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Transformation in Client Reporting: A Route to Enhanced Client Centricity

Delivering real-time digital data to meet new high net worth individuals' expectations

People matter, results count.

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1. Introduction

Global financial markets seem to have emerged out of the shadow of the financial crisis of 2009. This recovery was supported by improved macroeconomic environments across regions. While most of the banks that survived the crisis benefited from this improved environment, their business priorities underwent significant changes, with most of them altering their business models to incorporate lessons learned from past mistakes. One important highlight during and after the crisis years was the increased emphasis on wealth management business by both universal banks and boutique firms, largely due to the resilience of High Net Worth Individual (HNWI) population growth, stable cash flow, and lack of need for leverage.

After the economic crisis in 2009, the client trust level of wealth management firms took a serious hit due to a number of reasons; primarily the perception of lack of transparency in managing wealth and accounts. As a result, to win back client confidence, wealth managers have been making efforts to mend/alter their reporting structure in a way to increase transparency, and eventually achieve client centricity.

Moreover, the young-generation clients prefer to obtain their portfolio reports on the fly and across multiple channels instead of batch reporting at regular intervals. Firms need to leverage digital channels in order to offer real-time reporting to clients.

The current budding need of the hour is to win back client trust and transform client reporting standards to improve transparency. As assets under management inch back to pre-crisis levels, it may appear as if the asset management industry has weathered the financial storm. However, the transformative forces in today's world are compelling asset managers to rethink their operating models to effectively address demands from clients and regulators.

One such decision is to reassess reporting, data management, and decision-support capabilities within wealth management firms, specifically those related to post-trade areas, such as operational reporting, business intelligence, firm-level executive dashboards, and client reporting.

Today, majority of investors interact with their portfolios online. In their efforts to secure a greater share of online investors, wealth management firms are racing to build comprehensive, easy-to-use portals that serve their varying needs.

2. Key Trends

The following trends[1] have been emerging around client reporting in wealth management.

2.1. Client-specific Trends

- **Clients prefer consolidated reporting** for their varied wealth manager relationships (e.g., brokerage, wealth management, retail banking, asset management, etc.) with the firm. These consolidated reports should include real-time updates related to all of their accounts with the service provider
- **The proportion of young HNWIs (< 45 years) has been gradually increasing** across regions mainly due to the increase in the number of young entrepreneurs and also due to the increase in wealth transfers toward younger generations. These tech-savvy, young-generation clients have started demonstrating their preference for on-the-fly reports and real-time reporting from their respective wealth managers

2.2. Business Trends

- **Wealth management firms are struggling to create scalable business models** while facing rapid changes in the financial markets. A robust, up-to-date reporting platform would have a definitive positive impact on the entire business model for a wealth management firm by attaining a competitive edge and increasing its customer base
- **The wealth management division continues to be central** to universal banks' operating models
- **Regulatory oversight of the wealth management industry is increasing** across the globe. Client reporting has come under severe stress due to stringent regulatory forces ordained, so as to avert any future economic disasters

2.3. Evolving Client Expectations

Effective and transparent client reporting is one of the key changes clients expect from their wealth management firms.

- The increasing sophistication of the new generation of clients is evident in the **types of products sought, the level of risk tolerance**, and the way that clients expect to view, monitor, and manage the performance of their portfolios
- HNWIs' expectations around service levels have increased multi-fold. Clients now expect **immediate reporting and a high degree of personalization** and management of the information they require to make their next decision. Globally, 44.5% of respondents (HNWIs) preferred real-time reporting versus 20.0% of preference for scheduled reporting
- Clients expect reports that rapidly pull together **reliable and accurate information from multiple sources** to present a holistic and customized view of the performance of the entire range of products in their portfolio

Through analysis of the evolving preferences of these new-generation clients, it is clear that client expectations of their wealth managers have changed significantly over the past decade, with the industry developing product and service suites for a new generation of wealth creators. Wealth management firms need to work on enhancing client centricity so as to retain their clientele and eventually expand their client base.

This growing population not only expects the more traditional wealth management services of wealth preservation products and estate planning, but also a level of sophisticated asset that the new breed of millionaires have championed. While the online habits of clients of full-service and direct wealth management firms differ today, their online usage patterns are sure to change over time. As investors age, they bring their expectations of online collaboration with financial service providers with them. Wealth management firms will have to start investing in enhancing their reporting standards to match the changing preferences of their clients.

1 Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNW Insights Survey, 2013

3. Drivers

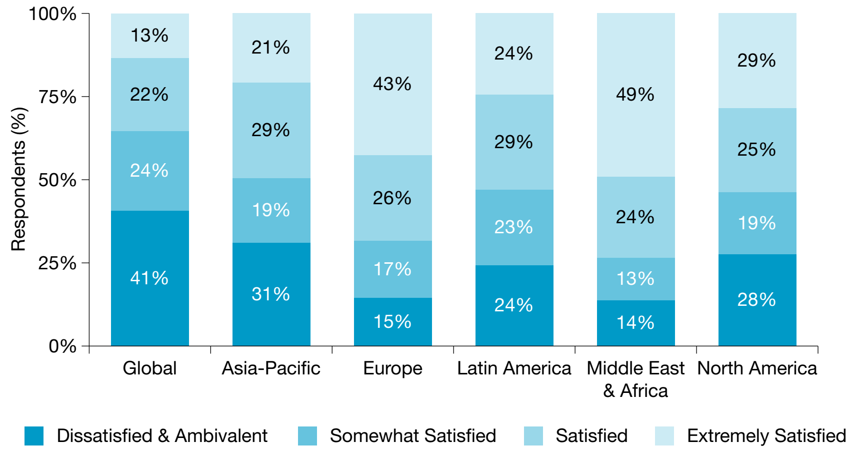
This section examines some of the key drivers that have paved the path for the need for transformation in client reporting. Analysis was conducted on the current satisfaction levels of HNWIs with regard to service provided in the areas of reporting, across different regions of the globe[2]. The satisfaction levels indicate a direction regarding the measures wealth management firms need to take in order to fulfill their clients' evolving preferences.

3.1. Current Satisfaction Levels and the Importance of Efficient Reporting

Thorough examination and analysis of the survey results point toward the fact that, while most of the regions around the globe have a significant percentage of their HNWIs extremely satisfied with respect to servicing in terms of client reporting, there also exists a great opportunity for the wealth management firms to enhance their reporting skills so as to cater to the HNWIs that are not very happy with the current service. Wealth management firms need to work towards decreasing the percentage of HNWIs falling in the categories of dissatisfied, ambivalent, and somewhat satisfied. The analysis indicates that there is ample scope left for improvement in the existing reporting standards.

Also, HNWI wealth in the Asia-Pacific region is expected to grow exponentially in the years to come, which gives wealth management firms great scope for growth by providing better services. Europe has the highest percentage of HNWIs globally who are extremely satisfied with the reporting services offered. This compares with a low percentage of HNWIs in Asia Pacific and this could be attributed to the evolving/ emerging nature of the region versus the already developed European markets.

Exhibit 1: Current Satisfaction Levels of HNWIs with Regards to the Service Provided in the Area of Reporting, Q1 2013 (% Respondents)



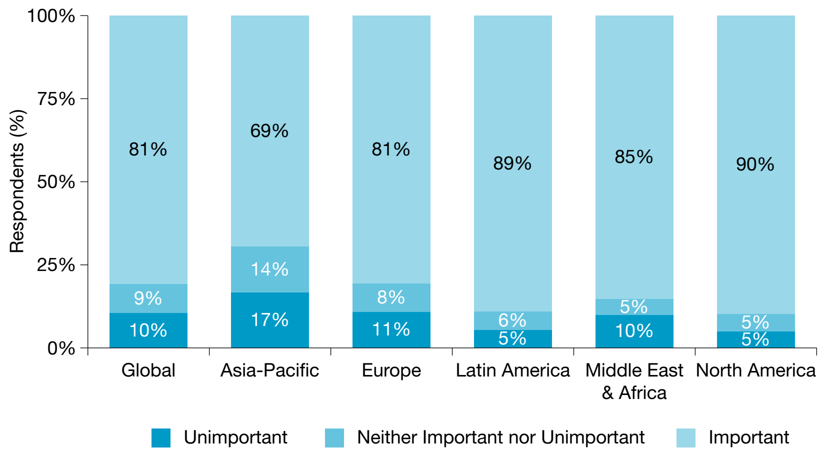
Question asked: On a scale of -10 to10, how would you rate your wealth manager's service in the areas of reporting that allow you to monitor your portfolio in detail; dissatisfied and ambivalent indicates a rating from -10 to 2, somewhat satisfied indicates a rating from 3 to 5, satisfied indicates a rating from 6 to 8, extremely satisfied indicates a rating from 9 to 10
Source: Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNW Insights Survey, 2013

2 Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNW Insights Survey, 2013

Regional differences exist with HNWIs in the regions of Asia-Pacific and North America, exhibiting higher satisfaction levels. With the kind of growth expected in emerging countries, wealth management firms can look at capitalizing this opportunity by providing seamless services to the growing HNWI population. Firms can look into areas such as providing a variety of investment avenues, improving the reporting interfaces, providing real-time reports, and furnishing anytime/anywhere services.

Globally, HNWIs have shown great inclination toward the need for effective client reporting standards. With high-speed advances and innovation in the field of technology and use of the Internet, the majority of the tech-savvy clients have shown a great penchant for efficient reporting.

Exhibit 2: Importance of Reporting, Q1 2013 (% Respondents)



Question asked: On a scale of 0 to10, how important to you are the following elements of service provided by a wealth manager: reporting that allows me to monitor my portfolio in detail; unimportant indicates a rating from 0 to 4, neither important nor unimportant indicates a rating of 5, important indicates a rating from 6 to 10

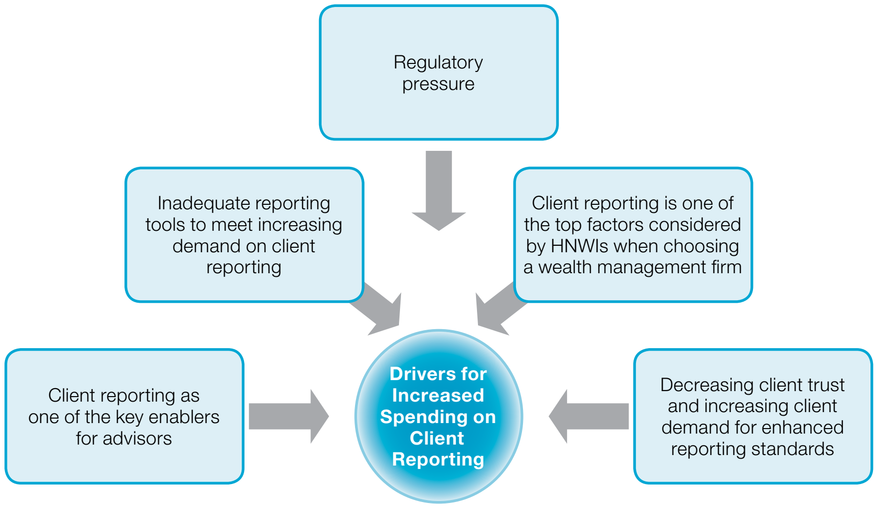
Source: Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNW Insights Survey, 2013

The majority of HNWIs across the globe opine that efficient reporting is a must. Around 90% of the HNWIs from both North and South America rate reporting as one of the most important aspects when choosing a wealth management firm. The data in Exhibit 2 provides a clear indication as to how important reporting is to the wealth management clients.

3.2. Drivers for Growth in Spending

The following exhibit gives us an idea about the key drivers wealth management firms need to look into so as to assess the importance of investing in enhanced client reporting standards. Wealth management firms are investing in enhanced reporting tools that help meet client, advisor, and regulatory demands.

Exhibit 3: Key Growth Drivers for Increased Spending on Client Reporting



Source: Capgemini Analysis, 2013

With a shifting trend in customer preferences the current client reporting systems are slowly becoming less efficient in handling customer demand. HNWIs are increasingly demanding improvement in some key areas under client reporting where there is ample scope for firms to add value, especially in domains like client reporting, digital offerings, and provision for broad-based services. With an increase in product offerings, and complexity across various asset classes, client reporting has become more complex, and important.

A fast-growing investment in client reporting tools is the need of the hour for wealth management firms, in order to stay ahead of the competition. Below are some of the important investment areas.

- The platforms used by wealth management firms often lack the scalability to support large amounts of data and are not completely integrated with other systems, such as client reporting systems
- Timely and easy access to information is essential to build customer trust and loyalty, and also to meet their expectations, which is especially relevant during periods of severe market volatility

Wealth management firms are focusing on improving front-end systems that help their advisors acquire, maintain, and retain clients, monitor portfolios, and perform reporting.

3.3. Imperative Market Forces

Some of the market forces that have paved the way for a new phase of client reporting have been summarized the following sections. Asset managers who have mastered the art of servicing their clients were able to retain assets even during difficult times. A perfect storm of market forces have contributed heavily in transforming the traditional era of client reporting.

Regulations

Regulations such as Basel III, Dodd-Frank, Markets in Financial Instruments Directive II, and Retail Distribution Review have forced the firms to adapt their business models to match the revised regulatory regimes, and have also led to the increased agility in meeting regulatory requirements. Some implications of the key growth drivers could be an increased need for data management and governance to produce accurate firm-level data.

Technology Advances

Prevalent usage of mobile phones, tablets and social media these days have led to the clients expecting increased real-time communication, with an intuitive and easy-to-use interface from their wealth managers. As a result, wealth management firms should adopt scalable cloud-based platforms and enhance the usage of newer channels for information delivery, such as mobile channels.

Margin Squeeze

Volatility in financial markets, shift in client preference to Exchange-Traded Funds and index-based passive investments, and challenges in raising new assets from clients were some of the primary reasons for the growing pressure on both the top and bottom line of wealth management firms. In order to overcome these difficulties, wealth management firms need to prepare a robust, adaptable architecture that can cater to changing requirements without proportionally increasing total cost of ownership. This also includes investments made towards enhancing client reporting systems.

Global Assets and Operations

The increasing importance of emerging markets as an asset class, the slowdown in developed economies, and the significant shift in wealth to the East, has resulted in an increased focus on emerging markets for raising new asset sources, and resulted in the following situation:

- Clients are increasingly emphasizing he need for asset allocation in global asset classes, for which global operations have to be ramped up to tap into investable assets within emerging markets

Some of the technological implications could be the demand for holistic views that integrate data from global operations, increased data management, and robust data strategy.

Need to Restore Investor Confidence:

There is a strong need to restore the level of investor confidence, which was hit hard by the financial crisis in the U.S., Eurozone debt crisis and other associated scandals. Some of these financial debacles could have been averted with better understanding of risk analysis tools, increased transparency and granularity in reporting, and focus on client servicing.

3.4. Key Challenges in Current Methodologies

Most wealth management firms' existing client reporting platforms are struggling to keep pace with ever-growing requirements due to multiple challenges. Several of the drawbacks in existing client reporting standards are summarized below.

Manual Collation of Data

Reporting using data from disparate point solutions gets collated manually using office automation software like Microsoft Excel®. Drilling down into details using these manual reports would be difficult.

Overdependence on External Service Providers

The trend of outsourcing middle-office functions to asset servicers complicates the issue as the managers are now dependent on the capabilities of the servicer's platform.

Lack of Consistency

M&A activity spread over multiple geographies often result in data that is scattered across multiple systems. Also, lack of a consistent data strategy, or an implementation budget, can result in major data quality issues.

Inflexible Reporting Platforms

Most reporting platforms are traditional, and are specifically designed and developed per user group. Consequently, each little tweak to an existing report results in a development cycle.

Obsolete Homegrown Systems

Reporting through homegrown legacy systems has significantly surpassed its initial functional scope. This has also outlived its architectural and technological life expectancy. In order to reassure clients, wealth managers need to offer traditional reporting packages, as well as customized reports, with additional requested analysis and information.

3.5. Key Focus Areas Going Forward

As HNWIs are increasingly investing across multiple asset classes, reporting capabilities of wealth management firms need to transform. Analyzing past service requests can help firms identify frequently demanded reports by clients, and they can provide these reports on a proactive basis. Firms need to pay attention to the reporting tools, and support mechanisms that serve as enablers to advisors to ensure that they fit with long-term operational strategy goals.

Delivering personalized client reports help wealth management firms attract new customers while retaining existing ones. Firms should also strive to deliver value-added services, such as what-if analysis to their clients.

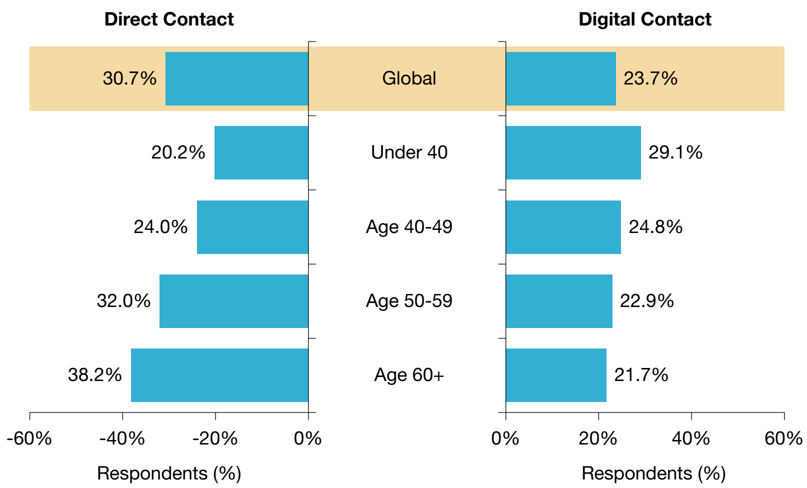
Wealth management firms can seek support of professional services firms specializing in providing end-to end automated solutions for client reporting. In the current scenario, enhanced client reporting can act as an effective tool for wealth management firms to differentiate themselves from their competitors.

Wealth management firms need to offer reporting platforms that place great emphasis on responsive and dynamic client reporting.

Increased Preference for Digital Contact

A significant percentage of HNWIs prefer digital contact as compared to direct contact which drives the need for efficient client reporting. As younger HNWIs move to later stages of their lives, they and upcoming younger HNWIs will prefer having a digital contact and efficient real-time reporting in place.

Exhibit 4: HNWIs' Preference for Direct Contact/Digital Contact by Age Band, Q1 2013 (% Respondents)



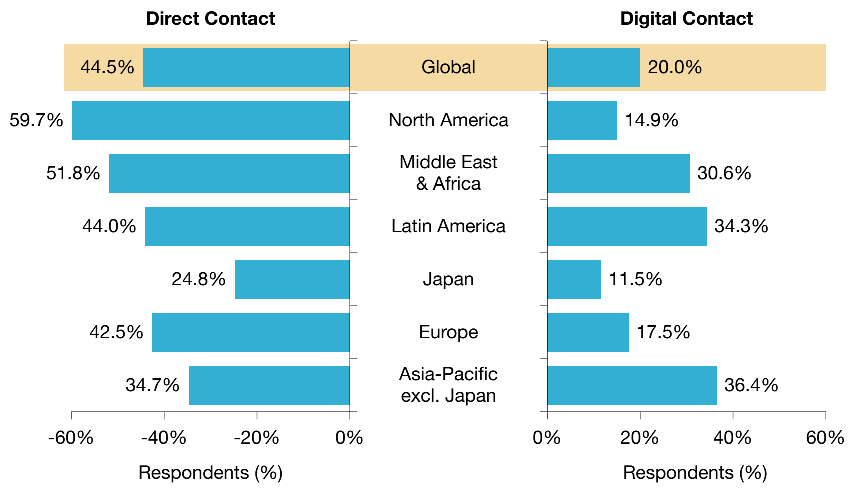
Question asked: On a scale of 1 to 5, please indicate your importance for direct contact and digital contact (Internet, mobile, email) respectively
Source: Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNW Insights Survey, 2013

Preference for digital contact is high in the regions of Middle East & Africa (MEA), Latin America, and Asia-Pacific excl. Japan. Of the respondents preferring self-managed investments, 45% place more importance to digital contact rather than direct contact.

HNWIs have also been showing increased preference for real time/ anytime/ anywhere reporting in the majority of the regions. There exists a huge opportunity for wealth management firms to modify their client reporting standards so as to better align themselves to provide real-time reporting. The following exhibit demonstrates that 44.5% of respondents globally prefer real-time reporting to scheduled reporting. This preference is even more evident in regions such as North America and MEA.

Wealth managers need to focus on this growing preference and modify their reporting platforms so as to provide real-time reporting services to their clients.

Exhibit 5: Preference of Real Time Reporting to Scheduled Reporting, Q1 2013 (% Respondents)



Question asked: Question asked on a 10-point spectrum: Please indicate whether real-time reporting is more important to you than scheduled reporting? As we asked for preferences across a 10-point spectrum containing two extreme points, the numbers in the exhibit indicate the percentage of respondents providing top three ratings at each extreme
Source: Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNW Insights Survey 2013

4. Key Opportunities

The right client reporting approach will depend on the size of the wealth management firm and the complexity of its existing IT systems.

After a thorough analysis of the various aspects related to the wealth management industry, key opportunities for the firms in order to overcome the current slowdown in client mistrust and client investment have been identified for wealth management firms. To analyze huge volumes of data, thereby facilitating the clients to have a user-friendly reporting interface, wealth management firms should invest in technological infrastructure.

4.1. Opportunities

Wealth management firms need to become more clients centric by leveraging advanced reporting standards to improve client satisfaction.

Understanding Clients' Needs

The wealth management industry is gradually becoming adept at understanding what clients really value, and in turn how much they will pay for the value added. HNWI preference for digital contact is gradually increasing as compared to direct contact with their asset managers, and they are increasingly demanding real-time reporting.

Asset Servicing and Transparency

Clients are demanding improved reporting and access to transparent information on a real-time basis, through increased monitoring and alerts, and access to wider market information and benchmarks.

Client Experience for Generation Y

Wealth managers have started adapting themselves to the expectations of Generation Y through more transparent reporting, greater real-time access, earlier long-term savings planning, and consistent client experience models.

Increased Spending on Technology

Most wealth management firms are facing issues with their obsolete systems, which aren't adept in handling large amounts of data, and are not fully integrated with their reporting platforms. Firms need to enhance their IT capabilities, and invest in obtaining advanced systems and technology.

Deeper understanding of client requirements, compelling and informative report structures, and enhanced data quality should be the key focus areas for wealth management firms going forward.

4.2. Key Parameters of an Enhanced Client Reporting Platform

Some of the key parameters that have been identified for an enhanced client reporting platform noted in Exhibit 6. These are some of the key areas wealth management firms need to work on, so as to upgrade their existing reporting platforms.

An enhanced future reporting platform should ideally look to provide atleast the key features of enhanced client reporting to its clients. In this reporting platform, a client will be able to get the exact picture of their holdings categorized into various asset classes on a real-time basis. Just by logging into their account, they would be able to get an idea about the CAGR of their investments till date, the proportion of liquid assets available at hand, the latest net value of their total investments, and realized profit/loss across various asset classes. This kind of user friendly and highly informative reporting platform would also help clients to compare their portfolios'

Exhibit 6: Key Features of Enhanced Client Reporting Platform

Source: Capgemini Analysis, 2013

performance with the benchmark indices. Through this reporting platform, wealth management firms would be able to bring in a high level of transparency into their transactions as well as win their clients' trust.

Apart from the key attributes that an enhanced reporting platform should look to provide, servicing and transparency should also be considered as equally as important to deliver efficient client reporting.

Importance of Real Time Reporting

- Wealth management firms who have mastered the art of servicing their clients efficiently through real time reports would be able to retain them even during difficult times
- Both institutional and retail investors alike are demanding greater value-add from their wealth management firms with regard to client reporting
- Platforms that meet these new expectations can better engage customers and help generate more business

Transparency in Providing Real-Time Updates

- HNWIs and institutional investors, such as insurance funds, pension funds, corporate, and other entities, have increased their scrutiny
- HNWIs demand complete, accurate, and timely information of their portfolio holdings and performance
- Enhanced transparency by wealth management firms is increasingly viewed as critical to boosting the trust level of HNWIs

Beyond meeting the need for efficient client servicing and transparency, firms that find innovative ways to provide differentiated services will be ideally positioned to win market share.

5. Conclusion

Transformation in client reporting would not only help wealth management firms regain their client trust, it would also help the firms overcome the challenges associated with redundant IT infrastructure and obsolete systems—therefore bringing about a reduction in application maintenance costs. The transformation would also help wealth management firms to increase operational efficiency and provide clients with anytime, anywhere, on-the-fly reports as per their preference.

Transformed client reporting systems would help wealth management firms to differentiate from the competition. Firms need to embark on an appropriate transformation approach based on the obsoleteness of their respective reporting tools and also on their clients' preference. However, it is important to properly assess both quantitative as well as qualitative benefits that a transformation in client reporting standards will achieve.

Given the growing awareness and rampant usage of Internet services, it is highly advisable that wealth managers adopt reporting tools that match the expectations of the current generation of tech-savvy clients. This would not only help wealth management firms to retain their existing clients, but would also help the firms expand their customer base, thereby increasing revenue for the organization.

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