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Getting to Yes:
How Wealth Managers Can Move Past the Consumer Confidence Crisis

In recent years, the wealth management industry has faced tremendous challenges. The revelation of the Bernard Madoff fraud, in December 2008, was perhaps one of the most tragic milestones in recent wealth management history and has been described as the largest Ponzi scheme in the history of the world. Events like this have eroded investors' trust in the entire financial industry. The question now is: How do we rebuild investor confidence when so many people were shaken from both a financial and emotional perspective?

As a result of the amount of money they bring to the table, the wealthy, or those with a high net worth, often expect a superior level of service. In the end, many investment professionals agree that profit, planning, investment and growth are all by-products of being able to offer a blue-ribbon-level client experience. To attract and keep HNW clients, advisors need to shift their focus and demonstrate they have what it takes to protect and support their clients' most precious intangibles—their goals, dreams and aspirations.

Getting Clients Back in the Game

Joe Duran, CEO of United Capital Financial, says there is a tremendous opportunity for advisors to provide guidance now by tapping into investors' primal fear. In an interview on CNBC's Power Lunch, Duran says, "Every individual and every institution has two risks that they face—it's the risk of losing money, or the risk of missing opportunities. Two years ago, everyone was obsessed about the possibility of losing money … people are now concerned about missing opportunities." Duran says investors are willing to start taking risk again because they see that opportunities are blossoming and so many are sitting on cash.

Wealth managers need to adopt a bold approach to educate investors on relevant opportunities, to give that nudge that investors need to stop sitting on the sidelines. Because the typical advisor manages investments and relationships with 200 to 400 clients on average, giving each individual customer the attention, reassurance and guidance they need in this difficult market is a daunting task. To support their efforts, many organizations are turning to technology solutions that streamline processes on the customer frontlines, and integrate into existing back-office portfolio management, trade order management, and marketing systems. By combining key customer information with financial account and portfolio management data, financial advisors can quickly identify the products and services that will help their customers meet their wealth management goals. By meeting customer needs more effectively, advisors can gain additional trust with HNW clients, which may help open up new cross-sell and up-sell opportunities.

Advisors Falling Down When It Comes to Client Satisfaction

In years of market volatility, expectations and the importance of the advisor relationship continues to increase. However, according to the J.D. Power and Associates 2010 U.S. Full Service Investor Satisfaction Study released in July 2010[1], investors' positive sentiment regarding their investment firms continues to decrease, particularly in terms of the firm's general reputation and investor perceptions as being customer-driven.

Another study that focused squarely on the HNW market paints a similar picture. The seventh annual Wealth and Values Survey Investors' Outlook[2] report by the PNC Financial Services Group, Inc. shows that the wealthy are ambivalent about the results provided to them by their financial institutions during the market upheaval.

Asked to assign a letter grade to their financial institution, 44 percent give a "C", saying they "didn't make much of a difference one way or another." Meanwhile, 31 percent responded with a "B", saying "they helped some but could have done more." One in 10 (11 percent) felt their financial institutions' actions were personally harmful in some respect and rated it either a "D" or an "F". Only 15 percent said their advisors "really made a huge positive difference," and deserved an "A" rating, according to the survey of 1,097 affluent individuals, all of whom have at least $500,000 in investable assets.

"This should serve as a wake-up call in the financial advisory business," said Thomas P. Melcher, executive vice president and managing director of Hawthorn, the division of PNC Wealth Management that serves clients with $20 million or more in investable assets. "These results clearly tell us that most wealthy investors are willing to listen to a provider who has a better story and that managing wealth is more than managing their investments. They want someone to help them."

This aspect of investor dissatisfaction is a particularly sobering note, especially when you consider the significance and implication of investor satisfaction to various success metrics related to firm performance. The J. D. Power and Associates study, mentioned previously, found that highly satisfied investors lead to a greater share of investors' assets, more referrals, and higher levels of loyalty and retention. As a result, firms can see an average incremental increase in assets under management of $125,216 among highly satisfied investors, compared with a loss of $5,929 in assets per investor, on average, among investors with low levels of satisfaction.

The study cited certain practices that may have a positive impact on satisfaction with the financial advisor and the overall investment experience. These included the following:

- Fostering engaged client/advisor relationships that involve the development of an investment strategy
- Periodic review of investment objectives
- Regular communication around and reasons for investment performance
- Clear explanation of fees and commissions

In other words: more value-add communication.

"We need to go back in time to when the banker was invited to clients' homes for dinner and they were seen as a trusted advisor," said Alan Horton-Bentley, Global Industry Marketing Director, ECM Banking and Financial Markets, IBM. "The financial services industry needs to get to the next level—to deliver a more personalized and value-added level of customer service, but it has reached a plateau. It cannot move forward with the existing systems it has had in place for the last decade or so. However, that's starting to change with the advent of 'relationship management frameworks'—that go beyond point systems that have been deployed for things such as, managing complaints and disputes—to ensure advisors can connect with their customers and make every engagement more personalized and relevant. This is ushering in a new era of customer-centric wealth management."

The Importance of Being Earnest about Reputation Management

It's been said that reputation management is everything in wealth management. Brands are extremely influential in the crowded financial services industry.

This connection was explored in depth in a paper on "Building the Corporate Brand," presented at the ESOMAR Conference on Financial Services in London. According to authors Oliver Loch and Patricia Kidd, "Fierce competition ensures that there is little sustainable product differentiation in product features or price, however the products and services offered revolve around something that is very, very important to customers: their money and financial security. As a result, customers can rarely base their purchase decision on purely rational factors, such as product features or pricing, but are forced to turn to a more subjective appraisal based on their affinity with, and trust in a certain brand, as expressed through the individual advisor."

Oftentimes firms don't fully understand the value of their good names until they lose them. Negative publicity can be absolutely crippling. No one understands this more than Goldman Sachs. After being the recipient of a number of scathing headlines, the company, in its annual report on form 10-K for the fiscal year ended December 31, 2009[3] cited a new risk factor related to issues of negative publicity. In the filing, Goldman warned: "We may be adversely affected by increased governmental and regulatory scrutiny or negative publicity." The company went on in the filing to quantify and qualify the business impact from negative publicity:

Press coverage and other public statements that assert some form of wrongdoing, regardless of the factual basis for the assertions being made, often results in some type of investigation by regulators, legislators and law enforcement officials or in lawsuits. Responding to these investigations and lawsuits, regardless of the ultimate outcome of the proceeding, is time consuming and expensive and can divert the time and effort of our senior management from our business. Penalties and fines sought by regulatory authorities have increased substantially over the last several years, and certain regulators have been more likely in recent years to commence enforcement actions or to advance or support legislation targeted at the financial services industry. Adverse publicity, governmental scrutiny and legal and enforcement proceedings can also have a negative impact on our reputation and on the morale and performance of our employees, which could adversely affect our businesses and results of operations.

In this day and age, firms can't afford missteps that land them on the front page. For this reason, it's essential that companies have the necessary governance, risk and compliance guidelines embedded into the processes surrounding new account opening, risk assessment and transaction processing. It's also important that these processes remain compliant with the changes driven by the Dodd–Frank Wall Street Reform and Consumer Protection Act, Know Your Customer (KYC), Anti-Money Laundering and other rules, regulations, and compliance.

Bringing a Team-based Advisory Approach to the Table

As wealth increases, complexity increases and at the higher end of the market, HNW investors are looking for a deeper breadth of services.

Over the last half-decade, one of the most significant changes in the world of HNW advising is the rise of the team-based approach. Some estimates show that nearly 96 percent wealth management practices serving the HNW market are team-based, where the advisor serves as a Relationship Manager, coordinating the client's service

and prospecting for new clients. By expanding their purview, they are equipping themselves to deliver a value-add client experience regardless of “inherently unpredictable investment performance.”

This team-based model has evolved to support the delivery of a more comprehensive set of skills and experiences to meet the unique needs of the HNW investor, and also to support their service requirements. The time required to coordinate an HNW account is extensive, largely because servicing the HNW customer often requires having virtually every piece of financial and legal documentation that the client owns to fully understand their situation. When you add the various regulatory compliance and internal governance requirements, you can see how wealth management literally stacks up—with a tremendous amount of documentation that must be properly managed.

“Wealth Managers are being bombarded with more information than ever before,” said Alan Horton-Bentley. “This information is both a blessing and a curse. Having information but not knowing you have it; having a lot of information, but not being able to access it; and having access to dated or inaccurate information are all scenarios that will negatively impact business.“

The key is having visibility to all information to drive better decisions. Providing exceptional client service requires the following:

- One-call resolution
- Immediate access to information and documentation
- 360-degree view of the clients’ current and in-process requests, all documents, and any pending transactions

IBM and Pyramid: Unleashing Customer-centric Wealth Management

In order to transform to a more customer-centric wealth management approach, executives must carefully consider how their wealth management businesses will need to operate going forward, particularly as the forthcoming regulations and compliance costs eat into margins.

The Pyramid Solutions Platinum Client Service for Wealth Management solution enables wealth management firms, trust companies and private investment organizations to improve client acquisition and loyalty and to provide exceptional client service. Built on the IBM Enterprise Content Management (ECM) suite of products, financial organizations now have all the information at hand to empower every interaction to be authoritative and consultative, and to deliver the personalized attention and responsiveness your clients’ demands.

Complementing a company's trust accounting system to manage document-based new account opening, account maintenance and transaction processing functions, the solution enables firms to:

- Quickly identify priority requests and adjust workload to improve client service, which is vital when catering to high net-worth investors.
- Support a full range of sales and client service functions with access to the entire client case file immediately. Since the status of all tasks and documentation are readily available, customer service teams can reduce repeat documentation requests and sell additional products based on the client's existing portfolio.
- Adapt operational processes to be compliant with the changing regulations driven by the Dodd Frank Act and other regulations.

Additionally, organizations leveraging the Wealth Management and Trust solution have been able to achieve a 50% reduction in handoffs between processors, and a 30% reduction in cycle time for transaction processing.

Key features and functionality enable firms to:

- Classify and extract key fields from client documents using advanced capture technology.
- Automate routine processes to allow knowledge workers to complete the higher value tasks and handle exceptions.
- Provide a 360-view of the client case file to the sales, client service and operations staff members.
- Support enhanced visibility via a comprehensive operational dashboard, which enables management to take action when service level agreement deadlines are at risk.
- Offer a flexible and agile framework to adjust to meet the ever-changing regulatory and product landscape.

About Pyramid Solutions, Inc.

Pyramid Solutions, Inc., an IBM Software ValueNet Partner, specializes in enterprise content management, case management and business process management technologies, that resolve today's challenges with best-in-class, grow-for-tomorrow solutions. With its unique combination of strategic thinking, technology leadership and industry expertise, Pyramid Solutions routinely helps companies solve operational and technology challenges and deliver visionary solutions that produce exceptional results.

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For more information, visit www.pyramidsolutions.com

About IBM ECM

IBM's Enterprise Content Management software enables the world's top companies to make better decisions, faster. As the market leader in content, process and compliance software, IBM ECM delivers a broad set of mission-critical solutions that help solve today's most difficult business challenges: managing unstructured content, optimizing business processes and helping satisfy complex compliance requirements through an integrated information infrastructure. More than 13,000 global companies, organizations and governments rely on IBM ECM to improve performance and remain competitive through innovation.

For more information, visit www.ibm.com/software/ecm

[1] J.D. Power and Associates 2010 U.S. Full Service Investor Satisfaction Study, July 2010 http://businesscenter.jdpower.com/news/pressrelease.aspx?ID=2010122

[2] Seventh Annual Wealth and Values Survey Investors' Outlook, The PNC Financial Services Group, Inc., November 2010 https://www.pnc.com/webapp/unsec/Requester?resource=/wps/wcm/connect/830eeb0044b32546afd6ff8119f60a8e/2010_1116_WaV_InvestorOutlookSummary.pdf?MOD=AJPERES&CACHEID=830eeb0044b32546afd6ff8119f60a8e

[3] Goldman Sachs, annual report on form 10-K for the fiscal year ending December 31, 2009, March 2010 http://www.diversityinc.com/article/7244/

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