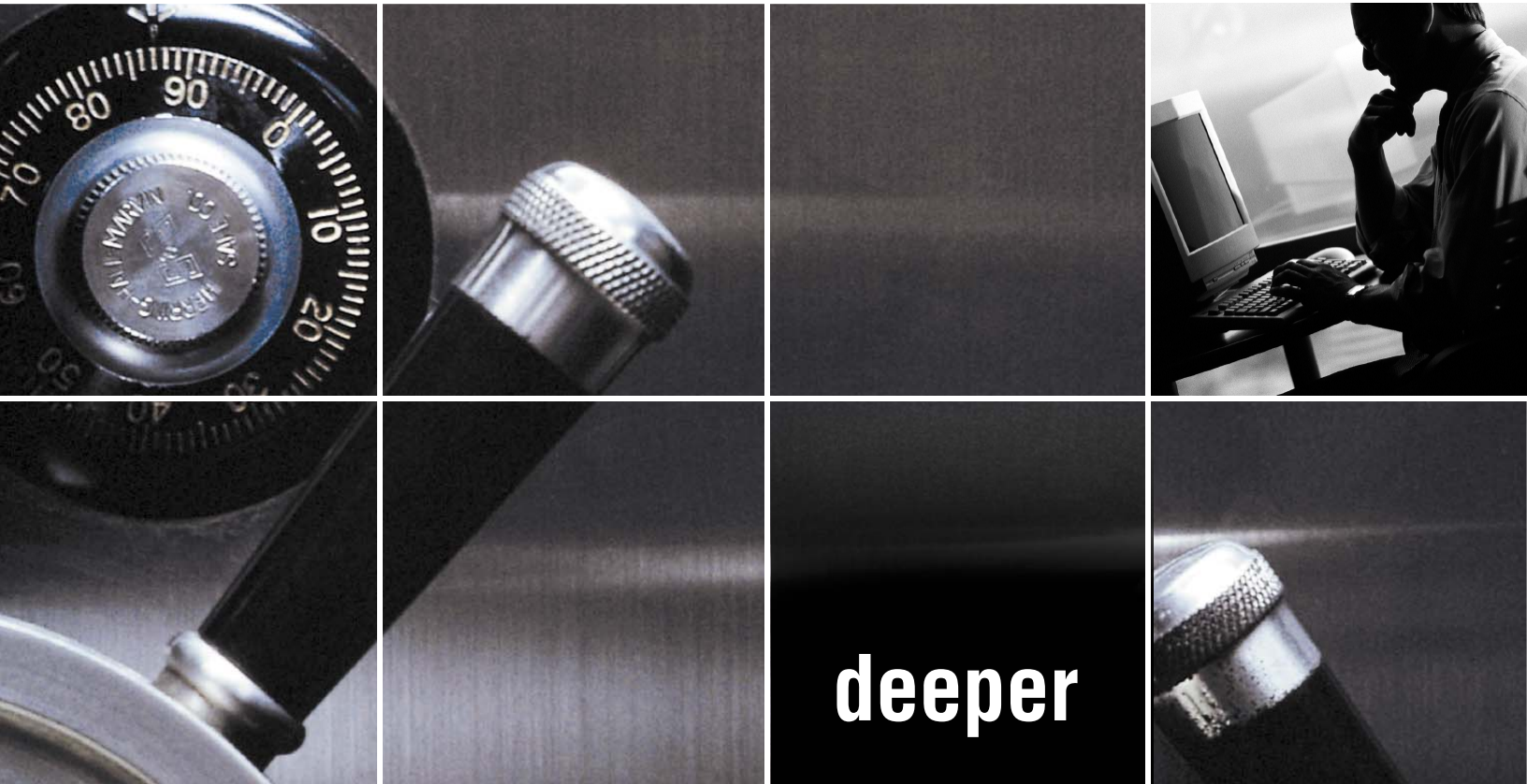


Technology is not the trump card in mass affluent wealth management game



An IBM Institute for Business Value executive brief

The IBM Institute for Business Value develops fact-based strategic insights for senior business executives around critical industry-specific and cross-industry issues. Clients in the Institute's member forums benefit from access to in-depth consulting studies, interaction among a community of peers and dialogue with IBM business consultants. This executive brief is based on an in-depth study created by the IBM Institute for Business Value. This research is a part of an ongoing commitment by IBM Business Consulting Services to provide analysis and viewpoints that help companies realize business value. You may contact the authors or send an e-mail to iibv@us.ibm.com for more information.

Contents

- 1 Technology is not the trump card in mass affluent wealth management game
- 1 Sour economy makes easy scapegoat
- 3 Turning execution exceptions into exceptional execution
- 14 How strong is your wealth management hand?
- 16 About the authors
- 16 About IBM Business Consulting Services
- 17 References

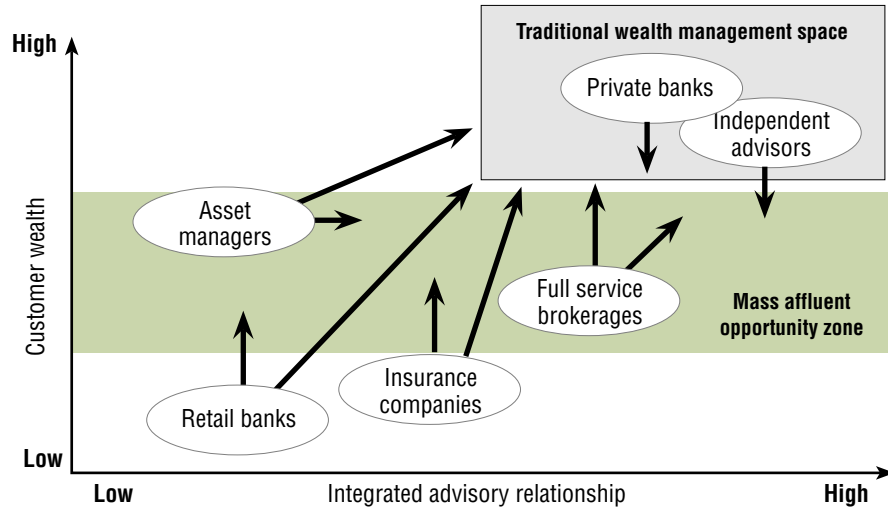
Technology is not the trump card in mass affluent wealth management game

At the height of the 1990s economic boom, financial services companies moved into the alluring mass affluent segment, expanding the traditional boundaries of the wealth management market. Firms were understandably concerned about the cost of serving this new audience and relied heavily on technology to save the day. However, as aborted attempts at mass affluent offerings have proven, technology alone won't win the wealth management game. Financial institutions need a strong all-around hand that certainly includes technology, but also sports the right business strategy, organizational design and operational processes to address the inherent challenges in planning, manufacturing and distributing wealth management solutions for the mass affluent – through good times and bad.

Sour economy makes easy scapegoat

The rising tide of the economic boom raised all boats, highlighting the mass affluent (those with investable assets ranging from US\$100,000 to US\$1 million) as an attractive market opportunity beyond the traditional focus on ultra-high net worth (UHNW) and high net worth (HNW) individuals. Eager for growth, “everyone” began targeting the mass affluent – private bankers moving down market and retail banks moving up (see Figure 1).

Figure 1. Many types of firms targeted the mass affluent during the height of the global economic expansion.



Source: IBM Institute for Business Value analysis.

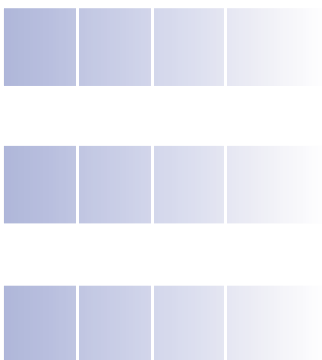
Firms knew cost would be an issue: traditional methods for serving the super wealthy were simply not an affordable way to serve the mass affluent. Many companies thought technology was the answer – but quickly found that it was actually only part of a multifaceted answer to this rather elusive opportunity.

As times got tough, many wealth management initiatives aimed at the mass affluent were abandoned:

- Lloyds TSB invested GBP 100 million in Create, a wealth management service for the mass affluent, which it launched in October 2001 and then closed to new clients in April 2002, after just six months of operation.¹
- Credit Suisse First Boston (CSFB) acquired DLJdirect as part of its purchase of Donaldson, Lufkin & Jenrette Inc. in the fall of 2000, then sold the unit in November 2001.²
- In 2000, HSBC Group and Merrill Lynch launched a joint venture targeting mass affluent customers with a mix of banking and brokerage services – but Merrill Lynch exited the high-profile venture in May 2002 after investing approximately US\$200 million.³

Given the worldwide wealth contraction of late, some are wondering whether the mass affluent are still a worthwhile target for wealth management services. Based on the full revenue potential from a comprehensive set of wealth management services, the most attractive segments of this market (the affluent and young affluent) still represent a US\$139 billion revenue opportunity in the U.S. alone.^{4,5} Thus, the question is not whether to pursue but, rather, how to pursue this market opportunity most profitably.

Based on IBM Institute for Business Value analysis of various forays into the wealth management market and IBM Business Consulting Services' work with clients that are planning or have deployed mass affluent offerings, we have concluded that the economic downturn is not the sole reason for lackluster results with the mass affluent. Instead, execution challenges, ranging from strategy to organizational design to operational effectiveness, are the chief culprits, hampering – and sometimes even halting – companies' wealth management initiatives.



Turning execution exceptions into exceptional execution

The most prevalent wealth management execution challenges span three major functional areas of a financial institution's business:

- *Market planning* – the processes used to select a target audience and design a suitable offering
- *Manufacturing* – the processes involved in design and manufacture of products and services for the offering and dissemination to advisors
- *Distribution* – the processes related to sourcing, marketing, delivering and supporting the different offerings.

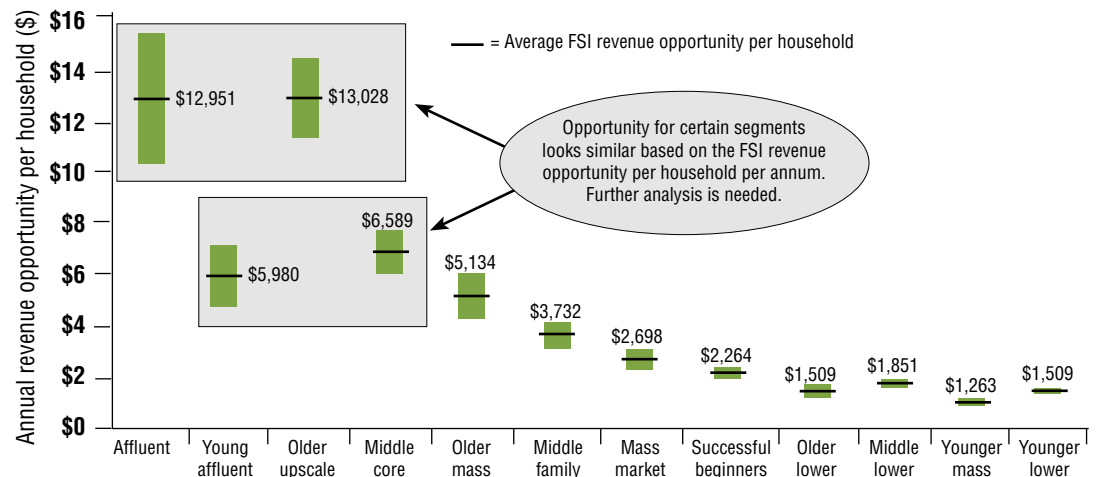
Planning pitfalls

Mass affluent targeted en masse

Segmentation based on net worth only confirms the obvious attractiveness of the UHNW and HNW segments long served by traditional wealth managers such as private bankers and independent advisors. Using this same sort of analysis, the economic boom of the 1990s caused financial institutions of all sorts to take notice of the burgeoning opportunity represented by the next rung down – the mass affluent.

However, the entire mass affluent segment is not of equal worth. A more detailed segmentation analysis that factors in age highlights some important differences in potential for revenue generation. And although some segments look similar in terms of annual revenue opportunity per household (see Figure 2), looking at long-term potential over a lifetime yields yet another perspective (see Figure 3).

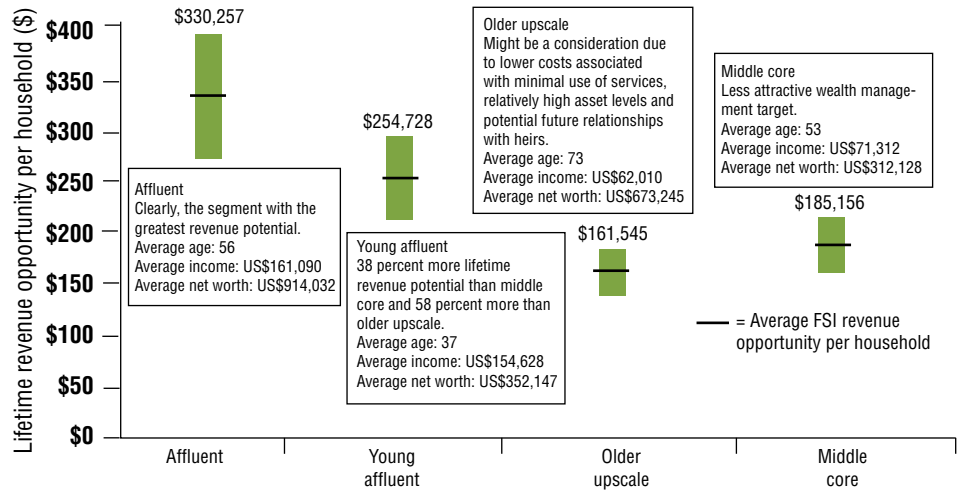
Figure 2. Annual financial services institution revenue opportunity per household by segment



Source: NFO WorldGroup, IBM Institute for Business Value analysis.

Note: Opportunity calculation excludes equity and debt associated with primary residence.

Figure 3. Lifetime financial services institution revenue opportunity per household by segment



Source: NFO WorldGroup, IBM Institute for Business Value analysis.
 Note: Net worth figures do not include principal residence.

As firms begin to make decisions about which segments to target, they should also consider further analysis based on behavioral patterns or attitudinal factors that might influence revenue possibilities – such as the likelihood of intergenerational wealth transfer in the older upscale segment – or, equally important, factors that determine the cost to serve – such as the frequency a particular segment typically uses certain services. And finally, firms must compare their own capabilities and strengths to the needs and preferences of particular segments to help identify where they have an inherent advantage. For instance, a firm may have a strong branch network already frequented by a sizable population of older upscale or a topnotch online presence that is capable of attracting the young, more tech savvy affluent.

Takeaway: Identify segments of the mass affluent that you can serve most profitably based on your key capabilities rather than investing in trying to attract them all.

One-size-fits-all offering design

Whether intent on simplicity or operationally constrained by existing processes and systems, financial services institutions often ignore divergent needs and preferences of particular segments, attempting instead to design a single wealth management offering that appeals to everyone. Without analyzing segment differences (see Figure 4), companies run the risk of having the wrong product mix or services approach, thereby missing out on chances to increase revenue and reduce costs to serve.

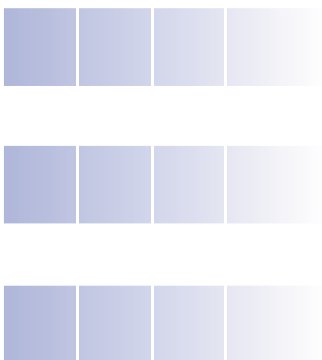


Figure 4. Examples of differences between affluent and young affluent segments that might dictate a more tailored offering.

	Affluent	Young affluent
Current asset level	<ul style="list-style-type: none"> Relatively high level of assets with large amounts concentrated in retirement vehicles 	<ul style="list-style-type: none"> Moderate to high asset levels
Desire for financial advice	<ul style="list-style-type: none"> Moderate to high desire for financial advice 	<ul style="list-style-type: none"> Strong desire for some financial guidance
Affinity for technology	<ul style="list-style-type: none"> Above average affinity for technology 	<ul style="list-style-type: none"> High affinity for technology
Important service aspects	<ul style="list-style-type: none"> Perception plays a key role as affluent look for a trusted advisor to help them plan for their “golden years” Personal touch is also an important aspect, while multichannel access is somewhat less critical 	<ul style="list-style-type: none"> Having integrated information available across a variety of channels is key, so that they can perform tasks when and how they want Personal touch is less critical since looking for lower levels of reassurance
Key financial services needs	<ul style="list-style-type: none"> Retirement and estate planning are critical, while credit is less important as borrowing needs are typically minimal at this stage of life 	<ul style="list-style-type: none"> Asset management is critical since focus is on wealth accumulation Cash management and credit are also important when raising families and spending significantly
Potential for migration to HNW offering	<ul style="list-style-type: none"> Moderate potential, primarily limited by age 	<ul style="list-style-type: none"> High potential, because of high incomes at an early age

Source: IBM Institute for Business Value analysis.

Takeaway: Make sure you understand – and capitalize on – differences when designing segment-specific strategies.

A comprehensive wealth management offering must include advice and planning as the cornerstone of a financial services relationship with services and products that address varied customer needs and a superior level of customer service.

Manufacturing missteps

Product portfolio imbalance

Financial services institutions continue to struggle with achieving the best blend of products for helping the mass affluent manage their wealth. For instance, companies may have a portfolio that’s not comprehensive enough to meet a broad range of needs, one that’s so large it is unmanageable or one that’s just simply made up of the wrong mix.

The affluent and young affluent are clearly interested in having one financial institution meet all of their product needs, but have not yet been convinced that this is possible (see Figure 5).

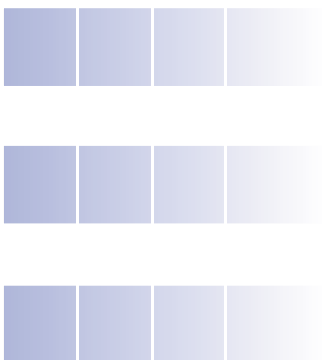
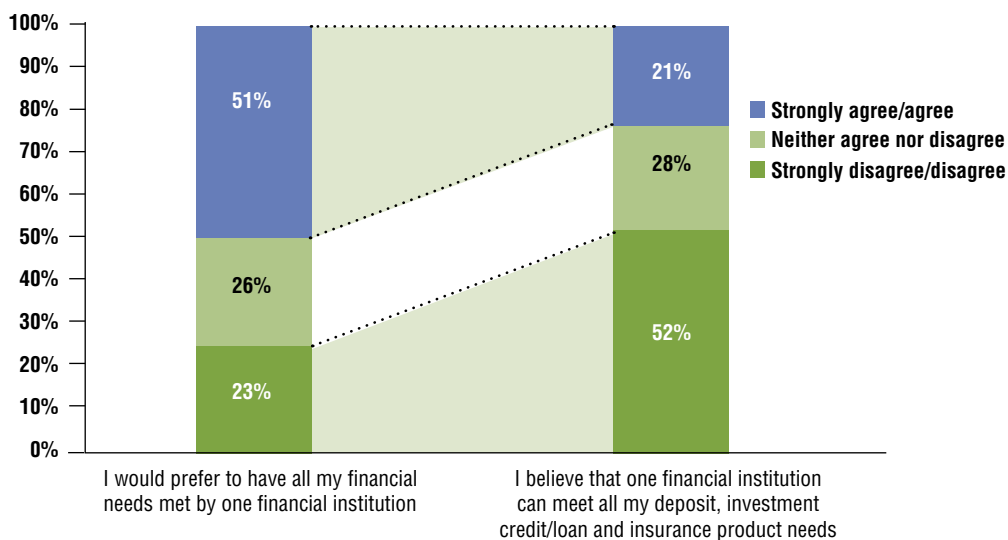


Figure 5. Despite the desire to have a single firm meet all financial needs, the affluent and young affluent still have doubts about firms' capabilities.

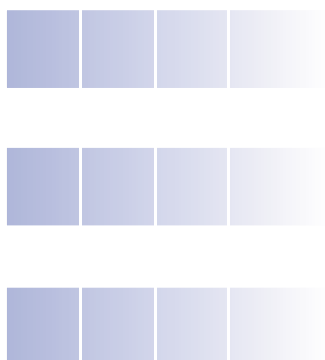


Source: NFO WorldGroup; IBM Institute for Business Value analysis.

That's not surprising since firms still tend to focus their wealth management offerings on asset allocation among stocks, bonds and mutual funds rather than providing a broader range of products such as:

- Trust
- Tax
- Real estate
- Protection
- Alternative investments
- Traditional banking or lending products.

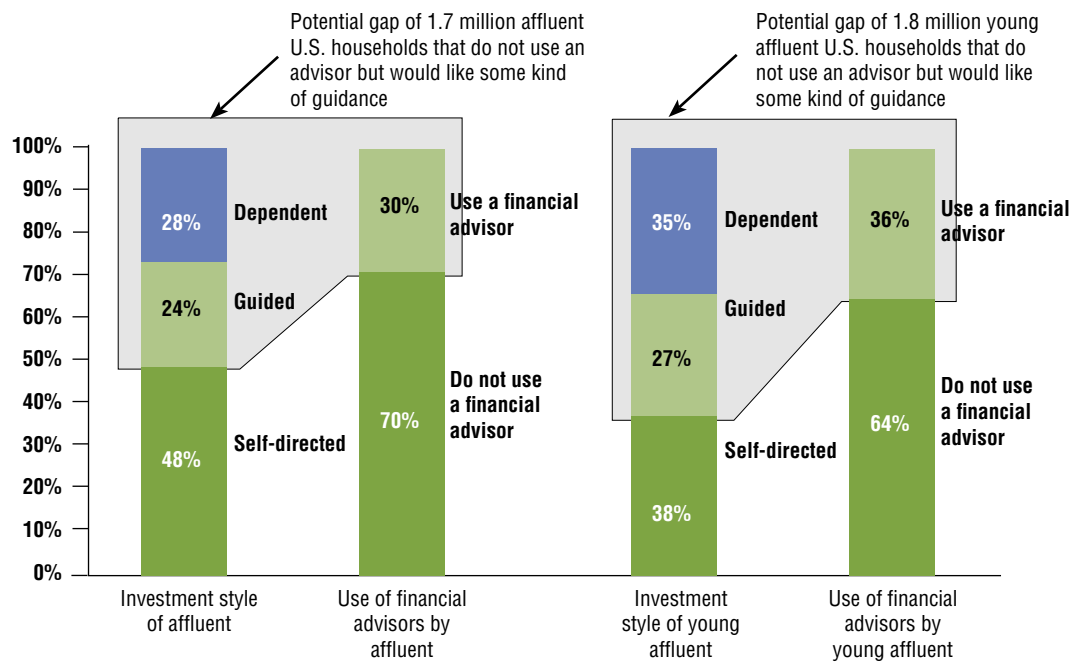
Often, product sales incentives are misaligned with the overall wealth management strategy, pushing advisors counter to the firm's objectives. Technology support is tethered to inflexible legacy systems that may not be extensible into other product areas, and advisor tools and training are still focused primarily on equities and mutual funds allocations.



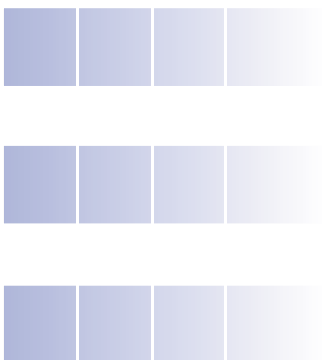
On the other extreme, product lists have multiplied under a steady stream of acquisitions, overwhelming advisors and creating undue complexity and cost enterprise-wide. Product manufacturing within large diversified institutions has become so fragmented and widely dispersed that it is challenging for advisors to easily access a complete set of product options. Without adequate tools and training, advisors cannot always select the most appropriate product for a client's unique situation. In addition, rationalizing the portfolio to a targeted list of profitable products is not easy: Firms must assess the potential product rationalization benefits against the cost and relationship implications of migrating customers to new product platforms.

Despite firms' tendency to push particular products based on their heritage, affluent customers are overwhelmingly interested in one thing: advice. More than half of the affluent feel overwhelmed by the amount of information available to them and would welcome some form of advice – but only 30 percent have a financial advisor⁶ (see Figure 6).

Figure 6. Gaps up for grabs.



Source: NFO WorldGroup; IBM Institute for Business Value analysis.



The young affluent in particular show a stronger than average appetite for advice across a broad set of WM advice categories – double the average U.S. household's need for insurance planning and 2.5 times the average for tax planning and education funding.⁷

Takeaway: Systematically weed out duplicative or unprofitable products, create a core mass affluent product team that spans disparate internal manufacturing units and establish adequate incentives and infrastructure that allow advisors and product teams to effectively sell products from across the enterprise.

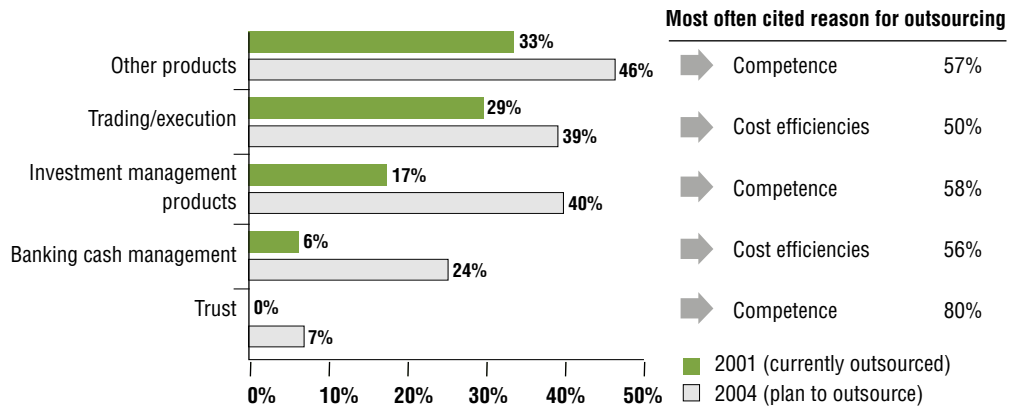
Lack of objectivity

Winning over discerning wealth management prospects that are highly reliant on objective advice depends on whether a firm can convince those customers that it consistently acts in their best interest. Firms locked into proprietary products are at a serious disadvantage.

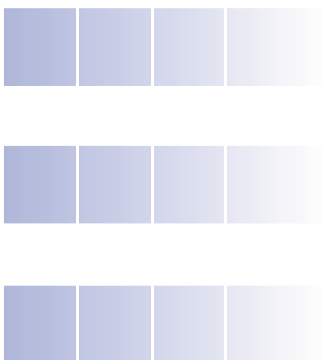
Forty-six percent of the affluent and young affluent consider availability of third-party products as very or extremely important.⁸ In fact, the majority of the young affluent believes that firms simply can't be objective unless they sell or recommend a wide range of products and services offered by *many* providers.⁹

As expectations about product breadth have grown, firms have found that they do not always have the necessary expertise or scale to manufacture certain products cost-effectively. Institutions are increasingly turning to outsourcing to gain a particular competence or reduce costs (see Figure 7).

Figure 7. Product types outsourced to external firms – current and planned.



Source: North American Private Banking Wealth Management Survey, IBM Corporation, 2002.



Takeaway: Create an open product architecture and organizational sourcing mechanism that supports best-in-class products, regardless of manufacturer.

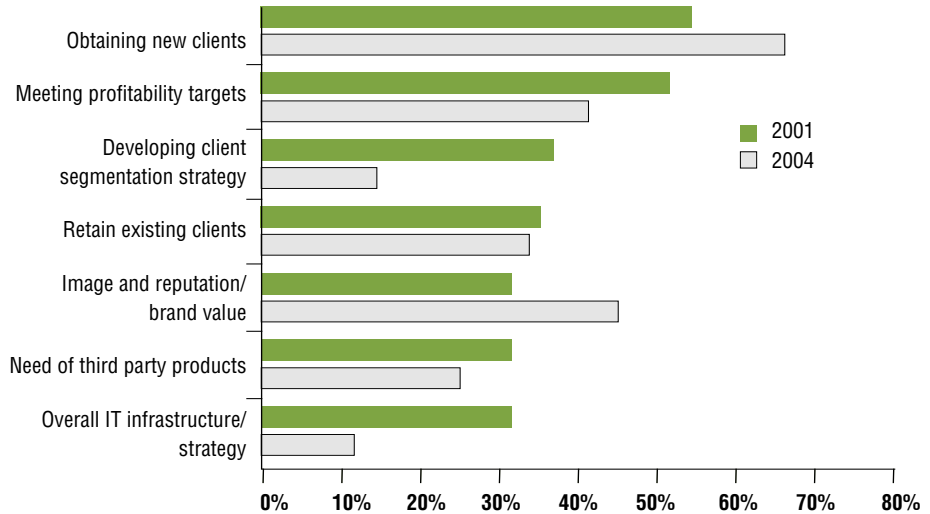
Distribution dilemmas

Capturing critical mass of mass affluent

Financial services companies have struggled in their attempts to attract mass affluent to their wealth management offerings. When Merrill Lynch withdrew from the joint venture with HSBC, the offering had attracted only 100,000 customers worldwide.¹⁰ And, at its closing, the Lloyds TSB Create business had snagged only a few hundred clients – far short of its 250,000 goal.¹¹

In fact, financial institutions rate “obtaining new clients” as the most pressing issue driving change across their institutions – now and for the foreseeable future (see Figure 8).

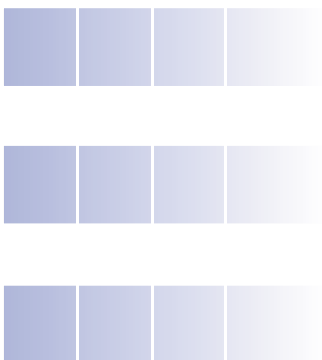
Figure 8. Most pressing internal issues driving change.



Source: North American Private Banking Wealth Management Survey, IBM Corporation, 2002.

So, what’s hampering customer acquisition and wallet share growth?

- *Inadequate understanding of customer needs.* Advisors need a customer-wide perspective. But, too often, they are focused on obtaining information related to a particular area like asset management, without considering needs in other areas such as protection. Or worse, advisors can get caught up in pushing products with



greater incentives instead of allowing customer needs to guide advisory activities. To meet customers' broad demand for advice, advisors need enterprisewide information, not just in-house equity and mutual fund balances. In addition to integrated and easily accessible internal data, a strong advisory relationship often requires integration with third parties – to obtain 401K information or debt balances, for instance.

- *Ill-equipped to cross-sell.* Business and product lines have become more fragmented through organic growth and acquisitions, driving greater complexity into wealth management offerings. Advisors are not always equipped to efficiently cross-sell offerings from across the entire firm. Redesigning sales delivery models to enable and encourage team-based selling across lines of business can help advisors turn a firm's breadth into an advantage.
- *Lack of teaming between advisors and other channels.* Contact centers, branches and other channels have limited connectivity to the sales process. Firms need to ingrain a "one team" concept, training all channels to direct leads to advisors – and giving them the wherewithal to do so.

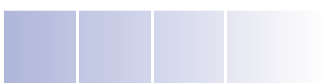
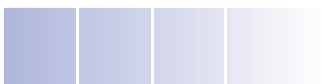
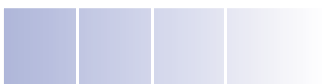
Takeaway:

Provide better cross-organizational support mechanisms to advisors who are the pivotal players in customer acquisition.

Acknowledging importance of advice

The wealthy, even the mass affluent, have high expectations about service – particularly advice. Institutions, however, are not always as intently focused on advice as their customers are. Legacy organizational designs are not always conducive to an advice-centric approach to wealth management. Incentives are sometimes misdirected, focusing for example on trading transaction volume increases instead of relationship expansion. Training is centered on product awareness rather than advisory and relationship-building capabilities. Even systems and infrastructure are geared toward more narrowly defined interpretations of wealth management – for instance, advisors' tools are still largely focused on asset allocation.

Even though 75 percent of the affluent and young affluent rate quality of advice as extremely or very important, only 45 percent give their primary financial institutions a grade of excellent or very good.¹² Many financial institutions don't even know how they stack up, since they lack metrics and reporting processes to assess advice quality and an ongoing mechanism to solicit feedback from customers.



Given the breadth of products and services that wealth management now spans, advisors can't provide sufficient depth in all areas on their own. They need access to a full range of specialists – financial, tax, protection product planners and the like. In addition, they need to be able to tap into their teammates' expertise on demand, with access to intellectual capital and collaborative tools that allow an ad-hoc team of experts to develop a collaborative recommendation for the customer. To improve advice quality, the operating model should define how advisors and experts can best team up – and clearly outline the incentives to do so.

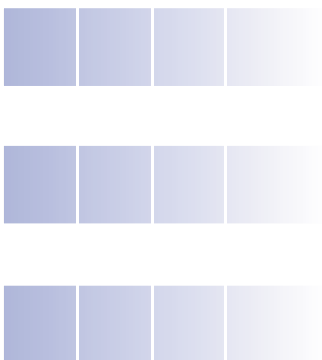
Takeaway: Focus foremost on advice, aligning tools, training, processes and even organizational design around this core service attribute. And make sure advice quality is actively measured.

Satisfying service expectations ... cost-effectively

Quality of service overall is also critically important to customer retention and revenues; nearly 50 percent of affluent and young affluent would switch financial services providers just to get better service – and some 16 percent say they're even willing to pay more to get it.¹³ Firms agree that service is important. Over 70 percent rated "quality of client service" as a leading competitive differentiator.¹⁴

Yet personalized service is often at odds with the need to deliver via a lower cost channel. Firms need a systematic service model that allows them to reserve advisor's time for high-value service requests and pushes lower-value requests to lower cost channels that are equipped to provide the level of service the mass affluent expect, in as personalized a manner as possible. For instance, contact center staff could be teamed and realigned to coordinate client interactions and track service requests across various lines of business, relieving high paid advisors from these administrative tasks. Traditional retail banks could also exploit their existing branch networks and resources to provide a local, more personal touch without additional capital outlays. Above all, firms must strive for consistency across customer-facing channels and seamless handoffs to avoid alienating customers that are directed to a lower-cost means of providing service. An operating model that clearly articulates the role of each process participant and how hand-offs are handled can help companies keep stakeholders in sync and customers informed.

Service delivery platforms can make or break a service strategy. From a cost perspective, firms need scale efficiencies wherever possible. Yet, sharing systems with the rest of the institution can sometimes limit a wealth management team's ability to attract and support an affluent audience. The key is finding the right balance – sharing platforms for commodity-like components of the offering and maintaining unique platforms for those few critical processes that directly impact mass affluent customers, like front-end delivery. Firms could also consider outsourcing select transactional platforms to help contain costs.



Takeaway: Take a team-based approach to service, using skills appropriate to the task (based on both expertise and cost), and adopt an IT architecture suited for serving the special needs of the mass affluent cost-effectively.

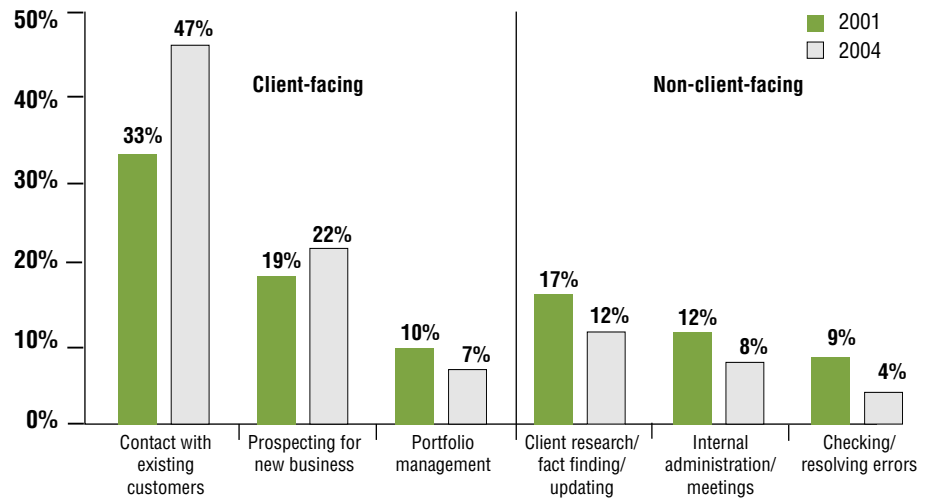
Making sure margins measure up

Since advisor costs are typically the single largest expense involved in wealth management, firms are anxious to find lower-cost ways to sell and deliver products and services to the mass affluent. For instance, firms have tried to parlay the affluent and young affluent’s affinity for technology into the use of online services. Transferring as much service load as possible to automated channels is obviously advantageous – and firms can help encourage greater adoption by creating campaigns and incentives that motivate customers to do more of their business online.

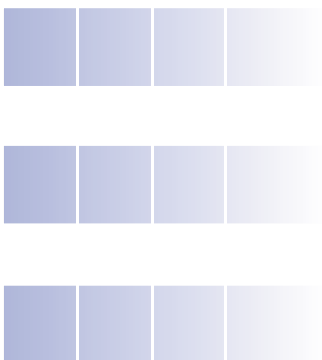
However, wealth management is a very personal, high-touch offering driven by a strong relationship between customer and advisor. And advisors’ productivity – namely their ability to provide exceptional service to an optimal number of clients through better time management – can determine whether a wealth management initiative turns out to be a bottom-line boost or bust.

Advisors cannot focus on relationships when they are overwhelmed with non-client-facing activities. On average, advisors spend 38 percent of their time on non-client-facing activities¹⁵ (see Figure 9).

Figure 9. Advisors’ time allocation by activity.



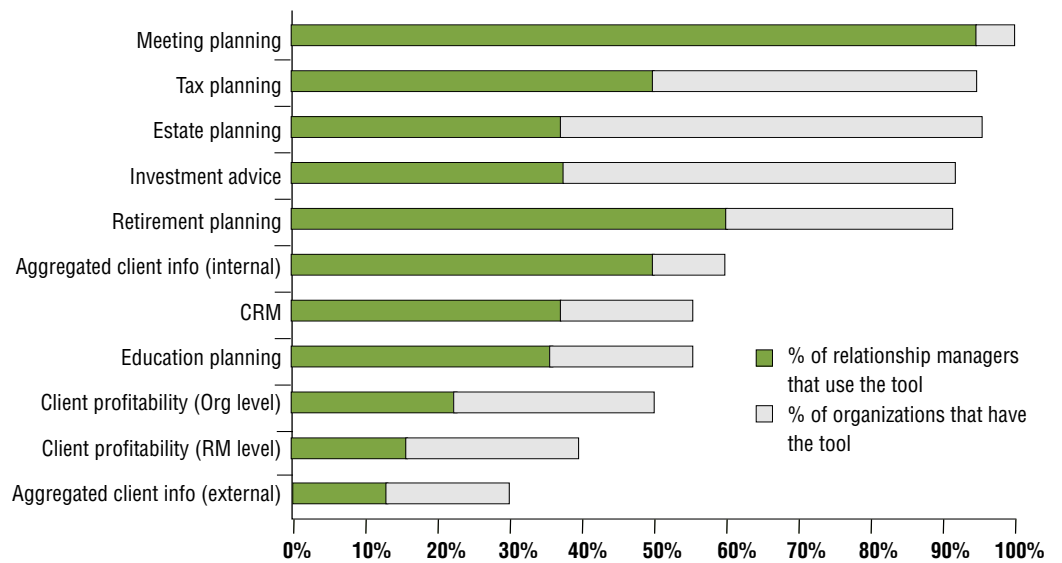
Source: North American Private Banking Wealth Management Survey, IBM Corporation, 2002.



To help advisors spend more time with clients, firms can:

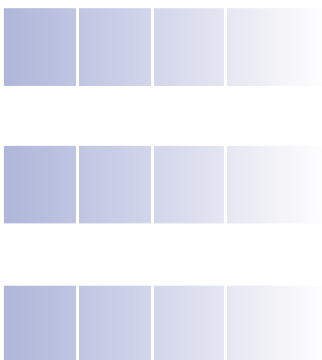
- *Reduce administrative burden.* Although advisors want to be involved in activities related to their accounts, they can reduce the range of tasks they handle themselves. For example, managing financial relationships involves an almost daily deluge of requests for statements or information. Remote shared service centers and other on-site organizational support mechanisms can be used to offload a variety of administrative tasks that often fall to a client's advisor.
- *Help advisors be more productive.* Technologies such as integrated account reporting, collaborative messaging, contact management and workflow management can help advisors work more efficiently. To accelerate the sometimes sluggish adoption of tools (see Figure 10), firms should consider offering additional training and providing incentives for use. Involving advisors in the selection or development of new tools can also help boost buy-in.

Figure 10. Technology to support relationship management.



Source: North American Private Banking Wealth Management Survey, IBM Corporation, 2002.

- *Enable focus.* Advisors need to spend time with the *right* clients to produce a higher overall return. With so many customers to support, advisors need some way of prioritizing where they invest their time. Presenting them with profiles that detail account profitability and suggest appropriate levels of service can help advisors prioritize time spent with each account.



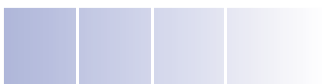
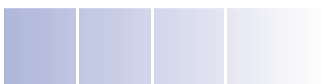
Takeaway:

Continue efforts to migrate customers to electronic self-serve channels wherever practical – but don't overlook criticality of advisor productivity in overall profit equation.

How strong is your wealth management hand?

As you formulate your strategy for winning over the mass affluent, it's important to learn from early attempts, consider evolving market requirements and examine your own strengths and weaknesses. Here are some questions to help you assess your current position:

- Has your wealth management strategy become so focused on technology elements that you've neglected important business and customer strategy decisions, organizational issues and operational inhibitors?
- What actions are you taking to make your wealth management business model less susceptible to the ups and downs of the financial markets (given that the downturns may be when customer need help most)?
- What is your firm's strategy to convince the mass affluent of its ability to meet *all* of their financial needs?
- Has insufficient product breadth cost you clients? How open is your product architecture? Can you easily support products sourced from a variety of external providers?
- Are advisors receiving the proper training on how to sell all of the products and services being offered? Do they have access to expertise – and live experts – when they need assistance?
- What specific steps are you taking to expand client relationships? How are you monitoring and measuring the effectiveness of your various cross-selling tactics?
- What account-to-advisor ratio do you need to yield the desired profitability level for your wealth management offering? What percentage of your advisors' time is currently spent on non-client-facing activities?
- How are you tracking advice quality? How granular is your management reporting on quality of service and performance of customer-facing channels? Are reporting rollups camouflaging critical inhibitors?

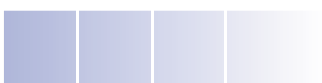
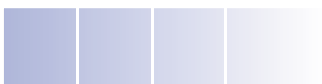


It takes more than technology to sustain a viable mass affluent wealth management offering – particularly during a difficult economic environment. Significant operational and organizational challenges (in addition to technological trials) can prevent firms from effectively executing their wealth management strategies. Financial services executives can help their firms overcome these obstacles by:

- Building a comprehensive wealth management offering that incorporates best-of-breed products and is centered on advice
- Establishing a wealth management team structure that consolidates all of the disparate organizations involved in mass affluent wealth management
- Focusing the entire team – from product management to advisor to customer service – on providing a high-quality, customer-centric offering by aligning incentives, defining metrics and providing support mechanisms conducive to the firm's overall goals.

The mass affluent remain a sizable wealth management market opportunity – but only for those that execute well. To discuss ideas for improving your wealth management initiative or learn more about the IBM Institute for Business Value Study entitled “*Operationalizing Wealth Management for the Mass Affluent*” contact us at iibv@us.ibm.com To browse other resources for business executives, we invite you to visit our Web site:

ibm.com/bcs



About the authors

Shyarsh Desai is an Associate Partner in the Financial Services Sector of IBM Business Consulting Services. Shyarsh can be contacted at desaish@us.ibm.com.

Dan Latimore is the Leader of the Financial Services Team within the IBM Institute for Business Value. Dan can be contacted at dwl@us.ibm.com.

Greg Robinson is a Consultant with the IBM Institute for Business Value Financial Services Team. Greg can be contacted at gprob@us.ibm.com.

Contributors

Ragna Bell, Managing Consultant, IBM Business Consulting Services, Financial Services Industry Practice

Svetlana Shmulyian, Senior Consultant, IBM Business Consulting Services, Financial Services Industry Practice

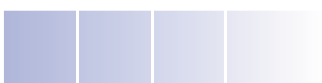
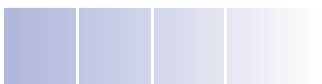
Lee Spierer, Partner, Global Financial Services Strategy Leader, IBM Business Consulting Services

Alan Trench, Associate Partner, IBM Business Consulting Services, Financial Services Industry Practice

David Wong, Partner, IBM Business Consulting Services, Financial Services Industry Practice

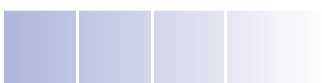
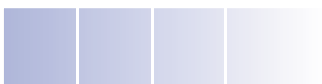
About IBM Business Consulting Services

With consultants and professional staff in more than 160 countries globally, IBM Business Consulting Services is the world's largest consulting services organization. IBM Business Consulting Services provides clients with business process and industry expertise, a deep understanding of technology solutions that address specific industry issues and the ability to design, build and run those solutions in a way that delivers bottom-line business value.



References

- ¹ "HSBC big winner from Merrill's pullout." *Private Banker International*. June 12, 2002.
- ² "CSFB to Sell Online-Trading Unit to Bank of Montreal for \$520 Million." *Dow Jones Business News*. November 28, 2001.
- ³ Moore, James. "Merrill Lynch calls time on 'mass affluent' venture." *The Times of London*. May 18, 2002.
- ⁴ IBM Institute for Business Value analysis.
- ⁵ NFO WorldGroup Financial Services. "Retail Financial Services Program." 2002.
- ⁶ Ibid.
- ⁷ Ibid.
- ⁸ Ibid.
- ⁹ Ibid.
- ¹⁰ Moore, James. "Merrill Lynch calls time on 'mass affluent' venture." *The Times of London*. May 18, 2002.
- ¹¹ Ibid.
- ¹² NFO WorldGroup Financial Services. "Retail Financial Services Program." 2002.
- ¹³ Ibid.
- ¹⁴ IBM Corporation. "North American Private Banking Wealth Management Survey." 2002.
- ¹⁵ Ibid.





© Copyright IBM Corporation 2003

IBM Global Services
Route 100
Somers, NY 10589
U.S.A.

Produced in the United States of America
09-03
All Rights Reserved

IBM and the IBM logo are registered trademarks of International Business Machines Corporation in the United States, other countries, or both.

Other company, product and service names may be trademarks or service marks of others.

References in this publication to IBM products and services do not imply that IBM intends to make them available in all countries in which IBM operates.