



Wealth Management Study: A Survey Prompted by the Radically Evolving Operating Environment

SUMMARY

Meradia's 2020 wealth management survey collates information from interviews with key executives in the industry. The participating firms range from small- to mid-size and specialize in wealth management and trust service and operations. The study surfaces how firms view market trends and potential future challenges and involves deep discussions about their internal operating models.

The final output is designed to give insight to the industry in the form of commentary rather than statistics, gauge how the market is feeling as well as how firms are managing their clients and businesses. The views are based on observations made by the executives who participated.

SUMMARY OF KEY FINDINGS

Current and Potential Future Market Themes Involve:

- Fee competitiveness and regulatory unrest
- Client mandates for more information and better technology offerings
- Demands of remote work environments
- A more thoughtful approach to solutioning

Strengths and Weaknesses of Internal Operating Models Include:

- Basics and importance of processing and operational blocking and tackling
- How workflow and CRM are used
- Cost control and Agile execution
- Internal resource dynamics
- Platforms do not convey one integrated version of the truth

Future Priorities for Operating Models Entail:

- Creating the right client experience
- Identifying the right solution for data
- Determining how to add automation, transparency and efficiency

CURRENT AND POTENTIAL FUTURE MARKET THEMES

Meradia initiated the discussion with market trends and challenged the participants to anticipate the nature of their year ahead. We asked them to consider both short- and long-term market themes and potential impacts to their business.

Fee Competitiveness and Regulatory Unrest

This is a consistent concern among firm executives; one of whom commented,

"We have daily conversations on fees."

Fee compression is a tough environment in which to conduct business and it adds complexity to an already complex business. Firms have further uncertainty and discomfort with the SEC's view on fees and the changing regulatory world. Firms strongly desire more consistency and less regulatory politics to reduce the level of unrest so they can focus on emerging client mandates.

One comment we heard multiple times relates to challenges in educating clients, prospects and younger generations on the value of the fees for the services they provide, which include more than just investment management advice. Imparting the breadth of their services to these client types can help younger prospects who are doing well to establish firmer foundational financial growth. This theme needs to be explored further so wealth management firms can determine *how* to effectively communicate the full value they offer that validates their fees.

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CURRENT AND POTENTIAL FUTURE MARKET THEMES (continued)

Client Mandates for More Information and Better Technology Offerings

Wealth management firms believe this directive is permanent. Sometimes it is challenging for them to understand what exactly clients need to see and why. Firms often feel they are re-packaging the same information in different formats. They really need to consider how information is delivered to their clients. A senior client relationship executive offered,

"Financial services are no longer compared to each other, but rather they are compared to Starbucks."

That means clients are not comparing the technology of one financial services firm to another, which would be a fair apples-to-apples comparison. Rather, clients are looking at firms like they are apps from which they can order the bespoke information they want.

"Customizable technology is table stakes now, and if you don't have it, then you are in trouble."

Increased competition and ease of client portability force firms to be more forward thinking to both anticipate the investment needs of their clients and to satisfy their demands for information.

Remote Work Environments

This probably would not have emerged as a theme if the COVID-19 pandemic had not changed working dynamics during the spring of 2020. One impact relates to the sudden increase in employees working remotely which taxed technology. Conversely, there are unknown impacts to face if and when employees revert to working in office spaces. One senior operations executive noted,

"We reacted, and the technology to support the remote work environment worked better than anticipated."

A second impact concerns the most effective ways in which to meet new clients remotely, especially since a key aspect of their business is building relationships. They must devise creative solutions and marketing to engage with clients differently than they did in the past. For example, what is the most effective way to review quarterly statements or to engage prospects for the first time? A couple senior sales executives noted,

"This will be the new norm and it will change the face of relationship building."

Amid their concerns is optimism – change is for the good and it forces teams to adapt and engage clients at a higher-level by leveraging technology.

A More Thoughtful Approach to Solutioning

The driver of this trend is executives' beliefs the growth engine will slow down as they simultaneously face challenges with attracting new advisors and clients. This is partially due to an increase in competition within the industry, and partially due to the potential for the industry to move towards consolidation.

Firms are left to determine how to best address the above challenges to ensure they can grow, scale and gather assets. In the past, firms focused primarily on sales and rewarding sales growth. For firms to remain competitive, they need to pivot to a thoughtful and efficient approach to solutioning, both operationally and by leveraging technology while keeping the client experience at the forefront. Senior operational executives added,

"Operational efficiency historically limited spend, but now it is on the forefront."

"We have been a victim of success with client experience and operations technology has suffered. We are starting to have a demand to address items that have not been addressed."

To thoughtfully address operational and technology solutions, firms must avoid complex and custom solutions because they require too much maintenance, are difficult to sustain, are quickly outdated, and do not address their root issues. The question remains how the industry will adopt required changes. Senior operations executives offered,

"How do we get it all to come together without spending time chasing ghosts or things that may not be achievable?"

"We need to partner with fewer industry leading vendor solutions, ones that involve less customization and that are easier to manage."

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STRENGTHS OF INTERNAL OPERATING MODELS

Meradia shifted to asking firms to reflect on both the strengths and weakness of their operating models – whether they are process or technology solutions. Three key strengths emerged.

1. Processing and Operational Blocking and Tackling

Firms are doing basics such as standard day-to-day processing, trade execution, reconciliation and accounting well. While it seems simple to do the standards well *and* focus on innovations; it is not often the case. Client experience and onboarding have always been challenging, so it has taken quite a bit of investment over the years to enhance the client experience. The improvements have really paid off, even in times of consistent change. Senior executives noted,

“Our platform really works well and delivers for clients.”

“From early-stage proposal to final onboarding – our core operations has been identified as a key driver to grow the business.”

Firms feel that getting the basics right and including onboarding has improved the overall operating model as well as the client experience.

“Plenty of resourcing and dollars spent over the years have improve the overall onboarding experience for clients.”

2. How Workflow and CRM Are Used

Investments made in CRM and workflow tools not only helped the front office client management; but they added controls, transparency and tangible metrics to daily operations. As an internal or an external tool, firms have identified CRM and the investment made as a key tool for managing the business, especially the sales cycle. One front office executive noted,

“We were able build an internal tool that really works.”

A senior operational executive stated about workflow tools,

“They really help to eliminate the blind-spots in the operating model.”

Workflows are adding transparency in what is often an opaque world. They found this markedly improves the client onboarding experience, improves how the front office and operations manage the client onboarding experience, reduces risk, and adds tangible metrics to manage the business.

3. Cost Control and Agile Execution

Most firms have been investing more in internal resources and less in outsourcing for both operations and technology projects. The drivers and benefits of leveraging internal resources are game changers: firms require less dependency on third-party vendor resources, they gain more operational controls and agility to solve issues faster, and their bottom-line benefits! Further, they avoid dealing with software vendors or third-party technical resources having competing priorities and slow delivery. A senior technology executive and a senior front office executive noted,

“Internal technology resources have allowed for more agility and flexibility with completing projects, and they have been a real time and budget saver.”

“For our clients, we have a model built on individualization and high touch. Outsourcing would change that.”

WEAKNESSES OF INTERNAL OPERATING MODELS

To balance the conversation, we asked firms to reflect on what could be working better in their operating model. Two major weaknesses emerged.

1. Internal Resource Dynamics

This is a perpetual challenge. The industry allows individuals to hop from one firm to another and/or the business complexities require significant training time. Projects and initiatives often struggle to move forward due to the lack of resources' time or not having the right skill set. This runs contradictory to what firms feel is also a strength. A senior operational executive noted,

“It is challenging to onboard resources and important to get them to stay.”

“Technology resources often don't understand the business.”

“It is hard to make progress and move forward since it takes too much time to explain basic concepts and how the business runs.”

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WEAKNESSES OF INTERNAL OPERATING MODELS (continued)

An additional challenge is that long term resources often have institutionalized views of the industry due to the longevity of their tenure. This is not necessarily a bad thing, yet it can limit their industry perspective. Firms need to figure out how to get their resources at all levels engaged in conferences, webinars, and other educational tools so they can intelligently challenge the status quo. One senior executive noted,

"We only know our internal processes, and our business can be very niche."

Internal personnel do not have a broad enough prospective on the industry and this is a challenge.

"It is very hard to hire and retain the right people. The industry makes it easy for folks to be transportable."

The question emerged, how can wealth management firms build and maintain the right talent pool?

2. Platforms Do Not Convey One Integrated Version of the Truth

As much as organizations talk about data being a top priority, or believe they have a solution; data challenges still come up too often in conversations. There could be a direct correlation between the ability of the firm's resources to do a better job and their access to or centralization of their data. Large scale data-related projects require time and certain skill sets to execute. Data is too decentralized across many organizations.

Often what should be the same information for a client – whether positions or client master – is different depending on the system from which it is sourced. This often leads to challenges with reporting and ensuring accuracy, as well as additional time to reconcile and develop the right solution. Firms should not have to worry if the data is correct or spend value resource time on manual reports. One executive lamented,

"It takes too long to find the answer"

"You have to ask, is it right?"

Platforms – whether they are CRM, OMS, accounting or reporting – are not integrated. The infrastructure is fragmented regardless of the size of the organization. Firms are left not knowing how to effectively move forward because the consistent theme is,

"The platforms don't talk to each other."

FUTURE PRIORITIES FOR OPERATING MODELS

Lastly, Meradia asked firms to reflect on their short- and long-term goals and priorities for the future so we can understand the types of initiatives they are considering to transform their operating models. Three main themes emerged.

1. Creating the Right Client Experience

This was at the forefront of all conversations. The point is less about simply onboarding clients, and more about how to think holistically about delivering a full client experience that includes access to more data, reporting and visuals, and developing and maintaining a client portal. Part of the challenge is trying to understand what clients want and, more importantly, why they want it. Firms are apprehensive to address clients directly about their needs and what they expect from a portal, app and reporting because:

- The technology, solutions and expectations are all changing
- Vendors who specialize client solutions do not seem to know what clients want.

One executive noted,

"They all have solutions, but no one seems to be doing it well."

A front office executive noted about the aspects of a full client experience,

"It feels like this is a moving target."

New firms are entering the market and providing different versions or slight variations of the same thing. Wealth management firm are challenged to determine the right solution that has longevity and can provide the best value to them.

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FUTURE PRIORITIES FOR OPERATING MODELS (continued)

2. Identifying the Right Solution for Data

From aggregation to security, firms are earnestly looking to solve for data and make it a top priority. They need to figure out how to get a single version of the truth as a reality rather than something conceptual. Additionally, they need to explore internal and/or external solutions to bringing multiple sources of data together, reconcile them and automate them. This will provide consistent information which is especially important to wealth management firm clients who require a single picture of data spanning multiple custodians and/or investments. This is a component of client reporting and good management. One senior executive questioned,

"How do we build leverageable infrastructure that is sustainable and adaptable?"

Another consideration in identifying the right data solution is how to recognize and solve security breaches since they are bound to happen. Firms feel they generally have the right structure in place to support security; however, it is always a prominent issue considering the types of data they store and how a breach would impact their clients.

3. Determining How to Add Automation, Transparency and Efficiency

As firms look to grow, it is extremely important to find a solution that makes sense and can be scaled. They are exploring and identifying opportunities to increase automation and add efficiency. As one operational executive noted,

"There is a big push from leadership to make it better."

An RPA or other more automated solution can reduce manual processes, eliminate spreadsheets and contribute to operational efficiency. Everyone feels there is an opportunity to do more while ensuring solutioning is smart and make sense. A senior operations executive stated,

"There is a general fear that if we make the process/solution more complicated, then there is a greater risk everything falls apart."

Often business is too labor intensive with too many people involved and too intensive of a ground game, yet questions remain about finding the right solution and securing the commitment to the investment.

CONCLUSION

Meradia thanks the firms that participated in our survey and the executives who shared their views! Several interesting themes emerged during our conversations. There is a fundamental belief firms are going to be tested like never before, and they need to adapt. The drivers include increased competition, industry consolidation, sourcing new clients, fee compression and client expectations. These are not new dynamics, but the challenge to address them has increased with the industry evolving faster than ever. Some firms have demonstrated they have the operational support system or are pivoting to support, yet internal resourcing and data management remain a real challenge. On their roadmaps, they are addressing client experience, data management and automation solutions. 2020 will be remembered as the year during which the financial services industry – which is often slow to adapt – had to change quickly and was able to do so with minimal client impact.

HOW MERADIA CAN HELP

Meradia's experts in investment performance have in-depth knowledge of effective operations and technology solutions. We have a well-earned reputation for delivering clear, unbiased and objective analysis that can help firms navigating emerging market trends and potential future challenges to optimize their target state internal operating models. Further, we have the expertise to help prepare firms for their conversion from one platform to another, and to perform system implementations.



Meradia
119 North High Street
West Chester, PA 19380
Phone: 610-738-7787

Info@Meradia.com
www.Meradia.com