

The Importance of Portfolio Management and Analytics in Adapting to a Changing Regulatory Environment

Key Findings

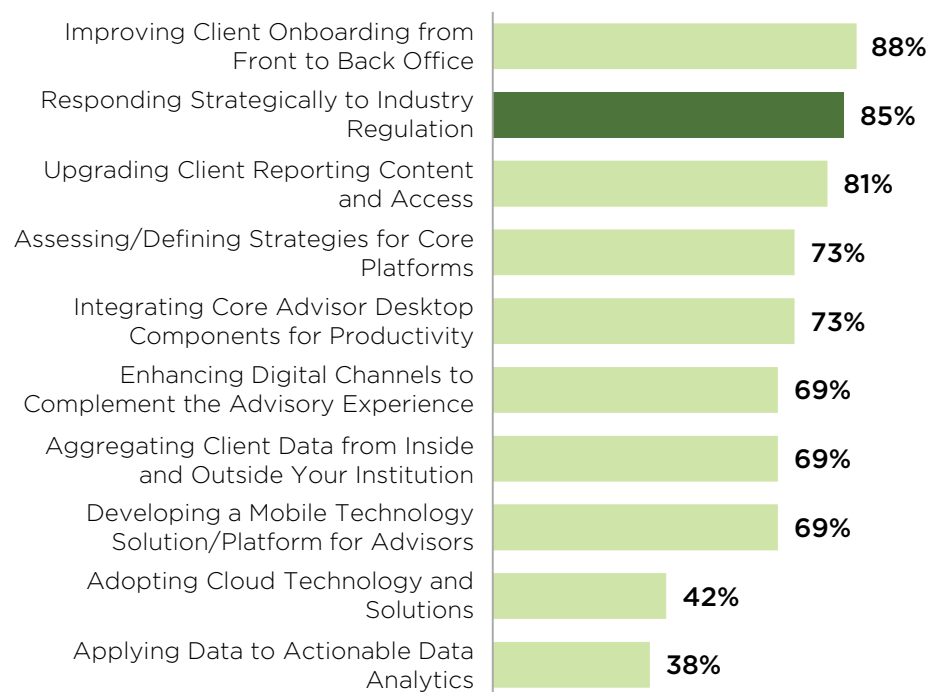
1. Regulations that are increasingly complex make responding strategically to regulatory mandates a top area of focus for wealth management firms.
2. Modern portfolio management systems equip advisors to provide holistic, goal-based advice and support real-time portfolio access by clients, assisting with the transparency and access required in a changing environment.
3. Analytics support risk management and regulatory compliance, limiting risk and maximizing return for wealth firms across all products and services, investments, and corporate strategies.

Regulation a Top Area of Focus

Wealth management firms face a regulatory environment that is increasingly complex. Regulations such as the DOL Fiduciary Standard in the US and Client Relationship Model Phase 2 (CRM2) in Canada require that firms put their clients' best interests first, and increase transparency around investments, including performance and costs. The mandates set forth by these regulations impact wealth firms' risk profiles and overburden advisors: 34% of advisors view heightened regulation, disclosure, and compliance as the greatest risks to their business in the future and 56% of wealth management firms report that the amount of time advisors spend on compliance-related tasks significantly increased when compared to time spent three years ago. Responding strategically to industry regulation is one of the top ten issues wealth firms plan to address over the next 6-12 months, with 85% of wealth firms indicating that it is an important issue (Figure 1).

Figure 1: Given your company's business strategy, how important are each of the following issues to your company during the next 6 to 12 months?

Top Ten Issues, Percentage of Respondents, 2015



n = 26.

Source: CEB 2016 Wealth Management Technology Agenda Poll.

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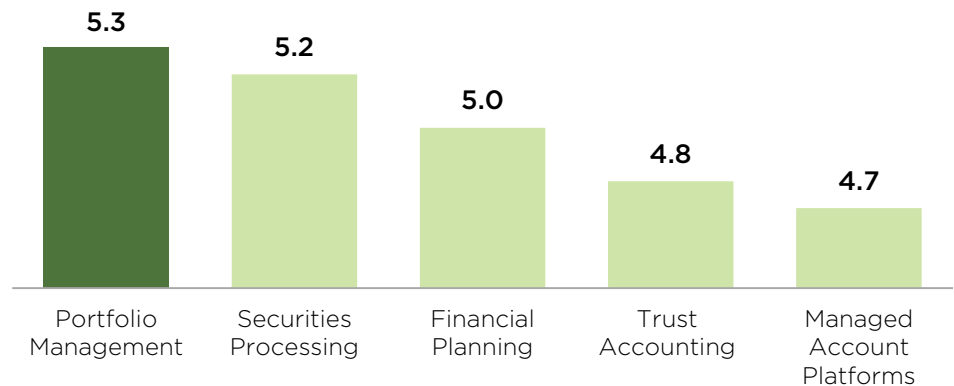
Delivering Holistic Advisory Relationships

In recent years, wealth firms initiated a move from pitching product to leading with advice when interacting with current and prospective clients. Their continued shift from a product-centric model to an advice-led model drives organizational and technological change that supports holistic advisory relationships, enabling advisors to better serve their clients and maintain compliance with major industry regulations. In addition to making changes to team structures, incentive structures, and frontline coaching and training, investment in technologies that provide a 360-degree view of clients is imperative to enabling holistic advisory relationships in an advice-led model and adhering to regulatory mandates that require prioritization of clients' best interests.

Portfolio management systems support a holistic view of clients, and are currently rated as the most effective systems available to financial advisors, with a mean effectiveness score of 5.3 from North American Managers (Figure 2). Modern portfolio management systems equip advisors to provide holistic, goal-based advice to clients, and support real-time portfolio access by clients. Forty-five percent of wealth firms plan to increase their spend on the technology over the next two years, which comes as no surprise when more than 50% of wealth firms report that the technology provides high or very high value to their organization. Top value drivers of portfolio management systems include service and experience improvement, process improvement, regulatory compliance, and risk reduction.

Figure 2: Technology Effectiveness for Advisors

Top Five Most Effective Technologies, Mean Effectiveness Score, North America, 2015



n = 218.

Source: CEB 2015 Advisor Competency Diagnostic.

Advisors not only rank portfolio management technology higher than other tools in their arsenal, but they are also increasing usage as they adjust to a new environment. The majority of advisors now operate in a solutions-based approach to managing clients and, when surveyed, 57% of those advisors indicated they use portfolio management systems frequently, if not constantly. This is significantly higher usage than the dwindling transaction-focused advisors, where only 45% fall into this usage category. By providing a launching pad to discuss goals, construct portfolios to meet multiple needs, and create a client-facing environment to both increase transparency and improve collaboration, the portfolio management solution becomes an integral component of the financial advice experience.

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Analytics Support Risk Management

The application of analytics to internal and external data sources supports risk management and further bolsters regulatory compliance for wealth management firms. Applying data to actionable business analytics is one of the top 10 most important issues for wealth firms over the next 6-12 months, as reported by 38% of wealth firms (Figure 1).

When applying analytics across their business and operations, wealth firms will focus on a range of analytics functions that support risk management, products and services, investments, market development, and corporate strategy (Figure 3). Analytics support for risk management—while a standalone initiative for wealth firms—is a component of each of these functions as firms seek to limit their risk and maximize their return across all products and services, investments, and enterprise-wide strategies. Analytics in wealth management will help identify excessive drift from appropriate model portfolios, overweighting in individual securities, and IPS conflicts, and, when applied to external sources such as social media, will help firms to understand how clients approach their finances in an effort to better serve their clients and reach compliance goals that put the best interests of clients first. In addition, firms can also quickly get a feel for which branches are performing better than other branches, which advisors could serve as best practice examples for their peers, which products are selected more than others by using multiple other data points, and applications to help better position their firm to compete in the years ahead.

Figure 3: Top Analytics Functions for Wealth Firms' Operations
Illustrative



Source: CEB analysis.

Conclusion

Faced with a regulatory environment that will only get more and more complex, wealth management firms need to take action, orchestrating organizational change and investing in technologies that enable a fast response to regulatory mandates. Technology systems that provide an integrated view of clients, such as portfolio management systems, will enable firms to support holistic experiences for both clients and advisors that cater to clients' best interests and increase investment transparency. The application of analytics enterprise-wide to evaluate investments, improve products and services, and advise corporate strategy will bolster risk management strategies and wealth firms' strategic response to industry regulation.

Croesus

Since 1987, Croesus has been providing sophisticated wealth management solutions to financial institutions throughout North America. Currently, 9,700 investment professionals use Croesus solutions to manage over \$800 billion in assets.

With its 165 dedicated employees, Croesus is recognized for its ability to efficiently transform data into information, develop portfolio management solutions to drive efficiency and deliver business intelligence for fact-based decision making.

Croesus works with its clients as partners, and the company's goal is to ensure their long-term success. To add value, Croesus actively listens, learns and engages with them to develop technology solutions that are innovative, flexible and secure.

Over the years, the company has built a culture based on core values related to work/life balance, personal development and giving back to the community. Croesus was a winner of Canada's Best Managed Companies program in 2014 and requalified in 2015 to maintain its status as a Best Managed company. The company has offices in Montreal, Toronto and San Diego.

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