Operational Transformation:

Empowering wealth providers to drive new growth

Prepared by Compeer Limited

Introduction

Compeer, an independent research firm, was commissioned by FIS to conduct a series of interviews with C-level professionals at various wealth management firms. The basis of the research was the use of digital services and technology to support firms with their growth strategies, deliver scalable results, and improve profitability and productivity. This report outlines the key findings from this research.

Introduction to FIS

FIS® is a leading provider of technology solutions and services for financial institutions and business of all sizes and across any industry globally. Our wealth management business delivers modernized and agile technology, backed by a comprehensive global outsourcing and asset servicing model. Combined with our deep wealth expertise, broad reach of global investment markets and knowledge of local market nuances, our clients are positioned to meet market demands in a way that others simply can't.

Headquartered in Jacksonville, Florida, FIS is a member of the Fortune 500® and the Standard & Poor's 500® Index.

Key findings

- Acquisitions are a key feature of business growth and so further consolidation is expected in the UK wealth industry.
- Firms are confident their existing systems can cope with their target growth levels but are looking to invest more in digital. The client portal will be the focal point of this investment.
- Existing operating models are viewed to be scalable, efficient and cost effective but still there will always be room for improvement.
- When reviewing digital transformation, the changing view of clients is the main influence, followed by maturity of systems (for those burdened by legacy systems).
- To fully embrace digital, firms are likely to require additional skill sets, with some actively recruiting in this area.
- There is increased demand to outsource, but for many it is only a segment of their back office operations that they currently outsource. Only a few have opted to outsource the majority of their back office but many would do if they were to start from scratch.
- For those that do outsource in some way, they are largely complimentary and for all of them they have achieved the expected benefits of outsourcing.
- Firms value the level of expertise, flexibility and robust service provided by outsourcing partners. On the negative side though there have been some communication issues between different outsourcing partners and others have had some small concerns over specific functions such as trade execution.
- Reasons for holding back from outsourcing include the loss of control, the project management required and some concerns over value for money (it would be a significant overhaul for some firms).
- Profit margins are healthy and most believe their business is scalable.
- But firms are at the early stage of their digital journey, with a "long way to go" before they reach their ideal state.

Background of firms interviewed

The research was primarily targeted at small to mid-sized wealth management firms, with the prospect of achieving greater scale in the coming years. Therefore the majority of firms interviewed currently have less than £2bn of private client Assets under Management.

Size of firms interviewed

Private Client AuM

- Less than £2bn 50%
- £2bn-£5bn 29%
- £5bn-£10bn 21%

AVERAGE PRIVATE CLIENT ASSETS UNDER MANAGEMENT

£3BN

Each of the firms interviewed offered **discretionary portfolio management** services, often supplemented by other services such as **fund management**, **financial planning**, **private banking** or **execution only stockbroking.**

Throughout the wealth and advice industries there has been increased consolidation in recent years and this looks set to continue. When asked what will drive growth, over half of those interviewed suggested it will be acquisition driven. The remainder will focus on organic growth, primarily through referrals. Some are also looking to launch new products to target sets of clientele (MPS for affluent investors, platform services for IFAs, ESG funds for younger investors), whilst others will rely on the wider group they are within as a source of future inflows.

50%

Looking to acquire firms to drive business growth

Digital strategy & road maps

Today just under £1bn is spent a year by the UK wealth management industry on IT, much of which is linked to digital services and internal systems. There was a noticeable step increase in IT spend during the pandemic and the majority are predicting further increases going forward. So what are firms putting on their digital road maps for the next 3-5 years?

For many firms the key focus for digital services in the coming years is the client portal. This can be used not only as a reporting tool but also improve communication between advisors and their clients through secure messaging features.

Providing greater access is becoming increasingly important and some are looking to support this by developing portfolio management apps.

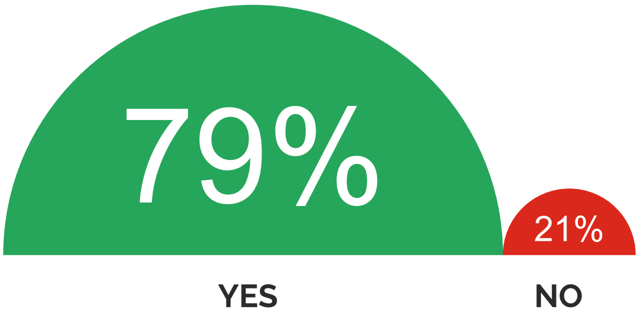
Digital road maps for next 3-5 years

- Improve client portal and reporting
- Simplifying client experience / on-boarding
- Providing more access for clients
- Greater interaction between clients and advisors
- Develop an app
- Purchase or upgrade CRM system
- Embracing hybrid working
- Using more cloud technology
- Overhaul of internal systems
- Invest in risk profiling tools
- Improve data on ESG
- Enhancing data hub

In some cases system upgrades are required. Those linked to risk management were mentioned by a group of firms, with CRM systems also proving to be a popular choice among wealth management firms.

Meanwhile, other firms are focussing on specific markets, whether it be ESG investments and expanding the data available in this area, or using technology to improve automation and allows them to service clients of all wealth bands in a more cost-effective manner, thereby bridging the advice gap formed in recent years.

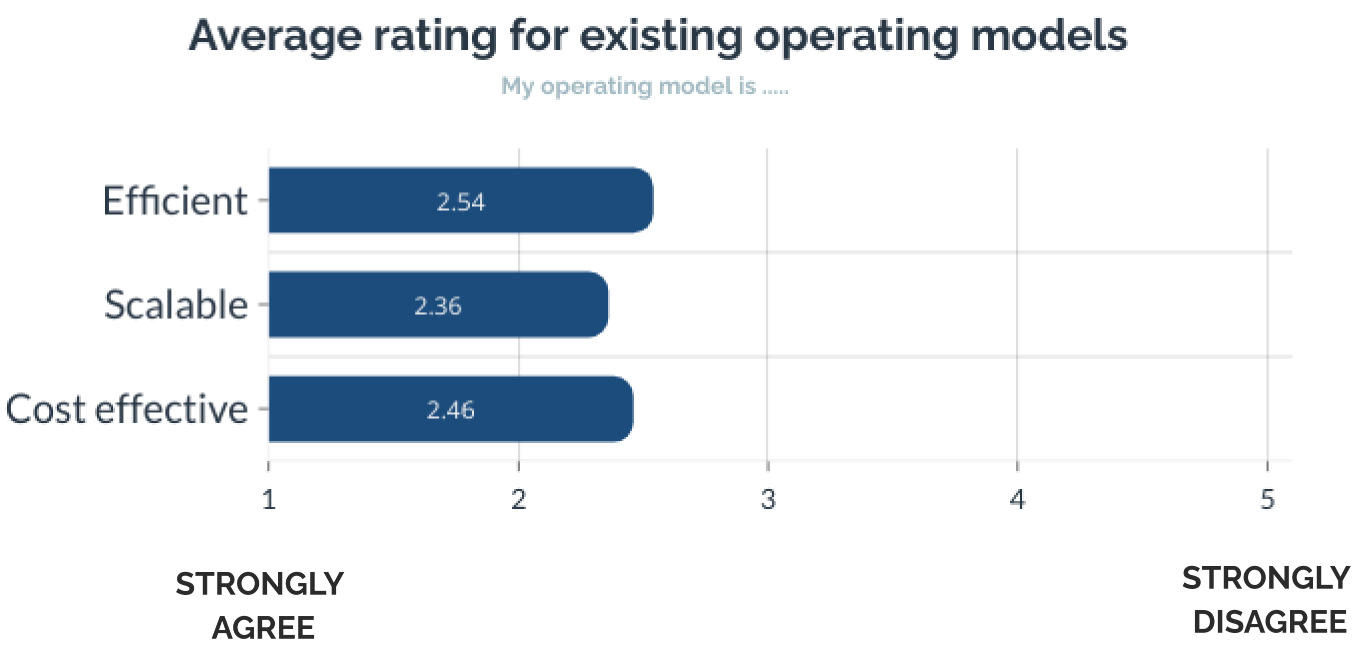
Can your existing systems support your expected growth levels in the short term?



Systems are a key feature on any firm's digital road map. As it stands only a small minority believe they need to replace their existing systems if they are to achieve the scale they are targeting in the short term. Most are therefore opting to invest in upgrades to their existing system or have already made this investment under the pre-requisite that they will grow. Interestingly though, firms often stated that their systems could cope up until a certain point but if they were to grow beyond that level it would be time for a system replacement.

Rating existing operating models

We have seen that largely there is a sense of confidence when it comes to existing systems being able to support expected growth levels in the short term. However, that is not to say these systems are perfect. Many still have issues surrounding efficiency and are far from cost effective, thereby having a negative impact on operating models. Firms were therefore asked to rate their existing operating models under various categories, with a score of 1 suggesting they strongly agree and 5 the opposite (strongly disagree)



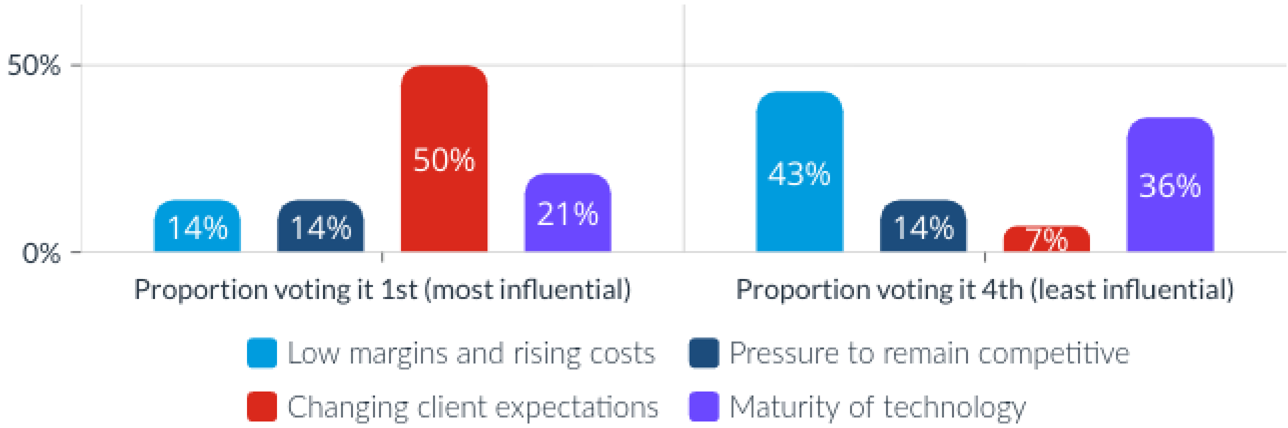
Further supporting the consensus that these firms can achieve scale with their current set-up, most agreed that their existing operating model was scalable, giving it the lowest (i.e. best) average score of 2.36.

Not too far behind were the ratings for efficiency and cost effectiveness, albeit having more firms scoring these 3 or higher and so edging towards disagreement. For efficiency in particular, some firms stated there will always be room for improvement and so they would never give this a score of 1.

Digital transformation & challenges

Firms have a clear digital strategy and often there will be a standout influencer behind this strategy. As can be seen below, when given a set of options to choose from, the most popular influencer given was that of changing client expectations. Although the older generation, which form the largest proportion of current clients, are becoming more technologically savvy, many firms are focussing on the next generation of clients when it comes to their digital strategy. With other industries such as retail banking being ahead of the wealth management industry when it comes to digital services, many younger investors expect a similar approach from their wealth manager and so these firms are having to embrace digital change.

Please rank the following in terms of their influence in driving your firm's digital transformation

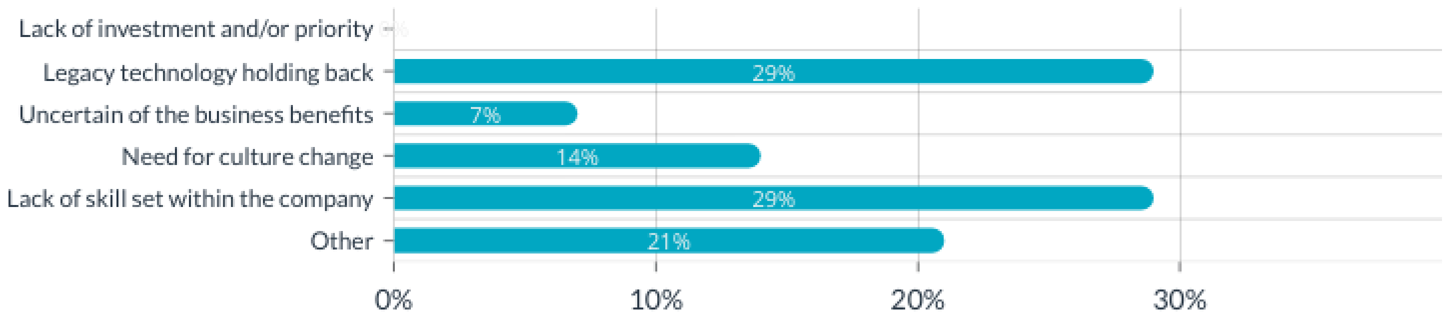


When considering the maturity of technology as being an influence, this received the most varied responses. It received the second highest number of rank 1 votes (behind changing client expectations), but at the same time was among the most popular to put bottom of the list. It is therefore very much dependent on the age of the firms we spoke to - those having started up relatively recently will unlikely be burdened by legacy systems.

Then when discussing challenges, for those firms where legacy systems were apparent, this was often suggested to be their main challenge. However, for others they also put a lack of skill set as a prohibitor of digital change. Some are countering this by recruiting digital specialists and undergoing training regimes with advisors.

What are the main challenges to driving the digital agenda at your company?

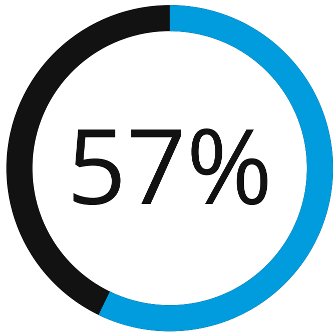
Proportion ranking each challenge 1st (main challenge)



Outsourcing operations

Currently less than 5% of all wealth manager costs are outsourced costs. Yet, when we speak with firms and ask if they were to start up a new wealth management firm, the majority are in favour of outsourcing large proportions of their back office.

Moving from an in-house solution to an outsourcing agreement is a significant move but we are starting to see some firms gradually move in this way. For example, more than half of the firms we spoke to outsource at least some part of their back office operations, with a couple of firms fully committing to outsourcing all of it. Custody was the most popular choice to outsource within operations. Whilst outside of operations, a few firms interviewed outsource IT.



Outsource operations (or at least part of it)

100%

Achieved the expected benefits of outsourcing these functions / processes within operations

Supporting the notion to outsource, in all cases, if a firm outsourced they believe they have achieved the expected benefits from outsourcing these.

Some were very complimentary towards the outsourcing provider, describing it as an "invaluable" service.

Then when quizzed as to what outsourcing partners do well (and not so well), their level of expertise as well as their reliability and flexibility were the most common positives used.

On the negative side, although they are good at communicating with their wealth management clients, some issues have arisen when communicating with other outsourcing partners (in the case of a firm outsourcing to multiple firms). Then firms tended to focus on specific functionalities, such as issues around trade execution or portals.

What outsourcing partners do well

- Innovation
- High level of expertise
- Communicating with firms
- Flexibility
- Cheaper than in-house
- Core service and fundamentals
- Robust, reliable and solid service
- Reduce burden and allow smooth operations

What outsourcing partners do less well

- Communicating with other outsourcing providers
- Some issues with trade execution
- Unable to offer a bespoke service in a cost effective manner
- CRM could be improved
- Some portals can lack functionality
- Larger providers can be slow to make changes
- Lack of understanding of unique business model

Choosing an outsourcing partner

So what therefore makes an ideal outsourcing partner? Great communication is a must, and they must align themselves with the business they are supporting. This coincides with them being flexible and adaptable and importantly in order to develop a strong relationship they must be clear surrounding expectations and so deliver on promises.

What makes an ideal outsourcing partner?

"Communication, followed by communication"

"Outsourcing teams become an extension of your firm and begin to develop the specialist knowledge within them"

"Communicative and culturally aligned. True partners and not just business associates."

“Somebody who can do something better than you for a cheaper price”

"Adaptable and flexible. They must understand the firm and client needs."

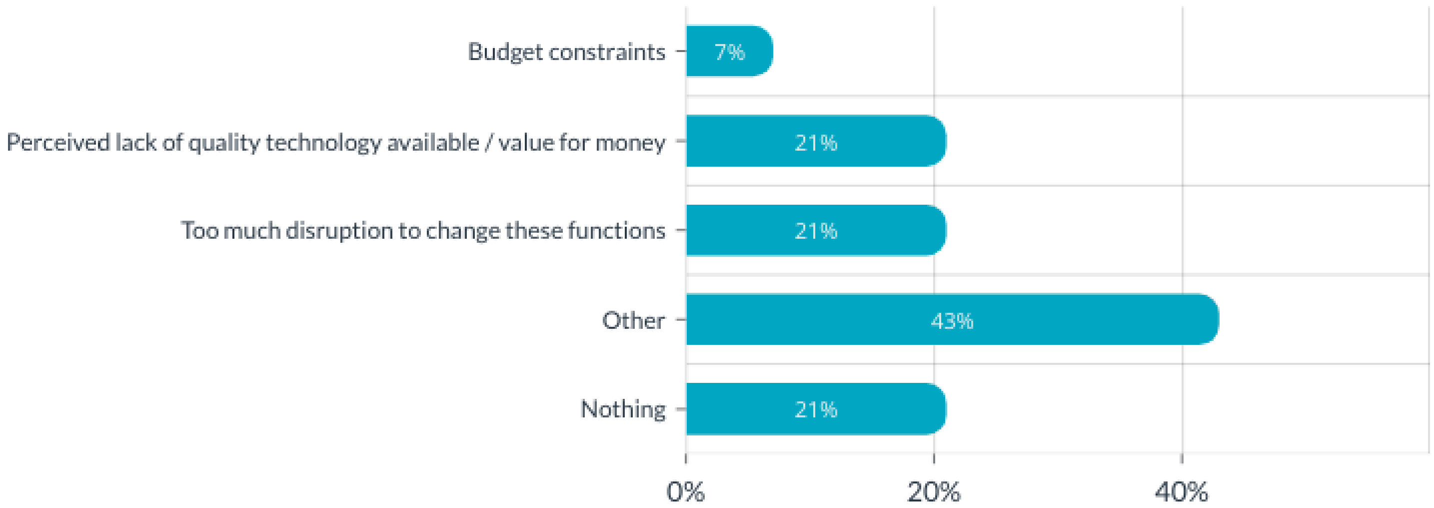
"Being clear on their expectations."

"Having a strong relationship at all levels"

"Be forward thinking and provide up to date knowledge of the industry"

The views on outsourcing are thus far very positive. But still very few outsource significant proportions of their back office. When asked what is holding them back some questioned the value for money or disruption it may cause, but very few put it down to budget constraints. However, the most popular answer in this instance was 'other', with reasons given including the loss of control, an inability from the outsourcing partner to provide bespoke services, requiring too much project management, concerns over data quality and having a high quality in-house system and so they do not feel the need to outsource.

What is holding your firm back from outsourcing more back office functions?



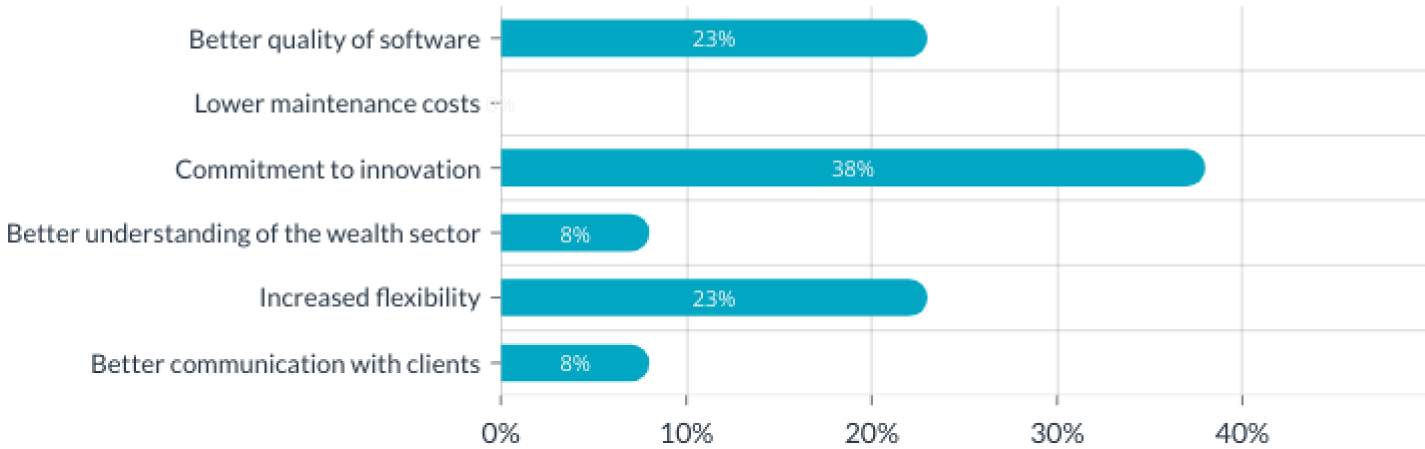
Changes required from tech providers 09

To aid the development of technology providers to this industry, the wealth managers were then asked to rate the top 3 changes they would like to see from these firms.

Commitment to innovation received the largest number of top ranking votes, followed by increased flexibility. Interestingly, although better communication with clients only received a couple of number 1 votes, it was in 77% of firms' top three changes and clearly there is some room for improvement. The costs involved with outsourcing do not seem to be a major issue though, with only 1 in 3 placing lower maintenance costs among their top 3 changes, none of which ranked it top of the rankings.

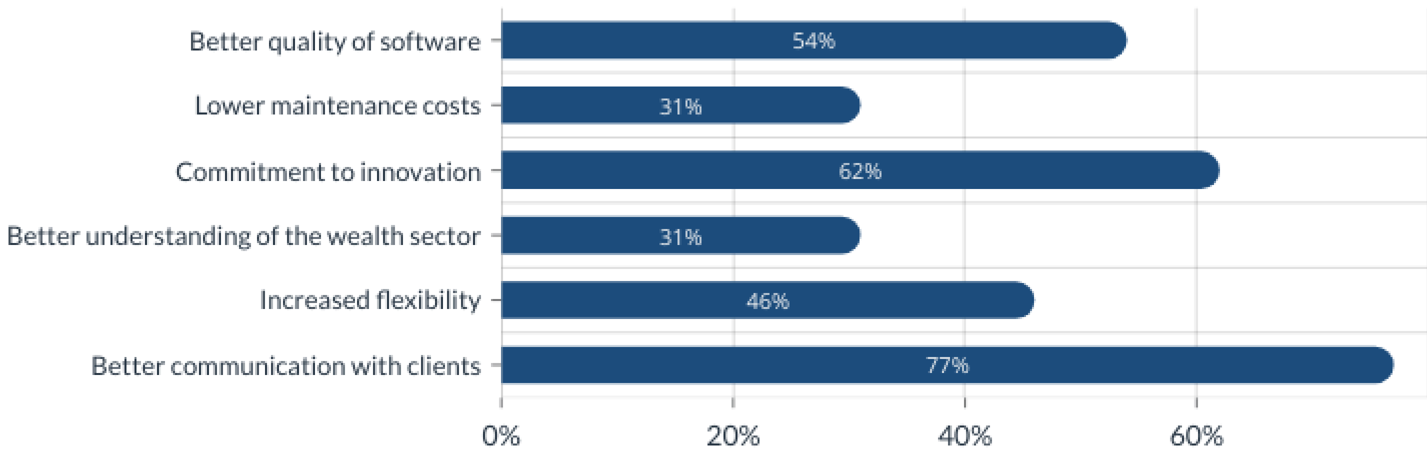
From the following, please rate the top three changes you would like to see from technology providers

Proportion ranking each change 1st (main change)



From the following, please rate the top three changes you would like to see from technology providers

Proportion ranking each change in top 3



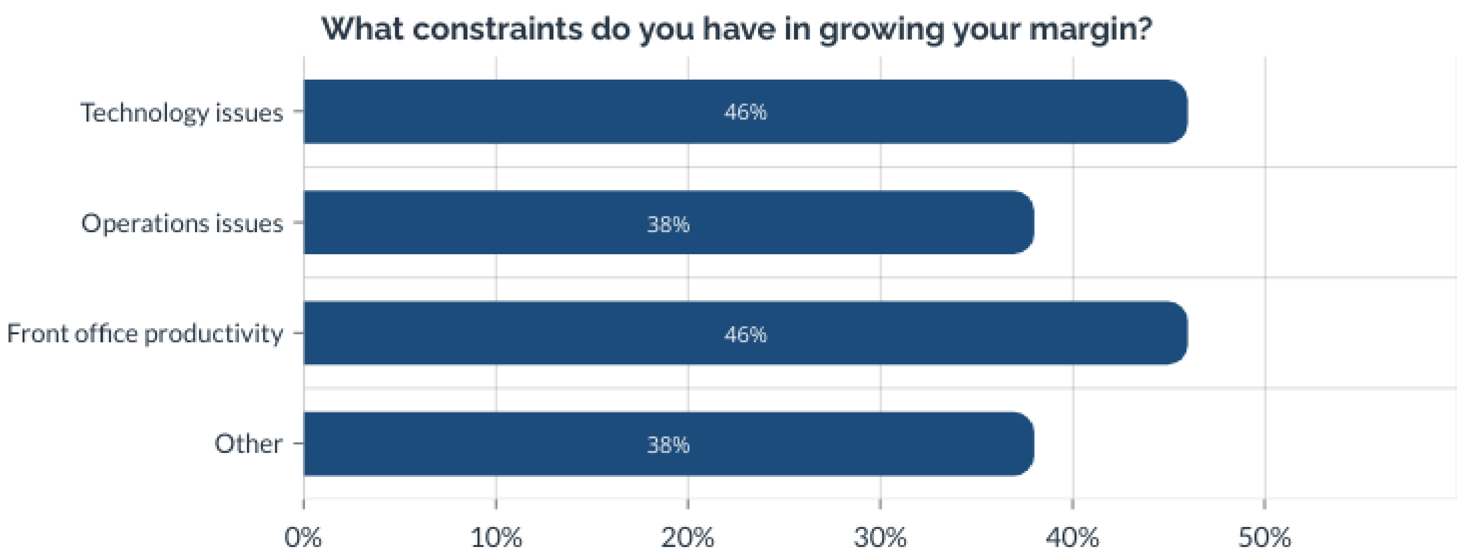
Profitability & achieving scale

A key feature of this research was to understand what firms needed by way of operational changes to empower them to grow. Growth would then be a success if it could be replicated by higher profit margins.

54% **stated their pre-tax profit margin was higher than the industry average of 22%**

As it stands, over half of those firms interviewed believe they are already ahead of the average margin achieved across the industry in 2021, with others only slightly below it. They are therefore in a strong position but are there any constraints for improving this margin?

Technology issues, primarily from inefficient legacy systems, was voted the most common constraint, which often then coincided with limitations on front office productivity. In terms of 'other' constraints, we had concerns over raising fees and the reaction clients will have, a lack of efficiency when onboarding clients, the costs involved with hiring staff as the business grows, and service contracts where the fee is a percentage of AuM and so operational costs increase at the same rate as the business grows and so limits any increase in profit margin.



Despite these constraints the overwhelming view was that these firms felt they are scalable and so can grow revenues and margins at the same time. We very much hope this is the case, but the reality is many wealth management firms are not scalable with their existing set-ups. As a group, they are excellent at boosting revenues but cost control is a major concern and so often we see margins being compressed.

92% **believe their business is scalable and so they will grow both revenue and profit margin**

Current status on the digital journey

To finish the survey, firms were then asked to discuss front office productivity and the positive impact digital can have on it.

How Do You Rate Your Client Digital Offering Comparing It To Your Desired "Ideal" State?

2.4

Average Rating (from 1-5)
5 = Has already reached

The firms were very open and honest when it came to reviewing their client digital offering. Many felt there is some way to go before it reaches an ideal state and so they are at the start of this journey. In fact, when asked to give it a rating between 1 and 5, with 5 being already at the ideal state, most firms scored it 2 or 3 (average rating of 2.4).

But this is a journey they will be taking and so there are expectations across the firms that digital will be embraced and these scores should improve in the coming years.

As for why firms are turning to digital, for the clients they foresee a substantial improvement in accessibility, being able to view portfolios on the go and immediately access performance reports, without the need to contact their advisor. This therefore encourages more self service (particularly during the onboarding phase), whilst reducing the requirement for paper forms.

Then for advisors, the benefits or investing in digital are again better access to client information, efficiency gains and a better presentation suite. This then ties into giving the impression of the highest level of client service, which can only benefit the firm, especially when client referrals remain the main source of asset inflows.

What more could technology do to improve quality of life for your:

CLIENTS	ADVISORS
• Convenience (more apps) • Instant reporting (no need to phone or email) • Access data & ease of access • Makes life easier but must maintain human contact • Self service and faster onboarding • Better security • Reduce paper • Digital signatures • Open banking	• Access data on clients & performance • More efficient and so give them more time • Streamline onboarding • Gives impression of strong service • Standardising approach from each advisor • Removal of paper forms & reports • Improved presentation suite • Increased automation • Greater awareness of the technology on offer