Maximising productivity

How wealth managers can turn challenge into opportunity

FoxRed Insight

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Sponsored by SEI

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Note of thanks from the authors

This research has been an exceedingly interesting and informative process, and we'd like to acknowledge several parties that made this report possible.

We wholeheartedly thank the sponsors of the research, SEI, without whom we would have not been able to embark on producing such insight. SEI supported the process with ideas, publishing skills, and logistics for events, whilst letting us be truly independent in designing the approach and output in this paper.

We thank Owen James for supporting the surveys and roundtables and making connections we might not have had otherwise.

Not least, we sincerely thank all of you who spent time with us, kindly and openly sharing your thoughts and insights along the way. We hope we have given back something worthwhile in this report.

Gilly Green
Founder and Director,
FoxRed Insight

Donald Reid
Founder and NED,
Solve Partners

Dave Mason
CEO,
Solve Partners

A note from the research sponsor, SEI®

The wealth management industry has seen significant transformation in the last five years. With continuing technological and regulatory change, coupled with the current economic and political environments, there is more to come.

At SEI, our clients span the financial services ecosystem. Their businesses are varied, and particular strategic goals are often unique. However, they are all striving to increase productivity across their business. Many have chosen to partner with us to address this challenge through asset management, operational outsourcing, and technology. Whether the goal is to increase profit margins, free up employees to focus on clients, or create time and resources to concentrate on innovation to move their business forward, the productivity of an organisation will be a key driver to meeting business goals.

To further understand the challenges facing our clients and the wider industry, we decided to dive deeper into productivity in the UK wealth management industry. From the perspective of the C-suite, we sought to discover the productivity of wealth management organisations across the front and back office and examine barriers that are preventing them from improving their productivity.

We thank FoxRed Insight and Solve Partners for conducting this research. Their insights demonstrate that the UK wealth management industry has significant scope to improve productivity, but there are clear opportunities to address the challenge. Most thought provoking are the case studies and best practices from firms that have challenged the status quo. Their initiatives might not be right for all wealth managers, but there are lessons to be learnt from the experiments being conducted across the industry.

Unlocking greater productivity has the potential to transform wealth management, helping firms power the future of wealth for their colleagues, and clients.

Jim London
CEO, SEI Investments (Europe) Ltd and Head of SEI's UK Private Banking business

Context of the research

We are in unprecedented times. A number of external factors have moved the focus of wealth management firms to productivity and how to get more from their assets.

Since COVID-19, the world has changed, and we need to keep up. In particular, clients' acceptance of digital services, through necessity during lockdowns, has become a key driver of many initiatives to improve efficiency and reach. All wealth managers, not only those with smaller clients, have to consider how they can provide a better and more efficient client experience through fully digital and hybrid channels. **Consumer Duty** is a major focus of the regulator and is largely supported by the industry as a concept. However, that means wealth management is becoming more complex and competitive. Furthermore, the regulator's recent 'Dear CEO' letters have raised the bar for justifying fees. Firms are now under even more pressure to reduce fees and maximise efficiency while still delivering good outcomes and superior service to clients.

Global growth in recent decades has slowed, and traditionally strong revenues and profitability are under threat. A number of factors are having measurable impact on the ability of wealth firms to grow:

- High interest rates and market volatility are driving money away from the advice/management remit of wealth firms. Individuals are paying down debt, taking up annuities (with insurance companies), and increasing their cash holdings.
- The level of corporate activity has reduced. The rate of entrepreneurs releasing money from selling their businesses is declining; this has been a key source of net new money in the high-net-worth (HNW) segment.
- For the new generation of savers, there is no concept of a 'trusted' adviser or wealth manager (or bank!). The younger generation is attracted by 'ease of use' more than any other factor. Fusty wealth managers with complex onboarding will struggle to attract new money. Whilst this currently affects retail and mass-affluent services the most, the loyalty of those who will inherit wealth will already be won by someone else by the time they become of interest to the HNW segment players.

The advice gap has grown. With freedom of choice on pension structures and demand for protection strategies around inheritance tax, there is still an increasing need for advice in what has become a complex decision process. Coupled with the increasing number of retiring advisers, it leaves the industry with a need to find successors and/or better ways of working to satisfy demand.

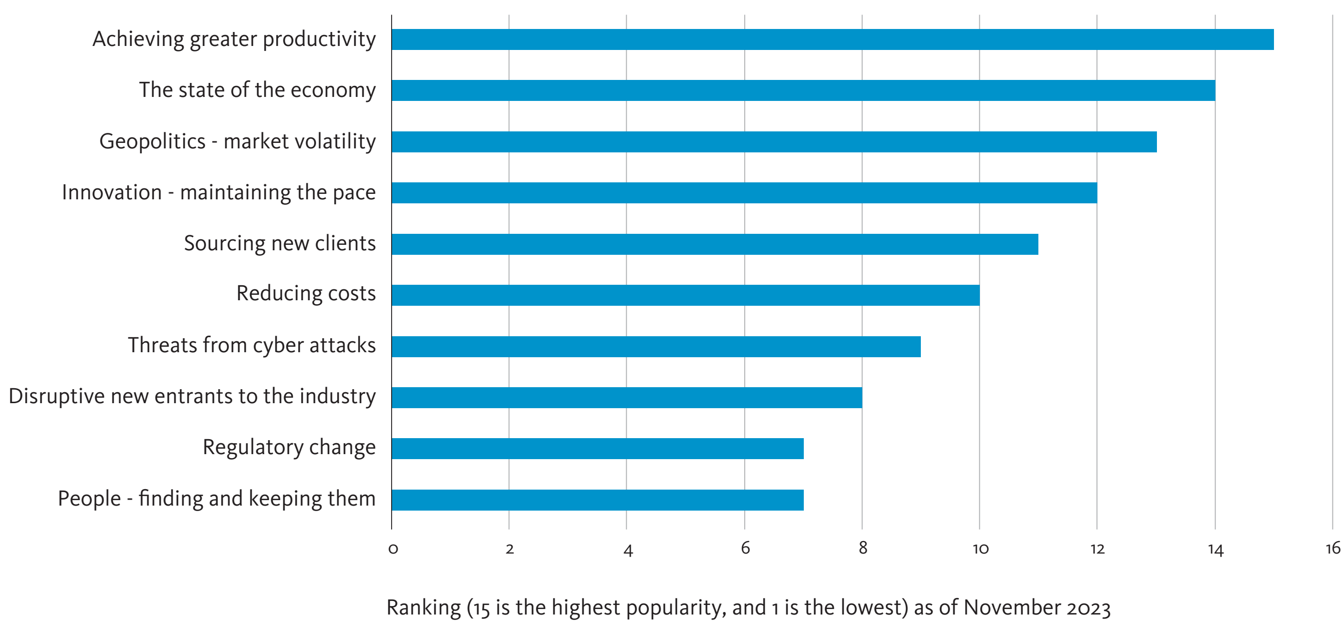
Financial planning is now a key service for many. It's one that tends to have sticky clients, builds trusted relationships, and reflects the increasing number of firms that are now offering holistic end-to-end services across advice and investment.

In this environment, many CEOs are deeply concerned with how they can achieve greater productivity. Indeed, productivity was the top-rated issue for the past three years when senior leaders were asked, 'What's keeping you up at night?' in the 'Scene Setter Findings' at Owen James events for wealth management C-suite executives – over and above the economy and geopolitics – and across all types of wealth management firms.

Our research set out to understand the nuances of productivity in UK wealth management in this challenging environment. In particular, we wanted to answer:

- Where are we as an industry?
- What is stopping us from being better?
- What does good look like?
- What key actions do we need to take?

Top 10 things keeping wealth management CEOs up at night



Owen James, Scene Setter Results: WealthTech Matters, November 2023

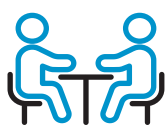
Methodology

This research focused predominantly on UK wealth management firms. Conducted in late 2023, it focused on three key stages:

- A narrow survey of COOs followed by a roundtable discussion held on 27 September 2023.
- Additional quantitative surveys across the full breadth of types and sizes of firms, with more than 50 firms taking part.
- 25 qualitative interviews with C-suite individuals – mainly CEOs/heads of medium to large firms – to really understand the views of their executive teams and boards.

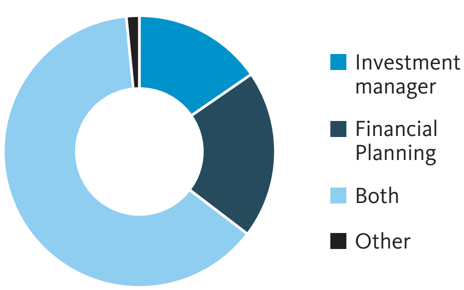
The report is enhanced with the authors' experiences and insights from the industry – as observers with privileged inside knowledge of challenges faced by wealth managers, and as individuals who had responsibility as COOs of their own shop and lived (and sometimes resolved) the issues seen here.

65
firms surveyed

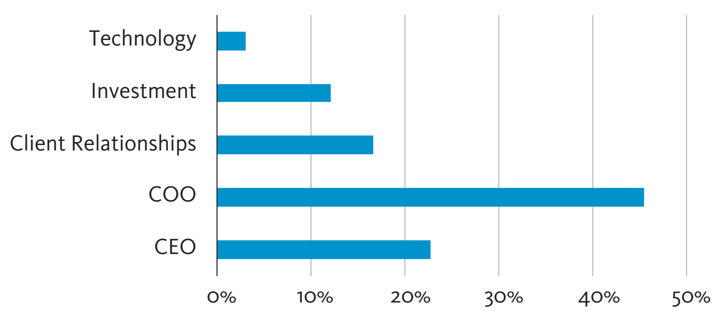


25
interviews

Participant breakdown



Participant role/focus



Keys to understanding

This report summarises the findings of our research. We start by providing context of the current landscape facing wealth managers, followed by an overview of the key statistics gathered from our quantitative surveys. We then cover some underlying challenges limiting productivity and areas where wealth management could make improvements using evidence from our qualitative interviews.

To aid with understanding, we've used the following icons throughout the report:

Current status

High productivity

Good productivity

Productivity challenges

Poor productivity

Dismal productivity

How we could improve?
What firms are doing to fix it

Innovations
New ideas to solve it

Best practices
What good looks like

'Quotes from research participants. These have been anonymised.'

Quotations from publicly available sources, such as industry news outlets, have been attributed.

Definition of 'Platforms'

We have used the capitalised 'Platforms' to refer to the asset booking and trading facilities used by advisers and individuals to distinguish from terms used to refer to operations and technology platforms (Business Process Outsourcing).

Productivity indicators

Across the wealth management industry, there is much room for improvement.

In the wealth management industry, productivity plays a critical role in determining a firm's profitability, client satisfaction, and overall competitiveness. It's a subject at the top of every CEO's list.

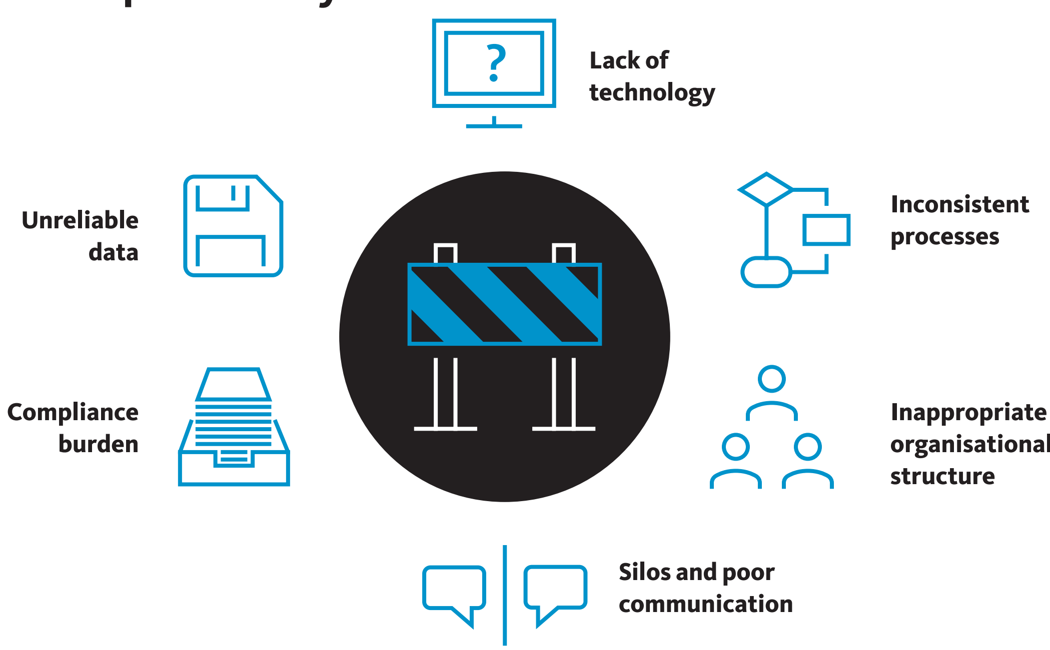
Despite the focus, it's a mediocre result judging by the fact that wealth managers score themselves only 6 of 10 overall. In fact, scoring just 5 of 10, when considering the front office alone.

Our survey asked respondents to tell us their **barriers to productivity**, and the same old answers pop up again and again across the business:

6/10

Average self-score for overall productivity

Barriers to productivity



All of these factors may be true. However, we're not effective in dealing with them, despite significant levels of investment in technology projects, outsourcing, and business improvement.

Our research went below the veneer of these barriers to discover why we struggle to make improvements. We found that there were far more fundamental issues at the root cause of productivity issues. If firms were able to fix or improve these issues, we could more easily maximise growth potential and increase margin.

Our findings highlight a number of areas where we have underlying challenges, and what we need to do about them:

- Complexity of products and services
- Operations complexity
- Client relationship models
- Our ability to implement technology effectively
- How we measure productivity (or don't)
- Organisational culture

Technology alone is not the answer. Firms need to fix the business model first then automate it – not automate it to fix it.

Measuring productivity

The measurement of productivity in wealth management is neither precise nor appropriately scrutinised in most firms.

Current Status:

Productivity is a topic that is supposedly at the forefront of most CEO's agendas right now. What this means in practice and how firms are measuring productivity are key questions.

We found **no consistency** in the measurement or reporting of productivity KPIs across our research participants, nor correlation to size. Except in a few of the very largest firms, very little that was specific, and there was a wide variation on the extent of productivity measures and how well they are used.

Most firms in our research have limited or no productivity KPI metrics in place, outside of financial reporting and basic client-to-relationship manager ratios. Less than 10% of firms have specific productivity measures that are reported on, discussed, and challenged at executive and board levels, and these tend to be only large firms. Small and medium-size firms are generally only reporting on financial metrics.

Clear definition and reporting on productivity measures or KPIs are important for any firm within the wealth sector. KPI requirements vary by firm – there is no right answer – since effective measures depend on the underlying products, services, and operating model.

How do you track your productivity?

'I don't see productivity as a strength in the industry; everyone is on a different model/technology, and therefore, it varies from firm to firm'.

'We have no operational productivity metrics'.

'We don't have it as an agenda item for the Board'.

'We look at P/L, but rely on gut feel for the reasons'.

'Our INED has gone through (with the COO) our productivity metrics report which goes to the Board ... to ensure that he understands them and can effectively challenge at the Board'.

One accurate measurement is worth a thousand expert opinions

Measuring productivity is immensely valuable and important. As an industry, we're inherently lazy about measures because sometimes it's hard to do. As consultants and practitioners, we know how difficult it is to get firms to fully define their desired business outcomes at the outset of a project, and being accountable for these within the business once implementation is completed is a case in point.

As automation improves and we start to move faster with AI, this may become easier, but also more important, to stay on top of.

Measuring productivity:

- Highlights areas of inefficiency and risk, which if not addressed, could result in increased errors or complaints.
- Supports best practice approach on Consumer Duty. Negative trends are highlighted early and can be addressed to avoid poor customer outcomes.
- Provides baseline data for current state, highlights priorities for improvement, and drives investment to the likely most effective outcome. Demonstrates when improvements have been effective, and gives opportunities to drive firm profitability/enterprise value.
- Provides targets against which individual performance can be measured and assessed; helps differentiate individual performance and support on development plans.

What boards need to ask (and with a few exceptions, currently aren't)

Our research concluded that even though productivity is front of mind, it is not a specific focus for firms at either board or executive committee level. Wealth management boards and executive teams should be asking some, if not all, of the questions below:

1. **What are the material areas of inefficiency in our end-to-end business operating model?**
2. **Are inefficiencies measured, or are they based on a subjective view?**
3. **Who determines targets for each productivity metric? How are targets benchmarked against best practice/what does good look like?**
4. **How does individual employee performance against targets get tracked? Does this impact an individual's overall performance assessment/compensation?**
5. **Would clients relate to the productivity metric where it impacts them (e.g., client onboarding). Are the metrics client centric and do they support/aid the firm's approach to Consumer Duty?**
6. **What metrics does the board want to see, as opposed to metrics that are reviewed at executive or operating committee level?**
7. **Is the reporting of performance against each metric sufficiently independent of those who own the process?**

What are typical performance measures?

Certain measures have targets that will only evolve once initial measures are analysed and tracked over a period of time. Targets are likely to be firm specific and dependant on contributory metrics, such as client proposition (DFM versus MPS), average client/family grouping AUM, and operating model (e.g., whether custody/settlement is outsourced or run in-house).

There are no 'right answers' here because each firm will be different. These metrics are likely to include:

- Number of clients to relationship manager
- AUM to relationship manager
- AUM to overall headcount (or department headcount)
- Front office to back office headcount ratio
- Ratio of paraplanners to financial planners
- Number of client support to financial planner
- Number of investment management assistants to investment director

Other KPI measures can be more specific, and when fully defined, they can be measured and reported on. Results can then be challenged to support potential improvements in productivity. These include:

Measure	Rationale	Best practice metric
Client onboarding Time from client signup to account open (needs to be from a client perspective so end-to-end)	Lengthy timescales are indicative of poor process/manual intervention.	Fully online – same day. Although more complex trust/corporate accounts and non-res/non-dom will take longer.
Asset transfers Time from instruction to available to trade	Setting the KPI helps manage front-office expectations on how long transfers are likely to take, and can also highlight dependency on third parties and poor performers.	Will depend on third parties and whether cash or stock and SIPPs will always take longer. For example, equities (in ISA/ GIA), 5 days or less; funds, 10 days.
Online portal Percentage of clients accessing information or self-servicing online	How far are clients able to access information online – frees front-office support and operations time.	Target 90% although no one is currently achieving this. Most are at circa 50% or lower. Adoption is driven through value add functionality, e.g., secure messaging between client and adviser.
Periodic reporting Volume of fee/other amendments	All amendments are likely to require manual input to correct – may highlight poor quality data or high degree of RMs to override agreed fee scales.	Target zero – links to robust control over data quality and clarity/ consistency on fee scales and process for discounting.
Periodic reporting Days post-period end to despatch	The longer the gap between post-period end and despatch, the higher the likelihood production is impacted by poor technology/data issues, etc.	10 working days after period end; clearly will depend on complexity of the proposition.

Measure	Rationale	Best practice metric
Operational gains/losses vs. number of clients or AUM	High volumes tend to be driven by complex processes/integration between multiple technologies.	Zero
Workflow Measurable tasks/headcount or timed task reporting at individual level	Detailed analysis and reporting of volumes by task will highlight inefficiencies in process. Individual training requirements can be identified.	Will vary, depending on proposition/ operating model.

Summary

Boards need to assess what management information they are getting on productivity metrics. Is this appropriate? Are the metrics challenged? Are there agreed measurable targets for improvement, and how are they benchmarked against what good looks like?

Productivity metrics need to be measured and reported independently of the teams accountable for the day-to-day process. In some firms, this is done by the finance team, who then interrogates the relevant operations system or collates manual data if needed.

Metrics require regular review/benchmarking and will change over time.

Investment is needed to ensure robust reporting and to be able to track trends. This will highlight issues early, identify where process improvements through automation/AI can deliver further tangible benefits, and deliver a better end-to-end service for clients.

The impact of products and services

Complex and prolific propositions are becoming increasingly problematic. Consumer Duty may provide the impetus we need to sort out our stuff.

Current Status:

Wealth management is inherently complicated.

At the higher end of wealth, clients are often offered products and services more associated with capital markets (e.g., margin lending, derivatives, and private equity). Even at the lower end, there are complexities associated with a wide variety of investment types and wrappers (e.g. SIPP, trusts, commercial property, and structured products). Add in the regulatory burden associated with retail clients, and you have a sector that is the most complex of all financial services to serve efficiently.

The sector includes hundreds of firms, varying in scale from a few £100 million in assets to over £100 billion. The attraction of a fragmented market with steady annuity income and relatively strong growth has fuelled consolidation in the sector either through trade M&A or PE-backed consolidation in a bid to create more scale and vertical integration of the value chain.

Our research shows that the resulting complexity and proliferation of products and services, whether through history or mergers, presents one of the most significant barriers to optimal productivity.

A highly standardised automated process offers opportunities for efficiency and scale and is easier to achieve if things are simple and repeatable. However, many respondents were insistent in retaining propositions that are bespoke or complex.

Simplification and scalability: The rise of model portfolio services and multi-asset funds

Traditional wealth management was once focused on providing bespoke discretionary portfolio management services (BPS), tailored to an individual client's objectives.

Our research shows that this service is increasingly hard to offer, particularly for smaller scale clients. The service typically requires multi-channel servicing (digital and face-to-face), bespoke research, and complex, costly technology to manage reviews, dealing, and performance calculations.

‘Firms are preying on their customer trust and understanding, so pushing bespoke, expensive portfolios which do not really match the risk profile of those customers and are not explaining all the risks and benefits’.

– Katie Tuckley, FCA Head of Consumer Investment[1]

Pressure on fees, scrutiny over consistent investment performance and, not least, challenges under Consumer Duty on whether BPS provides consistent and fair customer outcomes means BPS services are on the decline. Firms have been pushed to develop more scalable propositions, which can still flex to meet the specific risk appetite of each client but allow the investment process to be more streamlined.

Most firms that are investment-led have created model portfolio services (MPS) to offer investment expertise in a more efficient and scalable way. This approach requires good technology and straight-through processing (STP) from investment model creation, automated rebalancing through to trading, clearing, and settlement, and the solutions available have improved significantly over the last five years.

Where MPS services are offered alongside BPS, firms have raised the investment threshold entry point for BPS to portfolio values typically in excess of £1 million or even £3 million. The raising of the bar for BPS, and the lower price point for MPS, have driven the expansion of MPS assets under management (AUM) in the sector.

‘We have increasing tendency to put even larger clients into MPS services, due to complexity and risk of managing bespoke portfolios’.

‘We should be having the conversation with even very wealthy clients (£10m+) – bespoke portfolios will be reviewed less often and benefit less from my central team of experts’.

The move to MPS, supported by a centralised investment approach, generates productivity savings through reduced numbers of investment managers (concentrating top talent), a reduced asset universe and less complex processes in operations, which are all materially margin-enhancing.

There remain examples where BPS is offered far lower down the value chain (below £0.25m) if that is ‘what the client wants’, but a significant number of firms are driving discussions with clients that this is not in their interest.

[1] Olivia Bybel, "'Preying' on client trust: FCA takes fire at bespoke services ', *Citywire*, 19 January 2024

‘A simple, centralised investment proposition is key. There is no justification for bespoke portfolio management these days. It is incredibly difficult to generate alpha over indices in the current market, so having a centralised investment offering and low cost investment proposition is key...’

‘Why would my “best ideas” be only available in bespoke portfolios?’

Multi-asset funds have also been a trend in the sector in the past five to 10 years. The ability to provide ‘look-through’ reporting to clients (creating the look and feel of a bespoke portfolio) has provided the most efficient and cost effective way to invest, and most firms have added this product to their offering.

Firms that have managed to move clients and assets materially into MPS and multi-asset funds show higher end-to-end productivity for these services and have been able to exploit efficient operating models through Platforms and outsource service providers.

For those wealth managers who have a significant BPS book, the challenge is how to transition this into MPS or funds without disaffecting the investment managers, who often lead or have a strong part in the relationship with the client. Disaffected investment managers are then at risk of leaving to join the gradually smaller number of firms who continue to offer a BPS service, potentially taking a share of the clients and AUM with them. Therefore, any move to MPS needs to be achieved by gaining buy-in from the team and managing both career opportunities and incentives.

‘Take-up has been higher than expected – investment directors have input to the investment selection, and are measured on their team P&L, it has been easier to move higher value accounts into the unitised offering’.

We recognise that it’s not in a client’s best interest to move to MPS or a unitised solution in every case, particularly where there are specific requirements for tax optimisation outside of tax-wrapped accounts or short-term objectives for assets. This does, however, still lend itself to a core offering driven by models or funds with a carve-out of a subset of assets that need to be treated differently. Indeed, many modelling tools will facilitate managing exceptions or sub-portfolios – bespoke should not be offered unless truly needed.

MPS on Platforms

A further outcome of the move to MPS, is that discretionary fund managers (DFM) firms are increasingly offering their models on third-party Platforms.

Whilst this gives almost limitless scalability, the use of multiple Platforms is causing significant challenges in terms of uploading and maintaining MPS models on them. See ‘Operations’ for our comments on the impact on middle office/investment support teams and how to mitigate this.

Product proliferation

Some interview participants reported that one benefit of Consumer Duty has been an incentive to scrutinise products and services.

Some firms are taking the opportunity to retire products that cannot meet the higher standards of consistency, value, and target market. Judging from the qualitative feedback, interview participants told us that there is still some way to go on this journey.

Historically, the sector has prided itself on innovation of products and services, often in rapid response to opportunities created by government investment and savings policies: ISAs, JISAs, LISAs, and CTF, to name a few. The sector is, however, less effective at managing the exit of products. This often leads to a proliferation and overlap of product offerings with associated operational challenges and drag on front-office productivity.

This can be particularly onerous for firms that have been party to an acquisition – on either side.

Best practice in merger scenarios

Best practice in merger scenarios is to define the post acquisition target market and the appropriate propositions first. Be clinical about migrating clients to the target proposition set as quickly as possible.

Extended timelines for client consent, illiquid investments, stranded assets, and taxation constraints often mean that maintenance of legacy products can seem like the easiest short-term option.

However, this builds a long-term problem: limitation on achieving productivity gains (when post-merger synergies are expected) and possibly a Consumer Duty problem in driving consistent client outcomes.

> **‘Following acquisitions ... we did not adjust proposition or service model ... (resulting in) legacy issues. We’re now determined to end up with one operating model’.**

Summary

Firms need to recognise that investment management is becoming a commoditised service. What this means is that highly skilled people will be valued, with the focus becoming more on investment performance.

In terms of proposition, MPS will continue to rise in popularity and may drive funds to become more specialist – taking a place within an MPS to satisfy a particular need for exposure. Whether that happens, what is clear is that there are way too many options available and an oversupply of investment solutions in the market.

Effective client servicing

Client relationship management is one of the biggest costs for wealth managers. It's the area most in need of change, yet firms are struggling to improve productivity of expensive resources.

Current Status:

Firms rate their front-office (client-facing) productivity as pretty poor, and in many cases, this factor dragged down the overall scores.

Firms that rated their operations productivity badly (and worse than client-facing functions) were those with complex issues, such as multiple custodians, multiple Platforms, and complex propositions. These issues were rarely due to organisational matters.

The front office, however, is a different story. Whilst there are issues with a lack of automation, much can be done through organisational change.

5/10

Average self score for front office productivity

Resources

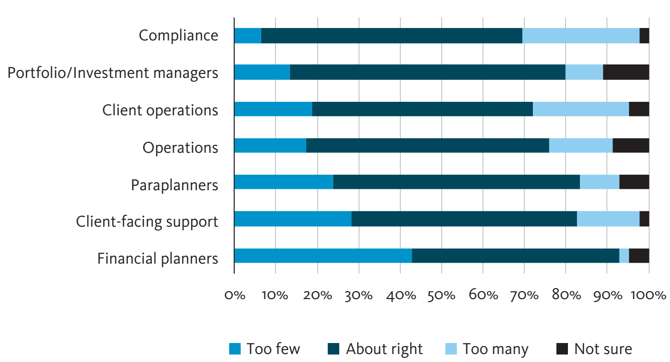
We asked CEOs/COOs to state whether they have more or less people than they should, by team/function.

Compliance was a focus for all firms – most saying they had too many staff.

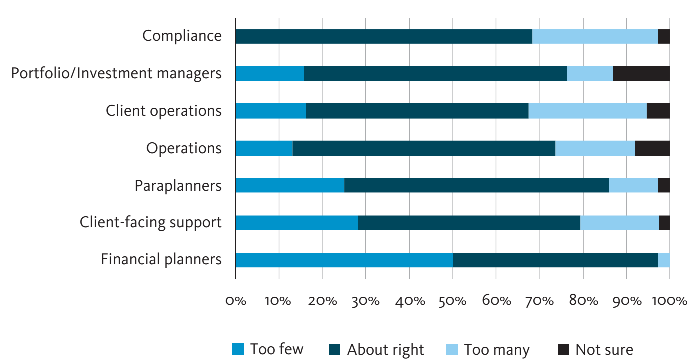
This is a reflection on the burden of regulation, and regulatory change – compliance resources have increased in recent years to support an increasingly heavy regulatory framework. While improvements can be made in compliance, the responses perhaps reflect a lack of understanding of what compliance staff contributes and/or what they do behind the scenes. This increasing regulatory burden is also one of the drivers of consolidation across the sector.

Are your resources right sized?

All firms



Firms providing financial planning



What really stood out was that half of firms that provide financial advice thought that they had too few financial planners. An increasing advice gap, retiring advisers, and a desire to increase capacity for growth have led to a real shortage of available talent.

In contrast, some firms said they had too many client-facing support staff (18%) and client operations staff (27%). This, perhaps, reflects a trend in focusing on reducing administration staff ratios as a target. We have seen this approach especially in post-acquisitions when firms are trying to realise synergies and savings. (See page 20 for our best practice model.)

Golden hours and capacity

One measure we asked people to think about was 'golden time' – the period that relationship managers spend on value-add tasks. These include time in front of clients, time investing, or time spent doing business development. This was a 'finger-in-the-air measure', and some CEOs were less willing to commit to a figure at all – out of 65 firms, only 12 could put this at more than 50%.

Our average across all firms was only 43%, which supports the poor view of efficiency in the front office – relationship managers need to increase this time to be able to service more clients.

When we analysed the data further, it showed that advice-led firms are the least efficient in this regard, with only 37% average time in front of clients.

We also found a noticeable difference related to firm size. Those below £2.5 billion in assets averaged 52%, compared to medium or large firms at 37% and 35%, respectively. This may be due to extra sign-off, governance, and controls in larger businesses, as well as a tendency to cut cost-base and reduce administrative team ratios, hence loading the relationship manager with more administrative tasks.

When asked specifically what relationship managers were doing to make this score so low, the responses showed that they were swamped with administrative tasks, had manual processes (some by choice) and bespoke approaches in preference to agreed process.

What are relationship managers (RM) spending time on?

'80% of time is suitability and reviewing portfolios'.

'Many processes are bespoke – RMs think it's value-add to send letters to clients about each portfolio change and contract notes on every trade'.

'As you grow, you need more governance... extra sign-offs; tick box mentality, which reduces client time'.

Client onboarding involved 25 forms, 5 sets of T&C's and 30 signatories'.

'Investment managers like to sit with clients and complete paper forms – clients prefer this also'.

50%

of firms providing advice need **more financial planners**

43%

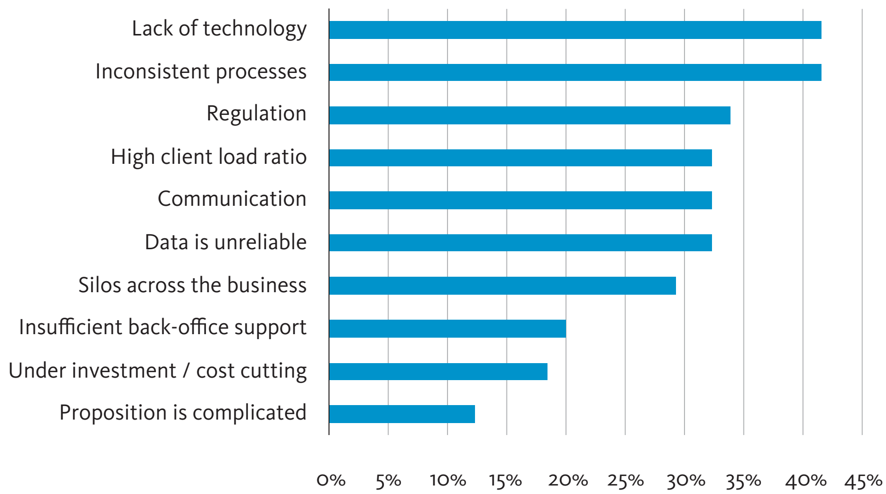
Average 'golden' time (client and revenue generating) for RMs

Investment-led firms
50%

Advice-led firms
37%

Full-service firms
44%

Barriers to spending time with clients



While financial planners say they have had to implement manual processes to cope with regulations (suitability letters being a key issue) they also cited unreliable data – often due to using multiple Platforms for booking client assets (see 'Operations').

Insufficient communication and silos across the business were also an issue for more than a third of all firms. These are often a legacy of acquisitions and are preventing synergies from being realised, as the top level organisational structure has not changed to reflect how the firm could be structured to support future growth strategy.

'Smaller businesses amalgamated over the years and did not tackle the different working practices'.

While CEOs recognise that this is the area of wealth management that is least scalable, we saw a wide variance in the level of action being taken to do something about it and, in some cases, inertia because issues are cultural and people-related.

It's true that productivity can be improved significantly with new technology to automate more of the end-to-end process than a few years ago, including perhaps AI in the future. However, there's a reluctance to change behaviours in some quarters, which hampers productivity and will be a barrier to the success of technology solutions.

Key challenges include:

- **Ownership of the client relationship** - Decisions on how to service clients are often left to the discretion of the RM.
- **Slow adoption of low cost-to-serve models** – Being brave enough to have the right conversations with clients.
- **Increasing efficiency of advisers** - Through greater (not less) administrative support.
- **Centralising functions** – Where it is better to do so.

Ownership of the client relationship

'Who owns the relationship with the client?' has always been a contentious question in wealth management.

Once it was a question of the **individual relationship manager vs. the company**. Those were the days when the relationship manager had absolute control of their own team (junior portfolio manager, direct support and a PA) and was rewarded on client revenue (not profit). The RM was also the investment manager and had freedom to devise their own investment method for bespoke portfolios from a broad 'buy' list, creating potentially inconsistent outcomes for clients across different managers.

Thankfully, many aspects of that model have diminished. Central Investment teams (at the very least a central decision forum) have overtaken the old ways when individuals had complete freedom to make their own investment decisions. Instead, firms have focused on building brand with the customer by going beyond a single relationship contact.

The challenge of keeping clients when someone leaves has not gone away by any means, but it has diminished.

Today, our short-term challenge is more about who should manage the client within the firm:

- Should investment discipline be completely separate from relationship management?
- Who owns the client relationship in a full-service firm when there is more than one role that needs (or just likes) to have the client's ear? Should it be the financial planner (FP) or the portfolio manager (PM)?
- What happens when one firm acquires another?

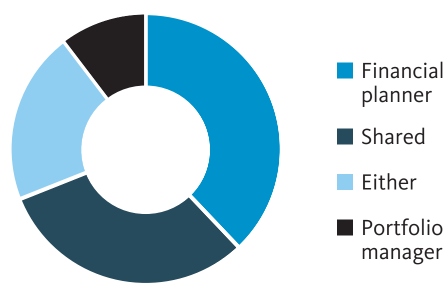
In our survey, many of those who provide a full service held client relationship responsibility either with the FP, or had shared relationships across the PM and FP teams.

Those that had a fully centralised investment proposition had shifted the relationship to the FP only (external DFM, assumes adviser has the relationship so this aligns with many firms' model where an IFA owns the relationship).

Those with leads coming in from both directions (referral from FP to investment manager (IM) or vice versa), had an 'either' model. However, they often experience ongoing arguments on client ownership, particularly if the client's emphasis moves from one service to another.

This presents even more of a challenge if there was an acquisition to combine an adviser-led business with that of a previously pure investment-led business. In these cases, it requires making cultural and behavioural change to get both sides of the business to engage on an egalitarian basis. In many cases, this requires the investment-led RM to become more focused on investment/portfolio management.

Relationship owner in a full-service WM firm



Our best practice relationship model:

In our 'best practice' relationship model, we have defined what a good relationship model could look like based on our research, our own experiences in working with numerous firms, and from being on the receiving end of services as clients.

Advantages of this model

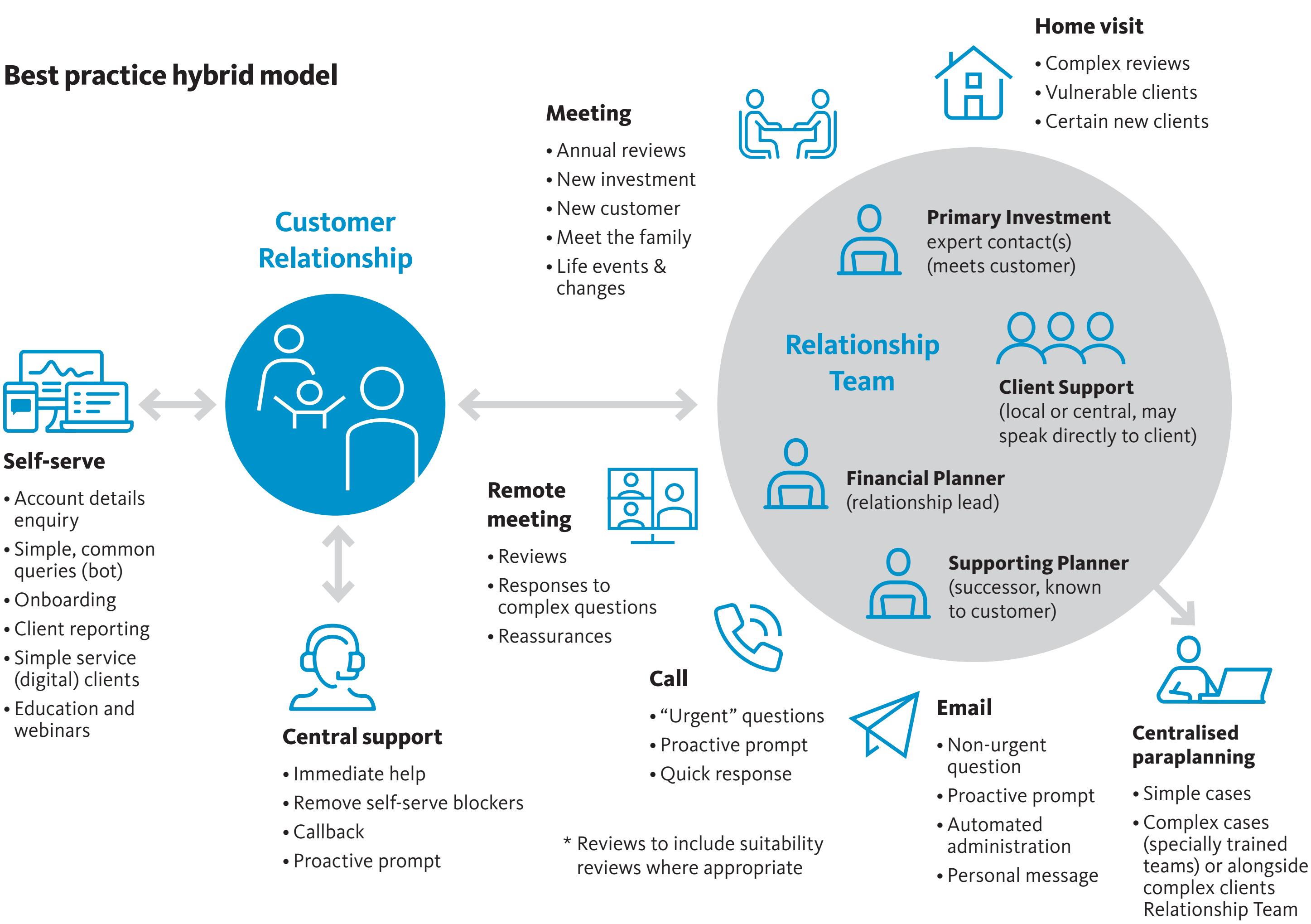
- Allows for adaptation to client segments, and clients can easily transfer across service models
- Makes the client feel more like a customer of the firm, not the RM
- Can be implemented in stages if you don't have the technology in place on day one
- Empowers the team to own the client and the outcomes – resilience is built in and non-proprietorial
- Builds succession and career development
- Ensures client engagement is still retained by investment/portfolio managers

During our research, the firms that stood out deployed three principles:

1. The client has a broader relationship than a single individual.
2. The relationship model provides multiple engagement methods.
3. There is a low(er) cost-to-serve model for smaller/simpler clients.

These principles apply whether a firm is investment-led, advice-led, or has a holistic model.

Best practice hybrid model



* Reviews to include suitability reviews where appropriate

The graphic above shows what an ideal model might look like. Its key features are:

- **Team-based**

  An FP is assumed to be the relationship lead – in line with the industry trend we have seen – though it could also be an investment manager, particularly if the client doesn't require the services of an FP.

  The team should include supporting FP(s) and team members, including client support, who should be encouraged to have contact with clients and be known to them. This helps to spread the load, cover for absences, and build client loyalty to the team and firm beyond a single individual.

- **Hybrid**

  There is a dependency on technology since clients need the ability to access self-serve functionality.

  The model adapts to customer need and complexity, whether this involves a moment in time or an ongoing need, such as customer vulnerability.

- **Centralised services**

  There is a central support team that responds directly to calls requiring immediate help or simple actions. This includes technology support.

  Paraplanning lends itself to centralisation or regionalisation, helping to smooth the workload across teams. Some firms may choose to have a separate expert paraplanning team for specific complex work (DB transfers, complex needs, or corporate clients), or paraplanners aligned to financial planner pods (or both).

- **Portfolio managers become investment management experts**

  With the centralisation of investment proposition, bespoke portfolio management is getting rarer. In this model, investment specialists still have a career choice to remain involved in the relationship team or focus as a specialist asset manager, or even both.

  The investment 'expert' comes into the frame when needed, similar to a GP/consultant relationship with the client.

Key benefits of the model are:

- Simple client queries and actions can be serviced at low cost
- The model adapts to the clients' needs and preferences
- The average number of clients per FP may be slightly higher, since the team ownership allows peaks in workload to be spread and absences are covered
- Sustainability is improved
- Client loyalty is built with the firm, not an individual
- Succession planning is built in
- Career opportunities (and choices) are clearer for employees

The model requires communication and collaboration within the relationship team and incentives need to be aligned to sharing the customer relationship.

Low cost-to-serve models

Firms are recognising that smaller clients are often less profitable and becoming more so as staff and other costs are rising. More firms than ever are segmenting clients and adopting a 'lighter touch' where clients are smaller and simpler.

Post-acquisition, a low cost-to-serve option is attractive. Invariably, when a merger happens, client segments are reviewed, and legacy books that don't fit into new segment criteria are a target for managing out, selling the book or, most often, retaining under a more efficient model.

Approaches vary and can include full-on digital, a separate service team with slightly less qualified advisers, no in-person meetings, telephone service only, and less frequent/automated reviews – all aimed at increasing the ratio of clients the RM and team can manage.

In many cases, the adoption of low cost-to-serve across the industry is slow progress. Notably, accelerators are mainly external factors, yet barriers are often internal and cultural.

Accelerators

Acquisitions

- Need to deal with legacy books

Regulation

- MiFID increased number of valuations, a need to prove reports were read, and suitability requirements increased
- Consumer Duty requires defined segmentation, and will put pressure on price

Global events – COVID

- Instantaneous need to service remotely

Platforms

- Many clients are multi-booked
- Comparison of Platform capability with wealth managers

Inflation/economy

- Costs rising, firms need to reduce cost-to-serve

New generation of customers

- Younger generation prefer to self-serve, digitally
- Ease of use more important than trusted brand

Barriers

Acquisitions

- Detracts capacity for change

Attitude/culture

- Firms reluctant to push digital service
- RMs have no incentive to move clients
- Assumptions on what the client wants

Data quality

- Lack of data strategy to source data for portals
- Mistrust of data
- Don't want client to see issues via the portal

Slow technology implementation

- See 'Use of technology in improving productivity'

Tips for getting over the barriers

- **Acquisitions**

  Ring-fence projects already under way and/or have a strong business case for the initiative – the acquirer will need to buy-in to the desired outcomes. This is easier to do if the business case reduces cost-to-serve of existing business than if it is based upon getting a brand-new segment of clients.

- **Attitude**

  Take lessons from those that have done this, and don't give an opt-out. Clients who are at the bottom of someone's list will get better service in a pool of similar clients if you get the service model right, so the message does not need to be a negative one.

  Firms need to ensure that relationship managers are incentivised to move out lower-end/unprofitable clients into the new model – better to do this with a business development reward (as they boost capacity to bring in new business), than paying them extra for the book value they lose.

  Don't make assumptions on what clients like, don't like, or will refuse to do. Most clients will try something new if it brings some additional benefits. In surveys, establishing what clients need, rather than what clients want is the best starting point, and never assume that what you already have is what they need.

  Brief your RMs on key talking points and benefits for them to deliver to clients.

- **Data quality**

  Make data quality reviews a regular process. There are tools to run extracts and rules against data that can help. After your initial 'heart attack' on first use (a COO's comment on his experience), the next time will be better. It will help to identify where data errors originate so that root cause can be addressed.

  Have a data strategy and rigorously apply principles on 'single source of the truth'. Amazingly, not every firm has one ... yet.

Small client solution: A case study

One firm – a prestigious private bank – carved out all its smaller clients (£50,000 to £250,000) into a digital service. The service was designed for ease and simplicity, and the bank made it cost attractive.

The private banker was removed from the client completely. The relationship was managed by a relationship manager, supported by a core advice team.

It gave clients (and bankers) no choice.

There was some initial pushback from both bankers and clients on the perception that there would be less quality of service. However, since the client was still contacted proactively and regularly, it was, in fact, better. Since clients were not the smallest client in a banker's book, they got more attention than before.

After two years, client satisfaction scores had increased significantly. Each RM had 500 clients, a large increase from the 1:100 for private banker relationships. With the private banker being the highest cost element of dealing with the client, this saved money and gave bankers capacity to build more business.

Increasing the efficiency of relationship managers

The more efficient an end-to-end process is, it follows that a higher client to relationship manager (investment manager or financial planner) ratio can be achieved. This is a good headline measure of overall productivity, and a measure that many interview participants said forms a significant key performance indicator (KPI).

In our survey, we saw a norm of 120-250 clients or £150-£250m AUM per relationship manager. In our case study of low cost-to-serve, we saw 500 per RM, and 600 for investment-led firms moving towards MPS and unitised investment solutions.

In one extreme and innovative case, one RM had 2,000 clients (see 'Model of efficiency for advice: A case study', on page 26)

Whatever the right figure is, the average number of client relationships (families or groups of accounts) to RM varies according to the complexity of the client's needs and level of AUM, as well as the service model used.

However, there's no doubt that relationship management and the advice process are the least scalable of all functions in wealth management. A growing number of technology solutions and options are available to automate what used to be manual tasks. (For more information see 'Use of technology in improving productivity').

Also, firms are engaging in a number of ways to increase capacity without automation by improving their organisational model. These include:

Segmentation

Mature RMs with a full book, or nearly full book, need to be encouraged to segment their client list annually – handing off the smallest 20% of clients to someone who is learning to build up their book and has capacity (the 80/20 rule works).

These clients get only basic attention from someone with a full book and are rarely ever 'farmed'.

Moving out the smallest clients leaves room for business development – hunting for larger clients. The up-and-coming RM is more likely to work with the clients better, creating more profitable relationships. Alternatively, these clients could go into a simplified model where they fit the segment better.

Take administration tasks away from advisers (including booking meetings)

One trend, particularly after acquisitions, is to reduce headcount, and that usually involves those deemed to be a 'cost function' rather than revenue generators.

When applied to client support, however (including, to an extent, client operations), the net result is that FPs take on additional administrative tasks. This is a killer for 'golden time', and affects client service and business development capability.

For anyone who is a fan of Rob Knapp's book 'The Supernova Advisor', you'd think this is madness.

To really remove administrative tasks requires the RM to trust their client support and to work closely with their team. Client support should plan client contact, arrange meetings, and organise firm attendees. This includes direct contact with the client. Client support should also ensure that existing client service levels are maintained by proactively supporting RMs' to-do lists, planning time, and handling client queries and requests.

In principle, anything that can be done by the support team should be.

Streamline processes

Make sure processes are standardised, understood, and repeatable. This will reduce time to do them and mistakes that can impact downstream processes – onboarding is a key example.

All parties involved in a process need to understand it. If RMs were managing clients' expectations around onboarding information and timing, there would be less back and forth – one firm rejected 80% of requests at account opening because they were incomplete or incorrect.

Someone owning the process end-to-end can also increase efficiency and resolve problems quickly along the way.

Even small errors or omissions that are consistently wrong build up to large amounts of wasted time. Data entry should be done carefully as it can result in something being wrong in multiple places if not entered correctly.

> **'We have put in workflow, but attention to detail and accuracy of data capture can be poor'.**

> **'This one, small piece of data keeps getting missed. It's equivalent of 2 FTE days per month to keep repairing the data'.**

Of course, it is better to validate and automate processes whenever possible. In the meantime, though, simple training and promotion of a culture of 'attention to detail' can do wonders for efficiency.

Model of efficiency for advice: A case study

One firm we spoke to rated themselves a 9 out of 10 for productivity. Their business is highly efficient, and has the highest level of automation we've seen.

£550m
AUM

5,000
Active clients

11
Advisers

35
Support team

5
Data team

600-700
Automated reviews per month

90%
'Golden time'

We've detailed the technology elements in 'Use of technology in improving productivity', but there are also some key lessons in organisational principles that we can learn from:

- The business is relatively small and deals with smaller clients (£550m AUA, 5,000 active clients and 8,000 in smaller, non-managed schemes). It is growing fast, with 50-60 new clients per week.
- The firm has its own fund structures (and is the ACD), and keeps things simple by not using multiple Platforms for distributing them.
- Organisationally, the firm has 35 customer support people for 11 advisers – 3:1, which is a much higher ratio of administration staff than the industry norm. The firm puts a large emphasis on data and has a dedicated team of five people who look for day-to-day anomalies and make sure data flows through processes.
- Advisers have a minimum of 350 clients each. Experienced advisers can handle 800-1,000 clients, and the founder has 2,000.

They perform 500-600 annual reviews per month.

Why this works:

- Simple investment proposition.
- All administrative tasks and simple client queries are supported by the team – advisers trust and use the team working with their clients. As a result, advisers get 90% 'golden time'.
- Annual reviews are all automated–5% is the exception rate.
- Advisers become focused on new business referrals, fact-find, risk-profiling, and only reviewing reports when anomalies occur.
- Data quality is a key focus with resources dedicated to it – this enables them to utilise AI.
- Clients have access to a highly functional portal.
- Clients expectations are managed at onboarding – it is a digital-first solution. As a result, only 10% clients want personal meetings/calls and these are on an ad hoc basis.

Summary

When many firms think about improving productivity – driving more revenue or being more efficient – they immediately think about technology and automation of tasks. However, the importance of getting people in the right place is often overlooked or not done with enough commitment.

In our research, especially through qualitative interviews, we found some telling areas of inaction:

- **Ownership of the client** - Firms are being held back by relationship managers who hold the primary relationship with the client, preventing change and possibly skewing best outcomes for clients.
    - Some firms have demonstrated best practice on teamwork and incentives, however, changing ingrained culture and attitudes is difficult and risks key person departures.
- **Simplified services** - Firms are still failing to move clients to lower cost-to-serve models when they should.
    - There are opportunities to do this with low-tech for quick wins when digital services aren't available in the short term.
    - RMs need to encourage clients across all segments to engage in efficient ways in a flexible, hybrid model.
- **Right-sizing** - Firms need better techniques to ensure that in-demand resources are given the ability to be as efficient as possible and that succession plans are in place.
    - Recognise that client support teams can make RMs more efficient and increase capacity for new business.
    - RMs need to give up clients to up-and-coming FPs or small client service teams to free up time to develop new business.
- **Take action** - Many firms have failed to fix some key organisational factors that have a significant impact on their team's effectiveness.
    - We think that firms can make measurable improvements even without spending on technology through changing functional responsibilities and encouraging a culture of attention to detail and ownership of processes end-to-end.

Culture and incentives

Getting responsibilities and incentives right can have a significant impact on productivity – prioritise them above automation.

Current Status:

Workplace culture varies widely across the industry, and many firms are great places to work with a real sense of putting the client first. However, in our research, we found that culture can significantly block productivity, particularly in the front office, where individuals have become protective of their client books and resistant to change.

This behaviour, it seems, is almost entirely due to how we incentivise our relationship managers.

The role of incentives

This is a highly sensitive issue, and we need to address the 'elephant in the room' – however unpopular that is.

Incentives for relationship managers, in most cases, are badly misaligned to the strategies and the behaviours we want (and need) to encourage.

Firms typically have these desired outcomes:

1. Business growth
2. Profitable, scalable model and appropriate cost-to-serve
3. Great customer service with good customer outcomes
4. Succession plan
5. Client loyalty/retention
6. High level of employee satisfaction and team engagement
7. High standards of regulatory compliance

Rewarding RMs solely on a percentage of revenue from the book of clients they manage **does not** drive behaviours to support a single one of these outcomes. Even customer retention is driven towards loyalty to the RM, not the loyalty to the firm.

> 'Our RMs are fiercely protective over their client relationships – it impacts their livelihood'.

We have, however, seen some better practices:

'We incentivise people to give up clients to juniors so they can take on more (new clients)'.

'We "buy" books of clients off those who want to retire (on the premise they properly hand over)'.

This table shows examples of incentives firms have used and whether the incentive drives the behavioural change needed to deliver the business outcomes noted above.

Business outcome	Drives behaviour	% Revenue	% Profit	% Revenue + limit no. of clients per RM	Team share % revenue
1	Continued incentive for the RM to grow business once they have a full book	✘	✘	✔	✔
2	Accountability for cost-to-serve – drives more profitable clients	✘	✔	✔	depends
2	Incentive to hand off clients to a better cost-to-serve model	✘	✔	✔	depends
3	Maintain service levels by not having too many clients	✘	✘	✔	depends
3	Incentive to improve client experience through teamwork – builds resilience and breadth of support	✘	✘	✘	✔
4	Incentive to hand off clients to up-and-coming FPs building a book – supports succession plans	✘	✘	✔	✔
5	Client experience is not centred on a single individual – builds loyalty to the brand, not individual	✘	✘	✘	✔
6	Enhanced employee engagement with career opportunities and a common purpose	✘	✘	somewhat	✔
7	Encourages RM to maintain high standards of regulatory compliance, including Consumer Duty	✘	✘	✘	✘
	Easy to measure	✔	✘	✔	✔

We have simplified the table above from what we have seen in practice. In fact, the firms getting the best results are often using a hybrid of these.

One firm uses the limit on client numbers approach (the RM is not paid on anything over that limit), boosted with a higher percentage on new business won in the year.

This gives the RM a clear incentive to keep moving their lower-end clients to other members of the team to create capacity for business development. It also provides incentive to build business with larger clients and expand existing client relationships (in this case, the target market is HNW and UHNW).

The team target has been used successfully by one investment-led firm that bought an advice business 12 years ago and merged effectively. In this case, the team comprises both FPs and PMs as well as support staff.

Competitiveness across teams builds a healthy tension and drives business growth. Though there may be a lead RM, the clients have contact with several team members and not a single individual, building brand with the client beyond the lead individual.

A final point about incentives

Generally, portfolio managers are paid more than financial planners. This becomes a significant challenge following acquisitions where investment-led and adviser-led businesses are combining, and the FP-led and PM-led relationships have to merge.

Coupling this with the fact that the regulator is focusing hard on 'value' (especially as investment is becoming a centralised service), fees for investment management are likely to come under pressure, and yet there is a higher cost-to-serve when the client relationship sits with the portfolio manager.

Incentives will need to adjust from our current model if fees come down, or if fees for advice become emphasised over investment. This makes the team target approach, or at least a hybrid of that model, more attractive – it focuses on the overall contribution of all service propositions to the business, removing the P&L or revenue focus of a single service line.

Summary

No one is pretending that changing culture is easy. We do, however, need to address the problem now, and not let it perpetuate by repeating this position ad-infinitum.

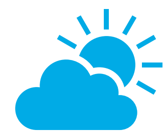
- We need to drive different behaviours around relationship ownership, turning it from RM to wider firm:
  - Incentives by team, and building a broader client engagement model across the team will build client loyalty to the brand.
- Incentives need to drive the behaviours we need to solve our issues with productivity:
  - To increase productivity of RMs generally requires them to hand off small clients, and incentives need to support this – continuously, not as a one-off exercise.
  - RMs need to be encouraged to be open to new ways of working. There should be a bonus element that aligns to behaviours, not just revenue and service quality.
    - Steering clients to digital interactions (hybrid model) where appropriate
    - Trusting administrative tasks (including some client contact) to support teams
  - RMs/teams need to be incentivised for business development, recognising there may be different talents across a team that support the process.
  - Some individuals may be better at one discipline more than another (farming, hunting, advising, or investments). Recognising different talents and skills across the team will drive people to perform even better.
- Individuals currently have incentives that are not aligned to the firm's desired business outcomes:
  - RM incentives must align to desired business outcomes.

The industry is short of supply of FPs, and this is a growing challenge (leading to poaching and excessively rewarding individuals). However, it is also an opportunity. With the right incentives for teams, we can train, promote, and nurture a new generation of relationship managers. With the right incentives, we will find ourselves in a much happier place.

Organisational design

Optimise support functions to enhance productivity.

Current Status:



There are many different approaches to organisational design across wealth firms.

Often, decisions are made on a binary basis: administration can be centralised; specialism requires dedicated teams. However, we've seen firms reverse decisions or drift back to their original arrangements when the model is found to be less than perfect.

In our analysis, we found that larger firms often centralise more functions than smaller firms. However, the success or failure of the model is not down to size. It depends upon the right structure, supported by good communications, workflow technology, and a strong service culture in the supporting teams.

The role of outsourcing

Whilst organisational design principles apply equally across both front and back office, the example of firms that had outsourced investment operations illustrates a key point in the success or failure of organisational design:

> **24% of our survey base had outsourced investment operations functions fully (a form of centralisation). These firms were less likely to have problems with hand-offs and inconsistent processes in operations and were significantly happier with culture and the level of investment in improving productivity.**
>
> **Conversely, of the 12% who had partially outsourced, 87% had problems with inconsistent processes and 67% had inconsistent data (double everyone else).**
>
> **In-house models fell somewhere in between.**

We put the success of outsourcing down to the fact that it is a professional service model, with the right level of cross-functional communication with technology to support it, along with a strong service culture. If firms centralise as an internal model, they still need to apply these principles and, in particular, have commitment and not take a halfway approach.

Our survey showed that how you design your operating model, where you draw the lines on what to retain/centralise, **and how you implement it,** are important considerations.

Centralise, localise, or dedicate?

Hub the repetitive tasks and then automate them.

Many firms have moved away from a fully self-sufficient team, or 'pod' structure for the client relationship team, and recognise the benefits of centralising certain processes. Central processing can be more efficient and can improve processes where external parties are involved.

The key to creating real benefits from centralising functions is to recognise which tasks most easily lend themselves to, or benefit from, this approach:

- Tasks that are repetitive and largely standardised across clients:
  - Generating valuations
  - Paraplanning (straightforward cases)
  - Onboarding
  - Transfers-in
- Tasks that require specific specialisms or experience:
  - Complex paraplanning cases (DB transfers, business owners)
  - Onboarding trusts
  - Tax structuring advice
- Tasks that occur less frequently across individual offices, but are more regular when brought together across the whole business:
  - Onboarding trusts
  - Deceased processing (downstream)
- Tasks that face external parties often work better when a consistent team is used to dealing with them, building relationships with their counterparts at the third party:
  - Liaison with Platforms
  - Gathering data from external custodians
  - Liaison with product providers
  - Getting valuation information from PE funds

When it's important that a client can engage directly with a team familiar to them, it might be better to keep a task assigned your local team environment. Examples include tasks that involve high levels of client engagement back and forth, are specific to client circumstances, or are in response to client instructions. Even if handed off, these tasks should be managed end-to-end in the relationship team.

Note: Particularly in post-COVID, centralisation does not necessarily mean 'same location'. It is more about reporting lines, management, and distribution of workload across a team.

Key benefits of centralising functions are:

- Ebbs and flows can be spread across a bigger team – dedicated teams are often left with capacity while other teams get swamped.
- When activities require a higher level of knowledge and/or experience, there is a skilled team in one place.
- If activities are infrequent, a centralised team will build up more experience of cases than in a distributed model.
- A central team may build relationships with external parties, knowing who to chase or call when queries arise, and getting a better response through this relationship.

Disadvantages, and how to mitigate them:

- Employees may be left doing repetitive tasks and have limited motivation for career progression:
  - Ensure that a rotation plan is in place – this also upskills the team across functions and gives a better understanding of end-to-end processes throughout the business.
  - Give teams responsibility to solve problems.
  - Make it the remit of the team to bring ideas for continuous improvement and get them involved in change initiatives.
- Communication needs to be effective:
  - Distribution of workload needs to be timely and responsibilities and details of the task made clear.
  - If only one part of a process is centralised, then communication across other teams and stakeholder groups needs to be effective, and prompt response to queries is essential.
  - Well-implemented workflow can be a facilitator to centralisation.

Summary

Organisational design plays a key factor in enhancing productivity. For those who do it well, with commitment, it can make a real difference.

Key learnings from our research include:

- Firms of any size, aside from the very tiny, can benefit from centralising certain tasks.
- However, centralisation needs to be done appropriately and with commitment according to the purpose – to manage workload, to concentrate skills, to build and focus relationships with third parties.
- Technology is needed to ensure that workload is distributed properly, process is managed end-to-end, and nothing falls between the cracks.
- Commitment and cultural change are required to build a service mentality and respect from service recipients.
- End-to-end process owners should be appointed who are accountable for managing the process across functions.

Operations

The complexity we've allowed into our businesses, poor collaboration, and a lack of standardisation when dealing with third parties are significant barriers to productivity.

Current Status:

We've seen many technology improvements in wealth management in recent years. With better APIs between systems and the commoditisation (standardisation) of back-office processes, many firms regard their day-to-day productivity in operations as pretty good, with often only a few esoteric transactions being managed through exception processes.

When we questioned participants further on their overall score for productivity of 6/10, we found that operations generally scored better than client-facing functions. However, while front-office activities score consistently low at 5 or 6, the range of views on operations productivity was much more variable: between 3 and 10.

Our analysis shows unproductive hot spots in operations are largely due to complexity. In particular, firms scoring themselves low listed several key themes that were absent in the highest scorers, including:

- Investment-led firms distributing their MPS models through multiple Platforms
- Adviser-led firms using multiple adviser Platforms to book customer assets
- Firms using multiple custodians
- Communication with third parties and a lack of industry standards – an industrywide 'Achilles' heel'

There were some common perceived barriers to improving productivity:

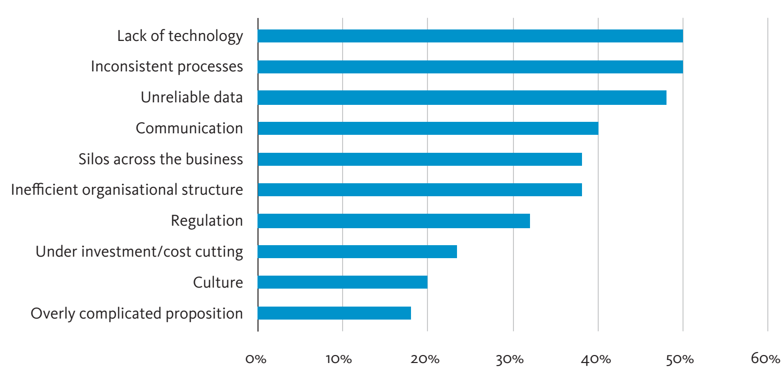
For **half** of participants:

- Lack of technology
- Inconsistent processes

For **one-third** of participants:

- Communication
- Operating in silos
- Inefficient organisational structures

Top 10 barriers to productivity in operations



No real surprises, but when analysing the underlying reasons why these barriers are not being overcome, we found that in nearly all cases they were things influenced by external parties and not easy to fix.

18 firms scored themselves below our average on productivity. All of them were either on legacy technology (and less able to deal with STP issues) and/or had multiple Platform/custodian relationships and multiple, legacy propositions.

The problem with Platforms

In the mid '90s, the first 'fund supermarket' platform was launched. Thirty years later, we now have 20-30 online execution facilities (D2C), and 20 or more adviser Platforms.

The number of options presented to investors and advisers has led to a complex distribution model for the industry. It's likely that many Platforms will not survive this crowded market. Our research shows there is significant impact on wealth managers' efficiency with the additional effort in dealing with multiple Platforms.

These are the biggest killers of productivity in operations:

Discretionary fund managers and Platforms

There's been significant growth in the last few years of managed portfolio services (MPS), where investment is driven by model portfolios. Managers gain by providing these to clients of IFAs/ other advisers through Platforms. This is likely to be a growing trend (see 'The Impact of Products and Services').

Naturally, every investment-led firm wants to make its model portfolios available to as many Platforms as possible to boost distribution opportunities, provided this makes commercial sense, and minimum fees per Platform are not a barrier. The scalability of MPS as an investment offering is almost limitless in the number of investors who can engage with it.

However, using multiple Platforms significantly impacts investment operations. This is often disregarded when negotiating a new distribution deal. The administrative burden of updating models is high:

- Platforms largely require updates to portfolio models through manual processes. There's no standardisation in the way data is provided. While a few Platforms have APIs, most have only an upload facility from a spreadsheet or manual input and none are the same format. This has a high risk of error, and potential client disadvantage, leading to significant remediation cost given the high number of investors.

'Their [Platforms] technology shortcomings impact on how we interact.'

'Platforms model updates – "nightmare and frustrating"'

- Inconsistency in the availability of funds/investments across Platforms means that Platform-specific substitutions are required to the MPS model. It means separate models/sub-models need to be maintained and monitored by the manager.

Definition of 'Platforms'

We have used the capitalised 'Platforms' to refer to the asset booking and trading facilities used by advisers and individuals to distinguish from terms used to refer to operations and technology platforms (Business Process Outsourcing).

'Having MPS on third-party Platforms is "clunky"'

- This risk to timely execution – potentially updating models at different times on multiple Platforms – can result in different outcomes for customers, even though they are in the same model as other clients on different Platforms. Whilst not yet explicitly called out under Consumer Duty, this could be considered unfair or unclear to the end customer.

  This is a significant issue. One firm reported that it takes them several days to update seven Platforms when rebalancing, and the lack of standardisation means the investment firm's staff needs training in multiple processes. Fund trading cutoffs add pressure to make changes in the same trading window across all Platforms. It all adds to the likelihood of errors.

'(We have) 20+ third-party Platforms. These are all used for MPS, therefore 150-200 individual models, up to a two-week process to rebalance.'

How we could improve the situation

This is tough to fix. In a world where Platforms have the upper hand and control the distribution, managers can't force improvement. Additionally, some Platforms are more concerned with gaining critical mass and attracting investors than more managers – there's little incentive for any industry collaboration to standardise.

In the meantime, in our view:

- **There is an opportunity to use robotics to help with this process, though it's a tactical fix that requires tweaks for each Platform.**
- **All Platforms are not created equal – choose wisely and balance risks and cost of doing business in comparing them.**

Client booking on Platforms

Firms using multiple third-party Platforms to book client assets have significant problems with inconsistent processes, slow communication, and unreliable data – more so than firms with only one or two booking options.

80% of firms who said processes were inconsistent cited dealing with Platforms as the key cause. Critical areas of concern were poor quality of data from Platforms, needing review and reworking before inclusion in client reports or digital portals; and variation in processes for placing new business.

'Our Support teams have to learn up to 15 different operating models due to our independence, and use of Platforms'.

This is a growing problem, made worse by two factors:

- Client preference - A firm allows clients their Platform of choice and doesn't encourage clients to transfer assets to the firm's preferred Platform or outsourced service provider when onboarding a new client.

'Where clients have been allowed to choose, it's difficult to reverse.'

- Acquisitions activity - A firm 'inherits' new Platform relationships each time they do a deal. Firms with a systemic acquisition process (multiple smaller businesses) can end up with 30 or more different Platform relationships.

How we could improve the situation

One continuing theme throughout the industry is that we're not asking the client the right questions.

1. **Firms (or individual relationship managers) are afraid to ask clients to move to the specific Platform preference of the firm. In our view, this situation is usually to the detriment of the client and the firm, (notwithstanding the issues with transfers in-specie).**

   Clients are better serviced with less choice. Under Consumer Duty, you could argue it's a necessary client conversation.

2. **This issue has driven several larger adviser-led/consolidator firms to set up their own booking Platform, moving all client assets onto it – a model more familiar for those businesses that are investment-led.**

   They appoint an outsourced service provider to run the operations and provide the technology. In some cases, they may use another Platform as a 'white-labelled', end-to-end offering, though the contractual relationship of the client for asset booking is with the underlying Platform, not the firm in this case.

   These firms insist clients onboard to their own technology and investment operations stack. The challenge then becomes how and what they choose to access in terms of funds and MPS models – or they provide their own and cut some DFMs from the market.

Note: Moving clients from one Platform to another could be construed as an advice event, creating additional work for financial planners and distracting from business development. Advisers need support on the messaging, and allowance in their objectives that additional time will be required to talk clients through the option and document the advice. Additionally, moving from the same MPS on one Platform to another can't easily be done in-specie.

Multiple custodians

Using multiple custodians is a similar and common issue for firms, especially where they have UHNW clients or family funds, who often come to the table with their own preferred custodian.

Custodians can be completely different to interface with – global custodians often have different technology in different locations, with data inconsistencies between them (stock categories, sectors, data timing, etc). We still, unbelievably, have wealth firms accepting an investment mandate where assets are held at non-SWIFT enabled firms.

There are still many custodians (particularly in the Channel Islands) that refuse to onboard clients or take instructions without a wet signature (many having regressed post-COVID).

Some firms we spoke to had 25 or more custodians.

How we could improve the situation

1. **As with Platform choices, firms are reluctant to ask clients to move assets to the firm's preferred provider.**

   Firms scoring better on productivity have specific policies in place on third-party custodians, either with a set of approved parties, extra charges for client-specific choice, or a blanket refusal to manage any assets held with custodians who can't communicate through the relevant SWIFT messaging.

   While family funds and trusts are a harder ask (it is the fund company/ACD/Trustee that selects the custodian), these are often with a mainstream provider and easier to integrate with.

   Applying these policies can, and should, sometimes mean refusing to take on a client. Many clients will happily agree to move the assets if counselled. Sometimes, we just need to ask the question.

> **'We have a choice of 4-5 key custodians, each has a specific value proposition to us ... most clients are happy to move assets when we ask them'.**

> **'We have been growing and now have the confidence to refuse to take on clients with a custodian who does not have SWIFT messaging – most of these clients want to transfer to our preferred partners when we put this to them'.**

2. **Improving the ability to reconcile with custodians is another candidate for AI. Solving breaks or manual reconciliations can be time and resource intensive. If using AI or robotics, a high level of confidence is needed, given the CASS compliance impact of this activity.**

> **'We are largely outsourced but brought reconciliations in-house for our assets with external custodians'.**

3. **Choosing an outsourced service provider that already deals with multiple custodians can also be a solution. However, the complexity of the model means that providers still prefer to provide custody** **(see 'Outsourcing ' on page 40 for further thoughts.)**

Achilles' heels

Within operations, the industry in general has three key vulnerabilities:

- Client onboarding
- Transfers in-specie
- Elective corporate actions

Generally, these are difficult to solve because they are naturally disjointed processes involving multiple breaks and third parties that firms don't control. It's why few firms have made real inroads into this.

In our view, within Consumer Duty, it's not in the customers' interest to operate with the ongoing delays and barriers to effectiveness we see in these processes. Despite the reliance on others, we could be better with only a few adjustments.

How we could improve the situation

1. Some firms have started using workflow, often combined with robotics or neurolinguistic interpretations. These tools manage disjointed processes, and when combined with robotics (and/or AI), are used to automate chasing and reminders to third parties.

   They're not foolproof. It's tempting, for example, to implement an existing process as opposed to a process improvement. It also still relies on the team engaging properly, not relying on tick lists.

> 'Workflow has increased our productivity, but people still need to actually do what they have ticked off as having done'.

2. Get clients to self-serve during KYC data gathering online as much as possible. Technology can manage workflow and document downloads and signatures, and your ID&V processes are more easily automated if using facial recognition.
3. Keep clients informed. Manage expectations by agreeing to target timeframes for in-specie transfers and share these with clients at the outset. We all know some delays are the fault of the 'sending party', and some are worse than others. Tell clients of delays and reassure them you're chasing inactivity (and make sure you do).

   If you can show progress on a portal, all the better. It drives a better client experience.
4. Consider transferring assets in cash if within a tax wrapper. This is difficult if markets are turbulent, but cash transfers quickly. The client isn't out of the market for long, being 'unmanaged' in transit. In any case, most changes of discretionary manager mean a significant change of holdings if moving into an MPS service.

   Few firms review what type of assets can be held or transferred at the onboarding stage. This is a lost opportunity to remove the problem.
5. In all of the above, there's a case for using AI and blockchain too, but both require industry collaboration to work effectively. AI needs large amounts of data to learn from, and blockchain needs parties at either end of the communication to agree on standards and process to get off the ground.
6. Get it right first time. Drive a culture of care and attention to detail, as well as good system checks at initial data entry to prevent delays later in these processes.

> 'It's incredibly frustrating to have data input errors that then perpetuate through multiple systems'.

7. And finally, 'do to others as you would be done to'. Get better at exiting clients, and don't be the cause of the delay. From the point of an instruction to move, the relationship is lost – it would be better to exit efficiently than keep a case hanging on.

Ideally, we would solve these issues through industry collaboration. We are starting to see a level of innovative cooperation in other markets not seen before.

Here's an example of what could happen if only we had the appetite.

A common facility for KYC

Do it once and tap into it. Farfetched? No, and here's an example of what industry collaboration could do easily with available technology:

In Switzerland, major competing banks have been working together to define a common standard for signature cards and for exchanging KYC onboarding information.

A not-for-profit entity, Blockchain Association for Finance (BAF), was created to lead the initiative, including commissioning independent security testing of a common communication platform, which BAF recommends each party uses (provided by Wecan Comply). The solution uses blockchain to exchange information securely.

Large wealth managers and private banks, such as Pictet, Julius Bär, Edmond de Rothschild, and Lombard Odier went live in 2023 with a platform that removes repetitive, painful, and low added-value work on KYC across different entities, including for complex clients such as trusts. By exchanging information, with the client's permission, they rely on data already collated and validated by other, equivalent parties.

As industry initiatives go, this is a potential game-changer.

Outsourcing

As a business model, outsourcing is a popular choice for wealth managers.

In particular, when moving from legacy in-house systems, it can be a significant help to have implementation supported by the outsourced services provider, who has probably integrated with many solutions and can help with interfacing with your retained architecture. Though, please note, you still retain a significant role – it can't be left completely to them.

We're not going to detail the full pros and cons of this model, but we'll focus on the impact it can have on a firm's productivity.

The key point is that outsourcing is rarely just about cost savings:

- An outsourced service provider has operations as its primary revenue-generating function, unlike a wealth firm where it is a cost centre. This means you can take advantage of a level of investment and improvement that you would probably not be able to justify alone. This will help reduce manual process error, improve client experience, and reduce risk.

- Outsourcing provides scalability – costs rise more slowly than revenues if you are a growing business – with the added benefit, often forgotten, of not recruiting and training operations teams as you scale.
- Outsourcing lets you focus on improving productivity and the effectiveness of your revenue-generating functions (investment management, financial planning, and business development) and the customer experience – front-end functionality as opposed to back-end utility.

'We outsourced dealing; at first the investment directors weren't sure, now it's not an issue'.

- It can bring significant benefits in productivity if you do it right. One firm saw a 30% to 40% increase in its operations productivity (costs and scalability). This was offset by increased costs of 10% to provide oversight.

'Core platform should be a commodity; whilst outsourcing may not always explicitly save costs in the short term, it provides benefits that allow us to focus investment and management time on things that bring a USP, better client experience or growth'.

Other factors should be considered here, including time to realise benefits:

One firm saw front-office productivity drop to 80% of its pre-outsource level for a period of 18 months. This was a significant transformation across front and back office, including restructuring the organisation and implementing major technology change across the business. The firm is now operating at 100% of previous form and leveraging its new technology and partnership while poised with capacity for growth that it didn't have before.

'It's taken longer than I expected. I still think it was absolutely the right thing to do – we are good at three things: investment management, financial planning, and business development ... we can concentrate on being better at our core skills'.

Summary

In the view of most of those surveyed, operational productivity has improved significantly over the last five years.

There are still bottlenecks, largely due to complexity and relying on third-party responses or inconsistent third-party technology. Businesses need to reduce complexity, remove, or otherwise justify, costs against the benefit of having non-commoditised processes.

The most productive firms have made hard decisions on what they will provide.

There are still industrywide issues. We must get over the inertia, own the problems, and collaborate (build a cooperative?) across firms. If we don't, these issues will not be solved.

True AI is still of limited use for solving these problems due to the lack of large data banks to learn from. But an increase in the use of workflow to structure processes better, and some robotic automation, is a quick win some firms have already deployed.

It's fair to say that outsourcing does help operational productivity. Not to reduce costs in every case, but to bring scalability; leverage the power of suppliers' investment; and in focussing executives' minds on front-office improvements, where productivity certainly needs thought.

Use of technology in improving productivity

Unless firms have first addressed business complexity and organisational deficiencies, with more focus on skilled implementation, technology will not deliver optimum value.

Current Status:

The Wealth Management industry does not have a great track record of successful technology implementations.

In fairness, the number of firms cancelling major projects and writing off multimillions that was evident 10-15 years ago, has been far less prevalent recently – though we still see significant overruns, overspends, and programmes that have not fully delivered the benefits expected.

We have a multitude of legacy technology, particularly for core operational systems, which are difficult to replace (or justify replacing). We are challenged with unreliable data and difficulty interfacing with modern technology.

We have, however, seen a small number of firms innovating and some tentative forays into the world of robotics, blockchain, and AI.

We've seen in this research that there are a number of key business issues to solve prior to implementing any technology – it is best to simplify beforehand. Once you have simplified and reorganised, then this section will guide your thinking on:

- How to implement better
- Key areas to focus on for biggest impact on productivity
- What the future might hold – the art of the possible

How to implement better

'Technology shouldn't be this hard'.

Technology shouldn't be as hard as we make it. Despite the legacy systems, data issues, and a multitude of decisions to make, we still make it more complex than it needs to be – or we don't use the techniques available to simplify it.

Any implementation has three key factors for success:

1. **A clear vision and target state** - Time spent upfront in designing what the future will look like and how you will get there – before any mobilisation of the implementation teams.
2. **A focus on desired business outcomes** – Defining these upfront, with measures.
3. **Collaboration and communication** – Ensuring that both firm and supplier(s) are all aligned to 1 and 2 above, from the outset.

And to make these happen, there needs to be a **strong, informed sponsorship** at the executive level.

1. A clear vision and target state

Vision and principles

At the earliest stage, an initiative of any size needs vision and purpose, driven by the board and/or CEO. Without a vision or purpose, projects can have a fast start with high energy and then lose momentum or fail to continue to be funded when other priorities get in the way.

Vision needs to be supported with clear principles for the business, and for the future operating model: '*Partnership behaviour*', '*Adopt not adapt*', '*Outsource all non-client touch functions*', and '*Digital-first*' are all examples. These should be defined before considering the target model or selecting a supplier.

Share the vision and principles with the business heads, the project team, and suppliers during selection. The sponsor is responsible for driving these throughout the programme.

Target state

Many firms rush into delivery mode as soon as they have signed a contract with a supplier.

Target model definition should start early (apply the principles) and should develop increasing levels of detail throughout the programme. There will need to be enough detail to fully understand the target state before implementation starts. Operating model definition is a skill, and the better you can do this upfront, the more likely you will have:

- A current state that shows the starting point – with pain points, challenges to solve, and what should be kept as is – across people, process, technology, applications and data.
- Each business function head has understanding of how the project will affect their department and what the end-state will look like.
- Detail on how the organisational model will change (and this is likely to be significant if outsourcing for the first time), including any transfer of regulatory responsibilities.
- A data strategy for interface-build teams to follow.
- A map of every process that needs to change – what will be automated and who owns each task in the future.
- Details of each interim stage of the programme in terms of all of the above and what a transition between states requires.
- A map for managing changes to the defined target state – enabling clear impact assessment of decisions to leave something out or do something differently.
- A clear definition of what needs to be achieved and what the dependencies are in order to create a comprehensive plan.

‘Time spent upfront is time saved later’.

2. A focus on desired business outcomes

Time spent in framing desired business outcomes and measuring progress against them gives focus to business stakeholders, the project team, and suppliers, and keeps things moving forward.

Business outcomes are driven from the vision statements and objectives for the transformation programme. This means thinking on how each business objective is fulfilled, and to what extent, by the proposed changes. Desired business outcomes should have:

- A statement of the specific benefit for a functional area.
- A business (not project) measure defined against it.
- Clarity about who is the business function head responsible for delivering it.
- Tracking of the likelihood it will be achieved throughout the programme.

A simplified example of a subset of desired business outcomes:

Function/ Department	Deliverable	Key business objective	Challenge addressed	Target outcome	£ saving	Responsible
Front Office	Integrated Portfolio Management System	Reduce risk	Remove 600 spreadsheets used for modelling and manual upload of trades to dealing	Cost of dealing issues and errors reduced by 90%	£100k pa less error cost	Head IM
		Efficiency	Full automation of front-office processes to improve productivity of team	Reduce 3 heads	£600k pa FTE saving (loaded)	Head IM
Client Relationship Team	Client portal	Be easy to deal with	Provide a smooth and timely onboarding experience	Reduce end-to-end onboarding time from 2 weeks to 2 days	£200k pa Charges + time save	Head of Client Relationships
		Efficiency	Reduce time RMs spend on administration	RM time reduced to 4 hours during onboarding a new client	£800k pa RM time save	Head of Client Relationships

Track the business outcomes:

The project needs to track the benefit it is delivering.

Tracking traditionally emphasises time and costs. However, a project can come in on time and budget, but with aspects that have been de-scoped so that the initiative does not enable delivery of the outcomes (e.g., if the PMS was delivered live without interfaces to dealing to save time).

Similarly, if a project is going to ‘go live’ with a number of interim processes in order to meet a time target, this needs to be agreed mindfully, taking into account which desired outcomes will be compromised and when they will be delivered, if at all. Tracking the outcomes will help balance the remaining business benefits against decisions on remaining timescales, budget, and availability of resources.

Benefits realisation:

The business unit head must be responsible for delivering the outcome.

In the above examples, even if the system is delivered, unless the PMs give up using spreadsheets and use the system correctly, the desired business outcomes will not be realised.

The business function head should be engaged throughout, and needs to:

- Drive adoption behaviours (see below).
- Support the project with time and resources (SMEs, availability for training, etc.) to deliver what they need.
- Increase controls, cut heads, or drive growth in the target state to fully realise benefits stated in the desired business outcomes.

Adoption:

You can take a horse to water but you can't make it drink.

Whether this is portfolio managers ditching spreadsheets or driving clients to digital, executives and business unit heads need to support and drive their teams to use the solutions delivered in the way they are intended.

> 'Workflow has increased productivity, but sometimes people don't actually do what they have ticked as done'.

Leaders need to:

- Make BAU resources available for training, and ensure attendance.
- Drive adoption of systems, giving the team no alternative (e.g., spreadsheets).
- Ensure RMs are supported with messaging for clients (benefits), and administrative support to move them to another service, if that is the aim.
- Ensure that clients are given incentives to act (log in) or no choice (to move services) – or training and support to get there.

3. Collaboration and communication

The most successful projects happen when the vision is clear and all parties are communicating openly and regularly. Never hide programme issues or delays, thinking you can catch up.

Collaboration and respect between the business, project team, and suppliers is also paramount. Suppliers, in particular, are often blamed for delivering late and sometimes this is valid. But, in reality, changes in requirements or direction from the client often cause delays.

Outsourcing implementations are a great example of how a good partnership can drive a good implementation process and deliver major efficiencies, and how a bad relationship causes delays and stress. In an outsourcing model, the wealth manager should remember that the supplier shares the outcomes (for better or worse efficiency) and has real skin in the game – they don't get their fees until go-live (usually), and their BAU costs will escalate if things are not implemented well. Treating an outsourced relationship as a strategic partnership, as opposed to an arms length third party relationship is important in keeping goodwill on all sides as parties will be locked into a close, day-to-day relationship going forward.

Many things can go wrong during any complex programme (expect issues and deal with them as they arise). However, these three elements will be the ones that either define success or, if not present, contribute to failure.

Clear vision and detailed future state + Defined, desired business outcomes + Communication and collaboration

Supported by effective sponsorship

Helps avoid common mistakes and recurring issues, such as:

- Replicating existing processes, rather than reengineering for efficiency
- Retaining unprofitable propositions and products
- Reluctance from strong personalities to agree to any material changes in ways of working
- Adapting commodity solutions to fit nonstandard processes
- Unintended dilution of desired business outcomes

Areas of focus for productivity gain

Aside from the gains to be made with simplification and reorganisation opportunities highlighted in previous sections, there are still areas of the business that need automation. Areas most likely to deliver the biggest benefits are integration, digital services, process automation, and outsourcing. Measuring productivity indicators and root causes will give you the priorities for focus.

Integration

In our research, it was clear that businesses are recognising that integration is not just about removing rekeying and integrating data, it's about integrating processes.

When data is exchanged between parties and systems, the processes to which they relate should be initiated automatically – notifications or instructions should automatically generate the action to process them, not just sit on a worklist. A notification to a responsible individual to act should be used when exceptions occur or manual intervention is required.

One method of doing this is by using robotics, or Robotic Process Automation (RPA). One firm is successfully using this to interpret unstructured data from multiple Platforms and to generate actions at their end, as well as to enhance data quality and repair it when consolidating client data onto the adviser's own CRM platform.

Suppliers have recognised the importance of interfacing and will use the fact that they have APIs at the ready as a selling point. One API is, however, not the same as another API. Here are the things to look out for:

- **Well documented** - Look for open APIs that are clearly documented and maintained. How readable are the descriptions and instructions, and are they kept up to date?
- **Standard protocol** – Do the APIs follow accepted standards, e.g., SOAP, or better, REST, which provides more flexibility from the application consuming the API.
- **Breadth of functions covered** - The broader the functionality the API covers, the better.

- **Breadth of data covered** – Do the APIs cover all the data items from the screens/database, or a subset? A partial API could be as bad as no API at all.
- **Two way** – Do the APIs allow data to be pushed back into the system or just extracted?
- **Automated process** - Does the API initiate an automated process, or does it require additional steps? If so, who is monitoring those steps and what controls are in place?

The development of APIs has been slow, particularly amongst some Platform providers, hindering productivity and quality gains that could otherwise have been achieved.

Digital services

Client portals and digital services have been around for a while now. Clients now assume that you have a portal, and a mobile app is becoming a hygiene factor.

Many firms, however, are reluctant to push a totally digital service. Some have moved a simple proposition to digital-first with phone-only contact, but no one in our research sees this as a complete replacement for humans in wealth management services.

> **'We're not a retail bank – services are not that simple that it can all be done online'.**

Most, however, will agree that a hybrid model does work for most clients, excepting some of the elderly and vulnerable, who will still need more human support than others, and most clients are comfortable interacting this way.

- **Digital options** are preferred by time-poor professionals for convenience, but not as a replacement for 1:1 interactions. A mobile app is valued highly and has proven to be a strong driver of adoption rate of digital services.
- **Digital-first services** are preferred by younger generations and they put easy access before brand and trust. Unless we fully embrace ease of use and wider services in digital interfaces, then the next generation of clients will be hard to acquire.

Few wealth managers (excepting D2C execution-only services) have yet to extend their portals to provide greater self-serve capability (including full onboarding process, change of address or details, basic enquiries, instructions to withdraw, etc.) However, this is likely a next step to reduce cost to serve and improve client service timelines.

Firms need to be mindful that digital solutions, including mobile apps, need to work when rolled out – client confidence and adoption rates will rapidly evaporate if login times are slow, data quality is poor, or functions have errors.

Several CEO and COOs we spoke to expressed frustration with their client portal adoption rates. We noted specifically that:

- Adoption rates go up when the back-office staff understand the importance of the portal to their own processes as well as it being for client benefit.
- The more functionality available, the more it is used. Clients don't access a portal regularly if it is just a static valuation. Portals with secure messaging, document delivery, news, and prompts for action have higher, sustained adoption rates.
- Adoption is high when RMs support the concept and have a high confidence in data integrity– when they see it as a useful tool to support a client conversation (e.g., co-browsing with client), rather than a threat to the relationship. RMs won't promote adoption with their clients if they have concerns over data quality, and, therefore, issues that clients might see.

Process automation

Onboarding has long been a candidate for better automation. It's a disjointed process and one in which sensitive data is transferred to and from the client.

We've already noted that cross-firm collaboration on KYC and AML would contribute to a better long-term solution. However, in the absence of that, firms have been focused on improving the process, using a combination of:

- Secure messaging through a portal
- Digital signatures (though some jurisdictions are still laggards in what they allow)
- Workflow
- Robotics and NLP (neurolinguistic programming, which can interpret emails and direct them to the right recipient, or even respond to basic queries).

There are significant gains to be made even with small changes to this process. One firm shortened the elapsed time to onboard new clients by 80% just through the use of digital signatures and communication via a portal as opposed to paper and post. In turn, this freed time for RMs and operations since the onboarding process is 'right first time' with less rejections and back-and-forth communication.

Other areas where automation is a focus for many managers include:

- Report writing for simple cases (a first step to AI paraplanning?)
- Annual reviews
- Compliance
- Transfers-in
- Platform integration

These areas are also strong candidates for AI and robotics solutions in the future.

Outsourcing

Outsourcing is a key factor in improving efficiency.

By outsourcing commodity functions, you have certainty of your costs and scalability. Ongoing capital investment in automation and regulatory compliance are left with the supplier. The outsource provider achieves scale benefits, and shares those benefits in the form of efficiency and better service across all their clients.

What this means is that time, effort, and funding can be focused on other improvements going forward – improvements that address efficiencies of high-cost resources and innovation that will differentiate your business.

Firms who outsourced all said that being able to focus management time and investment funding on improvements in other areas was a key justification for doing it.

Success depends, however, on bringing all the implementation disciplines mentioned here to bear. These projects rely on principles like 'adopt not adapt', sharing detailed target state information, the business delivering outcomes through driving adoption alongside full collaboration with the supplier as a strategic partner, and exercising appropriate regulatory oversight.

Firms who saw better productivity having outsourced were those who had implemented well. For others, there were still disparate processes and integration improvements needed.

What the future holds – beyond robotics

There is, of course, much talk about AI. The world is moving fast to generative technology – technology that 'deduces and predicts'. Wealth management is way behind many other industries. Perhaps due to our risk averse culture and our highly regulated business, we are mindful of the impact of getting it wrong.

When we think about how these technology advancements play out, and the art of the possible, this can seem scary. To an extent, we have to trust our own judgement on how it should be used and be aware of the challenges that need to be addressed as we move forward. In particular:

- AI depends upon 'public' data. When using it, you are adding your own into the mix. Where is data stored? How is confidentiality protected?
- AI cannot 'unlearn' wrong answers. It can only dilute learnings with right ones. Is our data from the past right? Is the data from the past relevant for the future?
- AI needs volume and scale to work well. In wealth management, we do not have enough data as individual firms (even the largest ones) to really leverage what AI can do. To do this well, we would need collaboration on data sharing.

As a further challenge, firms should be cautious of the over-application of technology, or using AI for its own sake – some firms said they were challenged by their board/investors to react to the latest technology innovation or trend.

One firm we spoke to reengineered its invoicing process within finance, sourcing its own AI and robotics. It didn't work well and was a 'horror to undo'.

These challenges aside, there are firms who are cautiously 'dabbling' – becoming the innovators in how AI can enhance client experience and bring efficiencies to the industry.

Best practices

'We have appointed a head of robots'.

One firm has been running a pilot of an AI overlay across its CRM system. Targeting report writing by paraplanners, they had reduced the time taken, saving 1-1.5 hours per report. This also scored highly on quality checks, increasing the quality by 15% on the basis of less time that reports were referred back to check facts or the advice given.

'AI pilot has reduced paraplanner report time by 20%, and improved quality scores by 15%'.

This pilot is not ready for live yet, but the firm hopes to automate 60% of paraplanning, moving the resources to more specialist, skilled paraplanning work.

Areas that we have seen firms particularly innovating in, especially with new technology (robotics, blockchain, biometrics, and AI), are:

- Risk profiling
- Suitability
- Paraplanning reports
- KYC
- AML (established solutions are already using AI in AML montoring)
- Data security and exchange of sensitive information
- Better onboarding

Summary

We can, and need, to get better at implementing transformation – whether it's non-technology changes, new systems, or outsourcing.

- A clear vision for the transformation is essential.
- Firms need to be disciplined on spending enough time upfront with target model design in detail.
- Firms need to focus on their desired business outcomes:
  - When setting them out
  - Measuring them during the programme
  - Giving responsibility to the business, not the project team, to deliver them
- Sponsors need to be effective (train them).
- Better collaboration is needed across the business, project, and suppliers.

Finally, firms need to use investment spend wisely:

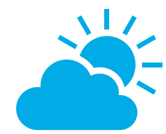
- Look at where you can differentiate on client experience/proposition through investment spend.
- Consider outsourced solutions where differentiation is not possible – e.g., trading, custody, settlement, etc., to leverage investment spend and efficiency gains from the supplier.

Despite some barriers, new technology will help the industry, and though progress is relatively slow today, expect this to accelerate. Firms are innovating and piloting some exciting new ideas using new technologies. We look forward to seeing how these play out over the next months and years.

Remote working

Remote working has not significantly decreased productivity. In fact, it has advantages, but the long-term impact may be a detriment to less experienced colleagues.

Current Status:



The lockdowns imposed as a result of the COVID-19 pandemic in 2020-21 resulted in significant change for the sector.

Some changes have resulted in longer-term benefits on productivity and also accelerated initiatives already in progress – e.g., the drive for clients to access their portfolios online and communicate with their advisers via secure messaging within the portal.

The gradual shift from remote working to hybrid, with an increasing proportion of time back in the office, has also facilitated changes in operating model and opportunities for efficiency.

Flexible working

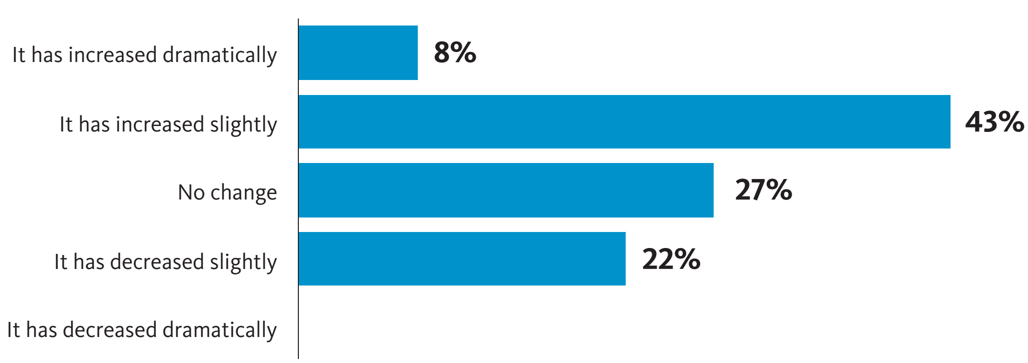
51% of firms we spoke with have seen an increase in productivity of individuals since COVID, and one-quarter stated that there has been no change.

While 22% thought they had seen a slight decrease, no one said that COVID has had a significantly negative impact on individuals' productivity.

None of the firms have asked employees to spend five days a week in the office.

Most firms have mandated a number of days colleagues are expected to be in the office. This has trended upwards from an average of two days/week in 2022 to a current position where most firms are at three days/week (some firms only did this in the last few weeks of 2023). Only one firm mentioned that they were thinking about moving to four days/week in the office.

Productivity of employees since before COVID



We have examples of firms taking a tough line on requests to work remotely on a permanent arrangement for more days than the expectation set out.

'We are seeing requests for 2 days a week in the office, in which case we say no'.

Actual time back in the office varies depending upon level of seniority:

Junior colleagues	Middle management	Executives
• Want to be amongst their cohorts. • Often have challenging environments for working at home. • Feel better when they have direction.	• Got used to a more flexible lifestyle during COVID – more family time, new pets, etc. • Some moved to a cheaper location away from their normal place of work. • Reluctant to commute.	• Were the first back to work. • Like to network with peers, even more since COVID. • Like to walk the floor. • Management committee and board meetings are held in-person more often than not.
Often in 4-5 days per week	Often in 2-3 days per week	Often in 4-5 days per week

As an overlay to seniority, we also found that attendance varied by functional responsibilities:

- Investment specialists and client-facing teams are generally in the office three to five days/week
- Operations teams are in around three days, and technology teams are usually in fewer days.

Given the competition for talent, firms have considered what others are doing in the same location, so they don't look out of line. Whilst the target minimum days is set as an expectation, often with a commitment that teams should be in on predetermined days (e.g., for team meetings), we have not heard of firms actually imposing sanctions when the expectation is not met.

Productivity opportunities post-COVID

The impact of COVID created opportunities for cost savings and increased productivity, as well as accelerating other changes. These include:

Reduction in property footprint

The recognition that some form of flexible working is permanent has enabled firms to reduce their space requirements, implement a desk-booking system, and achieve savings from negotiation of new leases in what has been a depressed market.

'We now have 70% of our original space with 10% more headcount'.

- **Online client meetings**

  Whilst firms and clients are generally keen to retain in-person interaction (deemed particularly important for the first meeting with a new client), annual suitability reviews via video conference are frequently the favoured option.

  As a result, advisers are more efficient and there are tangible improvements in firms' carbon footprint through reduced travel, paper, and print.

> 'Advisers can now do 5 meetings/day, as opposed to a 120-mile round trip for one client meeting'.

- **Adoption of digital portals**

  Prior to COVID, adoption by clients of online portals was generally low. Advisers were sometimes reluctant to promote the portal due to concerns over data integrity, the fact that clients would see the same information that advisers would see, and a perception that access reduced the importance of the role of the adviser.

  COVID changed this – adoption rates have increased and, as a result, firms have made additional investment in the usability and functionality of online portals. An app to enable access by mobile phone is now considered a hygiene factor.

  Most firms aspire to a portal adoption rate of 90%, although no one is there yet. The majority are in an adoption range of 50%-65%, although there are laggards at 10%-15%.

  Reasons clients have not adopted digital include portals that are still embryonic and lack the functionality or data integrity that clients expect. In some cases, reluctant RMs have not promoted/maintained the habit of an online option with clients. In one case, a firm saw some regression in the adoption rate:

> '(The) majority of clients have reverted back to in-person meetings and paper – not sure if this has been driven by the client or the Investment Directors'.

Negative impact of remote working

While none of our respondents thought that individuals' productivity had decreased significantly, most of our CEO interviewees have the same view that two key elements are suffering through remote working:

- **Personal development**

  CEOs were in agreement that newer, less experienced colleagues are missing out, and that the true impact of this may not be seen for a long time.

  The absence of middle managers (usually line managers) who are experienced in the job means that there is little or no informal mentoring – water-cooler chat or at-desk exchanges. It is the absence of this group that has an impact on less experienced colleagues.

‘We want people in because the newer staff learn more from those who have been in the industry longer’.

‘Post-COVID working from home/remote working is harming the progression of new people, especially those early in their careers – there is no substitute for sitting next to someone and being there to support ad-hoc mentoring through new processes’.

- **Collaboration and innovation**

  Respondents universally agree that it is much more difficult to collaborate and innovate through online meetings. Being face-to-face drives people to bounce ideas, create energy for new ways of working, and feel included in a way that you just don’t get online – even if it’s just one person that’s not in the room.

‘People learn better in groups and collaborate better in person’.

These negative impacts are yet to be realised – it’s likely that they will be seen years from now. They could manifest in less motivation from younger people, more knowledge gaps, or less loyalty. Senior executives need to act on this now.

‘There’ll be less thirst in younger people. Hybrid will have a bigger impact 5-6 years down the line’.

Conclusion – A plan of action

We're sometimes beaten into submission and inertia by the barriers to improvement we think we are faced with.

What we conclude from this research, however, is that firms need a plan of action to address root causes of low productivity, not the symptoms (lack of technology, complex processes, lack of communication/business silos, inconsistent data, and regulatory burden).

Your plan of action should include (in order):

1. Drive the right culture

Culture is the biggest obstacle to putting things right. Good, strong leadership is needed to make change happen.

- Build incentive plans to drive behaviours that support the objective of the firm, not individuals.
- Don't let individuals' emotions or their reluctance to change be your blockers.
- Drive a culture of ownership of data accuracy and of processes end-to-end.

2. Simplify

Removing complexity does not mean removing your differentiators. It means you focus on doing simple things better to differentiate with exemplary performance and great client service.

- Discourage client-directed choices.
- Rationalise products and propositions.
- Simplify products and propositions.
- Segment your clients and move them to the best service model for their needs.
- Have the right conversations with clients to drive them to appropriate products and services.
- Get buy-in from the RMs:
    - Low-cost solutions and service models do not equal sub-service models.
    - Support and train RMs in delivering the right messages to clients.

3. Reorganise

Pay attention to teams and how the business is structured to deliver. It is important to do this, or at least make decisions on what it looks like, prior to any automation. Organisation and organisational responsibilities are a key part of your target operating model design.

- Challenge whether activities could be outsourced when there is little opportunity to differentiate against the competition:
  - Custody and settlement
  - Investment operations
  - Dealing
  - Application technology development
  - Specialisms where you don't have the skills, e.g., tax structuring, DB pension transfers, legal, or even investment management if you want to be advice led.
- Make your relationship management teams more efficient:
  - Incentivise RMs to segment their books and to transfer smaller clients to up-and-coming RMs or to low-cost-to-serve relationship models.
  - Ensure client support resources take on all administrative tasks (you may need to boost resources and invest in automation– see below) to increase RM 'golden time'.
  - Include incentives to drive building new business.
- Centralise, regionalise, and specialise teams to even out workload and/or remove bottlenecks of tasks due to knowledge gaps.

4. Improve engagement with external parties

- Rationalise the number of booking Platforms your clients are on – choose those easiest to deal with/most progressive, and direct clients to a small number of preferred Platforms.
- Set clear guardrails about which Platforms your models will be available on, with minimum thresholds, to ensure each relationship creates value for all parties.
- Challenge Platform providers as to what they are doing to automate existing manual processes through AI, or through third-party facilitated productivity tooling.
- Work with Platform providers to establish a common template/process for upload of MPS models static data, and rebalancing templates.
- Set clear guidelines for custodians, for example around SWIFT standards.
- Have a data strategy that covers external parties as well as internal sources.
- Review and test data integrity and gaps regularly – keep it clean.

5. Measure

If you don't measure it, you can't change it. Measuring productivity effectively helps to identify root causes and supports justification for investments for improvement.

- Ensure productivity metrics are measuring the right things. Do they measure end-to-end processes, and are they client centric? Do they show trends? Do they highlight risks? Do they help to determine reasons?

- Make sure measures are appropriate for the audience. Who do they go to? How often are they reviewed? What level of detail is appropriate? Do they cover end-to-end processes that span across teams? Do they help you manage suppliers?
- Do root cause analysis on products and propositions, organisational structure, client service gaps, and employee incentives – not just on gaps in automation.
- Make productivity a standing agenda item in board meetings – with meaningful measures.
- Board members should create a healthy level of challenge and regularly question progress and the continuing relevance of measures.
- Chart progress, not just show spot measures.

6. Automate

When you have done all of the above...

- Prioritise the areas – according to your measures – that will make the most difference to automate first.
- Research options thoroughly before making decisions.
- Take bite-sized actions wherever you can.
- Measure again once implementation is complete.

7. Mindful consolidation

To enable consolidation to meet stakeholder expectations as well bring synergies and desired client outcomes:

- Ensure that any potential acquisition is justified not only on price, but with regard to alignment on:
  - Culture
  - Brand
  - Employee incentives
  - Proposition and pricing
  - Operating model
  - Employee proposition
- Get confirmation from the target firm on what they will commit to doing and how they will transform into a consolidated business.
- Define and drive principles of the merger from the outset – sensitively, but firmly.

Then, when the deal is done, do items 1-6 again!

And finally

Real innovation may only come from industry collaboration, which could solve some of our industry 'Achilles' heels' for good. That could include collaboration on KYC, AML and onboarding, transfers-in, Platform standards, or shared data lakes to leverage AI. We're not set up to drive broad industry initiatives today. Perhaps that could change with some industrywide leadership.

Firms that will be successful in the future are those with leaders who set a clear strategy, make bold decisions, lead their client teams on the journey, and are prepared to work with peers in other firms to challenge the status quo and enable change that is beneficial for the industry.

About the authors

Gilly Green – Founder and Director

Gilly has more than 35 years in the wealth management industry. She runs her own business providing advice to wealth firms and mentoring senior individuals. Most recently, Gilly spent 12 years as the Head of the Wealth Management & Private Banking practice at global management consultancy Sionic (now Davies). Previously, she worked both as a practitioner and in technology firms.

Gilly is also a NED for an advice-led wealth management firm and has a breadth of experience advising on M&A, client service improvement, digital, business efficiency, and people performance enhancement.

Donald Reid – Founder and NED

Donald has more than 30 years' experience in financial services and wealth management. Most recently the COO at Evelyn Partners, he led the business through Permira PE-backed inorganic growth strategy, culminating in several large-scale acquisitions (Tilney and Smith & Williamson), to become one of the UK's biggest wealth managers. Prior to that, he worked with UBS and Barclays in CFO and COO roles.

Dave Mason – CEO

Dave has over 25 years' experience in change, operations, and technology in wealth and investment management. Before joining Solve, he was the Chief Operating Officer of Sanlam UK.

Dave has worked with start-ups in the UHNW wealth management sector, managed major transformation programmes, and led technology teams in Barclays. Dave has experience in delivering major, successful change initiatives, including acquisitions, new business and product launches, and platform migrations.

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