Now in its Eighth Annual Edition

C-SUITE CONFIDENTIAL: TEN KEY TECH & OPS TRENDS

FOR THE WEALTH MANAGEMENT SECTOR LOOKING INTO 2020

SS&C | ADVENT®

WEATHERILL

WealthBriefing

CONTENTS

FOREWORD & QUICK LINKS 5

1 MORE CONSOLIDATION *AND* COMPETITION ARE EXPECTED 6

2 RESPONDENTS ARE OVERWHELMINGLY OPTIMISTIC ON THEIR OWN ORGANISATION'S PROSPECTS, WITH THE MAJORITY EXPECTING SIGNIFICANT ORGANIC GROWTH 7

3 BIG CHANGES TO CLIENT BASES EXPECTED BY 2022, AGE BIGGEST OF ALL 8

4 MOST INSTITUTIONS TO INTRODUCE NEW BUSINESS LINES/TARGET NEW CLIENT SEGMENTS IN THE COMING THREE YEARS; EXPANDED INVESTMENT OFFERINGS ARE ANOTHER KEY THEME 9

5 THE VAST MAJORITY TO DEFY DOWNWARD FEE PRESSURE, MEANING THAT DEMONSTRATING VALUE WILL BE EVEN MORE VITAL 11

6 MUCH OF THE SECTOR IS STILL IN THE FOOTHILLS OF THE DIGITALISATION JOURNEY, CONFIRMING ITS POWER AS A DIFFERENTIATOR 12

7 TECHNOLOGY BUDGETS RISING FOR THREE-QUARTERS AMID PROFITABILITY DRIVES; INCREASING FRONT-OFFICE EFFICIENCIES AND CUTTING OPERATIONAL COSTS ARE TOP OBJECTIVES 13

8 CLIENT COMMUNICATIONS, PERFORMANCE REPORTING AND MODEL MANAGEMENT HAVE THE BIGGEST POTENTIAL FOR EFFICIENCY SAVINGS 14

9 CYBERSECURITY GAPS FOR A FIFTH OF FIRMS 16

10 CLOUD SERVICES AND OUTSOURCING CONTINUE TO TAKE OFF; COLLABORATION TO BE THE HALLMARK OF "WEALTH MANAGEMENT 2.0" 17

METHODOLOGY & REFERENCES 19

FOREWORD

The wealth management sector is in flux on a number of fronts. The industry's way of working, and its target client base, are rapidly evolving and the use of new technologies is both driving and being *driven* by the broader changes in play.

WealthBriefing and SS&C Advent have been tracking the key technology and operations affecting wealth managers for eight years now, drawing on a huge range of experts to contextualise the findings of our global surveys over that time.

This year we have aimed to get closer still to the concerns of the C-suite, carrying out in-depth surveys and interviews with a select group of CEOs, COOs and CTOs representing the full spectrum of wealth and asset managers, all around the world.

These datapoints and candid comments from those on the front-line of wealth management highlighted the key technology and operations trends we bring to the industry's attention as it looks into 2020. We hope that this report proves a valuable resource for technology specialists and the wider wealth management community alike.

As ever, we welcome any feedback or ideas for development related to our research.

WENDY SPIRES
Head of Research
WealthBriefing

STEVE YOUNG
Director, EMEA & APAC
SS&C Advent

QUICK LINKS

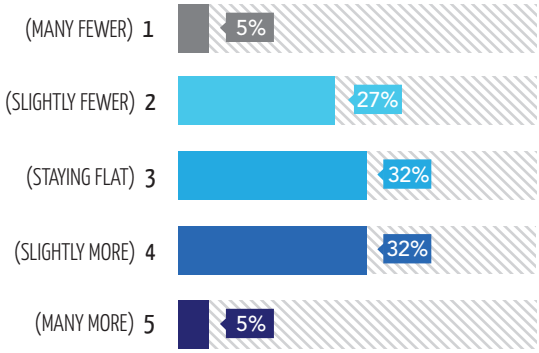
To discover what your peer organisations are doing and thinking in key areas, jump to:

1. *Industry consolidation/competition*
2. *Growth expectations*
3. *Organic growth vs. acquisition*
4. *Changes to client bases*
5. *New business lines, segments and products*
6. *Changes to fees*
7. *Digitisation levels*
8. *Protecting profitability and efficiency targets*
9. *Cybersecurity confidence*
10. *Evolving operating models*

1 MORE CONSOLIDATION *AND* COMPETITION ARE EXPECTED

EXHIBIT 1: MIXED INDUSTRY GROWTH EXPECTATIONS

Do you foresee more or fewer providers in your location in the next three years?



Our first area of investigation was the degree of competition wealth managers are gearing up for. Opinion was divided on the number of providers that will likely exist in respondents' locations by 2022, but a slight majority predict an increase: 37% foresee more wealth managers, against 32% expecting fewer.

There has been a massive consolidation in the sector in recent years and this one has shown wealth and asset managers still racing to join forces. According to PwC, first half deals rose 58% in 2019 compared to the year before, marking the highest level of M&A activity among wealth managers in the past five years. Deals are expected to continue apace into 2020 at least[1].

COMPETITION HEATING UP

Further industry consolidation may be coming, but firms also expect increased competition from new entrants. To Steve Young, Director, EMEA & APAC at SS&C Advent, this makes sense as part of a dual-speed evolution of in the industry. "We see a picture of consolidation at the top level and a growth in the number of boutique, local or emerging players," he observes. "We have experienced increasing levels of activity at both ends of the spectrum, which continue to influence our product and services offerings."

Technological innovation, particularly in hosted solutions, is levelling the playing field for smaller new entrants and offering them the chance to meaningfully compete with incumbents. Another big attraction to this industry is the fact that wealth management remains a highly fragmented sector where even the biggest brands have single-digit market share.

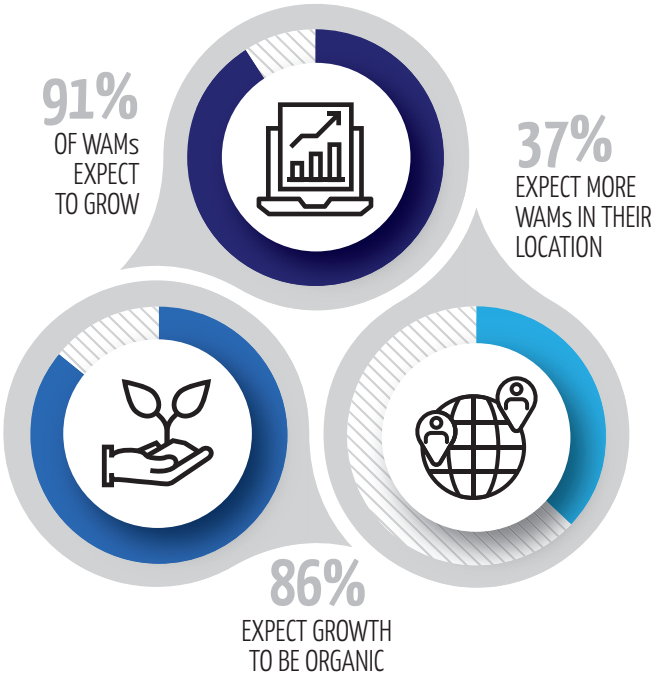
"Firms are beginning to see clearer lines of differentiation, with the smaller, local firms seeing a great opportunity in offering a more tailored and targeted service," Young argues. "It seems clear that digitalised operating models will continue to create opportunities for agile firms to exploit. In response, large firms are looking to extend service lines, improve efficiency and focus on an improved client experience."

"Firms are beginning to see clearer lines of differentiation, with the smaller, local firms seeing a great opportunity in offering a more tailored and targeted service... In response, large firms are looking to extend service lines, improve efficiency and focus on an improved client experience" - Steve Young, Director, SS&C Advent

2 RESPONDENTS ARE OVERWHELMINGLY OPTIMISTIC ON THEIR OWN ORGANISATION'S PROSPECTS, WITH THE MAJORITY EXPECTING SIGNIFICANT ORGANIC GROWTH

GROWTH EXPECTED, BUT ALSO GREATER COMPETITION...

Sector sentiment now to 2022:



...SCALABILITY AND EFFICIENCY WILL BE VITAL

Overall, 91% of respondents expect their organisation will grow in the next three years and almost a third (32%) foresee strong growth.

An overwhelming 86% of participants see their growth coming organically, highlighting the need for scalable solutions which can industrialise commoditised areas of the service offering and accommodate the expanded offerings many firms have in view (see p9).

M&A CHALLENGES

The remaining 14% are looking fuel their growth through acquisition, a move often prompted as much by a desire to tackle rising costs as it is to expand brand reach. Research shows that wealth and asset managers which have been able to successfully integrate have typically been able to cut the costs of their enterprise and investment operations by 10% and their technology costs by 14%[2]. But as Young pointed out, integrating businesses brings technological challenges that cannot be underestimated, meaning that M&A is far from a panacea for profitability pressures.

"Firms bulking up through M&A can certainly capture really significant economies of scale, but they will then have the task of integrating yet more systems into the array they are likely to already have," he said. "This is why we put such great emphasis on the interoperability of our technology and treat each merger we help our clients complete as a real learning opportunity." Poorly handled mergers and acquisitions certainly seem to be costing the sector dearly: incomplete integration is thought to have led to 5% to 8% of additional costs for the industry, the equivalent of $6-8bn annually[3].

EXHIBIT 2: OPTIMISM FOR NEAR-TERM GROWTH

How do you view your firm's growth prospects in your location over the next three years?

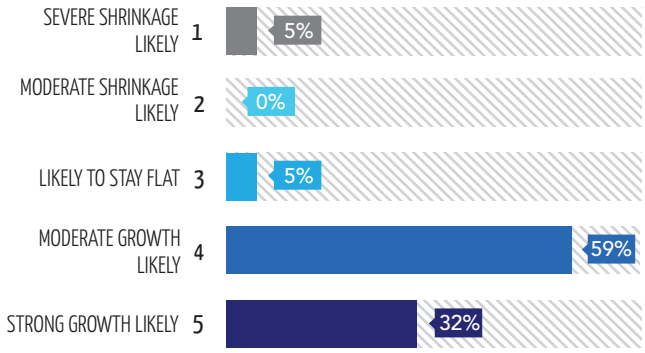
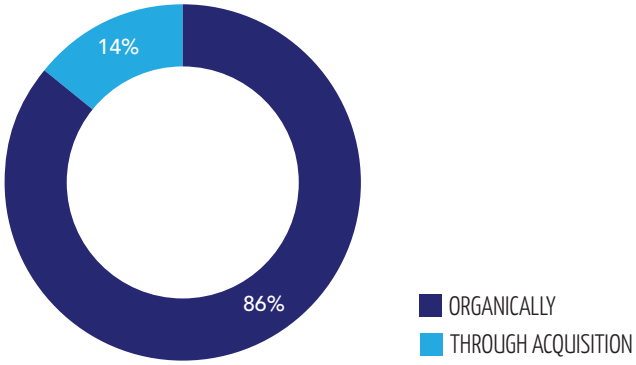


EXHIBIT 3: HIGH EXPECTATIONS FOR ORGANIC GROWTH

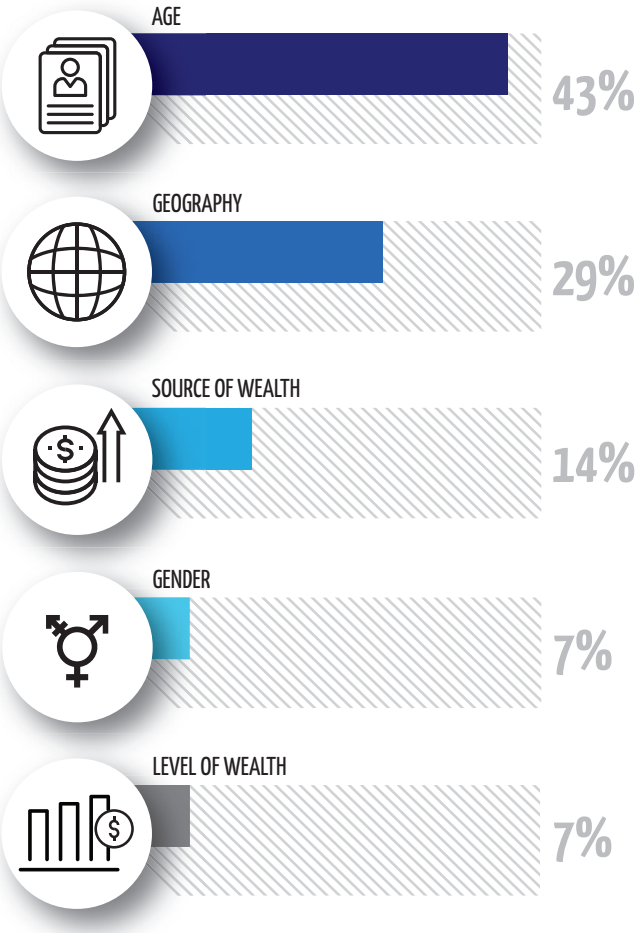
How will your firm grow in the next three years?



3 BIG CHANGES TO CLIENT BASES EXPECTED BY 2022, AGE BIGGEST OF ALL

CLIENT BASES TO DRAMATICALLY CHANGE...

Biggest change expected now to 2022



...DATA MASTERY WILL BE KEY

Our survey participants generally expect healthy growth for their organisations over the next three years, but they also anticipate the composition of their client bases will be significantly shaken up over that time.

Geographical changes are expected to be the single biggest change by 29% and source of wealth by 14%. Yet predictably, as the biggest wealth transfer in history starts to get underway, the generational shift in wealth ownership is by *far* the most significant change firms are preparing for (as voted for by 43% of respondents).

This is prompting dramatic changes to branding, propositions and investor engagement techniques. Recent years have seen innumerable firms make their first forays into mobile apps and social media, and bring responsible investing to the fore as they target younger clients with radically higher expectations around convenience, customisation and social conscience. Many are also using robo-advice to enable them to cost-effectively serve individuals earlier on in their wealth journey or to serve clients who would otherwise by "orphaned" by raised asset thresholds.

THE REALITIES OF DELIVERY

Yet exciting though these client-facing enhancements may be, Young points out that their success will rely on rather more prosaic factors like systems connectivity and robust data management.

"The next generation of wealth owners will be digital natives with a very different approach to assessing brand value, meaning that the ability to offer a powerful digital client experience will be critical" - Steve Young, Director, SS&C Advent

"The next generation of wealth owners will be digital natives with a very different approach to assessing brand value, meaning that the ability to offer a powerful digital client experience will be critical," he said. "But it needs to be remembered that digitalisation has a significant impact on all operations: processes will need to become very much faster, and accurate data will have to be available on a consistently timely basis. This is why we focus on providing fully integrated tools that bring automation and efficiency to the operations processes, as well as providing front-office tools and a digital engagement platform."

As discussed opposite, many firms are moving to expand their investment offerings in response to clients' changing wants and needs, but this may create a need for *significant* manual workarounds where systems do not support new asset classes and instruments well. Alternatives are a huge growth area, as are ESG and impact investing, but these carry with them complexities in areas like suitability evidencing, portfolio management and performance reporting that systems must be well set up for.

4 MOST INSTITUTIONS TO INTRODUCE NEW BUSINESS LINES/ TARGET NEW CLIENT SEGMENTS IN THE COMING THREE YEARS; EXPANDED INVESTMENT OFFERINGS ARE ANOTHER KEY THEME

NEW DIRECTIONS, EXPANDED OFFERINGS...

Business plans, now to 2022

68%
INTRODUCING NEW BUSINESS LINES

63%
TARGETING NEW CLIENT SEGMENTS

42%
BROADENING THE ASSET CLASS/ INSTRUMENT MIX

...FLEXIBILITY A TOP TECHNOLOGY NEED

In a bid to boost profitability, some 68% of respondents said their organisation will be introducing new business lines over the coming three years, while 63% will be targeting new client segments. As discussed on p8, firms are expecting big changes to age, geography and sources of wealth in their client bases.

"Data analytics have become really important to us in the last few years, but now we have to be very alive to the General Data Protection Regulation in everything we do. Control has to be the watchword in how you utilise and share any client information today"

- Country MD at a global wealth manager

Here again, there is a growing awareness that successfully expanding offerings rests on an ability to deliver a customised service to an increasingly diverse array of clients, and must therefore be underpinned by improved technology and processes that foster data-based decision-making. Correspondingly, improving data management stands as a priority for 71% of firms[4].

Firms are rightly seeking to fully leverage the wealth of client information available to them as they pursue new client segments, services and products. Yet as ever, compliance has to be firms' over-arching concern. "Data analytics have become really important to us in the last few years, but now we have to be very alive to the General Data Protection Regulation in everything we do," said a Country Managing Director at a global wealth manager. "Control has to be the watchword in how you utilise and share any client information today."

"Getting really useful insights into clients is much harder when their data is in many, many systems, not least because you tend to end up with redundant replicated fields across all the different systems. Tying across them to make sure you have a consistent view of the client is in itself a really significant piece of work"

- COO at a global wealth manager

Client (and prospect) data is arguably wealth managers' most precious asset, and mastery over it is of course as much about driving growth as it is avoiding regulatory censure. This will unlock not only the greater personalisation of service clients demand, but will also underpin the success of moves to target new segments, and launch new products and services precisely aligned with need.

TYING ACROSS SYSTEMS

Achieving the fabled "single view of the client" (or, indeed, prospect) is very often proving elusive, however. Here again, the challenge of managing a panoply of systems is a root cause. As the COO of a global wealth manager explained: "Getting really useful insights into clients is much harder when their data is in many, many systems, not least because you tend to end up with redundant replicated fields across all the different systems. Tying across them to make sure you have a consistent view of the client is in itself a really significant piece of work. You need to ensure that when one thing gets updated, you capture it everywhere."

Given the urgent need for better visibility over client data, data governance and tracing software are set to be real growth areas in wealth management technology. Yet a wave of investment into enhanced CRM systems should be closer at hand.

Despite the pivotal role these tools play, recent *WealthBriefing* research has indicates striking variation in CRM maturity across the sector. While 25% of firms have a fully integrated system which covers the entire client lifecycle, 37% are stalled in the earliest stages of leveraging this technology[5].

EXHIBIT 4:
HUGE VARIATION IN CRM MATURITY

Wealth managers' CRM maturity

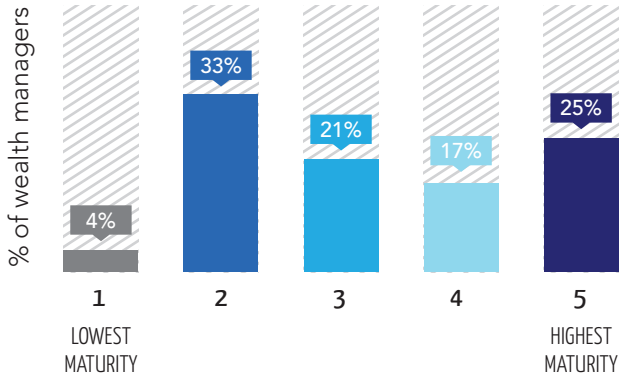
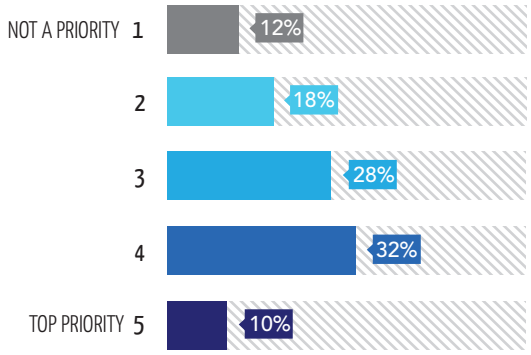


EXHIBIT 5:
FOUR-IN-TEN ARE PRIORITISING EXPANDED INVESTMENT OFFERINGS

Broadening the asset class/instrument mix



ALTERNATIVES OPPORTUNITIES

Rounding out the picture on expanded offerings is the fact that 42% of firms are currently seeking to broaden their asset class/instrument mix[6]. Here again there are wide-reaching technology implications, particularly given the increased emphasis on alternatives created by the low-yield investment environment of recent times. "With low interest rates across much of the fixed income markets and equity markets seemingly expensive after a 10-year bull run, investors are certainly looking for 'alternatives'," the CIO of a multi-family office remarked. "Rightfully so, and it has always been our assertion that the investment world is much bigger than stocks and bonds."

"With low interest rates across much of the fixed income markets and equity markets seemingly expensive after a 10-year bull run, investors are certainly looking for 'alternatives'. Rightfully so, and it has always been our assertion that the investment world is much bigger than stocks and bonds"

- CIO of a multi-family office

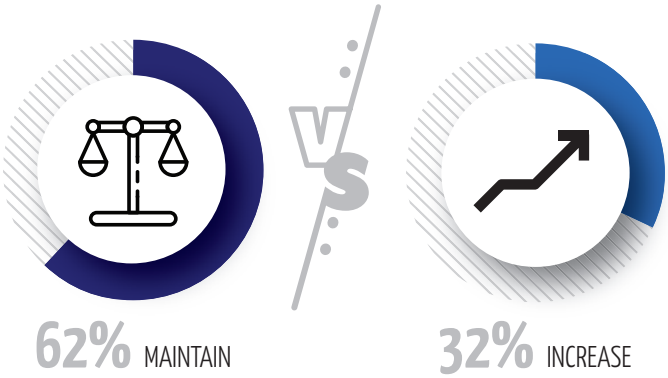
As last year's report highlighted, wealth managers are increasingly looking to transpose institutional-style investments like private debt into the private client space. Young observes that these firms are often able to offer very impressive returns from these alternative asset classes, but warns that they can be a significant source of inefficiency if the right technological foundation is not in place.

"Many portfolio management systems deployed in the industry are not designed to support instruments like private debt and so to offer them many firms are forced to revert to largely manual processes," he said. "This can massively increase risks as well as costs."

5 THE VAST MAJORITY TO DEFY DOWNWARD FEE PRESSURE, MEANING THAT DEMONSTRATING VALUE WILL BE EVEN MORE VITAL

FIRMS PLAN TO DEFY FEE PRESSURE...

Fee plans now to 2022



...EVIDENCING ADDED VALUE WILL BE CRUCIAL

71%

OF ADVISORS SEE STRONG DEMAND FOR BETTER REPORTING

Our survey shows very convincingly that, in the near term at least, the vast majority of wealth managers will defy the downward pressure on fees being exerted by heightened transparency and competition. Just 6% plan decreases and while most (62%) are aiming to keep fees stable, almost a third (32%) will be asking clients to pay *more* over the next three years.

Maximising operational efficiencies will naturally be vital for firms seeking to maintain current fees levels, or to keep any necessary increases to a minimum. Scorpio Partnership's 2018 *Global Private Banking Benchmark* noted an 8.1% annual rise in wealth managers' costs and, as discussed on p15, advisor compensation is growing strongly amid a war for talent.

At the same time, underscoring value delivery to clients will be increasingly important for all wealth managers, but of course particularly so for those planning fee increases. Otherwise, Young warned, the optimism for growth our survey found is likely to be misplaced.

> *"If firms are going to increase fees and still grow their business, they will need to align this to enhanced services. The quality of the client experience will need to improve really quite dramatically in many cases to justify higher fee rates."* - Steve Young, Director, SS&C Advent

"If firms are going to increase fees and still grow their business, they will need to align this to enhanced services," he said. "The quality of the client experience will need to improve really quite dramatically in many cases to justify higher fee rates."

HIGH CLIENT DEMAND FOR BETTER REPORTING

As Young notes, enhanced reporting can be especially powerful in both helping firms deliver the slick user experiences clients expect and emphasising the value they deliver, yet this opportunity is still all too often being missed. In addition to the compilation of performance reports often being a very manually intensive process, reporting can leave much to be desired in terms of timeliness, convenience and client engagement – when it should of course be wealth managers' chance to shine. As this page's infographic highlights, 71% advisors are now seeing very strong demand for better capabilities in areas like omni-channel delivery and customising how data is presented[7].

Young believes that self-service functionality should be far more of a focus in reporting. "Tools which enable clients to be more proactive and interrogate portfolio information on their own terms are rapidly becoming table stakes," he said. "These empower investors, vastly improve client engagement and make it far easier to highlight the value you add."

6 MUCH OF THE SECTOR IS STILL IN THE FOOTHILLS OF THE DIGITALISATION JOURNEY, CONFIRMING ITS POWER AS A DIFFERENTIATOR

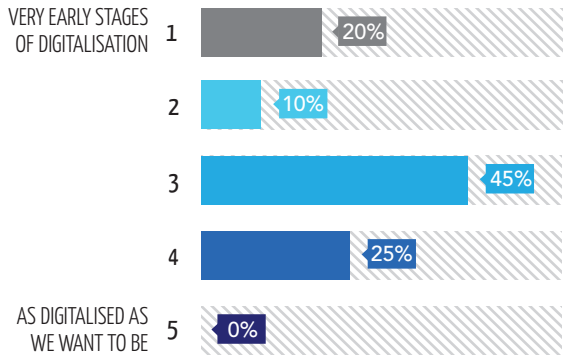
DIGITALISATION A *TRUE* DIFFERENTIATOR TODAY

20%
STUCK IN THE EARLIEST STAGES

0%
AS DIGITALISED AS DESIRED

EXHIBIT 6: STILL A LONG WAY TO GO ON DIGITALISATION

How far progressed is your firm on its digitalisation journey?



Our research indicates very wide variation in wealth managers' digital maturity. While a quarter of respondents felt able to give their organisation a "good" rating, a surprisingly high fifth see their organisation as being only in the very earliest stage of its digitalisation journey at present. Notably, no participants said their firm is as digitalised as it wants to be as yet.

There is clearly all to play for as both the sector and its client base transforms, and so several interviewees described how their firm is seeking to achieve big digital ambitions in short order to carve out a leader position.

> *"Our focus in on providing clients with the maximum flexibility, which means being fully digital across all client segments and product combinations. Aspirationally, that's where we want to be. We've made a lot of steps and we've made a lot of investments, but we want to do a whole lot more as fast as we reasonably can."*
>
> - Chief Innovation Officer at a global private bank

"Our focus in on providing clients with the maximum flexibility, which means being fully digital across all client segments and product combinations. Aspirationally, that's where we want to be," said the Chief Innovation Officer at a global private bank. "We've made a lot of steps and we've made a lot of investments, but we want to do a whole lot more as fast as we reasonably can."

HIGHLIGHTING VALUE

Young believes further digitalisation will need to come rapidly if firms are to deliver the significant client experience enhancements that will help justify higher fees. Yet he sees the divergence between digital leaders and laggards becoming increasingly pronounced, and this is often along geographical lines.

He said: "We see striking variation across the regions, especially in the deployment of tools to create a digital user experience. For example, in the Nordics and Asia-Pacific this is well established and expected, but in some other markets digitalisation is still as much talk as action. Somewhat weaker client demand might be part of this delay in some geographies, but culture and legacy technology are the real barriers." As discussed opposite, much depends on having the corporate will to resolve legacy issues definitively.

7 TECHNOLOGY BUDGETS RISING FOR THREE-QUARTERS AMID PROFITABILITY DRIVES; INCREASING FRONT-OFFICE EFFICIENCIES AND CUTTING OPERATIONAL COSTS ARE TOP OBJECTIVES

EXHIBIT 7: TECHNOLOGY BUDGETS OVERWHELMINGLY ON THE UP

How will your firm's technology budget change over the next three years?

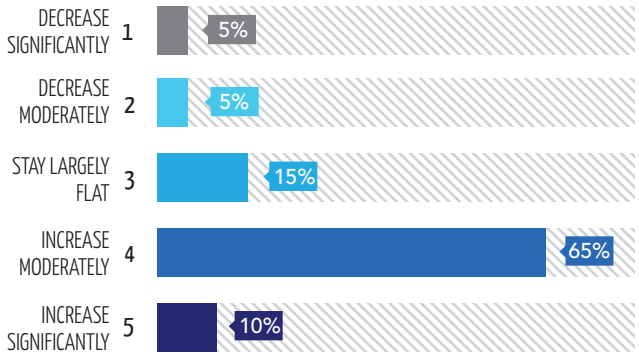
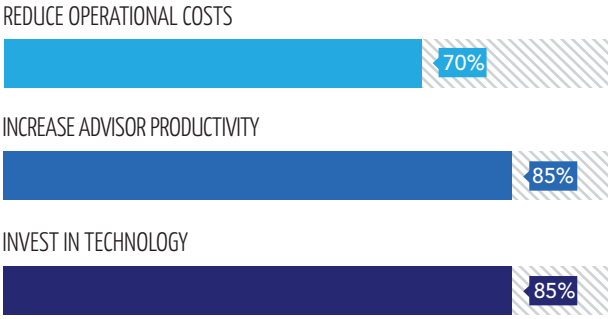


EXHIBIT 8: TECHNOLOGY INVESTMENT A TOP PROFITABILITY PLAY

Near-term moves to promote profitability

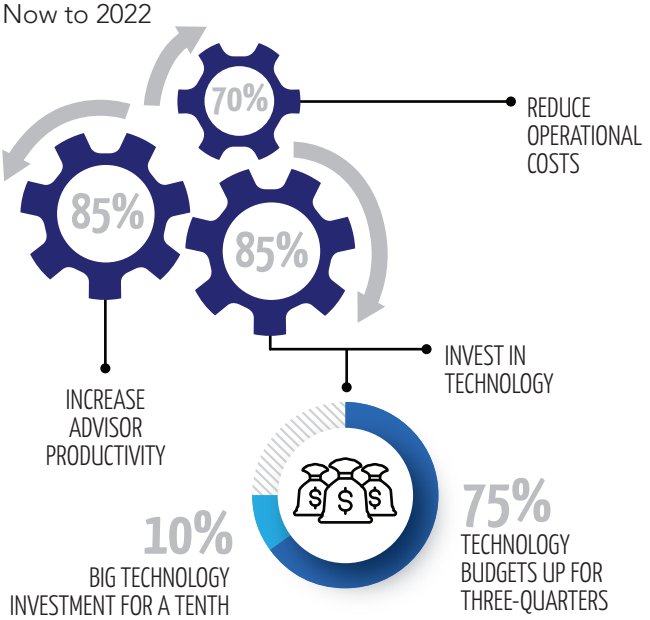


Our survey forecasts a rapid closing of the digitalisation gap on the basis of technology spend, however: 75% of wealth managers will be increasing their technology budgets between now and 2022 and a tenth significantly so. In a lot of cases, this will be from already high levels.

Wealth managers have high hopes for the impact of their technology spend: 85% of respondents said that their firm will be making technology investments in the next three years as a way to protect/promote profitability. Yet as Young points out, "achieving the desired Return on Investment is about more than just throwing money at the problem". Selecting the right solutions from an increasingly crowded field is key, but even more important is a commitment to effecting transformational change – and this must come from the top.

PROFITABILITY PRIORITIES

Now to 2022



He argued: "To fully embrace digitalisation - and get the full benefit from it - wealth managers must address any legacy issues wholeheartedly rather than allowing them to linger on. This is often viewed as a significant career risk, but firms won't get anywhere with anything less than a wholehearted approach.

"C-level executives first need to understand the scale and complexity of the situation. Then they need to ensure actions are not continually delayed and that projects are given the appropriate status and support across the whole organisation. For many firms, this will represent a massive cultural shift, but it is unavoidable."

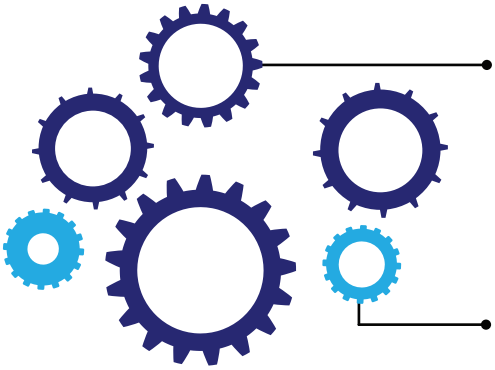
MULTIFACETED AMBITIONS

Relatedly, 85% of firms are looking to boost advisor productivity and 70% are seeking reductions in their operational costs by 2022 as key moves to boost profits. A number of wealth managers have announced sweeping cost-cutting programmes in 2019, with the some of the biggest firms targeting savings in the order of hundreds of millions of dollars over the coming years.

As Young pointed out, technology providers must evolve *alongside* their clients in order to help them achieve these multifaceted ambitions. "We have a great track record in helping customers rapidly evolve their client servicing model and we've invested a lot in tools designed specifically for that," said Young. "But as this survey confirms, institutions are more and more open to alternative ways of working, which is why we've also built a strong operational services division to supplement, extend and complement client firms' existing capabilities."

8 CLIENT COMMUNICATIONS, PERFORMANCE REPORTING AND MODEL MANAGEMENT HAVE THE BIGGEST POTENTIAL FOR EFFICIENCY SAVINGS

MANY SYSTEMS, MUCH MANUAL WORK IN PORTFOLIO MANAGEMENT

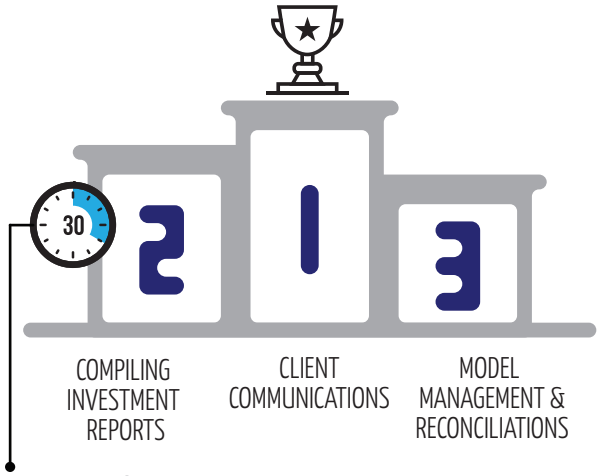


46%
≥ 4 SYSTEMS

20%
≥ 6 SYSTEMS

BIG POTENTIAL FOR EFFICIENCY SAVINGS IN PORTFOLIO MANAGEMENT

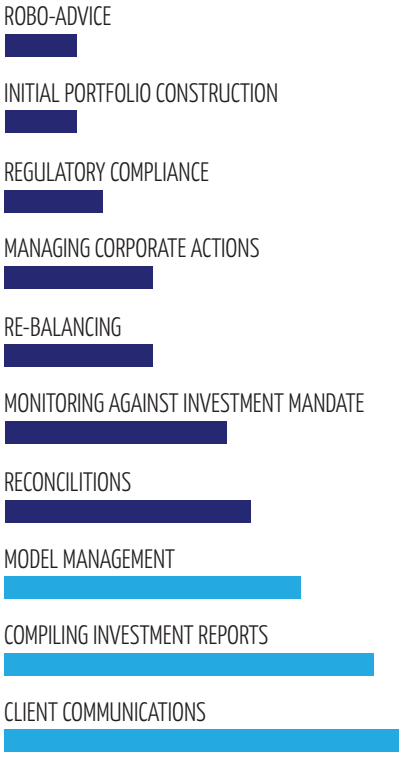
Top targets for automation



≥90 mins
TO COMPILE AN INVESTMENT REPORT AT 30% OF FIRMS

EXHIBIT 9: BIG EFFICIENCIES POTENTIAL IN COMMUNICATIONS, REPORTING AND MODEL MANAGEMENT

Areas where automation with the biggest potential for biggest efficiency savings (top-three, weighted for position)



As Exhibit 9 highlights, wealth managers see potential for automation to deliver efficiency savings across the board in portfolio management activities. However, they see the biggest potential in client communications, compiling investment reports and model management. Also of note is the task of monitoring portfolios against investment mandates (which often featured in top-threes although was not often top ranked).

These top targets for efficiencies remain broadly unchanged from last year's survey and reflect precisely what Young is seeing in the market. "We have seen great client interest in all these areas and so are investing significantly into tools to address them," he said. "In a tough investment and regulatory environment, we're seeing really strong demand for portfolio managers to be able to manage models, rebalance accounts, manage portfolio 'drift' and adjust strategies more quickly and efficiently."

As last year's report underscored, much of the inefficiency in portfolio management stems from this involving a multiplicity of systems which may not "talk" to each other very well. Almost half (46%) of firms use four or more systems to construct, manage, monitor and report on portfolios, while 20% use six or even more. Although Application Programming Interfaces are gaining traction, "swivel chair integration" remains the laborious – and risk laden – reality at many firms.

The low-level disruption that often accompanies a panoply of systems cannot be discounted since, as the COO of a dual-jurisdiction wealth manager observed, "The more systems you have, the more hassle there is in terms of logging on and related work for the operations team."

"The more systems you have, the more hassle there is in terms of logging on and related work for the operations team."

- COO at a dual-jurisdiction wealth manager

Naturally, however, the impact on advisor productivity is of far more concern. "Having many, many systems makes operational processes far more complicated for relationship managers," the COO of a Tier 1 firm confirmed.

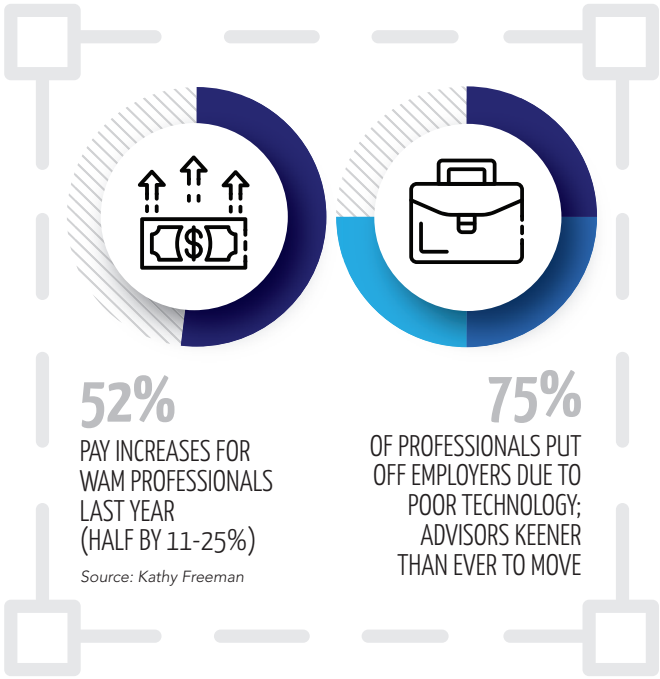
FOCUS ON THE FRONT-OFFICE

Across the board, Young is now seeing very much more interest in improving efficiencies in the front-office, specifically to ensure that portfolio managers can scale. "Finding and keeping these premium resources is increasingly challenging," he said. "But by automating as many parts of the portfolio management process as possible, firms can simply and effectively expand their capacity without growing their team."

As the infographic opposite illustrates, some 52% of wealth management professionals saw their pay increase in 2018 (half of these by 11-25%)[8] and industry barometers suggest that relationship managers' willingness to change employer is strongly tracking up. Clearly, at a time when many advisors are managing very large client books, technology is a huge talent management issue. Even back in 2015, three-quarters of advisors were saying that poor provision would prompt them to change employer[9].

The fact that compiling a single investment report takes over 90 minutes at 30% of firms, shows how costly - and frustrating - manual workarounds can be just one area.

SCALABILITY AND EFFICIENCY ESSENTIAL AMID WAR FOR TALENT



"We see our clients adopting a 'reporting mindset' and looking to evolve to a digital operating model, rather than trying to put a sticking plaster on an ageing set of processes. Many technology providers can help create good-looking reports, but what sets the great ones apart is that they make it easy to get to a stage where data is reconciled"

- Steve Young, Director, SS&C Advent

Wealth managers' dual ambitions for both client experience and efficiency gains will mean that far more than merely cosmetic changes are necessary. "We see our clients adopting a 'reporting mindset' and looking to evolve to a digital operating model, rather than trying to put a sticking plaster on an ageing set of processes," said Young. "Many technology providers can help create good-looking reports, but what sets the great ones apart is that they make it easy to get to a stage where data is reconciled. Our research has consistently found reconciliations to be a top area of inefficiency."

9 CYBERSECURITY GAPS FOR A FIFTH OF FIRMS

CYBERSECURITY CONFIDENCE SUFFERING

Our 2019 survey indicates that wealth managers' preparedness to tackle cybersecurity threats has generally much improved over a year. Today, only 8% of respondents rate their firm's readiness as being on the poor side, against 21% in 2018. However, while 62% of participants now rate their firm's cybersecurity capabilities as good, it is still the case that almost a third of participants (31%) believe their organisation's defences are only average. It is also striking that the proportion having complete confidence in this area has fallen from 15% to zero.

Young sees this faltering confidence as largely attributable to the industry better understanding the true extent of the cybersecurity threat it faces – and a growing appreciation of the "known unknowns" in this area.

"Wealth managers now know more about the risks and dangers, and are likely to be highly aware of where they lack cybersecurity expertise today, which should be seen as a step forward on a long journey for many wealth firms," he said. "At the same time, there are uncertainties and ever-changing 'rules' which are difficult to keep up with. Firms will be asking themselves if the cloud is OK or not from a cybersecurity perspective and what they need to do to safeguard against governments prying into their data, for instance."

"It's more prevalent than ever that clients ask questions about where their information is stored and how it can be accessed. As relationship managers, we've had to work on our skills so that we can explain cybersecurity issues well to clients."

- Country COO at a global wealth manager

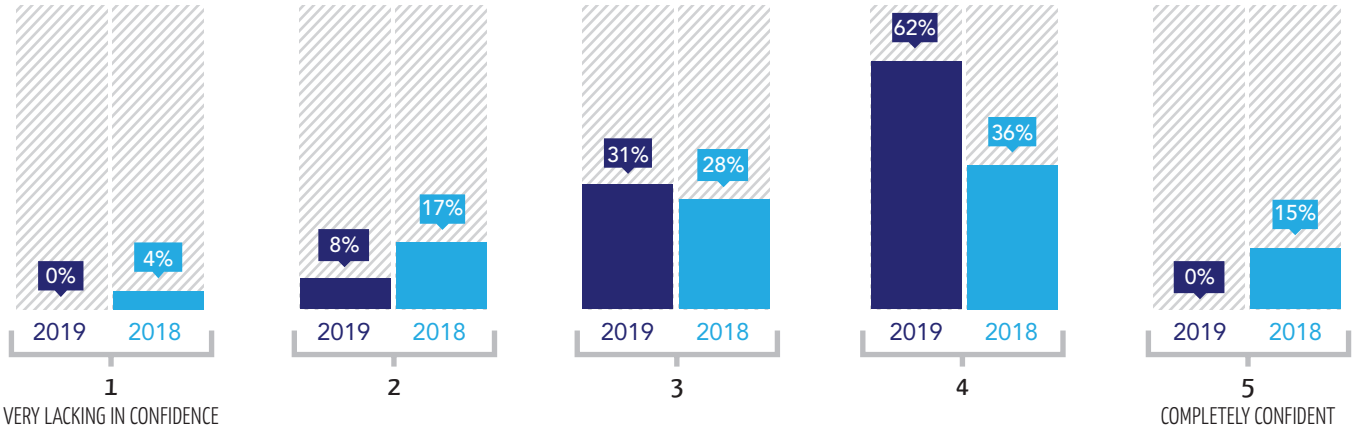
PRIVACY PRIORITIES

The immense fines threatened by privacy regulations like the EU's GDPR and California Consumer Privacy Act will be further compounding cybersecurity concerns (under the former, breaches could be met with fines of up to 4% of annual global turnover).

As intended, new legislation has also hugely increased data privacy awareness among clients. As the country CEO of a top-ten global wealth manager observed: "It's more prevalent than ever that clients ask questions about where their information is stored and how it can be accessed. As relationship managers, we've had to work on our skills so that we can explain cybersecurity issues well to clients."

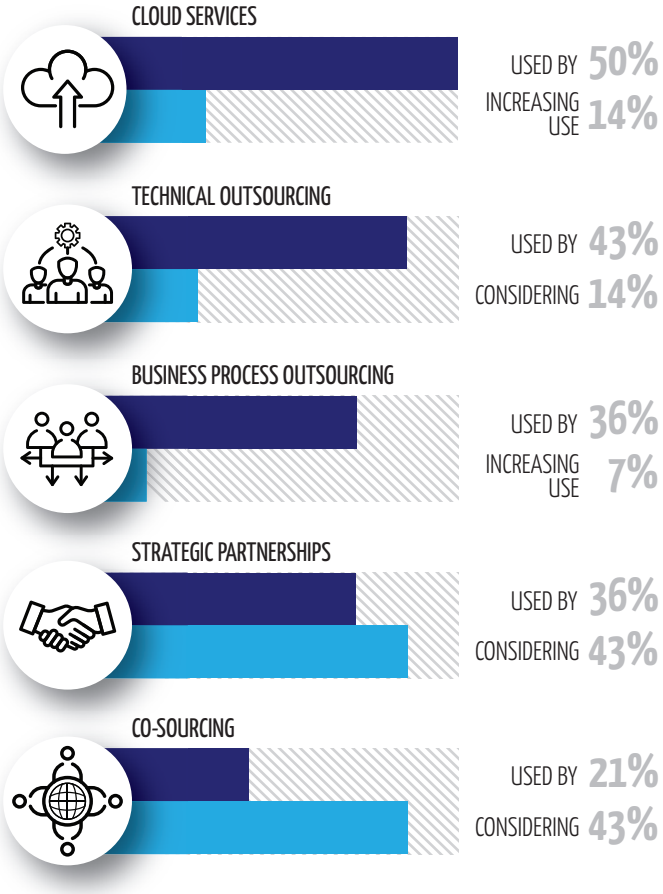
EXHIBIT 10: CHANGES TO CYBERSECURITY CONFIDENCE YoY

Cybersecurity confidence 2019 vs 2018



10 CLOUD SERVICES AND OUTSOURCING CONTINUE TO TAKE OFF; COLLABORATION TO BE THE HALLMARK OF "WEALTH MANAGEMENT 2.0"

COLLABORATION AND CLOUD KEY TO "WEALTH 2.0"



"Cloud is hardware agnostic and that's a big bonus, but for us it's more about flexibility and specialisation"

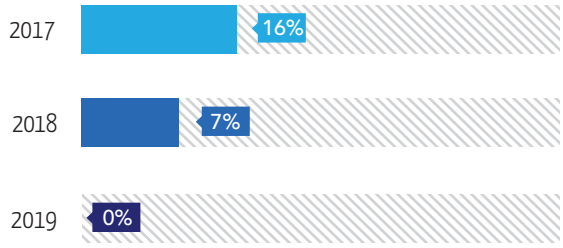
- COO of a multi-jurisdictional External Asset Manager

Wealth managers' increasing openness to cloud solutions has been one of the big themes traced by our annual report series and, as Exhibit 11 shows, outright rejection of the technology in favour of on-premise deployments has dwindled to nothing over the years.

Today, half of wealth managers are using cloud services and 14% are looking to further increase their use - something which comes as no surprise to Young, who observed: "The sector has really embraced cloud or hosting, to the point that the vast majority of clients take our services in a cloud or hosted environment now."

EXHIBIT 11: HOSTILITY TO HOSTED SOLUTIONS FALLS AWAY

% of wealth managers that would not consider hosted technology



The logic of cloud seems to be proving irresistible on several fronts, and arguably particularly so for smaller firms, as the COO of a multi-jurisdictional External Asset Manager reflected: "Cloud is hardware agnostic and that's a big bonus, but for us it's more about flexibility and specialisation. Just as we don't do custody or administration services because that's not where we add value for the client, we don't need to be hosting our own systems either."

"We have stipulations over the location of data centres in place with our cloud providers. But because the consent mechanism that was once popular in Switzerland is now up again for debate, we expect we'll have to revisit those agreements" - COO at a multi-family office

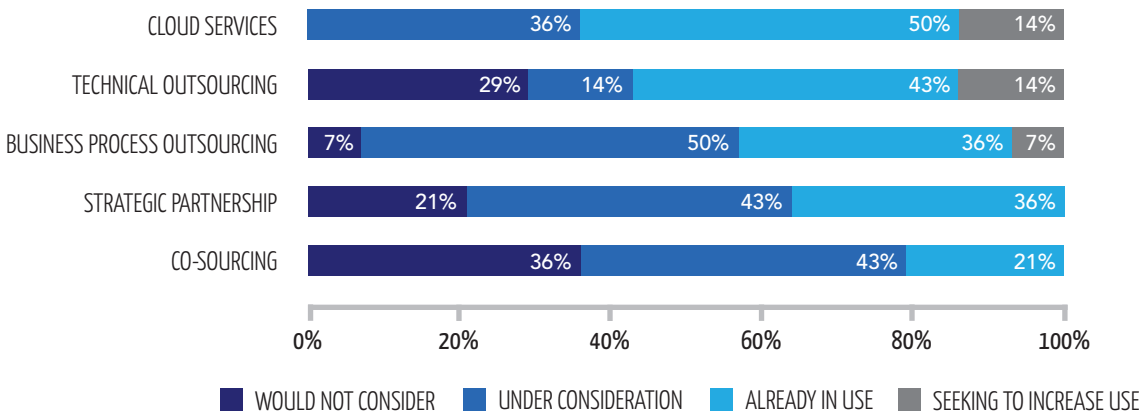
BUYER BEWARE

Resistance to the concept may now be rare but, as Young pointed out, the proliferation of cloud service providers means that caution is now focused on selecting the *right* one.

He said: "Cloud can bring significant benefits, like reducing costs, increasing adaptability and allowing firms to focus on where they are expert. However, institutions are increasingly aware that they must select the right supplier from an increasingly crowded field.

"Control is a big issue for wealth managers, and cloud providers' standard offerings often won't suit. It's not just a case of a provider having the right functional and technical capabilities, but also them offering institutions complete visibility and control over their data at all times. Wealth managers also need providers who are very alive to the nuances of regulation in this area."

EXHIBIT 12:
OPENNESS TO ALTERNATIVE TECH & OPS ARRANGEMENTS



Wealth managers must stand ready for changes in stance and, as the COO of a multi-family office confirmed, this is already very much on the radar of wealth managers working in Switzerland. "We have stipulations over the location of data centres in place with our cloud providers", he said. "But because the consent mechanism that was once popular in Switzerland is now up again for debate, we expect we'll have to revisit those agreements."

ALTERNATIVE OPERATIONAL MODELS ON THE RISE

Alongside increasing openness to cloud/hosted solutions is a growing reliance on outsourcing generally. Technical outsourcing is leading this trend, with 43% of respondents already engaged in this and 14% planning to increase, but our survey also indicates that a significant uptick in Business Process Outsourcing is coming: 36% of firms are already engaged in BPO (and 7% are looking to increase this), but half of firms are currently considering working in this way.

Further, it seems that increasing openness to alternative operating models and technology infrastructures is also extending to co-sourcing and strategic partnerships: these are already in play at 21% and 36% of firms respectively, while a further 43% are considering these options. Recent *WealthBriefing* research[10] has highlighted the trend of family offices collaborating with technology providers to develop accounting and reporting platforms which are then offered to the wider market, for instance.

> *"In our technology set-up, our overriding aim has been to arrive at something that is adaptable and dynamic for the future. We never want to be tied to any technology which no longer suits our needs"*
>
> - COO at a boutique wealth manager

Alongside a rapidly changing technology landscape, all these permutations of collaboration mean that flexibility is front of mind as firms look to future-proof their infrastructures. "In our technology set-up, our overriding aim has been to arrive at something that is adaptable and dynamic for the future," said one COO. "We never want to be tied to any technology which no longer suits our needs."

TOWARDS A PARTNERSHIP APPROACH

Generally, it seems wealth managers' broad and evolving objectives mean they require a level of client-centricity from their technology providers which is often lacking. As one COO remarked: "We want to be truly 'open architecture' in how we build out our technology, but we frequently find that vendors aren't as agile, creative and entrepreneurial as they could be and that's a real limitation."

> *"The ability to integrate and interoperate all manner of systems is becoming increasingly important, so we pride ourselves on our having a really open-minded approach in this area and a focus on strong integration layers"*
>
> - Steve Young, Director, SS&C Advent

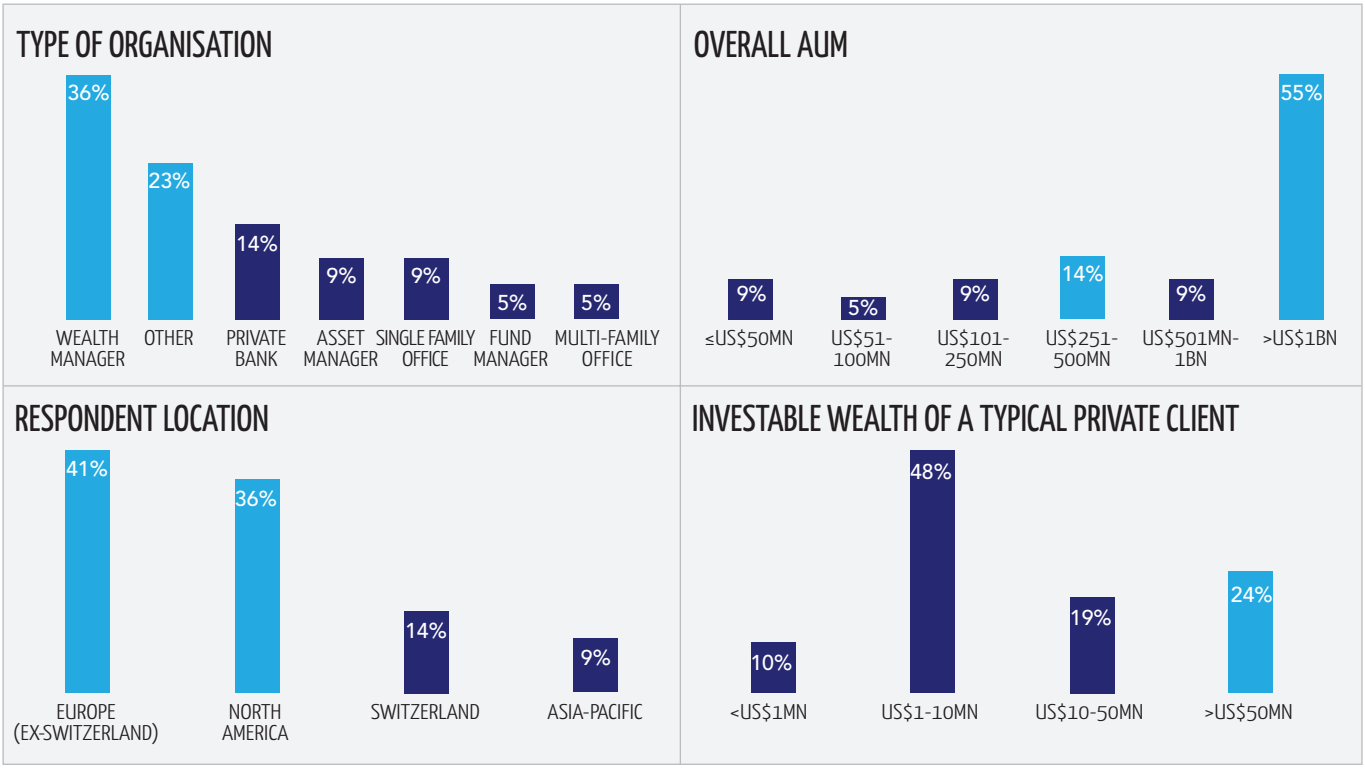
For its part, SS&C Advent is making a real point of addressing these requirements and, as Young made clear, this is as much a function of mindset as it is technical prowess.

He concludes: "The ability to integrate and interoperate all manner of systems is becoming increasingly important, so we pride ourselves on our having a really open-minded approach in this area and a focus on strong integration layers.

"More broadly, we take a true partnership approach with our clients and often find ourselves acting almost as a technology 'coach'. We believe we have the best understanding of the sector in the industry by virtue of our breadth of clients - by type, size and location. We really have seen it all, and this is invaluable in helping our client firms achieve the right mix of solutions to get to where they want to be digitally."

METHODOLOGY

Wealth management professionals around the world were interviewed and surveyed between April and June 2019 for this paper. Their characteristics were as follows:



REFERENCES

1 Asset and wealth management deals insights: Q2 2019", PwC

2 "More Perfect Unions: Integrating to Add Value in Asset Management M&A", Casey Quirk/Deloitte, 2019

3 Ibid.

4 "Technology and Operations Trends in the Wealth Management Industry 2018", *WealthBriefing* and SS&C Advent

5 "Client Engagement. Making it – and Keeping it – Personal", *WealthBriefing* and Finantix, 2019

6 "Technology and Operations Trends in the Wealth Management Industry 2018", *WealthBriefing* and SS&C Advent

7 "Client Reporting – Regulatory Burden or Client Engagement Tool?", *WealthBriefing* and Computershare Communications Services, 2018

8 "Annual Talent Trends Report", Kathy Freeman, 2019

9 "Help or Hindrance? The Link Between Technology Provision and Advisor Productivity, *WealthBriefing* and SS&C Advent, 2019

10 "Family Office Focus: Efficiency in Accounting and Investment Analysis", *Family Wealth Report/WealthBriefing* and FundCount, 2019

WealthBriefing

RECENT RESEARCH OUTPUT

Family Office Focus: Efficiency in Accounting and Investment Analysis

(in partnership with *Family Wealth Report* & FundCount)

A deep dive into the key technological and operational challenges facing family offices in their accounting and investment analysis activities. Based on surveys and interviews among family offices managing over $72 billion in assets, this is an invaluable benchmarking tool for the sector which presents fascinating insights into future developments from a range of industry experts.

New Client Acquisition: How Can Technology Drive Sales Effectiveness in Wealth Management

(in partnership with Finantix)

Exploring how wealth managers are pursuing digital client acquisition in all its permutations, this report offers cutting-edge insights into how technology can help firms dramatically ramp up advisor productivity and new business win rates in a market environment that is increasingly competitive and where digitalisation is a key differentiator.

Connecting the Client Journey: Why Onboarding Remains an Untapped Opportunity for Wealth Managers

(in partnership with Fenergo)

The quality of wealth managers' client onboarding processes is increasingly recognised as a make-or-break factor in business growth and profitability, standing at the intersection of firms' most pressing compliance, cost-control and client experience concerns. This report stands as a global benchmark of onboarding processes across the global industry, as well as taking readers on a tour of the myriad ways industry leaders are leveraging new technologies.

Client Reporting – Regulatory Burden or Client Engagement Tool? 2018

(in partnership with Computershare Communication Services)

This paper draws together insights from C-suite executives, consultants, technology experts and HNWIs themselves to provide a comprehensive analysis of where this most important element of communications strategy is heading. It covers must-have features, future trends, how to overcome technical challenges and why client reporting capabilities are becoming the next battleground for IFA business.

Technology & Operations Trends in the Wealth Management Industry 2018

(in partnership with SS&C Advent)

Our fifth annual research report examining technology and operations trends across the wealth management industry globally. This report is based on a survey of professionals in all major markets, with findings illuminated by a panel of senior industry executives and consultants. Among the many topics discussed are regtech adoption, in/outsourcing drivers and client experience-focused innovations.

Applying Artificial Intelligence in Wealth Management - Compelling Use Cases Across the Client Life Cycle

(in partnership with Finantix & EY)

This comprehensive report identifies elements of the institution and advisor's workloads that are ripe for AI amelioration, and points the way for firms seeking to maximise the competitive advantages offered by new technologies. AI experts and senior industry executives enrich each chapter, answering crucial questions on risk, KYC/AML, compliance, portfolio management and more.

External Asset Managers in Asia 2017 - New Directions for Rapidly-Expanding Sector

(in partnership with UBS)

Our second annual report examining the growth of Asia's EAM sector, covering both the powerhouses of Singapore and Hong Kong, and emerging markets like Thailand and the Philippines. This study looks at the growth prospects for independent advisors in the round as they seek to tap the region's booming wealth and growing client acceptance of the EAM model.

Global Compliance and Innovation Trends in Wealth Management

(in partnership with Appway & Deloitte)

This cutting-edge report takes readers on a tour of key compliance and innovation developments in the EU, Switzerland, the UK, the US, Canada, Singapore and Hong Kong. This study is intended to help firms strike the fine balance between being prepared for the onslaught of regulatory changes coming up in their jurisdictions, while also staying ahead of the innovation curve.