

**SEI Executive Connections Insights**

# The legacy of legacy systems

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## Relaying the foundations of wealth

Wealth management is all about data. Market data. Portfolio data. Client data. While client assets keep the industry lights on, data powers its evolution.

**Effective data management drives efficiency. Any wealth management consulting report will state that. And yet, technology is often an obstacle to efficiency.**

Relationship managers will tell you their biggest barrier to efficiency is the many systems they use to serve their clients. Advisors manually correlate market, portfolio and client data to give their clients a complete picture of their relationship. The time it takes is a drag on revenue.

Synchronizing these systems on a single, unified platform is vital; the pace of the industry's evolution tells us why. Within 15 years, the wealth management client population has quintupled. The number of advisors has less than doubled.<sup>1</sup> In addition, firms' current technology solutions are struggling to deal with increased regulatory requirements.

Most wealth management firms have adapted "on the go." Rather than solve core problems with a full replacement, firms have "modernized" by introducing quick fixes that solved immediate issues. But as the entire system of wealth management became more complex, the machine has been put under more stress. Today, various pieces are seizing up.

<sup>1</sup> Sources: Merrill Lynch Capgemini World Wealth Report 1998, RBC Wealth Management Capgemini World Wealth Report 2013, Scorpio Partnership

# The aviator model: adjusting the glide path

In the 1950s, airlines developed independent computer reservation systems (CRS). The explosion of travel in the 1960s forced the industry to reconsider their platforms for ticket sales. Travel agents needed multiple CRS solutions to meet demand and sell tickets from more airlines, which was inefficient for both the agents and the airlines.

For more than a decade no answer emerged. But then a breakthrough occurred: the airlines agreed on a common operating platform concept. They even underwrote the development. This became the Global Distribution System (GDS).

GDS enabled different legacy systems and processes to interact so travel agencies and airlines could better serve client needs, creating more ticket sales and more revenue. By the 1990s, 70% of sales from the 20 largest airlines came via the GDS platform.<sup>2</sup>

Creating a unified platform was a revolution that opened the market. While this meant more competition for airlines, it also unlocked opportunity: they could sell more seats.

The emergence of the alliance networks and the evolution of online sales in the 2000s took the industry's platform concept to a new altitude, placing

control in the hands of the passengers. While this wasn't the intention when GDS started, the consequence was again revolutionary.

This last point is significant for wealth management, where clients are demanding more. Forecasters predict that by 2018, over 60% of all ticket sales will be direct, and online, to clients.<sup>2</sup> This will be possible only because the airlines responded to what clients wanted.

Independent research predicts that demand for wealth services will increase by more than 7% per annum\*. If this is the case, within a decade the demand will have doubled. To meet this opportunity, the industry needs to improve its capacity to service it.

If, similar to the aviation industry, firms used a single platform for product distribution and client data management, they could redistribute their capital to focus on what clients want: advice and relationship monitoring.

The transformation in the aviation industry was spectacular. Addressing an immediate problem—the need for greater efficiency—created a new model that could handle greater demand, lead to greater revenue, and ultimately transform the industry. The sky, literally, was no longer the limit.

# The co-pilot concept for wealth management

In addition to greater efficiency and increased revenue, a single platform could also improve wealth management services.

Consumer research hints strongly that the wealth industry may be misjudging the rising importance of clients' desire to control their finances.<sup>3</sup> They want to be co-pilots.

Many advisors feel challenged by this idea. If the client takes charge, what will the advisor be left doing?

The aviation world initially felt the same: would the online channel platform result in a rapid descent where the cheapest wins? The answer was yes. Open market forces did prevail. However, these platforms also offered scale and efficiencies that older systems could not achieve.

Moreover, the new platforms generated more sales online and offline. The systems offered a consolidated platform so the client and the advisor could easily share the same information and work together for a better outcome.

<sup>2</sup> The future of airline distribution—a look ahead to 2017 (written by Henry Hartevelt, commissioned by IATA)

<sup>3</sup> The Futurewealth Report (by Scorpio Partnership)

For wealth management, the concept of co-pilot is key. Financial services research shows that top tier clients continue to recognize the value of interacting with professionals for more complex needs.<sup>4</sup> Clients want to work with their advisors to make decisions based on shared data.

This client co-pilot can range from a single person to a family and their appointed advisors. The wealth management co-pilot can be a single individual advisor or a team that includes the relationship manager, accountant, lawyer and so on. All work together for the benefit of the client and for the benefit of their firm.

For the new system to work, these professionals need a common view of the client with synchronized data and so they can make unified business decisions. The systems of the future will all be organized around the client relationship, not accounts or products.

When done correctly, the client's experience with the business will be seamless.

## The first mover advantage—are the wealth giants ready?

We live in an exciting time for the interaction between the financial consumer and the financial provider. Clients are actively resetting this relationship; they not only want improvements, they are demanding them.

So in spite of an industry bias toward conservatism, change is happening in both smaller and larger firms. Smaller firms are usually the positive disruptors in an industry. Today, the most activity is coming from the new arena of digital wealth management.

These firms are acutely focused on one aspect of the wealth management value chain: front office delivery. To execute here they need a unified platform that can harness the three major data fields we stressed at the beginning of this paper—markets, portfolios, and clients. Some will succeed, some will fail, some will be absorbed.

While smaller firm evolution is noteworthy, bigger firms have more to gain. Larger institutions are most aware of the obstacles to their growth, and they have the scale, the brand and the economic buying power to make it possible. The threat is that many hold to the belief that the best solutions are built internally. They could be, but not in a timely, affordable and scalable manner.

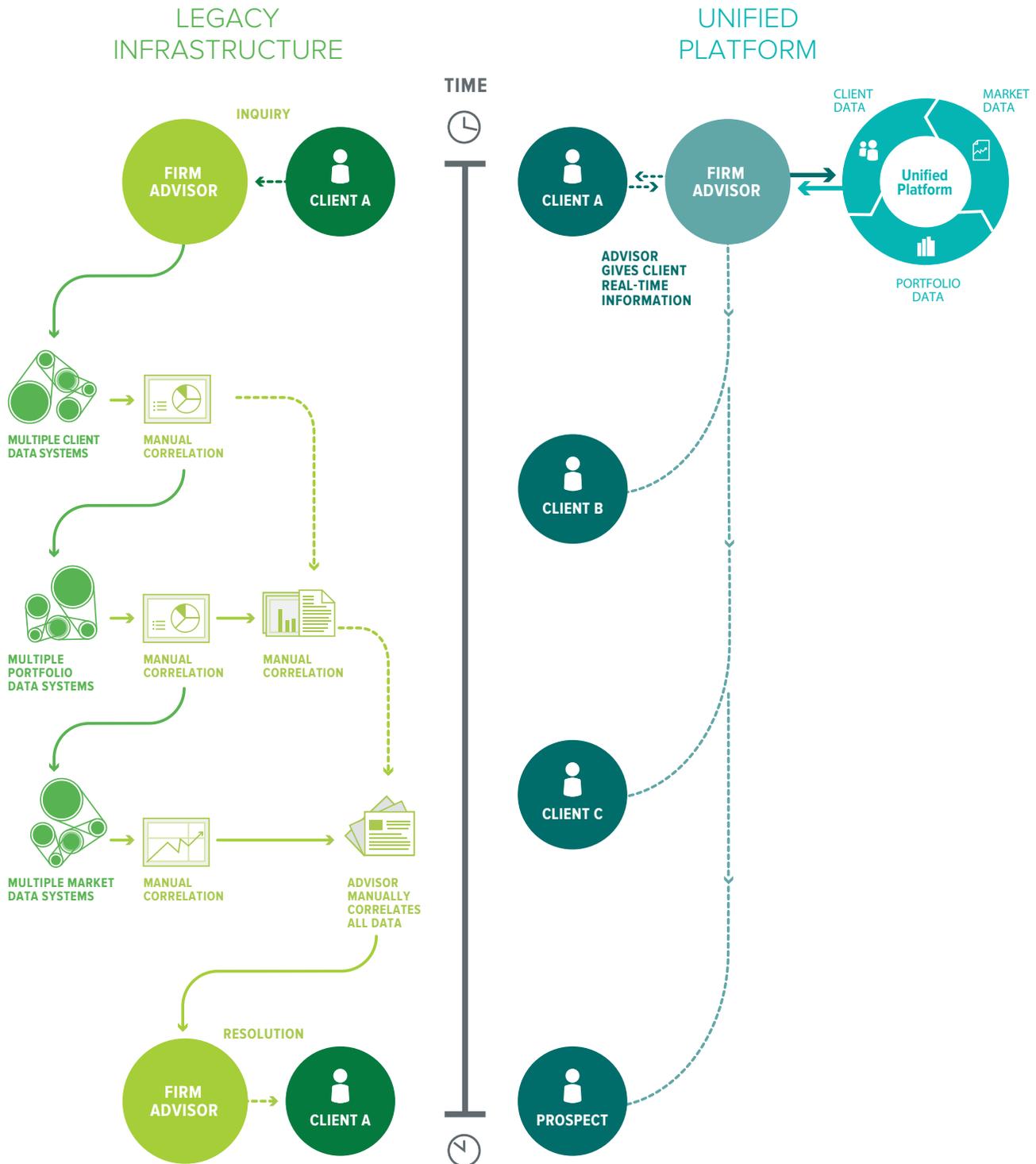
A number of the large operators appear to have reconciled their views on this debate, and several are on the brink of change. They can see clearly the opportunity the market can offer to them if they, like their aviation peers, make the game-changing move.

With this in mind, 2014 may in fact be seen as the tipping point for many.

<sup>4</sup> Sources: The Enterprise Family (by SEI Wealth Network and Scorpio Partnership), Competing with Steve Jobs (by SEI Wealth Network and Scorpio Partnership)

# The Benefits of a Unified Platform

A unified platform saves time and increases efficiency by eliminating manual correlation and multiple systems.



# The option on becoming fit for the future

Regardless of size, to compete in tomorrow's world of a wealth management firms are going to have to address their legacy infrastructures.

To future proof their models, businesses will need a solution that is adaptable over time, that focuses on the client, and that can continually adapt to regulatory, market and technological change.

Firms can prosper more with a system that adopts an enterprise-wide approach to managing and communicating client information. This improvement of information flow will lead to more business activity. Such an outcome was precisely the one experienced by the aviation sector.

In the past businesses tried to change from within, but the quick-fix mentality hasn't worked.

Today, there are unified platforms to solve this problem. Firms both large and small that have the will to change for the future are turning to these solutions not just for their own benefit but also for the benefit for their clients. In many ways, the industry's equivalent of the aviation industry's GDS is now in place.

And this is the legacy of legacy systems:  
**a unified platform is the way forward.**

For more information, call toll-free  
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