces.

Referring to the FCA market study, "put simply, it's not a cost issue, it's now about providing value and transparency for the client." What is more, the target value for clients has evolved and is often impacted by cyclical factors.

When delegates discussed more candidly the minimum and maximum fee structures that wealth managers charge, the results varied wildly. The experts posed the questions: what is the total cost that you believe your clients will accept as advice and what are the pressure points? The answers showed the range anywhere from 40 basis points up to 200 basis points, breaking down as follows:

± The adviser charge – up to 0.75%
± The platform or transaction charge – up to 0.35%
± The underlying investment charge – up to 0.90%
= Total – up to 2.00%

When considering the full spectrum from discretionary to systematic to entirely passive fund management, clients react to these different approaches in a number of ways. The FCA said it would introduce a responsibility for asset managers to consider the value for money that they deliver to investors. "There has been a surge in cost transparency. Even as recent as five years ago costs weren't clear."

A telling statistic from the FCA report was that active funds for sale in the UK, on average, outperformed benchmarks before charges were deducted, but underperformed benchmarks after charges by about 60 basis points. In the UK the majority of the market is actively managed, approximately 74% compared to 23%

passive investing. The ratio is lower for institutional clients than for the market overall, which is at 68% active investing.

The conversation went on to further explore the different range of investing styles and the price that is paid for each. It was suggested by the experts that the four investment styles – Beta, Factor, Core+ and Alpha could attract prices anywhere from 0.1-0.2%, 0.2-0.4%, 0.35-0.5% and higher for each, respectively.

However it was the understanding from a number of representatives who sought to summarise as "there is no space for smart alpha, it's like an hour-glass, the squeezed middle." Further, delegates were quick to point out that the argument for cost versus returns "all depends how good the manager is at delivering alpha and making decisions based on cost - even the most active managers do outperform."

Meanwhile as wealth managers and clients are grappling with the wave of attention running through the pricing models of the industry there are wider disruptive trends omnipresent impacting client sentiment - from robo-advice, differentiation of service, competitor forces and rising regulatory costs. Part of the rigid pricing structures of alpha investors is that "there are barely any downward pressures on active management," this will need to change.

Conclusions

The discussion concluded by identifying a number of opportunities for financial institutions to explore in addressing perceived client value:

- Wealth managers should consider differentiating their fee budget accounting for both alpha and beta, splitting the investment fee into a proportion of low cost beta fee and an alpha fee across active investments.
- An "augmented service approach", by combining financial advice and investment advice, at competitive industry cost will add value for clients.
- Further, it is increasingly prevalent for wealth managers to demonstrate value by indicating favourable client outcomes and providing transparent fee structures.
- Ultimately, for clients it is important to consider these changes in the context of wider industry disruptions such as automated advice pricing models, goals based advice, competitor forces and rising business costs of risk and regulation.

THE GENERAL DATA PROTECTION REGULATION (GDPR) – UNDER A YEAR AWAY!

Expert: Ian de Freitas, Farrer & Co.

FARRER&Co

Facilitator: Leigh Cotterill

Key message

The GDPR comes into full effect in May 2018. The new regulation applies to all organisations and not just the wealth management sector. However, the nature of the wealth management business model means it leaves firms in the industry particularly exposed to data protection issues. The risk occurs through collecting and holding extensive data on clients and information often passed around the wider financial services group.

Headlines

- There is a low level of knowledge when it comes to understanding the implications of GDPR, which will directly impact firms and clients, day to day.
- Organisations have until May 2018 to assess its impact and implement an action plan. The responsibility is on firms to demonstrate the effectiveness of their data protection improvement program.
- This regulation marks a significant step up in wealth managers' data protection requirements. Many firms do not yet appreciate the significant impact it will have on their operating models.
- Penalties for failure to comply are also significantly higher. Fines of up to 4% of annual turnover for firms that suffer a security breach.

Key themes

It is important that wealth managers get to grips with GDPR well in advance of the deadline:

"Firms have to be more transparent with customers, not just by extending disclaimers."

For wealth managers, the key issues will begin with consent. Firms will need explicit permission to use clients' personal data for any purpose, including marketing. Clients will have a right to be forgotten and to request that all their personal data held on the system is deleted.

"Firms will need to give clients a more detailed understanding of compliance protocols and how their data is held."

The penalties for falling foul of the new regulation are intimidating – fines of up to 4% of a business's global turnover or EUR20m, whichever is bigger, for non-compliance.

Critically, wealth managers will need to ensure that systems are in place to enable the transfer of personal data to a competitor if requested – when a client moves their money to another wealth manager, for example. If firms suffer a data breach, they are legally required to disclose it to regulators.

"One important question facing the industry is whether technology platforms are able to keep up to speed with this significant change in process and protocol."

What does that mean in practice for wealth managers? Crudely speaking, it is about "changing the culture and changing the mind-set around data protection." It might also help to think in terms of compliance for *existing* customers and *new* customers.

"It will affect even the pen and parchment client partnerships that wealth managers have."

Wealth managers must be able to prove that they have obtained permission to use client data and know where on the system the data sits. While for on-boarding clients, though the same rules apply, terms and conditions should now openly set out permission procedures and how they relate to your data protection obligations.

Therefore on an individual client level, something like a "data dashboard" can help to solve consent forms – as clients choose their *level* of data consent, which can be edited and changed on log-in. Firms will also need to be able to show that data protection safeguards exist into new products and services from the beginning of the process.

Conclusions

Simply understanding GDPR is therefore not enough to ensure compliance. Wealth managers need to ensure their organisational structures and processes keep them on the right side of the law. The GDPR discussion amongst delegates concluded with the following:

- Don't leave it too late. With less than a year until GDPR implementation, there is a short window of opportunity to ensure compliance in May 2018.
- Consider conducting a "GDPR readiness audit" – a test of the current state of play – either internally or through a third-party consultant.
- Appoint a senior leader to take charge of ensuring GDPR compliance – someone with authority and credibility to be able to drive change.
- Map the data flows within the organisation. This can reveal interesting issues that may require some significant change.
- And finally, consider training employees from across the organisation so that all staff understand their responsibilities.

THE DANGERS OF CYBER-CRIME ARE BECOMING EVER MORE REAL

Experts: Ali Kazmi, EY

Facilitator: Caroline Burkart

Key Message

Organisations face myriad threats, which continuously evolve to present them with new challenges. One such evolving 'moving target' is cyber security – a subset of business resilience. It is being discussed by stakeholders at all levels, which suggests the industry needs a mind shift change to be able to adequately tackle the issues surrounding response, regulation and recovery.

Headlines

- Firms need to use sophisticated analytics and intelligence gathering to predict, detect and defend any impending threats or attacks to the system.
- Need to prepare to take action across the organisation's ecosystem: execute control measure in day-to-day operations; deploy monitoring functions such as internal controls, legal department and risk management; use a strong internal audit department.
- If above two fail, need to have robust incident response capabilities to be able to manage a crisis. This includes being ready to preserve evidence in a forensically sound way and then investigate the breach to satisfy critical stakeholders – clients, regulators, investors, law enforcement and the public – who may sue for loss or noncompliance.

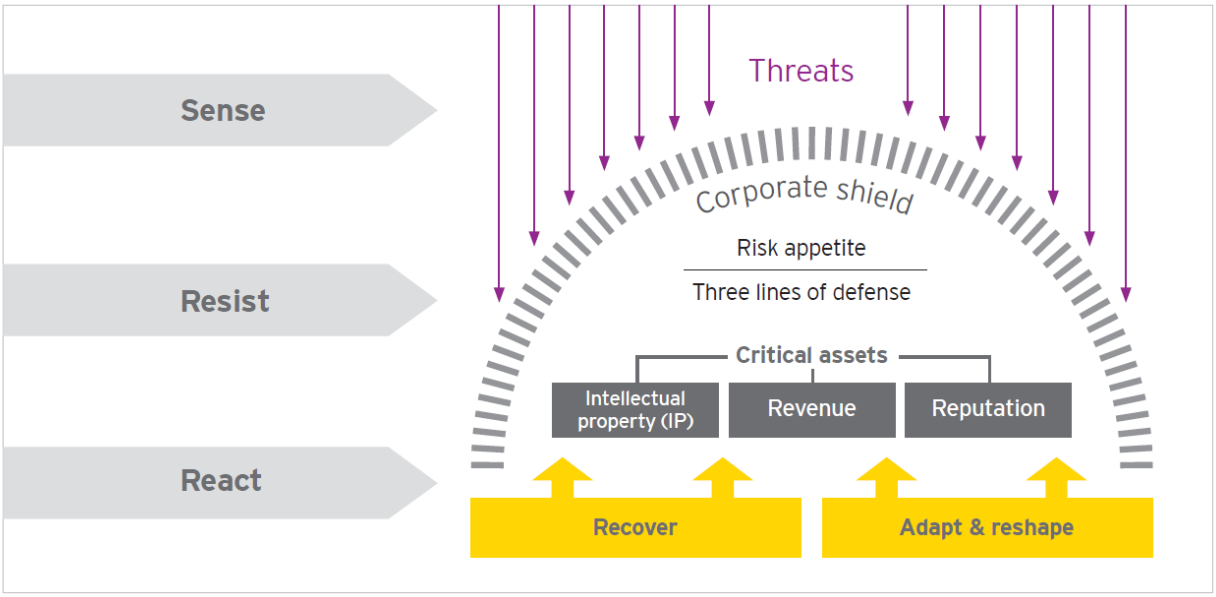
Key themes

Recent events e.g. digital innovation, expansion of connected products, changing regulatory landscape, and terrorist threats – point to a need for organisations to have a defensive and protective layer.

"Ecosystems are now much bigger, boundaries are fuzzy and details more complex to deal with… There is a growing need to have a whole firm response – from C-suite to each individual – because ultimately, you're only as strong as its weakest link."

EY therefore proposes a three step approach to cyber resilience: Sense, Resist, React (see diagram below).

Sense: The ability of organisations to predict and deter cyber threats.
Resist: The corporate shield, starting with how much risk an organisation is prepared to take, followed by three lines of defence i.e. looking at processes and controls.
React: Extent of the organisation's resilience i.e. being ready to deal with disruption, incident response capabilities, crisis management, preservation of evidence, and investigation of the breach.



Sense and Resist capabilities tend to be relatively well developed in organisations, and many have processes and controls in place to respond to attacks or stress situations.

React on the other hand needs further attention. For example, dozens of cyber warning alarms are likely to be going off every day but the skillset to prioritise may be missing – so how do you filter and identify, which threats are real, and which are simply noise?

Solutions include looking for patterns, gathering intelligence and collaboration. In financial services this intelligence gathering process is more advanced that in other industries.

"Some collaboration and intelligence gathering initiatives are formalised, while others are not e.g. GCHQ… Ultimately, it's about leveraging our limited resources – have more eyes on the lookout for threats, unusual behaviours and so on – to increase our collective resilience and chances of spotting something rogue."

Many security breaches happen over public holidays, Friday evenings and so on, when organisations do not have sufficient capacity to respond. Malware is often planted during such breaches (called 'sleepers in the system') that then sit dormant, on average for 3-6months, monitoring and gathering information before striking again.

So the worrying realisation is that firms can raise their corporate shields today to protect against fresh future attacks – but how do they identify what's already sleeping in the system?

Conclusion

- Ultimately, risk cannot be avoided so we need to develop a 'risk- radar' and learn how to mitigate and minimise.
- Organisations are moving in the right direction – significant efforts have been made to invest in and strengthen corporate shields, and focus on Sense and Resist capabilities. Most, however are underprepared for React, with many ignoring the "*it's a matter of when, not if*" adage.
- C-suite and cyber experts therefore need to be better prepared to bring their organisations back to 'business as usual' in the fastest time possible; learn from what happened, adapt, and reshape their organisation to improve cyber resilience going forward.

INVESTOR PROTECTION - WHERE DO YOU DRAW THE LINE?

Expert: Kevin Russell, SEI Wealth Platform

Facilitator: Daniel Gerber

SEI New ways. New answers.®

Key message

Competing regulation aimed at improving investor protection has enhanced client outcomes but created unintended consequences for wealth managers and investors alike. Regulators need to create a common standard to reduce the challenges that private banks face while firms need to adopt better technology to keep up with reporting requirements.

Headlines

- Increasing amount of regulation has improved trust in wealth managers but left a heavy burden on firms providing financial advice.
- A lack of guidance on disclosure methodologies has become a grey area for compliance departments within private banks.
- Client outcomes have improved on an overall basis due to investor protection measures although many investors are fed up with mountains of unwanted paperwork.
- Technology upgrades are needed in order for wealth managers to adhere to the upcoming disclosure requirements outlined in Mifid II.
- Regulation such as the recent pension freedoms legislation has also brought new opportunities to wealth managers.

Key themes

The session started with a period of context setting around investor protection and the events that have driven the topic to the top of regulators' agendas. Since the financial crash a decade ago, wealth managers have experienced wave after wave of regulation aimed at improving consumer confidence through linking investment advice to client outcomes.

The ongoing process of remediation has helped to rebuild trust in wealth managers although many challenges remain and are evolving in tandem with regulation. Several delegates highlighted the trade-off between the effort to promote transparency through directives such as Mifid II and the increasing amount of complexity that they bring. Competing initiatives from UK and European bodies caused one delegate to question whether the industry had reached 'peak regulation'. Many delegates also called for the FCA to produce a common standard for wealth managers in the advent of Mifid II's implementation in 2018.

Disclosure requirements were highlighted as a particular area of concern among several delegates. The new institutional standards for disclosure mean that data will need to be collated from different systems and departments within a firm. However, a lack of detailed rules or guidance on methodologies for ex ante disclosures has left wealth managers attempting to guess how to accurately disclose these.

Moreover, delegates identified that providing costs and charges disclosures to clients before execution will impact the timing and profits of trades. Any delay in executing trades could result in an inferior client outcome which would be the polar opposite objective of what regulators are seeking to achieve. One delegate additionally highlighted that the 10% loss reporting ruling is challenging when trying to identify which products it applies to. Further discussion centred on the best methods of communicating costs to clients with one delegate asking if notional cost estimates should be provided at the opening of an account.

Nevertheless, many delegates noted that increasing amounts of paperwork caused by regulation was potentially having an adverse effect on clients. The FCA's shift from annual to quarterly disclosure requirements has resulted in common complaints from clients about getting more information than is needed. One delegate questioned whether the increased amount of disclosure documents was driving more interaction with clients although anecdotal evidence did not seem to substantiate this objective. Indeed one delegate stated that "80% of client complaints" related to the amount of information they were being sent.

Several delegates encouraged wealth managers to quicken the pace of their technology upgrades in order to keep up with increased reporting requirements. One delegate observed that IT departments within wealth managers were overwhelmed with the task of automating reporting documents.

Another key theme behind investor protection regulation is the aspect of changing firm culture to become focused on client needs. All delegates acknowledged the influence of a firm's culture on ensuring wealth managers provide suitable investment portfolios to clients and in a manner which benefits the end investor. One delegate identified that implementing this kind of culture starts at the top with executive management and filters down to relationship managers:

"Every interaction, be it internal or external, is indicative of a firm's culture."

Many delegates provided anecdotal examples of how wealth managers were instigating ethical codes of conduct across every business line and individual in their firms. Other delegates emphasised the challenge of ensuring clients invest responsibly and cited situations where clients invested in a manner completely different to buying a house. The recent pension freedom legislation has seen increasing

numbers of clients accessing large pools of saved assets and seeking to take on riskier investments than advised.

Final discussion centred on the opportunities provided by investor protection regulation and the next steps that wealth managers should be taking in this field. Most delegates stressed the overall positive impact that regulation since the financial crisis has had on client relationships. It was also referenced that these measures not only protect end-investors, but also protect private banks from their own clients. Recent pension freedoms in the UK could mean that wealth managers may gain another 20 years with clients who require financial advice.

Conclusions

- A common standard for investor protection across different regulatory bodies is necessary to minimise the amount of guesswork that wealth managers' compliance departments have to make.
- Increased disclosure requirements do not always drive more client interaction but can also produce masses of unnecessary paperwork for clients.
- Wealth managers need to adopt bigger and better technology as a means of keeping up with increasing amounts of regulation and producing suitable dashboards for clients.

A SOLUTION FOR THOSE CLIENTS YOU CANNOT COMMERCIALLY AFFORD TO WORK WITH

Expert: Gemma Godfrey, Moo'la

Facilitator: Caroline Burkart

Key Message

Increasingly firms are identifying pockets of clients who are commercially unaffordable to serve. So what can you do? While there is no right or wrong answer to this kind of dilemma – there is a strong argument to harness digital in some form or another. Just *how* the digital channel is leveraged will depend on your organisation's core values and objectives.

Headlines

- One way to capture these High Earning Not Rich Yet (HENRY) clients is to better leverage digital solutions. For example, by introducing simplified, automated lead generating propositions that allows for additional layering of services as and when required.
- The other is to think of HENRYs as parts of a much bigger entity or unit e.g. family rather than individual level.
- The third option is to place this book of clients with a younger advisor and maintain a degree of senior oversight to reduce the cost of service.

Key themes

Many wealth managers and private banks are conducting segmentation exercises to better understand at what point a client becomes too expensive to serve and maintain a relationship with.

"As an industry we suffer from having too many small accounts and don't know how to deal with them... For example, 20% of my book [legacy back book] is below a size appropriate for a private bank. And we are not planning to go down the digital route as we're a net seller of assets."

However, market research suggests that:

- There's greater demand for, than supply of, advisors
- By 2020, 90% of banking will be conducted online
- 70% of intergenerational transfer assets could leave private banks and asset managers, if there's no relationship with the family

In looking at clients by wealth levels only, any bank runs the risk of shutting the door on these future wealthy clients or losing them to other firms that are prepared or able to service them. So the challenge becomes how to continue to attract and service the HENRYs who have potential to become much wealthier, versus exiting those clients of a similar value, but with no future potential.

One way to capture these emerging wealthy clients is to better leverage digital solutions. For example, by introducing a lead generator offering such as an ISA or a propositions like UBS' SmartWealth – a simplified, automated, complimentary product that also presents the opportunity to cross sell additional services when needs develop. In theory, the offering also has the potential to become emotive when clients start looking for greater guidance, validation and a hybrid human connection.

For companies like UBS – who have a parent company as well as global subsidiaries – the option of offloading the less profitable clients onto a digital app/platform such as SmartWealth, and engaging with them digitally until they reach the required point of inflection – is a viable one.

But smaller wealth management offices, there are huge costs and budgetary implications attached to developing such an initiative from scratch.

"When we consider the next generation of investors, we should be connecting with them early, to establish and maintain dialogue for when they come out of debt, and become real prospects… We want to be able to get them back in the fold".

Another way to capture the emerging wealthy is to think of them as part of a much bigger entity e.g. a family, so taking a generational approach. In theory, many agree that this is a possibility and an interesting idea. But in practice, such clients still require individual services; they have different needs to those of the primary account holder, and typically want the same level of coverage. This option is therefore very dependent on the complexity of the client, and often the mechanics of it are still all too complex and expensive.

The third option is to match the type of client with the experience of the advisor. In other words: *"There is potential to place that book of [emerging wealthy] clients with younger, less experienced advisors – while also maintaining a degree of senior oversight to drive the cost of service lower."* This can lead to more cost effective outcomes and facilitate training along the way.

The alternative to engaging them when they are young(er) is to of course begin to engage with them at the more appropriate 'Midult' life stage – but the challenge here is '*how*'?

Conclusions

- Developing a digital solution requires investment of time and capital. But it is not only the younger generations who appreciate digital services, flexibility, control and ease of access to their wealth.
- All age groups seek a degree of digital service in their life, to reduce friction points and improve engagement. Firms will therefore need to be more nimble and consider offering a range of services to HENRYs and the wealthy via technology to generate revenues.

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