2022

3RD EDITION

TECHNOLOGY TRAPS WEALTH MANAGERS MUST AVOID

Expert guidance on strategy, selecting solutions and implementation

Sponsored by

EY
Building a better working world

WealthBriefing
News Insight Intelligence

FAMILY WEALTHREPORT
North American Family Office Intelligence


Should digital transformation be on your agenda, or running it?
Driven by humans, powered by technology, business transformation for a better working world.
ey.com #BetterQuestions
The better the question. The better the answer. The better the world works.
EY
Building a better working world
© 2019 EYGM Limited. All Rights Reserved. ED None.

FOREWORD

Our 2021 *Technology and Operations Trends in Wealth Management* report found that 74% of wealth and asset managers globally had increased their technology investments beyond expectations and that 71% had brought planned improvements forward, with the COVID-19 pandemic obviously having exerted a huge accelerative effect. What is more, technology budgets are set to grow even larger over the next two years for 61% of firms.

The pace of technological change within the wealth management industry has been quickening for some years now but, as these figures underscore, today it is *dizzying*. It is far from uncommon for firms to be embroiled in several implementations concurrently and also to have several more in view. Many are in fact completely overhauling their technology stack, sweeping away legacy systems in order to move to cloud-based infrastructure, facilitate new digital client service models or to include a greater degree of outsourcing in their operations, for instance.

All this is of course very exciting, and particularly so for an industry which has not historically been known for being at the forefront of technological advances and which was long thought to generally lag far behind even retail banking in the digital experience offered to clients (and nowhere near matching the capabilities of technology leaders in other sectors). Yet the depth and breadth of the transformation which is now well underway, and the speed with which change is being undertaken, also carries risks.

Our *Technology Traps Wealth Managers Must Avoid* report series, which is now in its third edition, had its beginnings in the simple acknowledgement that while technological upgrades are vital, the costs of making any missteps in selecting, implementing and integrating systems can be *huge*. Although firms will naturally be reticent about making them publicly known, examples of failed implementations do occasionally filter out. And, far more frequently, are all the instances of technological changes just not quite delivering the hoped-for results.

While the reasons things might not have worked out as planned will be particular to each case, consultants - and indeed technology providers themselves - have long been able to point to common themes linked to disappointing return on investment. Our aim in this annual report is to bring these to light, drawing on a wide range of experience from those seeing technological change on the ground.

We are delighted to be partnering again with EY to bring *Technology Traps Wealth Managers Must Avoid* to the industry, and to be featuring the collective wisdom of such a diverse set of technology experts, all of whom offer a different take on the topic. In so doing we hope to help wealth managers significantly with their decision-making processes and in turn to increase the chances of the upgrades they embark upon delivering full value.

Technology Traps Wealth Managers Must Avoid instantly became one of *WealthBriefing's* most popular publications and given that there is an abundance of both evergreen and cutting-edge insights to found within each report, we still see downloads of the 2020 original to this day. If readers find this 2022 edition helpful, then we would urge them to also take a look at earlier ones as each delves into different areas of the technology piece.

As ever, we would welcome feedback from readers on the topics they would like to see our research address, whether that concerns technology or any other element of this dynamic sector.

WENDY SPIRES
Head of Research
WealthBriefing/Family Wealth Report
wendy.spires@wealthbriefing.com

CONTENTS

TECHNOLOGY TRAPS WEALTH MANAGERS MUST AVOID: AN OVERVIEW FROM EY

Rahim Nota, Senior Manager, Wealth & Asset Management, and **Sharon Chen**, Senior Manager, FinTech and WealthTech, at **Ernst & Young LLP** give a panoramic view of the technology landscape for the sector and signpost the potential traps wealth managers need to be paying attention to.

1. THE EVOLUTION FOR WEALTH MANAGERS

The needs of clients across the wealth management industry are evolving with a shift towards a new generation of investors who have preferences, which stem from interactions with new technologies and organisations. There are opportunities to secure and grow the client base by understanding client personas, needs and solutions; and acting as agents of change in order to service the multi-dimensional needs of the client landscape. Wealth managers will need to place greater emphasis on building a future operating model, focusing on holistic and tailored client experiences.

NEW COMPETITORS IN THE MARKET HAVE ALREADY DEMONSTRATED THE ART OF THE POSSIBLE, DRIVING THE NEED FOR INCUMBENT WEALTH MANAGERS AND BANKS TO INVEST IN THEIR SOLUTIONS TO MEET AND EXCEED CLIENT NEEDS.

This is at a time where technology is driving change at pace, but not only requires firms to shift from leveraging technology to deliver business and shareholder value; but also to deliver client value. To explore this further, we can think about client needs across the following three themes:

a) **Service:** Clients are demanding more from their advisors, with their needs shaped from the same seamless experiences and compelling propositions that they get from their non-financial services providers. This means more personalised products and services, across multiple channels and on-demand, at competitive pricing points. New competitors in the market have already demonstrated the art of the possible, driving the need for incumbent wealth managers and banks to invest in their solutions to meet and exceed client needs. Where wealth managers and banks can partner to integrate services and offerings, they can unlock gains in wallet share.

b) **Engagement:** Client behaviors are shifting, creating demand for new methods of digital engagement whilst maintaining interactive relationships. They want to be engaged at the right level, time and place, with wealth management integrated into their daily lives rather than an annual appointment or chore. To better understand client needs, firms will need a data strategy that enables them to appropriately develop analytics to understand their client personas, and how, when, and where to reach their clients throughout the client lifecycle.

c) **Purpose:** In addition to financial goals, clients expect their advisors to help them achieve values-driven objectives, such as addressing their carbon footprint or supporting community values. They not only favour, or even expect the organisations they patronise to share these values, but would prefer providers that help them achieve against these values. Our research shows that 63% of UK wealth clients have sustainability goals, but only 44% believe these goals are understood by their advisors ("EY Global Wealth Research Report 2021"). Priorities also vary between different demographics, with millennials and Gen X particularly concerned about air/water pollution and deforestation, while boomers worry about data protection/privacy and governance issues.

THESE THREE THEMES AND THE RAPID PACE OF CHANGE, ARE CHALLENGING FOR CURRENT OPERATING MODELS TO DELIVER, NECESSITATING WEALTH MANAGERS AND PRIVATE BANKS TO TRANSITION TO A NEW MODEL DESIGNED FOR CLIENTS, AND DELIVERED THROUGH TECHNOLOGY.

These three themes and the rapid pace of change, are challenging for current operating models to deliver, necessitating wealth managers and private banks to transition to a new model designed for clients, and delivered through technology. They will need to conduct a customer-led review of their business model, expect to invest in technology and data across the entire estate, and develop an ecosystem partnership strategy that allows them to access the right solutions and tools to best serve their clients.

2. WHAT STRATEGIC ADVICE SHOULD WEALTH MANAGERS HEED?

Technology is a significant driver for change, and an important tool in how to respond. However, building upon complex technology landscapes can also quickly become a rapidly ballooning expense, without delivering the expected or desired result.

Here are some considerations to keep in mind for wealth managers and private banks:

Be fascinated by your client's needs, delivered through technology

A common trap for senior executives today is to become excited by the latest advances and overlook the primary purpose of servicing their clients. The technology landscape is a fast moving and exciting place, where advances ranging from biometrics to cloud computing have opened up numerous possibilities and permutations that previously may not have existed, or were not readily "off the shelf". Firms may be tempted to adopt some propositions for the purposes of "branding," so that they are seen associated with modernity and innovation, rather than for the contribution of the technology towards improving business value or client experience.

FIRMS MAY BE TEMPTED TO ADOPT SOME PROPOSITIONS FOR THE PURPOSES OF "BRANDING," SO THAT THEY ARE SEEN ASSOCIATED WITH MODERNITY AND INNOVATION, RATHER THAN FOR THE CONTRIBUTION OF THE TECHNOLOGY TOWARDS IMPROVING BUSINESS VALUE OR CLIENT EXPERIENCE.

New innovations and technology should be adopted strategically where it directly or indirectly benefits the specific demands of a targeted client segment or proposition. For example, many recent new entrants to the industry leverage technology to produce low-cost, self-service propositions, as a means of competing with established players. Yet the 2021 "EY Global Wealth Research Report" found that 40% of UK clients are willing to pay more for better service, including 93% of millennials and 74% of very or ultra-high net worth clients. Wealth managers targeting this space would be well-served focusing their technology strategy to enabling features such as multiple-account consolidation, omni-channel experiences, and messaging and communications.

Know-Your-Customer has a new meaning

Building a technology strategy around the client requires developing and regularly updating an understanding of the client, beyond an assessment of their income and assets. There is an increasing expectation of hyper-personalisation; moving away from simple demographic or thematic segmentation of clients to understanding how financial ambitions, background, values, interests and even personality traits create unique goals and needs for each client. After all, 68% of UK clients are willing to share their data with an advisor for a more personalised experience, with millennials leading the way ("EY Global Wealth Research Report 2021").

THERE IS AN INCREASING EXPECTATION OF HYPER-PERSONALISATION; MOVING AWAY FROM SIMPLE DEMOGRAPHIC OR THEMATIC SEGMENTATION OF CLIENTS TO UNDERSTANDING HOW FINANCIAL AMBITIONS, BACKGROUND, VALUES, INTERESTS AND EVEN PERSONALITY TRAITS CREATE UNIQUE GOALS AND NEEDS FOR EACH CLIENT.

Here, technology can be an enabler or a distraction. A common example is the prioritisation of collecting customer data, with the assumption that simply being able to claim possession drives value. However, there is a large difference, for example, between a database and a functional Client Relationship Management (CRM) system dashboard where data is stored, processed and analysed for client and operational insights.

Your ecosystem partners should be an extension of yourself

Few firms have the capability to develop all technology innovations and solutions in-house, or the scale to make it cost-effective. Indeed, most firms have always relied on third-party technology providers; the difference now is the extent to which technology has become a core enabler of the entire wealth business, necessitating subscription to not just a core banking platform but also numerous "plug-in" modules all evolving at a faster rate of change. Ecosystem partners who provide solutions such as digital identity verification or chat functionality, need to harmonise with the wealth manager or private bank and with each other in order to create a seamless environment, collectively delivering the desired proposition to clients. Successful ecosystem partnerships align several fundamental organisational elements to create a value proposition that will influence how firms service the client. Thereby, wealth managers and private banks need to connect with their ecosystems not just technically, but also on behalf of the shared customer goal, and mutually aligned purpose.

Plan for the future – it is cloud-based and API-enabled

There is a huge opportunity for firms to integrate a full range of financial services including banking, insurance, wealth, and investments into single client relationships, unlocking gains in wallet share. The 2021 "EY Global Wealth Research Report" shows that 62% of UK clients prefer to, or already, use one single financial provider, taking advantage of regulatory regimes such as open banking to simplify how they engage with their financial providers.

THERE IS A HUGE OPPORTUNITY FOR FIRMS TO INTEGRATE A FULL RANGE OF FINANCIAL SERVICES INCLUDING BANKING, INSURANCE, WEALTH, AND INVESTMENTS INTO SINGLE CLIENT RELATIONSHIPS, UNLOCKING GAINS IN WALLET SHARE.

Furthermore, adopting cloud-first and API-friendly design enhances the usefulness and reduces the costs of data collection, as well as enabling faster and cheaper partnerships with third-party providers. Strategic investments to establish the future technology architecture would lay the groundwork for future innovations.

3. OPPORTUNITIES AND PRIORITIES

There are opportunities to evolve and future-proof business models to meet the needs of clients, now and in the future. Firms will be well positioned to keep and win greater market share with a future-focused strategy, built off a comprehensive understanding of their target client bases and experience they want to deliver, relevant investment into their technology and data infrastructure, and a clear approach to ecosystem partnerships. This will allow firms to create assets and build unique client propositions, addressing their needs on service, engagement, and purpose.

FIRMS WILL BE WELL POSITIONED TO KEEP AND WIN GREATER MARKET SHARE WITH A FUTURE-FOCUSED STRATEGY, BUILT OFF A COMPREHENSIVE UNDERSTANDING OF THEIR TARGET CLIENT BASES AND EXPERIENCE THEY WANT TO DELIVER, RELEVANT INVESTMENT INTO THEIR TECHNOLOGY AND DATA INFRASTRUCTURE, AND A CLEAR APPROACH TO ECOSYSTEM PARTNERSHIPS.

There are clearly priorities across the industry depending on which client segment is being served:

a) **Private banks** have an opportunity to elevate their service model and become comprehensive digitally-enabled financial advisors, providing holistic financial advice that truly engages their clients along their values and goals. Key differentials going forward would be being able to seamlessly transition between a digital and analogue service as needed, and personalised multi-generational engagement, provided at speeds only feasible through technology today.

b) **Wealth managers** should identify opportunities to increase access and service across their client base in cost-effective and compliant ways, including embedding their products and services into non-wealth customer journeys to help clients meet broader goals and ambitions. Establishing the correct technology infrastructure is essential, as it positions them to partner with third-party providers and leverage capabilities across their ecosystem.

c) **WealthTechs** should continue to build upon their solutions with a client-centric lens and leverage technology innovation as the means to democratising access to wealth and investing in the mass market and underserved communities. Often working in partnership with wealth managers and private banks, as well as other FinTechs, WealthTechs should make one or more of the three themes (service, engagement, and purpose) part of their proposition and their go-to-market differentiator.

About EY

In our wealth and asset management work today, not everything is innovation; a lot of it is evolution. And it's important to know the difference. FinTech disruptors continue to shift the rules, newer investors aren't flocking to older channels and cost pressure is relentless. From data and AI, to tech platforms and partners, the questions have never been bigger, and the stakes have never been higher.

At EY, we help clients re-think everything from pricing and operating models to coopetition and convergence. We bring critical questions into focus, which lead to bolder strategies, simplified operations and sustainable growth. Our sharp understanding of the state of play allows us to shift discussion from reacting to change, to helping shape it. Ultimately, we work with clients not just to stay competitive, but to change investing for the better.

For more information, visit ey.com/fs or email rahim.nota1@ey.com or schen@uk.ey.com

Building a better working world

THE INTERSECTION OF PRIVACY, SECURITY, AND FUNCTION

Dan Gregerson, Executive Chairman at **Summitas**, LLC, offers guidance for wealth managers struggling to balance privacy, security and functionality as they upgrade their technology stacks.

Your digital life is like a multicellular organism; it divides and proliferates across an ever-expanding lattice of data repositories, network connections, and software machines. The corporations and organisations, including governments that have access to your data, are growing in number, sophistication, and interconnectedness. Some systems piece together fragments of our activities to create staggeringly detailed maps of our proclivities, relationships, and deeds.

The internet is becoming an extension of us; its function brings much into our lives, but we often concede our privacy and security in exchange for the benefits we enjoy. Privacy is no longer something we can assume is our right, and we need to maintain it actively.

Perhaps you've heard of the searcher for truth who went to visit a sage in the Himalayas. Approaching her destination, a young monk met her at the edge of a crevasse, where he pointed to a basket that would carry her to the monastery on the other side. As she situated herself in the tiny transport, she noticed two severely frayed suspension ropes.

When she turned to the monk and asked, "How often do you replace the ropes?" his response was direct.

"Whenever they break!"

Had our protagonist been a technology executive, she would have asked a few more questions before risking life and limb.

UNDERSTANDING THE THREAT

Security threats should be easy to assess, and the consequences of security breaches predictable. Unfortunately, they are neither.

A data breach or system failure causes damage that experts cannot fully anticipate because the final tally in money and reputation will result from cascading events. For example, a botched public relations effort could damage the corporate brand and lead to public outcry that inspires the government to enact new regulations. In doing so, the regulators might inadvertently dampen growth, stifle competition, and slow innovation.

THE INTERNET IS BECOMING AN EXTENSION OF US; ITS FUNCTION BRINGS MUCH INTO OUR LIVES, BUT WE OFTEN CONCEDE OUR PRIVACY AND SECURITY IN EXCHANGE FOR THE BENEFITS WE ENJOY.

Believing is seeing. Investing in visibly functional solutions is more straightforward than in security protections against events that are difficult to assess and may never occur.

A shiny new app has obvious value, but it's harder to get one's head around investing in security infrastructure that's hidden from view. Like a potential adverse credit event for the owner of a default swap, uncertainty of risk is a Sword of Damocles hanging over executives. We are often only vaguely aware of the probabilities and consequences of potential system breaches and failures, especially their downstream effects.

AVOIDING SPEED BUMPS

Security architecture teams categorise the potential types of attacks against Internet-accessible systems, like B2B SaaS. Experience tells them it's wise to design those systems around a robust security model rather than try to bolt one on afterward.

WE ARE OFTEN ONLY VAGUELY AWARE OF THE PROBABILITIES AND CONSEQUENCES OF POTENTIAL SYSTEM BREACHES AND FAILURES, ESPECIALLY THEIR DOWNSTREAM EFFECTS.

One of the challenges for software developers and user experience designers is to find a balance that protects security and privacy without creating too many speed bumps for users just trying to get their work done. Great collaborations between engineers and designers result in elegant, functional solutions with strong but hidden defences.

We all know that the best way to protect information is to encrypt it. Still, one of the reasons many corporate and government databases remain in plain text is that encryption makes queries and computation extremely difficult to implement.

For example, to perform a keyword search on an encrypted dataset, there are only a few options:

(1) decrypt the data first, then search, then re-encrypt – an expensive solution in time and money for large datasets that pose a risk of leakage while the plain text is exposed, or

(2) index data before encrypting, then search the index – a more manageable solution that limits search functionality and risks data leakage via the index, or

(3) use "homomorphic" encryption that allows queries and other types of computation on encrypted data – a longtime goal currently hampered by slow performance and questionable real-world cryptographic strength.

Regardless of one's approach to improving the processing of encrypted data, the solution will demand specialised knowledge and a larger budget than routine database management.

Complexity is increasing.

RICH SEAMS TO MINE

The data we care about is often in motion. It's transiting the internet between applications that need to talk to each other, between service tiers in the same application, to and from someone's screen and keyboard, or between nodes in a satellite constellation.

Repurposing data is now a thing. In 2020, YouTube contributors added an average of 1.8 million minutes of video per minute. The original purpose of the content was to showcase individual creators and give them a voice. That's still true, but YouTube videos are also a treasure trove for researchers studying computer face and object recognition, depth perception, and behaviour.

Like most data, a YouTube video that's not in motion is less valuable than one that is. Videos are valued when watched, and in general, information is useful when informing our thought and decisions.

Modern computing poses unique risks for people of wealth. Sophisticated cybercriminals prize their financial data, calendars, contacts, agreements, communication, and whereabouts, and guarding them is a service we can no longer ignore.

We are active participants in our connected, data-rich world. We use our internet devices to lock doors, stream music and video, check security camera footage, set temperature and lighting, and communicate with family, friends, and barely known social contacts.

Alexa and Siri are learning to handle more of our requests, and soon, our cars will be driving us to work and safely returning our kids from their high school proms, regardless of their state of inebriation.

The phones, laptops, and other devices we depend on record our preferences and track our health, movements, financial transactions, social circles, relationship status, income, education, media consumption, voices, schedules, interests, and political affiliations. Companies like Amazon, Apple, Facebook, Google, and Twitter are monetizing their knowledge of us and sharing it with advertisers, governments, affiliated service providers, and law enforcement.

If you've been to Shanghai or Beijing recently, cameras affixed to thousands of buildings, streetlights, and signs stream video and audio to AI systems that record your path, recognise your face, and learn your habits. That information is married to every financial transaction, search query, and message you author to assign a social score.

THE DARK SIDE OF COMPETITION

The world's brightest engineers and researchers tend to congregate in universities and high-tech R&D departments where the focus is often innovation, not security. Industries react to technological advancements by seeking ways to leverage them before others do. It's like the game of "hand slap," where the person attempting to strike the other's fingers has a first-mover advantage. R&D competition sometimes leads to unintended consequences. The number of hacked cars, home video cameras, etc., is correlated to how connected they are to the Internet and how little the innovators thought through the security implications of controlling someone's steering, brakes, or home surveillance systems.

If you are a searcher for truth, find out about the security, privacy, and data integrity of the systems protecting your clients and running your business. And before one rope frays and eventually, breaks, find out in advance that the second one will support you until you are safe across the chasm.

WHY "FEATURES FIRST" AND "STAND ALONE" IS ENTIRELY THE WRONG APPROACH TO IMPROVING YOUR CRM

Wealth managers know by now that effective Client Lifecycle Management (CLM) is key to enhanced client communication, planning and operational efficiency. Yet all too many wealth managers are being seduced by feature tick lists touted by many point Client Relationship Management (CRM) solution vendors, when actually a holistic and personalised focus on CLM business outcomes should be the north star guiding any technology investment in this space, argues **Alessandro Tonchia**, Head of Strategy, Private Banking & Wealth at **InvestCloud**.

Very few good things can be said of the coronavirus pandemic's ramifications, but one side effect is that it has definitively shaken up the wealth management sector and accelerated its digitisation into warp speed. The need to be able to develop and deliver high-touch relationships remotely and digitally is now absolutely essential.

In combination with the longstanding profitability pressures the sector has been labouring under, this sudden – and probably permanent – shift in how business is carried out has propelled new Client Relationship Management (CRM) systems right to the top of many firms' shopping lists. But while firms are rightly seeing rapid technology upgrades as business-critical, one expert who has seen it all when it comes to CRM systems believes all too many are going about this *entirely* the wrong way.

As Alessandro Tonchia, Head of Strategy, Private Banking & Wealth at InvestCloud, observes, implementing a new CLM solution is undoubtedly a significant change with implications for personnel and processes reaching far beyond just the relationship management team, so firms naturally want to ensure they select the very best system available. Wealth managers' attempts to differentiate among a plethora of CRM providers, many of whom would claim to support end-to-end CLM, can then tend to become a "beauty parade comparing widgets and gadgets" when in fact far deeper thinking is what is required.

A DAY IN THE LIFE OF AN RM

"The trap wealth managers often fall into is buying a 'shiny' product without having thought hard enough about how it would make a day in the life of a relationship manager more effective, and ultimately enhance the client experience and their perception of what the institution is doing for them," he explains. "'Features first' is the entirely wrong way around, as your starting point should be the outcomes you wish to achieve to manage the entire client lifecycle and how the solution will support those holistically."

THE TRAP WEALTH MANAGERS OFTEN FALL INTO IS BUYING A 'SHINY' PRODUCT WITHOUT HAVING THOUGHT HARD ENOUGH ABOUT HOW IT WOULD MAKE A DAY IN THE LIFE OF A RELATIONSHIP MANAGER MORE EFFECTIVE.

"Holistic" is of course a word much used in the wealth management sector, but Tonchia's use of the term really does speak to its true meaning: that all the elements of a true CLM system are interconnected and can only make sense and make a real difference to the business with reference to the whole client relationship. Wealth management firms should focus on how the work of client lifecycle management should ideally happen, rather than focusing on a set of features which offer no bridge to the desired end result.

A foundational step to making wealth management really work is supporting people in all the myriad roles they fulfil. "Each institution will have a unique business vision of how it wants relationships to play out in its target segment, or segments. So it's about taking those objectives and mapping them to the user journeys the CLM solution needs to support – for each persona involved: the RM, their assistant, the portfolio manager, the chief investment officer, the compliance professional, the head of sales and, of course, the end-client," Tonchia says. "The business of managing wealth is the relationship management process per se, so if you want a CLM system adequate to support an efficient wealth management institution you need to focus on who does what and when, then pull everything together through the CLM system every step of the way."

CREATING COLLABORATION

"It should go without saying that facilitating deep, highly digitised collaboration among all these parties, but especially between the client and their advisor, is absolutely central to our vision of what a CLM system should do," he continues. "If you can push a recommendation to a client via a chat function or portal, that means that not only can you act quickly but also that you get a full loop because everything gets tracked and measured. The client's response becomes part of the dataset, then you can also apply machine learning to those results to figure our what works and what doesn't."

The other, sorely neglected part of the puzzle is that the CLM system has to support the entirety of the client lifecycle in the broadest possible sense – even as that extends beyond the walls of the institution to different financial intermediaries or advisors of the client, as well as to externally-managed assets, which should be brought into the tent.

As Tonchia highlights, at the upper end of the wealth spectrum in particular, relationships take place within an increasingly complex wealth management ecosystem. "To be truly fit for purpose today, a CLM system needs to comprehensively orchestrate all client-facing processes and tightly integrate into the entirety of prospecting, onboarding, suitability, risk profiling, investment advice, financial planning and every other facet of client lifecycle management," he says. "This is just one reason why institutions absolutely require CLM systems built specifically for all client lifecycle steps of the wealth management business."

A DEARTH OF WEALTH-SPECIFIC DATA MODELS

Another key requirement is the need for "wealth-management-specific data models which can support all the disciplines involved in serving complex clients and the triggers which arise from them". As Tonchia explains, Application Programming Interfaces (APIs) may be regarded as a panacea for integration and could, for instance, easily integrate any generalist CRM with a private equity platform. However, in the absence of an industry-specific data model, a CRM "will not 'understand' private equity, that the commitment made doesn't coincide with the initial investment, and that a capital call might come" and therefore fail to properly track relevant amounts and actions.

CRM systems might offer a wealth of API connectivity, but there is a real dearth of wealth-specific data models to build businesses upon. This underappreciated nuance scuppers many a system and client service upgrade right from the start, in his view.

HIGHER AMBITIONS

"APIs have amazing features technically, but it's the data model which makes the difference", is his verdict, since it is this which allows for real understanding and actionability to be generated by a holistic CLM system – alongside the high levels of automation firms of all types need today. As he points out drolly yet quite rightly, "Even the most basic system can remind the RM of their birthday, but is that really where firms' personalisation ambitions should end?"

"It is tracking the important things that happen in the client's financial affairs and interactions with the institution, and then prompting timely action which makes relationship management substantial rather than superficial," he says.

In essence, Tonchia's view is that wealth managers should be far bolder in what they want their CLM solutions to achieve – and not to stop with traditional notions of CRM functionality. "Huge gains in sales effectiveness, an enhanced client experience and far greater operational efficiency, particularly around compliance, are all very much within reach if the right CLM solution is at the heart of your business," he asserts.

None of this is to say that feature strength doesn't have a role to play – after all, true CLM solutions like the one InvestCloud offers provide many, Tonchia emphasises. It is more that they are important only insofar as they serve the firm's objectives, target KPIs, desired client experience and ways of working together. Their exact configuration, and what is turned on and off is analogous to the "fingerprint" of that organisation, therefore it makes little sense to be seduced by features on a standalone basis.

Tonchia's concluding advice centres on continuity of ethos: "All wealth managers are aiming for holistic and truly personalised relationship delivery, but they can only achieve that through a holistic and personalised approach to building their ideal CRM system," he says. "They must seek strong foundations for digitised business processes, or additional features will be cosmetic 'upgrades' at best. Don't be seduced by superficialities."

EMBEDDED COMPLIANCE: WHY A LIGHTWEIGHT APPROACH WON'T TRULY LESSEN THE LOAD

Thomas Schäubli, Marketing Lead at **Apiax**, explains why some more lightweight approaches to embedded compliance aren't sufficient to lessen the regulatory burden or level the playing field.

Something journalists and potential customers often ask me when we first engage is, "What is 'embedded compliance' and how common is it among financial institutions today?" At a high-level, embedded compliance isn't particularly rare now.

However, it's generally in a very lightweight fashion, rather than our level of vision. As a result, financial services firms are seldom lightening the compliance load as much as they might.

What you may see are extremely simple internal rules engines working on a perhaps five-step set of rules, which are given to the business through the intranet via a simple UI (user interface). This tells them "These are all the things we don't want to do", as a fairly casual way for personnel to check the risk of an activity.

> ***FOR US, EMBEDDED COMPLIANCE IS ABOUT VERY COMPLICATED INTERACTIONS AND TRANSACTIONS THAT ARE FULLY AUTOMATED IN THE SYSTEM. AND IS THAT BEING DONE TODAY? NO, I WOULDN'T SAY IT IS.***

Is that fully embedded and automated? No, I wouldn't say it's usually used that way. For us, embedded compliance is about very complicated interactions and transactions that are fully automated in the system. And is that being done today? No, I wouldn't say it is.

SPANNING THE BUSINESS

To get a sense of how embedded compliance should work, imagine that you are using your CRM or trading system as usual, but every now and then you'd have a pop-up telling you that you aren't allowed to do something. You could start to organise a trip to meet a client, but get told you aren't allowed to meet them at that location; or a trade order management system could prevent you from executing a trade because it doesn't fulfil the criteria.

This way practicable compliance advice is right at your fingertips, embedded right where you need it in the system that you already use: CRM systems, portfolio management tools, trade order systems, and many more.

We're also starting to build tools for marketing and sales teams, so that they can know if they can approach a certain prospect or distribute a research report in a certain country; or whether they can attend or take clients to a certain event. Marketing compliance and data protection are very compelling use cases for embedded compliance and we have a huge set of rules related to privacy regulations as well as the more traditional ones concerning the marketing and sales of financial services and products.

BEDDING DOWN EMBEDDED COMPLIANCE

So how does embedded compliance actually get implemented?

Larger firms tend to be most interested in Apiax as a platform to digitise their in-house compliance expertise, carry out the governance and maintenance on that expertise and then spread it out through the organisation via Application Programming Interfaces (APIs).

Here, you would take your handbooks and corporate knowledge to build a decision tree, adding rules for each country until you have an incredibly complex decision tree with perhaps dozens of conditions and thousands of results, so that for every scenario you have a global view of all the rules that apply. Institutions also then get the freedom to build in their own rules to adjust to their particular risk appetite at any particular time.

There is a governance challenge implicit in that approach, however. Usually, the people formulating the rules will simply update them whenever something crosses their desk telling them there needs to be a change, or if an analyst or someone in-house raises a flag, which is frankly a bit hit and miss.

LEVELLING THE PLAYING FIELD

The second option is to buy that decision tree from one of the providers on our platform. Though less flexible, this approach is particularly appealing when time to market is a consideration. And when institutions are keen to level the playing field and though they may not have in-house expertise, still need high-reliability results.

The move to the kind of heavyweight embedded compliance we offer is typically inspired by a mixture of three drivers.

The first is the urge to make more money, as you are able to do more business in more countries with more people because you know the rules that apply. We worked with a small private bank which was able to start selling products and offering services in more than 10 countries within months after setting up shop, because their relationship managers know the rules immediately via the apps. Time to market was entirely dependent on them being able to remain very protective of the brand while aggressively expanding. In fact, the CEO of this private bank has said he now has more confidence in our apps over the handbooks and training-heavy approach.

The second driver that also touches on is the need to make compliance faster and less expensive.

The third thing is the risk mitigation and control factor because we always provide clear dos and don'ts - that's more precise than anything most firms have today.

BIG SAVINGS

Larger volumes mean the bigger institutions have been able to report some particularly impressive numbers in terms of efficiency savings achieved through rules-based compliance. One Big 4 consultancy's report on an Apiax implementation confirmed 80% efficiency savings for compliance monitoring and a 90% reduction in compliance support because relationship managers were provided with a yes or no and the remarks and restrictions. They simply don't need to talk to compliance anymore in the vast majority of cases, so it's easy to save lots of money there.

ONE BIG 4 CONSULTANCY'S REPORT ON AN APIAX IMPLEMENTATION CONFIRMED 80% EFFICIENCY SAVINGS FOR COMPLIANCE MONITORING AND A 90% REDUCTION IN COMPLIANCE SUPPORT.

Importantly, as this is something all institutions are pursuing, this institution is enjoying 20% higher relationship manager productivity because they are able to book meetings much faster as they can understand whether they are allowed to have those meetings and calls and don't waste time. There was also a 60% reduction in client meeting preparation time. All in all, RMs are able to gain 1.5 hours more client-facing time per day when embedded compliance is in place.

Related is one final further benefit: strategic planning. Here, you almost turn the decision tree on its head to ask "What do we need to do to do X, Y or Z in a certain jurisdiction?" The sound starting point that provides, the reduced number of stakeholders who need to be involved and their ability to make changes to rules directly means time-to-market could be dramatically better, auditors of our solution have confirmed.

AX AS WELL AS CX

Alongside the heavy-hitting rationalistic arguments for properly embedded compliance that coalesce around profitability and risk management, we're also interested in the *emotional* impacts around new technology adoption.

You can imagine the relief all types of personnel could experience when their firm starts embedding compliance in the way we advocate. You could further imagine just how powerful such a tool could be in attracting and retaining the best talent, not least through supporting the advisor's bottom line. Savvy institutions have realised that the *advisor* experience of technology should be given as much consideration as the client experience; AX as well as CX, you might say.

SAVVY INSTITUTIONS HAVE REALISED THAT THE ADVISOR EXPERIENCE OF TECHNOLOGY SHOULD BE GIVEN AS MUCH CONSIDERATION AS THE CLIENT EXPERIENCE; AX AS WELL AS CX, YOU MIGHT SAY.

My concluding advice for financial institutions considering their compliance capabilities would be for them to weigh up whether a lightweight approach is actually going to move the dial for them in the key areas most firms are targeting. By pursuing embedded compliance "lite", they may be carrying out a majority of the work necessary to upgrade properly but enjoying only a very reduced form of the benefits available. A full-bodied version of embedded compliance is likely to pay far greater dividends.

About Apiax

Apiax provides financial institutions with immediate answers to their most pressing regulatory questions right where and when they need - embedded in their existing systems, tools and processes. Apiax's embedded compliance solution enables business leaders to make critical decisions faster, delivering answers to the financial industry's most pressing regulatory issues in real time.

It's the easiest, fastest way for highly regulated entities to put the client back at the heart of business operations.

For more information, visit www.apiax.com

APIAX

HOW WEALTH MANAGERS CAN USE ESG REGULATORY REQUIREMENTS TO ENHANCE THE CUSTOMER EXPERIENCE

Don't fall into the trap of incorporating Environmental, Social and Governance (ESG) data just to satisfy regulatory requirements. It's important to remain compliant, but ticking those boxes just for the sake of it doesn't always create value add for your clients, explains **Anastasia Georgiou**, Director of Client Solutions, Adviser Segment, at **Morningstar** Europe.

As wealth managers, you know more than anyone that when clients invest, they think less about percentage growth and more about realising their financial goals. For many, a sustainable future will be a part of this. That's why building meaningful ESG data into your investment and advice processes and communicating this with your clients can have a strong, positive impact on client engagement.

MOST NOTABLY, REGULATIONS INTRODUCED THROUGH THE EU SUSTAINABLE FINANCE ACTION PLAN MEANS WEALTH MANAGERS HAVE MORE STRINGENT REQUIREMENTS ON THEIR PLATES IN TERMS OF HOW THEY REPORT AND USE SUSTAINABILITY DATA.

It can be easy to forget this amidst the myriad of new sustainability regulations that are making things that bit harder though. Most notably, regulations introduced through the EU Sustainable Finance Action Plan means wealth managers have more stringent requirements on their plates in terms of how they report and use sustainability data.

As two key components of the Action Plan, the EU Taxonomy Regulation came into force in January 2022 and requires managers to calculate the Taxonomy alignment of their ESG funds, while the Sustainable Finance Disclosure Regulation (SFDR) that started to take effect in March 2021 requires managers to disclose how sustainability risks are considered in their investment processes, including those that might have negative effects on sustainability factors (or Principal Adverse Impacts [PAIs] in the regulators' jargon).

In tandem with the Action Plan, amendments to the Markets in Financial Directive (MiFID) II and the Insurance Distribution Directive (IDD) mean that from August 2022, a client's sustainable preferences must be included in the suitability process too.

Combining all of the above, that's a lot of box-ticking that needs to be thought about.

Thankfully though, client demand for sustainable investing is increasing. Whether it's the latest David Attenborough documentary or a stronger societal conscience born out of the Covid-19 pandemic, people have become more sustainably conscious and use purchasing power to support businesses that have a positive impact on the environment. It's no surprise that many want to adopt a sustainable approach to their finances and uncover the environmental risks associated with their investments.

For wealth managers, juggling sustainability data to meet regulatory requirements while adding value to the customer experience requires a fine balance. Here are some tips to help you avoid common pitfalls.

DON'T BE OVERWHELMED BY THE EXPLOSION OF DATA

Sustainable investing is an evolving space - new data is being made available daily and even the non-regulatory data in the marketplace is being enhanced to reflect the progress in both disclosures and research.

As an example, at Morningstar we've recently enhanced the Sustainability Globe Ratings to include sovereign ESG risk which has expanded our ratings coverage by 30%. In line with the EU Action Plan, we've also been working on Taxonomy alignment data for ESG investment vehicles, and additional reporting at both company and fund level on SFDR, including PAI impacts.

Many of these regulatory data points and others will be made available in a new European ESG Data Template called the EET, developed by the European Working Group (FinDatEx)[1] which is expected to be ready later in 2022. The template will cover all European regulatory data sets as well as further data aimed at helping advisors to better define the suitability of their investments based on a client's sustainable investment preferences.

While all of these developments are undoubtedly positive, given that this might amount to over 600 new data points, how do you avoid becoming overwhelmed?

Start by looking at your firm's approach to sustainability and how you want to develop your proposition. There is a great deal of sustainable investing data at your disposal already, and you can find similar data points to those coming along in the pipeline. About a quarter of EU funds, for example, are now classified as an Article 8 or 9 fund in line with the SFDR, meaning they have either ESG integration or an ESG focus[2].

Morningstar has a range of different data sets across ESG risk, carbon, product involvement, sustainable attributes, and qualitative assessments of fund managers. We can provide additional look-through data based on our full holdings database and Sustainalytics' company and sovereign ESG research, to find the right insights that meet the needs of your firm and your clients.

Remember that you can build out your approach to sustainable investing and advice, iterating and improving from a more informed standpoint as more data becomes available. Waiting for the perfect data set is not a reality.

PUT YOUR CUSTOMERS AT THE HEART OF THE PROPOSITION

Your clients are probably more interested in sustainable investing than you might think. Recent research from Boring Money indicated that 83% of investors would value a conversation with an advisor about investing sustainably, and 40% say the Covid-19 pandemic has made them consider it even more[3].

Morningstar also conducted a study with Boring Money to gather feedback from UK retail investors on the use of sustainability data within reporting. From 'Eco Warriors' at one end of the spectrum to those purely focused on returns on the other, results confirmed that in order to provide meaningful ESG data to clients, a thorough understanding of their motivations was essential first.

To what extent is your client environmentally and sustainably conscious? What is the objective of their current or proposed investment, and how is it meeting its E, S, and G considerations?

Avoid getting caught up in regulatory framework and jargon – most investors will not want to be presented with Taxonomy alignment metrics, or Article 8/9 data. They'll want digestible, easy-to-understand insights instead. Things like investment objective, third-party validation metrics, explainer content, visuals, and context, go a long way. Putting you customer at the heart of the integration and adoption of ESG within the business will help you to improve personalisation, develop trust and portray integrity – all actions that improve the client experience.

GET AHEAD OF THE DIGITAL DISRUPTERS

You can be certain that the digital disrupters in the wealth industry will already be on top of points one and two. They will be pushing ahead with what's available, iterating over time and not becoming lost amidst the explosion of new data.

Disrupters are predominantly providing a digital or hybrid advice solution, which makes the customer journey that much more important. These firms are totally customer focused when developing their solutions, taking time to listen to their clients and sharing these insights with the wider business. They won't be regurgitating regulatory data points either - they'll be listening carefully to individual needs and translating what is required from a regulatory standpoint into an accessible, human solution. To stand a chance of competing in the ESG space, you've got to be doing the same.

Incorporating sustainability data into your investment and advice processes is now a necessity. While firms will continue to be challenged from a regulatory standpoint as disclosures evolve at pace, remember not to lose sight of your clients. One person's ESG goals and objectives will differ entirely to another's and trying to meet all of these ambitions highlights the need for diversification of products, information, and most importantly, how it's communicated.

[1] https://www.fefundinfo.com/en-gb/news/the-european-esg-template-eet-what-is-it-all-about/

[2] https://direct.morningstar.com/research/doc/1064696/SFDR-Article-8-and-Article-9-Funds-Q3-2021-in-Review

[3] https://www.boringmoneybusiness.co.uk/reports/the-great-british-sustainable-savers-census/

THE BLACK HOLE OF GREEN FINANCE

Tech can be a microscope for matching ESG preferences to products, but too often it's a blindfold, explains **Dr Greg Davies**, Head of Behavioural Finance at **Oxford Risk**.

ESG AND SUITABILITY

As the ESG industry expands, so does recognition of its darker elements. There are signs of trouble ahead. And it's likely to be unsuspecting and unsatisfied investors left picking up the tab. Investor demand for investments with some sort of socially conscious edge is obviously rising. But it is in asking: "what is it, *exactly*, that they want?" that we start to see difficulties.

The main issues with ESG – from "greenwashing" (promoting the appearance of alignment with ESG objectives, regardless of its reality) to a lack of standardised terminology and governance – are fundamentally linked to suitability: matching investors to the right investments for them.

The right products are not always bought by the right investors. Outright scams aside, investment mistakes tend to be less about objectively poor investments, and more about subjectively unsuitable ones.

As with standard suitability, because of the complex web of data to crunch, and moving parts to assess, appropriate use of tech is at the heart of matching investors with specific social goals and preferences to investments with the best chance of meeting them.

However, in the current ESG environment, the tech is not always used appropriately; it's often as likely to act as a blindfold than a microscope.

THE ROLE OF TECH

In ESG even more than traditional investing, investors are after a simple solution for their complex preferences. This isn't impossible. But in the short term it's easier to sell a simple solution by ignoring the complexity of those preferences.

This is a problem. Because the onus can't be on investors to figure out when a solution that sounds great works poorly, whatever their incentives for doing so.

The parallel here with traditional suitability is that all investors should have their risk tolerance measured by a questionnaire that's scientifically valid and reliable. Most questionnaires, however, are nowhere near either.

The tech traps in ESG suitability come from being so caught in the "green rush" that the power of tech is focused on slick sales at the expense of sound solutions.

Three main expressions of this are:

1. Promotion of ESG in general.

2. Precision of investor preferences.

3. Prioritisation in product creation.

Tech can overcome all of these, but it can also ignore or even exacerbate them.

Problem 1: Promotion – Calling something responsible doesn't mean it is

For want of a standardised menu of meaning, ESG labels on funds are becoming as meaningless as the word "natural" on a food label. Sadly, such labels are often all investors have to go on; and being told to trust everyone is grounds for trusting no one.

There's a parallel here with standard suitability regulations that can require only that "risk tolerance" be "considered". Which is shorthand for "measured somehow" rather than "measured accurately".

Problem 2: Precision – Profiling preferences doesn't mean they're used accurately

Investors, especially when it comes to ESG, have complex recipes of preferences, yet most "measures" allow for no such nuance. This is akin to using risk tolerance as a proxy for all behavioural aspects of financial personality.

ESG preferences are far from one-size-fits-all. This is a job that requires more than asking people how much they love polar bears or hate Monsanto.

At Oxford Risk, we've been tracking responsible-investing preferences for years, and it's clear that investors interested in ESG are trying to meet many different – and often insolubly contradictory – goals.

To take only the most consequential example: some are not only willing, but positively keen to make financial trade-offs for social good. Others are not. Some want to see a big positive impact. Others are happy with simply screening out the worst sinners.

Problem 3: Prioritisation – Being able to count something doesn't mean it counts

A focus on what can be measured risks products being developed not to help investors meet their social goals, but to game the measurement system.

Focusing products on what is easier to measure, rather than what best meets investors' goals is akin to measuring "risk capacity" with reference only to current assets simply because they have a known value, even if future assets – even adjusted for uncertainty – can have a much greater influence on the right level of risk to take.

A focus on the easier metrics to hit – even when they match stated preferences – can even work against potentially higher-order preferences. Because individual investor preferences are not a shopping list of independent items, but a recipe of interdependent ingredients.

What evidence of impact do investors want to see?

There's an argument that until there is a demand for anything more, these problems are overstated. Yet it's hard to demand what you do not know exists.

As above, like aspirant healthier eaters being led astray by manipulative use of "natural" on a food label, the onus cannot be on investors to not only look for evidence, but to interrogate it too.

Our research has demonstrated that when it comes to knowing if investments are fulfilling their promises, investors – understandably – seem not to distinguish much between sources of evidence, or between more or less credible evidence.

We also asked what information investors would find most useful when considering making a sustainable investment – e.g. an independent suitability ranking relative to peers, or against an absolute score, or simply being labelled as "sustainable", and so on.

There was remarkable consistency across all options – investors simply don't differentiate between them much.

For most it's not only about the details or the numbers, it's about emotional comfort that these things do what they claim to do, and trusting in independent parties to verify those claims.

It is the responsibility of those with the relevant technological capabilities to use them to make suitable solutions for investor desires, not merely manipulate the desires to fit the simpler solutions.

How might this be done?

AN ESG SUITABILITY FRAMEWORK

We need a robust framework that turns a rich human profile full of nuance and uncertainty into a process for suitable portfolio recommendations and ongoing investor management.

The Oxford Risk approach (simplified for the purposes of this article) is as follows:

Step 1 is to ask "How much ESG should the investor be encouraged to have in the overall portfolio?" This is akin in traditional suitability to determining how much risk an investor should be encouraged to have, and a personalised analysis of the barriers to investing further into ESG.

Step 2 is to ask "From how far down the impact spectrum (from a heavy focus on impact, to mere exclusion) should the components be selected?" This is akin in traditional suitability to a high-level asset allocation.

Step 3 is instrument selection. There are multiple ways to meet any high-level asset allocation. Key aspects here are investor preferences for the level, the immediacy, and the location of impact they want to have, and whether they would prefer to support more secure causes, or take a punt on more ambitious "moonshot" ones.

Step 4 is ongoing investor management: what tailored behavioural messages should be used around how and why ESG is integrated into the portfolio?

THE OPPORTUNITY AND RESPONSIBILITY OF TECH

The role of technology in the hands of investment providers and advisors is crucial to grasping the opportunities, and meeting the responsibilities of matching socially-minded investors to suitable ESG investments.

Given the complexity of both human preferences, and the ESG world in general, there is a temptation to dodge the hard questions.

But with the right use technology we don't have to. A behaviourally conscious analysis of the nuanced world of investor ESG preferences, set within a framework designed to match investors to investments at scale, allows us to see better solutions more clearly, and generate better and more sustainable outcomes as a result.

About Oxford Risk

Oxford Risk software helps financial institutions efficiently personalise advice and service. We improve client outcomes using behavioural finance and data analytics. Our risk profiling tools have been used by international banks and major wealth managers for over a decade. Relaunched in 2017 by Dr. Marcus Quierin and Dr. Greg Davies, we offer the most advanced suite of behaviourally designed suitability and client engagement software to help financial institutions deliver personalised, holistic service.

For more information, visit www.oxfordrisk.com

OXFORDRisk

WHY CLOUD-BASED DATA MANAGEMENT IS THE FRONT-OFFICE DIFFERENTIATOR

Boris Bykhovsky, Senior Director, Solutions Management and Consulting at **SS&C Advent**, explains why wealth managers should be looking to front-office solutions which manage and transform data in the cloud – whatever their business model, target market and strategic plans.

If I had to name the most neglected part of the wealth management technology piece, it would have to be data quality. All too often it is thought of as a back-office issue; in fact it is very much a front-office and client experience one too. After all, relationship and portfolio managers can only make good decisions for clients – and have meaningful conversations with them about those decisions – if they have accurate and timely data.

Just as in every other walk of life, the sheer amount of data which wealth managers have to handle is growing exponentially. Data quality issues concern not only what is being served from the institution's core asset management platform itself but what comes in from a whole range of external data providers too. Consider all the market data required to cover the huge range of investments clients want to hold today, the various currencies firms will be working in and all the custodians they have to interface with, and the magnitude of the data quality challenge becomes all too apparent. And now, with the proliferation of additional factors like ESG with its highly variable datasets, firms are often finding it necessary to work with either several vendors or produce their own proprietary research to get the coverage and assurance they need.

DATA QUALITY ISSUES CONCERN NOT ONLY WHAT IS BEING SERVED FROM THE INSTITUTION'S CORE ASSET MANAGEMENT PLATFORM ITSELF BUT WHAT COMES IN FROM A WHOLE RANGE OF EXTERNAL DATA PROVIDERS TOO.

At a surface level, one might say that data management and quality isn't perhaps the most thrilling issue. All too often, technology is sold – and bought – on the basis of shiny new features. The trouble with that approach, however, is that it's like buying a new car based on its looks alone. Sure, the colour might be perfect, but if it hasn't got an equally great engine then, quite frankly, you're going nowhere.

GAME-CHANGING TECHNOLOGY

If wealth managers wish to turbo-charge their efficiency, profitability or growth (and why not all three?) then data management and quality should be a key priority. It certainly always has been for SS&C Advent, but never more so than now as technological advances have fundamentally changed the data game.

IF WEALTH MANAGERS WISH TO TURBO-CHARGE THEIR EFFICIENCY, PROFITABILITY OR GROWTH (AND WHY NOT ALL THREE?) THEN DATA MANAGEMENT AND QUALITY SHOULD BE A KEY PRIORITY.

It's all about the cloud. With our new portfolio management solution, Genesis, we've moved the bulk of data management and transformation into the cloud. This is a transformative development.

Historically, systems will have had an array of unique integration points into accounting systems, data warehouses and potentially other front and middle-office solutions. The mid-point was firms using more modern transformation frameworks which, while they could handle both types of dataset, were quite costly to manage and unlikely to be built for the governance that process required.

The future of integration, which we are bringing the industry today, is to leverage flexible and scalable data lake and warehouse technology in the cloud with ETL (Extract, Transform, Load) or to build transformation logic right onto the cloud infrastructure.

THE FUTURE OF INTEGRATION, WHICH WE ARE BRINGING THE INDUSTRY TODAY, IS TO LEVERAGE FLEXIBLE AND SCALABLE DATA LAKE AND WAREHOUSE TECHNOLOGY IN THE CLOUD WITH ETL (EXTRACT, TRANSFORM, LOAD) OR TO BUILD TRANSFORMATION LOGIC RIGHT ONTO THE CLOUD INFRASTRUCTURE.

Leveraging the best of what the landscape has to offer today creates the ability to handle all manner of transformations with ease, no matter whether structured, semi-structured and unstructured data is in play. Suddenly, all the really sophisticated front-office analytics today's wealth managers need are very much more attainable – and in short order too.

HOURS, NOT MONTHS

I've been in the investment management tech business for many years and it is no exaggeration to say this new technology is proving *transformative*, not only for asset managers themselves but also for how we at SS&C Advent work. Whereas before implementing a new portfolio management system invariably involved months of getting data into the right shape, today environments can be stood up in less than a day. Now we can spend 99% of our time where it really impacts the institution's bottom line: training and, just as importantly, the development of ultra-specific workflows which make life easier for asset management professionals.

NOW WE CAN SPEND 99 PERCENT OF OUR TIME WHERE IT REALLY IMPACTS THE INSTITUTION'S BOTTOM LINE: TRAINING AND, JUST AS IMPORTANTLY, THE DEVELOPMENT OF ULTRA-SPECIFIC WORKFLOWS WHICH MAKE LIFE EASIER FOR ASSET MANAGEMENT PROFESSIONALS.

Helped immeasurably by our move to the cloud, we are able to introduce new features weekly. Our recently released fixed income tools are in case in point. First, we made it so that users can group their portfolios dynamically by credit quality, issuer and other relevant attributes to see their exposures at any of those levels; then, we turned to multi-asset portfolios and created an ability for managers to shut out the "noise" of the non-fixed income portion for specific analyses of those exposures. That ability to switch effortlessly - and in real time - from high-level analytics to deep dives into one asset class is what real insight looks like. Institutions tells us their end-clients are suitably impressed.

Having invested in our platform to deliver new updates on a weekly basis with confidence has had a hugely positive effect on adoption, which we all know is a real issue when change fatigue must surely be setting in at many institutions (not to mention fatigue generally considering the times we're living through). Getting personnel excited about change because it is tangibly something that will work for them, exactly in the way they would ideally like to work, has to be the aim.

THE NEED FOR SPEED

The same goes for institutions as a whole. With business logic and processing in the cloud, calculations can often be carried out by several orders of magnitude faster than previously. How firms want to harness this is entirely their call. Some might focus on trying to improve returns through faster trading, while others might leverage this newly gained speed to run scenarios live in client meetings and so deliver a richer experience. Vastly improved operational efficiency, such as by being able to rebalance many, many more portfolios at the same time, is a game-changer for many firms.

WHETHER GROWTH IS ORGANIC OR THROUGH ACQUISITION, THE ABILITY TO PLUG INTO WHATEVER YOU NEED, WHENEVER YOU NEED IT, IS AT THE HEART OF THE DATA TRANSFORMATION STORY. AND WHAT A POWERFUL ONE IT IS FOR AMBITIOUS ORGANISATIONS.

From a macro perspective, we are seeing more and more firms look to scale through mergers and acquisitions as well. Going cloud-based also facilitates change in the broadest sense of integrating after M&A or launching new business lines. Firms wanting to be able to stand back up as a newlywed, enlarged organisation, possibly time and again after multiple acquisitions, is the kind of challenge cloud-based infrastructure was made for. On the flipside, it is ideal for those looking to diversify and extend their services into tax or financial planning systems or other services more organically. Whether growth is organic or through acquisition, the ability to plug into whatever you need, whenever you need it, is at the heart of the data transformation story. And what a powerful one it is for ambitious organisations.

I began by saying that data management and quality perhaps isn't the most thrilling subject, but on reflection perhaps it actually is, for those in the know at least. All in all, cloud-based data management and transformation should be seen as *the* front-office differentiator of the future, as this will support a better client and advisor experience - no matter what their business model, target market and strategic plans. For us at least, the future is now.

About SS&C Advent

SS&C Advent is a proven and trusted provider of technology solutions and services to investment managers around the world.

We help over 4,000 investment firms in more than 50 countries – from established global institutions to small start-up practices – to grow their businesses, minimise risk, and thrive. We have been delivering unparalleled precision and ahead-of-the-curve solutions for more than 30 years, working together with our clients to shape the future of investment management.

To find out more and discover our full suite of solutions, visit www.advent.com

SS&C | ADVENT®

THE QUEST FOR SCALE: ENSURING NEW WEALTHTECH DELIVERS ENHANCED PRODUCTIVITY

Outsourcing can deliver great benefits, but careful thought needs to go into both its configuration and the provider. Here, **Tom Wooders**, Head of Sales at **Titan Wealth**, offers a checklist of considerations to help institutions make the right choices.

According to a wealth industry report recently commissioned by Titan ("The link between outsourcing, profit and scale", November 2021) outsourcing wealth managers have outperformed those firms which have retained their in-house technology and operations infrastructure, in terms of both higher assets and revenue growth, over the last five years. Titan's report suggests those wealth managers deploying outsourced platforms employ on average circa 20% fewer staff in the performance of day-to-day operational tasks, demonstrating the productivity benefits on offer.

Defined as proportionate value derived from available business resources, productivity has a direct impact on overall business margins; the holy grail for all wealth managers being an increase in profit margins on revenue at a rate that outpaces associated percentage cost. According to the same report, only 37% of wealth managers are currently growing revenue faster than costs, suggesting a poor track record overall regarding business scalability. The same report finds that only 11% of overall operational costs have been expended by wealth managers, indicating a reluctance to embrace outsourced solutions and a relative failure to reallocate resource away from traditional in-house cost centres.

REASONS FOR RETICENCE OVER OUTSOURCING

The reasons for this reticence are manifold; including perceptions regarding dilution of control over future business direction, a restricted ability to retain staff where business functions have been outsourced, and potential complication of existing business models. Another historical area of concern has regarded perceived "one size-fits-all" outsourced platforms lacking the nimbleness to support bespoke client solutions or failing to provide white-labelled client portals and reporting that encourage client allegiance with their wealth manager.

Such concerns highlight the need among wealth managers to source solutions that are capable of accommodating ongoing innovation and scalable growth, facilitating increased productivity through process enhancement and automation and therefore an increased focus on generating added value to the manager's end-clients. The end result of delivering higher quality client service is increased revenue and ultimately margin enhancement, with technology a key contributor.

TECH'S AMPLIFIED ROLE

Through process automation and augmented risk mitigation, new generation wealth platforms can reduce administrative burdens, simplify client onboarding and onward engagement, and thereby act as a spur to greater cost efficiencies and overall business productivity. The role of new technology in generating the above business benefits has been amplified by the Covid pandemic; having clearly demonstrated the need for digital client interaction, the last couple of years have seen an accelerated pace of digital transformation in how wealth managers conduct their day-to-day business.

This has engendered increased investment across front, middle and back-office technology; many wealth managers do not have the bandwidth or expertise to develop their own digital platforms and are still deploying legacy systems that are either functionally inflexible or have highly fragmented process architecture. While implying a high replacement cost, legacy systems also typically require retention of ever more expensive specialist technology support and integration expertise. Technology that pre-dates open architecture and API connectivity does not lend itself to fast-paced innovation and adaptability and therefore contrasts with newer, digitised solutions encompassing consolidated data and more flexible client administration and reporting.

HOW TO CALIBRATE OUTSOURCING

In evaluating outsourced technology solutions, wealth managers must decide which of their business processes best lend themselves to outsourcing. When considering the deployment of outsourced solutions wealth managers must consider the following: comparison versus the cost of maintaining in-house systems, the ability of existing systems to meet an ever-increasing regulatory burden and an ongoing capability to innovate to meet new market and client expectations.

Any new technology platform also cannot materially restrict business flexibility or functional coverage. Set against the perceived risk of loss of control and business autonomy, wealth managers must also assess the benefits of tapping into the broader industry expertise and inherent economies of scale of outsourced platform providers.

SET AGAINST THE PERCEIVED RISK OF LOSS OF CONTROL AND BUSINESS AUTONOMY, WEALTH MANAGERS MUST ALSO ASSESS THE BENEFITS OF TAPPING INTO THE BROADER INDUSTRY EXPERTISE AND INHERENT ECONOMIES OF SCALE OF OUTSOURCED PLATFORM PROVIDERS.

Outsourcing can also convert fixed operational costs to variable, for example where outsourced platforms are charged based on usage (typically the preferred model of smaller wealth managers) or based around Assets under Management (AuM) where firms can more easily predict the cost implications of business growth and factor provider charges into end-client fees models.

These variable models are fast displacing traditional licence-based fee structures where ongoing minimum services fees are often dictated on the basis of long-term contractual commitments. The report we commissioned found that while wealth managers do not expect to sign short-term agreements when committing to new outsourced relationships, they do want to see pricing models that incentivise growth, for example via tiered charges or capped service minimum fees.

EVER MORE EXACTING EXPECTATIONS

Client expectations have become increasingly sophisticated regarding digital interaction with investment managers, including account set-up and how investment decisions are made. Wealth managers must weigh the opportunity cost of investment in digital technology, including ongoing pressure on margins where middle and back-office processes remain manually intensive and therefore engender disproportionate operational costs. According to the Titan report cited before, less than half of wealth managers in the UK have increased their margins in the past five years. The report does not see a direct correlation between AuM value and profit margins, but a common thread across wealth management firms is that the front office is the area of greatest expense and therefore has most potential drag on profitability where key client-facing functions are not sufficiently productive.

As mentioned previously, the right technology can offer seamless client interaction and a single source of client data, but as a means to maximising productivity and value, insourced systems must also be able to integrate easily to wealth managers' existing business governance, compliance and back-office functions. In this respect new technology must be easy to use and deploy, including modular application where new systems are connected to retained platforms and processes.

CLOSE RELATIONSHIPS REQUIRED

Providers of new technology and services platforms must also have the requisite resources available for training wealth managers' personnel and then providing ongoing support following the initial, crucial deployment phase. These aspects go beyond best-of-breed technology and reference the necessity of there being a close business partnership between the wealth manager and its technology services provider, where the wealth manager concerned can have absolute confidence that its initial and ongoing business needs will be readily understood and supported by its outsourcing partner.

Such a partnership must include on the part of the platform provider an appreciation of the wealth manager's core business needs and alignment to strategic goals, so that provision of outsourced services reduces business complexity and is sufficiently flexible to allow for targeted market solutions and ongoing functional innovation. While outsourcing is not simply a cost-cutting exercise, an appropriate service's commercial framework can facilitate appreciable cost efficiencies as the wealth manager's business grows.

Working with the right services partner can result in improved costs control, where clearly defined and agreed business objectives are formalised at the outset and in providing access to new generation technology that will align to existing systems infrastructure and sustain an increased processing workload as business volumes increase. In order to do so, any newly adopted technology must facilitate more scalable business processes that free up wealth managers' internal resources and by delivering improved productivity allow firms to achieve enhanced profit margins alongside continued business growth.

This is, admittedly, quite a lot for wealth managers to consider if they are to make the right outsourcing decisions. However, taking the time to do so will undoubtedly pay off.

About Titan Wealth

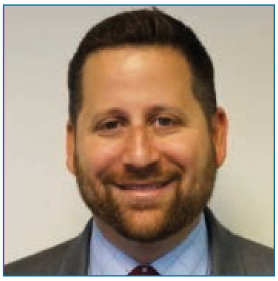
Titan Wealth Holdings was launched in summer 2021 with the investment backing of Ares Management, Maven Capital Partners, and Hambleden Capital. Bringing high-quality execution and administration to the asset and wealth management sector, Titan intends to grow its AUA to £30bn+ over the next 3-4 years, both organically and through targeted acquisitions. Titan has acquired wealth solutions and custody provider Global Prime Partners Ltd (GPP) and Tavistock Wealth Ltd (the DFM entity of Tavistock Investments Plc).

For more information, visit www.titanwh.com

TITAN
Wealth Solutions

ACCOUNTING AND INVESTMENT ANALYSIS FOR FAMILY OFFICES: FIXING THE DISCONNECT

Darren Berkowicz, Managing Director at **SS&C Technologies**, gives the benefit of his wisdom on how family offices can fix common disconnects between their investment and accounting systems.



In a typical high-end wealth management environment, portfolio accounting and investment analysis go hand in hand. The accounting system, after all, should deliver the data needed for managers to gain a comprehensive view of their positions, glean insights into risks and performance, and make informed decisions. In family offices, however, these processes are frequently disjointed. Without the pressure to account and report to investors other than family members, offices may not see the value of investing in an institutional-grade accounting system – leading to a vast data gap between accounting and analysis.

For example, many family offices still do their accounting work in spreadsheets and cobble together manual reports to produce something that presents less than a complete picture. However, as an office's investment strategies become more complex and its assets more diversified, the limitations of spreadsheet-based accounting become more and more glaring.

The next step is a general ledger package, enabling you to generate statements quickly. Still, it does not allow you to drill down into transactional events for investment analysis purposes. For example, simply booking debit or credit entries may give you a portfolio summary. But unfortunately, it's not going to provide the visibility to understand how and why a portfolio is performing as it is at any given time.

OVERCOMING THE PATCHWORK PLATFORM

Family offices have a tendency to make technology decisions based on low costs and immediate needs, which results in a patchwork of single-purpose systems – a general ledger, for instance, plus separate portfolio, investor and tax accounting systems. As a result, integrating systems that don't naturally communicate is a big challenge, especially if they come from different technology vendors. Moreover, manual workarounds are not only inefficient and error-prone, but they also make it extremely difficult to pull together the right information to analyse investments effectively.

The do-it-yourself approach extends to data management. For example, as offices gather data from their brokers, custodians and asset managers, they discover how complex data aggregation can be without the internal resources to manage it.

FAMILY OFFICES HAVE A TENDENCY TO MAKE TECHNOLOGY DECISIONS BASED ON LOW COSTS AND IMMEDIATE NEEDS, WHICH RESULTS IN A PATCHWORK OF SINGLE-PURPOSE SYSTEMS.

So how do family offices avoid these pitfalls? First, it's vital to make technology and operational decisions with a long view. Families are going to evolve. Investment entities are going to multiply. New opportunities are bound to emerge. You'll want to build a platform with the scalability to accommodate growth and the flexibility to adapt quickly to change.

DIVERSIFICATION IMPLICATIONS

Secondly, a piecemeal approach to your platform will not serve you as your assets continue to diversify. Today, family offices are branching from traditional equity and fixed-income strategies into hedge funds, private equity, venture capital, private credit, and direct investments in businesses and projects.

Unfortunately, many offices run multiple systems to account for and report on these different asset classes, leading to a fragmented view. What's needed is a single accounting system supporting a full range of asset classes, which can readily incorporate new or highly customised investment types. The system should also account for multiple investment entities within the family framework.

Instead of simply buying technology products, look for a technology partner – preferably one with a comprehensive, seamlessly integrated toolkit with a robust portfolio accounting system at the core. The accounting system should have the ability to aggregate data from multiple sources through easy integration and automated connectivity and to update data across the entire investment platform with a single change.

SETTING A CLEAR GROWTH PATH

You don't have to buy everything at once, but working with a single provider gives you a clear growth path. When you need to add different capabilities as your needs change, it won't entail cumbersome workarounds or complex engineering.

In a fully integrated platform, the portfolio, tax and investor accounting systems all work together with the general ledger, without the need to re-key data from one system to another. Transactional events are captured in the accounting system. They are simultaneously recorded as general ledger entries. You'll be able to view and report on portfolio holdings from various angles and generate individual financial and net worth statements for family members. A more sophisticated platform might include modules for performance measurement, portfolio analytics and risk, providing you with even deeper insights rooted in consistent, reliable data.

All of this assumes your provider can deliver not only this breadth of integrated capabilities but also has a demonstrable track record of helping other family offices solve similar challenges. So, again, trust in experience and maturity.

THE OUTSOURCING OPTION

If it feels like you're facing a significant investment in new technology to optimise your portfolio data for investment analysis, outsourcing might be the best option.

IF IT FEELS LIKE YOU'RE FACING A SIGNIFICANT INVESTMENT IN NEW TECHNOLOGY TO OPTIMISE YOUR PORTFOLIO DATA FOR INVESTMENT ANALYSIS, OUTSOURCING MIGHT BE THE BEST OPTION.

Family offices are keen on control. The word "outsourcing" may conjure images of a full operational lift-out and a loss of visibility. However, this view of outsourcing is outdated. These days, family offices have a wide range of options along the outsourcing spectrum to ensure you maintain as much control as you need, with complete transparency and access to your data and portfolio activity. You may have good reasons for wanting to retain specific operational processes in-house. So look for a provider with a flexible, client-focused service model and co-sourcing options easily adaptable to your preferences.

Technology outsourcing can produce cost savings compared to traditional software licensing, implementation, training, maintenance and upgrading, reducing the need for in-house IT expertise. A key reason for outsourcing is to relieve your office's responsibility to keep current with rapidly advancing technology. You'll want to be sure your provider has the wherewithal to continually reinvest in new technologies and ensure you don't fall behind.

MORE PRODUCTIVE PURSUITS

From the operations perspective, outsourcing can deliver significant efficiency gains. Freed from routine everyday processing, your in-house operations team can turn their energies to more productive pursuits, overseeing the outsourcing relationship and reviewing the daily work rather than doing it. In addition, make sure the provider you choose can augment your internal resources with specialised expertise in accounting, tax and compliance issues, as well as operational best practices.

NOT ONLY SHOULD YOU EXPECT TIMELY, ACCURATE AND THOROUGH INFORMATION ON YOUR OFFICE'S INVESTMENTS, BUT YOU SHOULD HAVE THE ADDED LUXURY OF TIME TO DIGEST IT AND MAKE WELL-THOUGHT-OUT DECISIONS.

Above all, look for a provider capable of ensuring data integrity, quality and reliability and delivering an aggregated picture of each family member's interrelated wealth. Not only should you expect timely, accurate and thorough information on your office's investments, but you should have the added luxury of time to digest it and make well-thought-out decisions. As a result, spend less time generating, compiling and organising data and more time analysing it.

The path from accounting data to investment insights should be free of obstacles, and you don't have to go it alone. The key is finding an outsourcing partner with the breadth of capabilities, depth of expertise and proven infrastructure to put you in full command of your investments.

HOW TO INTERFACE DIGITAL ASSETS WITH THE FAMILY OFFICE

Moves by family offices to increase exposure to digital assets have important implications across tax, regulation and technology. Here, **Marc L. Rinaldi**, Partner at family office consultancy and tech advisory **PKF O'Connor Davies**, shares his views on the fast-changing landscape of digital assets and their impact on the family office space.

TOP CONCERNS FOR FAMILY OFFICE CLIENTS REGARDING THEIR DIGITAL ASSETS STRATEGIES

Often the first question clients ask is, "How will my use of digital assets impact my operating businesses and direct investment?" The second is, "How do I safeguard and invest in digital assets and decentralised finance – and report on them – when they are moving at breakneck speed?"

Family offices are also weighing future regulation and how likely the US government is to create a US dollar-based coin.

Understanding digital assets that include cryptocurrencies, stable coins, tokenisation, and decentralised finance requires an understanding of how these products and services are changing the fundamentals of finance – from investing and transacting to raising capital.

FAMILY OFFICE TRANSFORMATION

Willingness to participate in this new economy is part of a broader digital transformation for family offices, whether they are introducing new digital business processes or finding new ways to manage investments and client interactions or exposing their portfolios to new asset classes. It is important, therefore, to grasp the main types of digital assets in circulation and their ownership responsibilities.

Rinaldi believes family offices are at the start of a long period of adaptation into a different financial world. Right now, the broader economy is in the phase of establishing an alternative market to fiat currencies. Governments can't stop printing money, so people are saying they are not going to rely on that source of historic value. The problem is that the alternative has been made into a supply and demand driven commodity.

Bitcoin may be displacing gold in the minds of some investors, who feel monetary policy has left fiat currencies debased, but Bitcoin still sits in the speculative currency camp.

WIDE-RANGING DISRUPTION

Rinaldi says clients are increasingly "dabbling" in trading cryptocurrencies and starting to invest in decentralised finance concepts or strategies. They are now starting to understand that software applications using blockchain technology, such as Ethereum, can help them create better supply change management or be put to other financial or commercial uses. Logistics, document management, accounting and record keeping are other sectors that cryptocurrencies are being used.

"When the ability to transact or function between the financial world and the document world is available and when those pieces can be connected, efficiencies are created, disruption happens and money can be made by creating a more cost-effective or better product," he said.

A recent survey from Goldman Sachs suggests that at least 15% of family offices worldwide are exposed to crypto and around half are interested in some near-term exposure. More families in recent times have also been using cryptocurrencies as a hedge against rising inflation.

The ultra-wealthy are also turning to stable coins as an alternative to fiat currencies when as foreign citizens they expect devaluation of their own currencies. Stable coins are virtual coins pegged to the US dollar, euro, yen, gold or other stable denominations backed by reserves.

RIGHT NOW, FROM A TAX PERSPECTIVE, DIGITAL ASSETS ARE CONSIDERED AN INTANGIBLE ASSET, WHICH BRINGS UP ALL TYPES OF ACCOUNTING ISSUES.

"Right now, from a tax perspective, digital assets are considered an intangible asset, which brings up all types of accounting issues," Rinaldi says. "Every day, I get inquiries about digital assets whether concerning trading, investing, commercial integration or arbitrage," he adds.

THE BUILDING BLOCKS

The backbone of this flood of interest is decentralised finance, or DeFi, that is increasingly residing on a new crop of crypto blockchain technologies such as Ethereum, Solana and Cardano, to name a few.

These sophisticated protocols are creating their own "decentralised exchanges" that can accommodate all manner of financial transactions and functions normally performed by banks.

Blockchain proponents see these platforms managing everything from retirement portfolios to insurance policies, delivered at a lower cost, with far lower exposure to fraud.

TOKENISATION: TAX APPROACH

Rinaldi likens the tax implications of "minting" digital assets into tokenised ownership, that has lit up the art world, to owning IP, where the IP needs to be reviewed from an impairment perspective. He uses the analogy of a couple running an art business to demonstrate.

After using an NFT exchange to post and sell tokenised NFTs of their work and receiving payment in Ethereum, Rinaldi says the tax question became, at what price did they own the Ethereum? "In their case, the currency price was $4,800. With Ethereum trading well below that today, they have lost more than 20 per cent of the value of what they received," he explained. The advice was, think about selling the currency because you are going to have to pay tax on the whole amount.

"It was a practical piece of advice that you would not intuitively think about," he said.

NEW INVESTMENT CONSIDERATIONS

Opportunities have also arisen to trade crypto securities on a peer-to-peer basis rather than through exchanges such as Coinbase, Kraken or Binance. "There are still centralised crypto exchanges because of the need for coin custody," Rinaldi points out. However, he suggests "DeFi will work around this and still allow excellent coin custody as a separate function."

Another lure for those becoming comfortable in the digital space is gaining founder level access to Initial Coin Offerings (ICOs). These virtual offerings grant investors a stake in companies issuing new cryptocurrencies and the prospect of matching other lucrative coin offerings such as Ripple or Tether. "This is where families can really come into their own and where DeFi represents venture capital at its best," Rinaldi suggested. "As most crypto companies are registered LLCs or C corps, a family would invest in these vehicles just as they would a normal private securities investment."

REGULATION OF DIGITAL ASSETS

US regulation of cryptocurrencies is well underway for family offices dipping their toes in or looking to increase exposure. The market sense is that the SEC is trying to put these new digital asset classes into existing boxes, such as IPO issuances, private placements, brokers/dealers, investment managers, banks and lenders," Rinaldi said of current Fed thinking, and their desire to put a lid on the exuberance and stay in control.

More concerning for family offices deepening allocations is whether lawmakers will regulate the bigger family offices in the wake of the Archegos fallout. Rinaldi believes they will.

IS A US DOLLAR COIN ON ITS WAY?

Developing a digital equivalent of the US dollar should allow the Federal Reserve to replace physical currency and improve the transparency and control of central accounting, and potentially introduce taxation at source, with implications for everyone.

The upside for investors is that fungibility and liquidity alongside fractionalised ownership should improve their ability to exchange assets and make them more liquid and available.

'Equally, family offices, known for their patient capitalism, should have a smoother ride holding valuable illiquid assets on longer time horizons. "Direct investment holdings are also on course to be digitised and therefore easier to exchange," Rinaldi said.

VALUATION AND REPORTING OF DIGITAL ASSETS

Investors can still apply classic valuation techniques to determine the value of digital assets, Rinaldi points out. Market supply and demand dynamics still largely determine the price of Bitcoin and other cryptocurrencies, for example, and scarcity, value and global macroeconomics will continue to play their part.

THE TAKEAWAY

'The overall message for the family office is that while digital assets do present compelling use cases, investors will have to update their thinking – and technological capabilities – just as rapidly as they are changing their asset allocation strategies.

WHY BILL PAYMENT IS THE TECHNOLOGICAL WEAKEST LINK

Mark Wickersham, VP Strategy, Marketing and Business Development at **AgilLink**, explains how family offices can take a more systematised approach to client bill payment and how to avoid traps firms commonly fall into.

Until recently, bill payment and client accounting services were often overlooked. Family wealth firms have traditionally provided this service for a few key clients because they asked - rather than as a key component of a more holistic offering - and have relied on a mix of retail-based products and spreadsheets, leaving this as the weakest link in their technology stack.

> *BILL PAYMENT SERVICES ARE THE SUPER GLUE OF CLIENT RETENTION, BUT THEY CAN PRESENT CERTAIN RISKS IF NOT SET UP CORRECTLY.*

Yet bill payment can add tremendous value to your clients and your firm. In AgilLink's annual bill payment survey, the number one reason for offering it is to add stickiness to a client relationship. Bill payment services are the super glue of client retention, but they can present certain risks if not set up correctly.

AgilLink (formerly Datafaction) has been servicing business managers, family offices and RIAs that offer bill payment and client accounting to HNWIs for over 40 years, and has a deep understanding of the common mistakes family offices make when offering bill payment services to a broader segment of their client base. "How you set up the service for one or two clients is not going to scale when you try to offer it to a dozen or more clients," notes Wickersham. "You are just not going to have the controls and transparency you need to efficiently and securely manage the service."

"When firms fail to get it right, they then end up having to solve the problem with people rather than technology," he continued. "Our technology isn't revolutionarily different. What makes us different is that we have a deep understanding of the problems our clients are trying to solve."

START RIGHT

A scalable and secure bill payment process starts with setting up a separate operating account so that family offices are not paying bills out of clients' online banking account. Sharing client credentials is "a big no-no for a firm", Wickersham says: "If there are issues clients can start to point the finger at you. There is no audit trail and it can be difficult to verify where the problem came from or how that account was exposed."

A second common mistake firms make is not ensuring proper separations of duties; the person entering the bills should not be approving them. An institutional-grade workflow is foundational to a scalable service, where a bookkeeper may need approval from one or more partners and/or clients for certain invoices. Having an integrated, rules-based workflow ensures that funds are not released until the transaction is properly approved.

Detecting anomalies and potential problems quickly is key, but the foundation of this – timely bank reconciliation – is often overlooked due to the bill payment platform not being fully integrated with accounting systems. Falling behind on bank reconciliation is a sign that you do not have a scalable and secure bill payment platform.

SEE TECH AS A STRATEGIC ASSET

Broadly, the struggle many MFOs face when trying to grow beyond a certain size is a lack of integrated technology that efficiently supports the business. A human capital-intensive approach is not scalable or profitable. To unlock their true growth potential, Wickersham believes firms need to accelerate investment, look at technology as a strategic asset rather than a cost centre and embrace scalable cloud-based solutions that integrate with each other to create a best-of-breed technology stack. "I think being in the cloud is table stakes nowadays, and not just the software being in the cloud but having an API-based ecosystem and a mobile app too," said Wickersham.

> *I THINK BEING IN THE CLOUD IS TABLE STAKES NOWADAYS, AND NOT JUST THE SOFTWARE BEING IN THE CLOUD BUT HAVING AN API-BASED ECOSYSTEM AND A MOBILE APP TOO.*

MFOs must also provide an Amazon or Apple standard digital customer experience, giving their clients 24/7 on-demand access to their data on the device of their choice. Client feedback confirms that "having a mobile app is a big deal", as is controlling their participation level.

"Some clients want to always be involved in bill approval, but others only for certain situations and transactions - maybe they are building a home and they want to review all those invoices, or perhaps they just want to review bills over a certain dollar amount," Wickersham observed. "And if they are going to be involved it needs to be on their device of choice, which more often than not is their phone."

CARE NEEDED WITH AUTO DEBIT AND CREDIT CARDS

Another trap is relying too heavily on automated debit. Although it may be an appropriate payment method for certain important recurring expenses, such as paying mortgages or quarterly life insurance premiums, auto-debit differs from bill payment as you are giving permission for a company to take money from an account rather than giving permission for the bank to *make* a payment.

In Wickersham's view, relying on auto-debit for a majority of expenses is a sign that you do not have the proper technology and controls in place. Moreover, the lack of transparency and review can leave firms more vulnerable to fraud.

AgilLink encourages firms to apply many of these best practices to the processing of credits cards. Due to the volume of credit card transactions, many firms may not have the same level of control and may not reconcile credit cards like they would bank accounts. This elevates the risk of not detecting fraudulent transactions as well as the potential for internal fraud.

THE SWEET SPOT OF AUTOMATION *AND* CONTROL

According to Wickersham, there is scalable sweet spot which maximises both automation *and* control, but that depends on an industry-specific approach: "Without fully integrated technology, which is made for the purpose, adding more controls ultimately slows down the process. Having the core component in place, but not integrating it, will create gaps and manual processes - and ultimately increase risk."

WITHOUT FULLY INTEGRATED TECHNOLOGY, WHICH IS MADE FOR THE PURPOSE, ADDING MORE CONTROLS ULTIMATELY SLOWS DOWN THE PROCESS. HAVING THE CORE COMPONENT IN PLACE, BUT NOT INTEGRATING IT, WILL CREATE GAPS AND MANUAL PROCESSES - AND ULTIMATELY INCREASE RISK.

Integration starts with turning an invoice into a digitised format so it can traverse the whole bill payment lifecycle seamlessly – through an approval workflow, to an integrated banking/treasury management system and then to multi-entity general ledger in one unified system.

The ideal for family wealth firms is a solution which delivers true separation of duties, transparency, fraud risk mitigation, labour-saving efficiencies and full audit trail for both client management and compliance purposes.

"Even at the end of the process, when the accounting system is updated, if a client questions, 'Why were my expenses so high?' or 'Why did I spend $20,000 with this vendor?' they need to see with one click the back up and the actual digital invoice," Wickersham said. "Or, if an auditor comes in and says, 'Why did you pay this bill?' you need to be able to pull up the document to see who entered it, who approved it and all the timestamps, and make sure that it matches the client agreement."

Finally, Wickersham warned that family offices also need to be really sure of what they are signing up for where technology is concerned, particularly with cloud or SaaS solutions. "Since your vendor is providing a service in addition to the technology, you must first ensure good cultural fit and remember to evaluate them as a long-term service provider as well as a technology provider," he said.

But perhaps most important of all is to seek a provider which sees through a family wealth lens, as "generalist" solutions rarely make the grade. "We have developed our bill payment and accounting solution in collaboration with our family office and business management clients for the past forty years," Wickersham concluded. "That level of engagement and input with the industry is key."

About AgilLink

AgilLink provides secure bill pay and client accounting solutions to family offices, business managers and sport management firms. Our specialised solution incorporates document management, approval workflow, investment data integration and online banking with City National Bank allowing clients to scale while adding control and transparency.

AgilLink is an RBC company and is an affiliate of City National Bank Member FDIC.

For more information, visit www.agillink.com

AGILLINK
AN RBC COMPANY

Published by:
CLEARVIEW FINANCIAL MEDIA
52 Grosvenor Gardens
London, SW1W 0AU
www.clearviewpublishing.com

Sponsored by:
EY
1 More London Place
London, SE1 2AF
www.ey.com/fs