Driving Performance Improvement in Wealth Management
Executive Summary

• The U.S. wealth management landscape continues to evolve in the aftermath of the financial crisis. Firms face continued pressure on profitability, unsettled competitive positions, and clients prone to move their assets across channels.

• Discount brokers and registered investment advisors (RIAs) continue to take share from wire houses and independent broker/dealers in the highly competitive wealth industry.

• In this new environment, wealth management firms are focused on improving sales productivity, rather than simply hiring more relationship managers (RMs), in order to grow revenues. These firms can increase productivity by:
  – Freeing up front-office capacity by increasing focus on client-facing high-value activities
  – Leveraging new technologies to increase sales productivity and improve the client experience

• Wealth management firms have also embarked on new efforts to streamline their operations and further align cost structure with client segment economics, particularly by:
  – Defining tiered service models to better serve client needs while increasing profit margins
  – Streamlining the operating model by aligning processes, people, and technology through front, middle, and back offices to support the desired client/RM experience
  – Driving process efficiency
Market Overview

Improving Sales Productivity

Increasing Operating Model Efficiency
The wealth management industry is under severe pressure to improve performance, but it faces major challenges going forward.

**Industry Trends**

**Client Behavior**
- Post-crisis, client satisfaction levels are at an all-time low
- Trend of assets shifting to discount brokers and RIAs continues
- Client satisfaction is highest at discount brokers and trust companies

**Advisor Movement**
- Advisor migration toward independent channels continues, although pace has slowed
- When choosing a channel, advisors are making trade-offs between compensation and support services received

**Economics**
- Profitability is under pressure due to adverse market conditions and low-interest-rate environment
- Pressure continues on pricing because of price sensitivity and client losses

**Regulatory Change**
- Broker/dealers will have to comply with the fiduciary standard
- Under the fiduciary standard, client experience, product platform, and technology will all require significant redesign

**Enabling Technology**
- Discount brokerages are adopting cutting-edge technology and experiencing high client satisfaction levels
- Innovative startup providers are leveraging technology, social media, and communities to attract younger and self-directed investors

**Wealth Management Firm Response**
- Seek revenue growth by enhancing client and advisor experience, and by driving improvements in sales productivity
- Seek efficiency by streamlining operations across front, middle, and back offices
- Link enhanced advisory experience with efficient and streamlined back-end operations
Discount brokers and RIAs are the fastest-growing channels

U.S. Retail Wealth Management Market, 2010 (in US$)

End Client Wealth Spectrum

- Mass
- Affluent
- High/Ultra-High
  Net Worth

Legend

$ Assets under management (AUM)

Market share of total AUM (%)

Concentration of firms

High

Low

Independent Firms & Regional Banks
AUM: $3.1T (23%)

Wire Houses
AUM: $5.1T (38%)

Private Banks & Trust Firms
AUM: $1.4T (8%)

RIAs
AUM: $1.7T (13%)

Discount Brokers
AUM: $2.5T (19%)

Bank & Insurance B/D
AUM: $0.6T (<5%)

Change in Market Share, 2009–2010

Total Assets: $14.5T

Source: Aite Group; Barron’s Wealth Survey; Booz & Company analysis
In the current environment, trust firms perform better than most other business models

<table>
<thead>
<tr>
<th>Category</th>
<th>Customer Needs/Priorities</th>
</tr>
</thead>
</table>
| 1. Relationship Needs | • Has a relationship/portfolio manager who is always available to meet/talk whenever I need  
• Has a relationship manager who understands my finances, knows my family, and is proactive about generating value-add ideas to better manage my wealth  
• Has a relationship manager whose expertise and network are so important to me that I almost always reach out to him/her before I make an important decision |
| 2. Functional Needs   | • Is a true one-stop shop for my financial services and is willing to provide services that go above and beyond typical investment or wealth management services  
• Has fair pricing for the value provided by the firm  
• Is always in tune with my unique situation and needs |
| 3. Emotional Needs    | • Has an outstanding reputation among people I respect; doing business with the firm is like being a member of a prestigious club  
• Makes me feel secure because of the firm’s unquestioned integrity  
• Gives me significant peace of mind that I have an expert focused on me and my family’s financial well-being and on the success of my business |

Source: Booz & Company survey 2011
Firms rely on different business models to compete for the same clients and assets

### Overview of Wealth Management Competitive Landscape

<table>
<thead>
<tr>
<th></th>
<th>Wire Houses</th>
<th>Private Banks and Trust Companies</th>
<th>RIAs</th>
<th>Discount Brokers and Platform Providers</th>
<th>Innovative Online Service Providers</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Key Players</strong></td>
<td>Merrill Lynch</td>
<td>Bessemer Trust</td>
<td>GenSpring Family Offices</td>
<td>Charles Schwab</td>
<td>Covestor</td>
</tr>
<tr>
<td></td>
<td>Morgan Stanley Smith Barney</td>
<td>J.P. Morgan Private Bank</td>
<td>LPL Financial</td>
<td>Fidelity</td>
<td>Prosper</td>
</tr>
<tr>
<td></td>
<td>UBS</td>
<td>Northern Trust</td>
<td>StanCorp Investment Advisers</td>
<td>Pershing</td>
<td>SmartyPig</td>
</tr>
<tr>
<td></td>
<td>Wells Fargo Advisors</td>
<td>Wilmington Trust</td>
<td></td>
<td>TD Ameritrade</td>
<td>Wealthfront</td>
</tr>
<tr>
<td><strong>Sources of Growth</strong></td>
<td>Dominant channel in delivering wealth services to HNW and affluent, but slowly losing share to other channels</td>
<td>Slow-growing sector, benefiting from high profit margins driven by profitable banking products and low advisor compensation</td>
<td>Fastest-growing sector, benefiting from advisor and asset migration away from wire houses</td>
<td>Growing sector, benefiting from RIA growth and cost-effective provision of product and platform services</td>
<td>Innovative providers leveraging technology, social media, and communities to attract younger and self-directed investors</td>
</tr>
<tr>
<td><strong>Way to Play</strong></td>
<td>Differentiated by proactivity of advisors and, for some firms, by ability to integrate banking and brokerage services for their clients</td>
<td>Focus on providing high-touch, highly personalized service levels to UHNW clients</td>
<td>Strong client relationships, supported by product and operational support from large-scale platform providers (e.g., Fidelity)</td>
<td>Improving products, services, and platform capabilities for RIAs/IBDs and their clients (e.g., appointing dedicated client service teams)</td>
<td>Engage clients through community-based investment advice</td>
</tr>
</tbody>
</table>

Source: J.D. Power and Associates 2011 U.S. Full Service Investor Satisfaction Study; Booz & Company analysis
Market Overview

**Improving Sales Productivity**

Increasing Operating Model Efficiency
Wealth management firms are focused on increasing sales force productivity rather than simply recruiting more advisors.

Wealth RM Performance Curve

Shifting the Curve

Train or Change
Move the Average
Learn from the Best

Percentage of the Wealth RM Population

0%
30%

Low
High
Performance

How to Increase Sales Force Productivity

1. Increase capacity of sales force by refocusing on value-add activities
2. Leverage new technologies

Post-Performance Intervention
Current Total Group

Increase average production per advisor

Source: Booz & Company analysis
Increasing sales force time spent with clients requires a reduction in non-value-add activities

### Typical Findings from Time Spent Analyses in Private Banking

<table>
<thead>
<tr>
<th>Time/Activity Analysis of RMs</th>
<th>RM 1</th>
<th>RM 2</th>
<th>RM 3</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Non-Value-Add</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Internal Activities</td>
<td>15%</td>
<td>13%</td>
<td>16%</td>
</tr>
<tr>
<td>Training &amp; Education</td>
<td>8%</td>
<td>10%</td>
<td>9%</td>
</tr>
<tr>
<td>Issue Resolution</td>
<td>14%</td>
<td>12%</td>
<td>10%</td>
</tr>
<tr>
<td>Client Management Compliance</td>
<td>21%</td>
<td>24%</td>
<td>23%</td>
</tr>
<tr>
<td><strong>Value-Add</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Post-Meeting</td>
<td>10%</td>
<td>12%</td>
<td>11%</td>
</tr>
<tr>
<td>Meeting Customer</td>
<td>10%</td>
<td>13%</td>
<td>14%</td>
</tr>
<tr>
<td>Meeting Prep/Travel</td>
<td>22%</td>
<td>16%</td>
<td>17%</td>
</tr>
</tbody>
</table>

### Observations

- Low absolute selling time (<15% of time spent)
- Scarce sales time generally allocated to “friendly” rather than high-potential clients
- High-cost staff undertakes low-value-add account servicing tasks
- High compliance effort for the RM
- Complex transactions (e.g., setting up trusts) not pooled, hence limited sharing of best practices
- Long tail of smaller clients reduces effectiveness of top performers
- Insufficiently standardized processes result in manual processes and high error rates

Source: Booz & Company analysis
Embracing enabling technology can dramatically improve RM experience and increase productivity

Overview of Technology Stack

- **Devices**
  - ... are highly secure and functional

- **Interfaces**
  - ... augment physical presence with online presence

- **Data**
  - ... can be merged across domains

- **Analytics**
  - ... enable insights from massive data sets

- **Networks**
  - ... promise speeds of ~1 Gbps

- **Infrastructure**
  - ... enables storage and solutions in cloud

**Sample Implications for Wealth Management Firms**

- Connected: anytime, anywhere access at high speeds
- Collaborative: secure online social interaction platforms
- Context aware: personalized insights based on hard and soft data
- Untethered: convenient device-agnostic computing (in the cloud)

- An integrated 360-degree client view can allow the RM to offer tailored value propositions to clients
- New imaging and communication technology can put control in the hands of the client and RM (e.g., telepresence)
- Online delivery of information can reduce the overload of current paper-based communications
- Advanced workflow and decision engines can automate non-value-add tasks and increase capacity of middle/back office to support higher-value-add processes
- Back-office processing and infrastructure can be virtualized/cloud-based to increase efficiency
New client acquisition and experience can be improved by leveraging firm capabilities and new technology

Emerging Firm Capabilities Across Sales Process

<table>
<thead>
<tr>
<th>Identifying Prospects</th>
<th>Creating Awareness &amp; Reaching Out</th>
<th>Conducting the First Meeting</th>
<th>Closing the Deal</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Relationship-Driven Prospecting</strong></td>
<td><strong>Value Proposition</strong></td>
<td><strong>Profiling &amp; Planning</strong></td>
<td><strong>Workflow Management</strong></td>
</tr>
</tbody>
</table>
| - Market leader role in regions  
- Lead-generating center of excellence in organization | - Product benchmarking / competitive differentiation  
- Social media | - Interactive planning tool (mobile and face-to-face)  
- Affiliate partnerships for development | - Automated reminders and to-do lists for financial advisors  
- Document management, including imaging |
| **Analytics-Driven Prospecting** | **Fit with FA** | **Thin Rich Front-End** | |
| - Data mining across organization and external sources for referral opportunities  
- Lead transfer to FAs | - Client/FA matching  
- Communication channels (e.g., online chat) | - iPad and iPhone apps  
- Paperless and digitized  
- Virtual meeting (e.g., Skype) | |

### Team-Based Selling

- Clearly defined team roles  
- Disciplined sales process  
- Division of roles along value chain

### End-to-End Advisor Platform

- Seamless prospecting, planning, proposal, and new account opening platform integration  
- Linkage of funding and account opening process

Source: Booz & Company
Market Overview

Improving Sales Productivity

Increasing Operating Model Efficiency
“One size fits all” operating models result in under-serving best clients and losing money on low-revenue-generating clients.

Economics by Wealth Tier
Client Operating Model

Note: Numbers may not add up due to rounding.
Source: Booz & Company analysis

How to Address Variable Client Economics

1. Execute tiered sales and service delivery model
2. Drive process efficiency in supporting technology platforms
3. Realign end-to-end operating model
A tiered sales and service model is cost-effective and caters to the unique needs of client segments.

**Sales Force and Client Service Model**

**Client Segments and Model**

- **Team-Based Model**
  - Invested Assets ~$10M+ (Net Worth >$25M)
  - Dedicated Team
  - Team leader has expertise most relevant to client
  - Full range of services (fiduciary, investment management, etc.)

- **RM-Led Model**
  - Invested Assets ~$1M–$10M (Net Worth $3M–$25M)
  - RM is expert selected by primary client need
  - Dedicated RM
  - Non-dedicated team

- **Branch-Based or Centralized Services Model**
  - Invested Assets <$1M (Net Worth <$3M)
  - No team
  - Local, limited relationship management with centralized implementation/product
  - Investment-led

**Experts**

- Fiduciary Advisor
- Investment Advisor
- Private Banker
- Commercial Banker
- Other Experts

**Characteristics**

- Dedicated team
- Team leader has expertise most relevant to client
- Full range of services (fiduciary, investment management, etc.)
- RM is expert selected by primary client need
- Dedicated RM
- Non-dedicated team
- No team
- Local, limited relationship management with centralized implementation/product
- Investment-led

Source: Booz & Company
Wealth management firms typically have multiple opportunities to improve client experience and process efficiency ...

Source: Booz & Company
... while realigning their operating model to support the distinct client segments and reduce costs

### Operating Environment

#### Client Segments
- Ultra-High-Net-Worth Clients
- High-Net-Worth Clients
- Affluent Clients
  - Business Owners, Inherited, Executives, Retirees

#### Channels
- Wealth Offices
- Retail Branches
- Call Center
- Self-Directed Online Platform
- Mobile
- Social Media

#### Products and Accounts

##### Accounts
- Brokerage
- Trust
- Banking
- IRA
- Lending
- 401(k)/403(b)

##### Products
- Equities
- Fixed Income
- CDs
- ETFs
- Annuities
- Futures/Options
- Loans
- Alt. Investments

#### Processes
- New Account Opening
- Client Selection
- Manager Selection
- Reconciliation
- Tax Reports
- Credit Underwriting
- Performance Measurement
- Margin
- ACATS
- Dividend
- Service to RM

#### Linkages to Other Groups in Organization

### Target Architecture

- **Common where possible, custom where it counts**
- **Standard processes with different levels of customization by segment and product where appropriate**
- **Cross-organization functions embodied in centers of excellence**
- **Processes located in few, lower-cost locations wherever possible**
- **Client-specific activities maintained in client-facing business units**
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