

THE FUTURE OF PRIVATE CLIENT WEALTH MANAGEMENT SYSTEMS

Tom Brady - CEO of Investmaster talks with Wealth Technology about PRIVATE CLIENT WEALTH MANAGEMENT SYSTEMS



WT: What do you see today's private client manager asking of a wealth management system?

Compliance is the number one priority for wealth managers with a host of regulation now impacting their business. Add to this demanding clients and increased competition for business and many wealth managers are now realising the benefit of investing in systems and solutions to drive efficiencies across the company.

Historically, a wealth manager and client would perhaps begin by having an informal conversation about their expectations. Nowadays, there is a need to be quite specific about an investor's financial objectives and how the wealth manager is going to meet those objectives, including providing financial reporting in a readable and comprehensive way. I believe there has been a loss of trust in the market and people now want more visibility of what is happening with their money.

As a wealth manager you must ensure that you clearly understand your client's objectives by asking the right questions such as return on investment expectation, and then demonstrate that you have followed these objectives with the right investment portfolio. Of course, this doesn't necessarily mean that the client is always going to get the results they want, but it does mean that the wealth managers are more protected than they have been in the past.

Investmaster has recognised the shift over the past few years from back office processing - getting the basics in place, such as trading and settlement - to a more holistic

approach. The market is shifting to where customers expect higher quality documentation and good analysis up front on financial and investment objectives.

WT: To what extent does Investmaster currently service this complex product space?

Wealth managers need to be able to manage more clients without having to employ more people – systems become very important in assisting in handling this higher volume. With this in mind, Investmaster has developed an integrated Wealth Relationship Management (WRM) platform providing a complete product suite for client wealth management including the core components of financial planning, risk profiling, document management and contact management. I believe that the core elements of the platform will become key components of the standard approach for wealth managers. We can clearly see how the market is moving and have identified a need for this technology to be available.

The value of integrating these components is that it closely follows the way in which the market works. A wealth manager would normally begin by identifying and analysing a client's financial objectives and these would be managed and monitored before the wealth manager reports on the results. The WRM platform mirrors this process, allowing the wealth manager to provide a customised service without attracting huge costs.

WT: Do you believe this product space is well serviced by software vendors both within and outside of the UK?

I am aware of some similar products in the UK and there are one or two in Europe. However, in Europe, market practices and needs are quite different and so products designed for use in Europe do not work so well in the UK. WRM meets all of the wealth manager's needs whereas many of the products available in the UK and Europe service just one part of that. For example, there are portfolio management systems competing with our Wealthmaster Front Office solution, but they don't have a document management element or client relationship element. As a wealth manager you need these elements to be brought together on the desktop so you can service the needs of your customers successfully.

WT: What in your opinion is the future direction of private client wealth management technology?

There is a great deal of consolidation occurring across the industry, which is not necessarily what you might expect considering that it is a growing market. Last year wealth management grew 8 % so you would expect the supplier market to this sector to grow. However, it is consolidating because the cost of being a wealth manager is increasing, due to the introduction of regulation and ever increasing customer demands.

Investmaster also sees polarisation in the market. There are two ways of generating revenue from a client; the first being

through charging fees on assets under management and the second way is charging commission for each transaction. You would expect that from a wealth manager's point of view it would be best to be in the discretionary business where every year you are charging a percentage on the wealth you have under management, thereby giving you a regular income. However, this is not what all clients want. Many want to manage their own portfolio but need someone to assist in that process; there is still a lot of advisory business out there and there is a growing amount of execution only business too.

We have also seen developing cooperation between wealth managers and other organisations, such as pension providers. Most wealth managers do not themselves provide pension products but may use a pensions provider so they can offer a full set of financial solutions to the client. This increase in cooperation in the marketplace with other financial services suppliers is mirrored in the WRM product suite; the platform includes a selection of Investmaster products and partner products.

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WT: Describe Investmaster's product strategy towards supporting private client asset management in the future – and what would be your number one priority?

Investmaster's product offering is unique in the market, as is our ability to deliver the solution. As a wealth manager you can buy an off the shelf IT system but you have to be able to implement it across your organisation and few wealth managers have the skills in-house or the time to do this. I believe that one of Investmaster's key differentiators is that we can provide strategic advice to our customers across their business. We are not just delivering a piece of software, we are also helping wealth managers to improve their business practices and processes. It is important for wealth managers to understand how to use the technology and to get the full benefit from the software in which they've invested.

The solutions we provide work well in the private client investment management sector but could also be successful in the private banking sector. Investmaster is currently looking at this sector as a new potential customer base.

WT: How successfully can elements of a private client wealth management system be adapted from products on the institutional side of the business?

Some of the components on the institutional side, such as performance attribution, are highly sophisticated and it is possible that a slimmed down version of the solution may be a growing need in the private client investment sector. However, we must remember that one of the key elements in private client investment management or private banking is serving a large number of clients economically, whereas the institutional sector is built for a market with a high value and relatively low number of funds. I believe that products built for wealth managers should be designed specifically for them; I don't think that they transfer well from the institutional sector.

WT: How important do you think forming strategic alliances with other vendors will become, for example, in supporting complex processes such as wrap and private client reporting?

I think alliances are very important as the demands of the end user become more sophisticated. It would not be cost effective to be all things to all men but at the same time you want to offer a broad service and a broad product set to your customers. The best way to do this is to have strategic alliances with best of breed suppliers that fit in well with your own product offering.

WT: What will be the principal barriers for private client firms who seek a best of breed approach to meeting their functional requirements? Do software providers assist in this process?

Some of the biggest customers are saying they know where to find the right products, but to get lots of systems to work together you may need to bring in middleware and with this comes the costs of ownership and implementation, and the whole infrastructure becomes more costly. From a business point of view there is high risk in having data stored on many different systems, with more opportunity for mistakes. To control your business you need a single source of data - it is not practical to have to enter your client's address into one system and then re-enter the same data into another. Not only is this an extremely onerous process but it also creates a higher margin for error. All of this means the back office may get bigger and there is a need for more support staff. From the front end, if you are making mistakes with the client it completely devalues the service you're providing.

Many providers are sticking to what they know - providing one component or service. However, this doesn't help the wealth management firms that lack the expertise in integrating multiple systems and still need to provide the best service possible to their customers.

WT: Do you detect an increase in the number of third party service providers extending their

administration services out of the back-office into the front-end?

There have been a number of different clearing and administration services appear on the market over the years, particularly for back office administration software. Some clients see this as a core part of their business, although many administration providers would say that the customer's core business is, for example, investment management and that administration is something that the client should outsource. The companies that agree with this have already moved to outsourcing and those that don't are unlikely to do so as they see value in controlling the back office information. They recognise the value in knowing they can get that information to the client as opposed to going through an intermediary where it becomes difficult to be as responsive as the market demands. There is a lot of competition but the solutions don't always appear to suit the purpose, which is to be responsive, to be in control of what is happening and to protect your clients from any problems.

While back office administration can be constrained and limited to cut down commercial risk, customers are always looking for greater flexibility in the front office. Therefore, I would say that it doesn't really suit for the back office solution supplier to provide front office administration, as in this situation you are looking for more flexibility, not less.

WT: What are the big challenges you face today in positioning Investmaster in the provision of service to wealth managers?

What we offer at Investmaster is not necessarily as recognised today as it will be in two or three year's time. Many clients simply don't understand that the solution is affordable - the immediate thought is often that software is expensive, but the reality is that this solution is more affordable than the systems wealth managers are already using and the benefits to the business with improved technology will far outweigh the cost.

Another challenge is persuading our customers that they need to look at their processes. Often wealth management firms will purchase new technology and persist with the same processes - customers will not get the benefits of their investment if they don't update their processes in line with the advances that technology offers. While we can provide customers with the best technology and the most integrated systems, the cultural change within the organisation is more complicated. Our industry can be traditional in its outlook and a shift in culture can be the biggest hurdle. It must be understood that there is a very real business risk if companies don't embrace a culture shift.

WT: And what do you ask of the industry in working more effectively with you?

I believe that if technology suppliers such as Investmaster were involved at the early stages with changes occurring in the industry, we could offer real value and expertise to help the industry embrace new change and new technology in a more economic and pragmatic way. Including companies like Investmaster in issues such as addressing regulatory change could greatly benefit the industry and help to communicate the benefit of sophisticated technology in providing better client service.