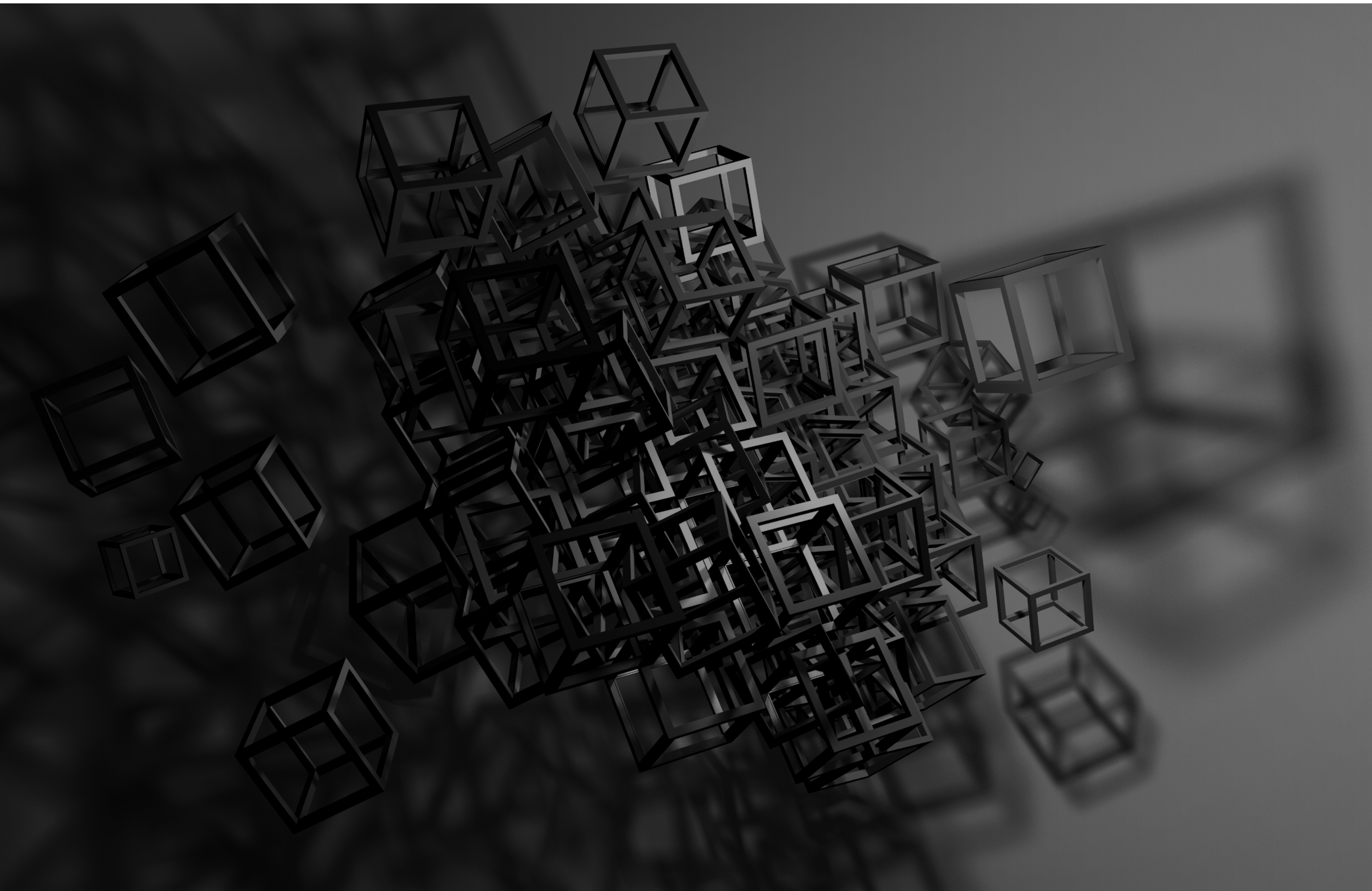
CAPCO

END-TO-END INTEGRATION

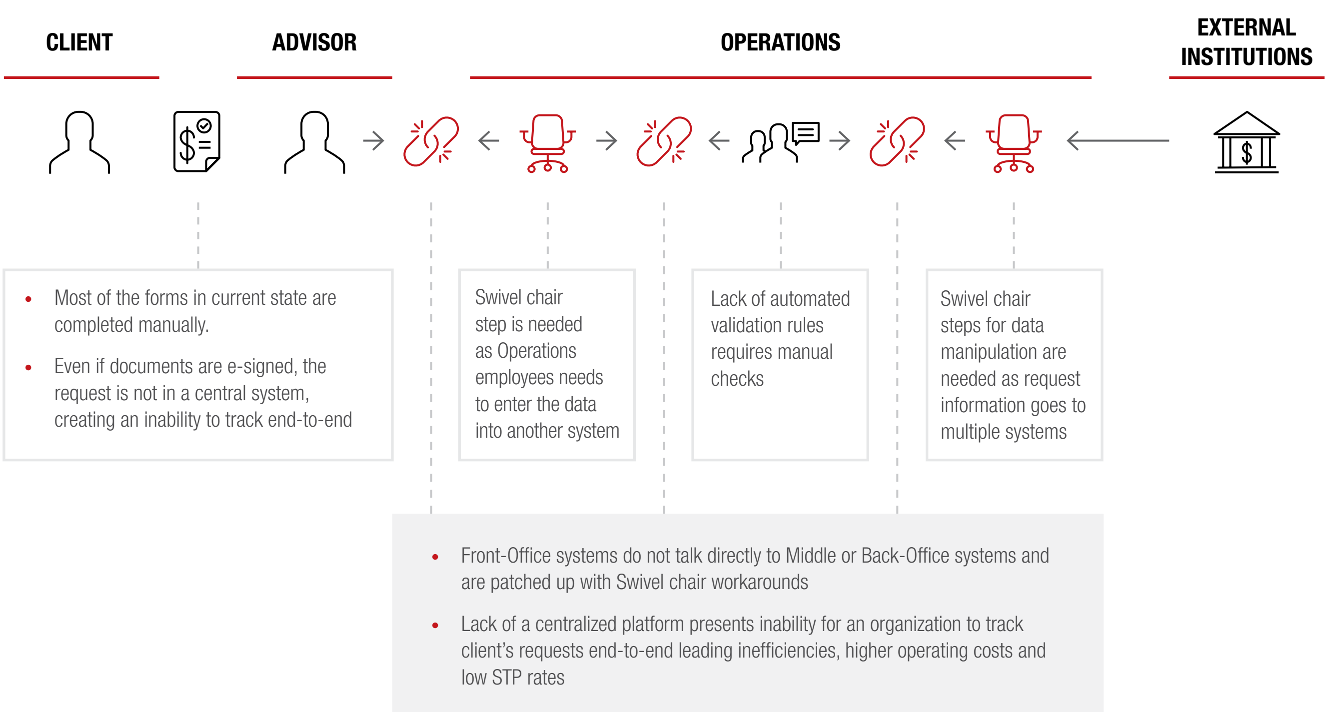
THE KEY FOR A SUCCESSFUL WEALTH MANAGEMENT FIRM IN A COMPLEX FINANCIAL WORLD



INTRODUCTION

Over time financial institutions have built a complex web of systems intertwined to meet various business problems. Wealth management firms are no exception to this rule and often, front, middle and back-office systems overlap and even duplicate capabilities. The lack of full end-to-end integration across these systems does not allow organizations to provide a holistic digital experience to request stakeholders. Additionally, the organizations cannot efficiently manage an end-to-end process. These deficiencies have led to manual workarounds, which reduce straight-through processing (STP) and increase the organization's probabilities of errors. In addition, workarounds are often not properly documented, and knowledge tends to sit with a limited number of employees, creating operational risks for organizations. All these elements of reality inevitably lead to poor client and employee experience.

Figure 1 – End-to-End Request Management in an average Wealth Management Firm in Current State



SERVICES ECONOMY AND TRADITIONAL ORGANIZATIONAL STRUCTURE

As the wealth management industry moves towards a service-based model, firms have made significant investments to navigate this organizational shift. These investments include implementations of top-notch customer relationship management (CRM) systems, the introduction of artificial intelligence (AI) to automate simple customer inquiries, and the generation of better data and metrics to inform and expedite prospect conversion to a client. In addition, firms have sought to invest in new and improved investment planning tools, client-tailored reporting while also providing omnichannel access to clients so they can access their portfolios from anywhere at any time. The core driver in all of this has been for organizations to build capacity for their advisors to focus on the critical success factor of a services economy: building better relationships with their clients and growing assets under management.

The traditional back-office has also seen significant investments. These investments have been in process automation tools, implementation of data warehouses, and process re-engineering. The goals for firms are to gather customer insights to drive product decisions, cut costs to support fee suppressions, gain efficiencies to lower processing times, and reduce overhead to help the bottom line.

Too often, front and back-office systems do not easily integrate, thus paving the way for the middle office. By definition, the middle-office sits between the front and back-office systems, acting as a translator. It allows a client-centric sales process to function independently from an account-centric back office. Over time, the middle office has taken on responsibilities of more important tasks such as product pricing, fraud detection and reporting, regulatory and compliance monitoring, data consolidation, transformation and passing, and the creation of client information files (CIF). Traditionally under-funded by its organizations, the rise in importance of the middle office has not seen its fair share of the investment wallet and has therefore resulted in organizations not being able to scale its products, keep up with regulatory reporting and handle both product expansion as well as an increase in transaction volumes. When middle office transformation is not a part of the overall enterprise transformation equation, firms suffer because they lack the agility to reduce the time to market for new products and services due to higher complexities and costs associated with technology projects.

WHY FRONT, MIDDLE, BACK-OFFICE IS AN OUTDATED CONCEPT?

As fintech competitors enter the wealth management industry, time to market, innovation and simplicity are of the utmost priority. As with all other clients, wealth clients are demanding more and want to have tools at their disposal to be able to do more independently. Wealth managers need to focus on solutions that simplify and manage processes end-to-end across the organization, starting with the client.

Therefore, as wealth managers look to attain solutions with rich capabilities, process automation, high configurability and low, or no-code technologies, the solutions will tend to be compartmentalized, specializing in a single problem set within the front, middle or back office. With compartmentalization, transformation layers end up being too customized, resulting in multiple changes across the organization due to lack of end-to-end integration. Eliminating the need for multiple interfacing front, middle and back end systems allows for a higher STP for key revenue-generating processes such as account opening, asset transfer, and investing, significantly lowering their cost of technology and maintenance.

The business case for reducing the number of systems and lowering technology spend is simple: on average wealth management companies simply encounter too many pain points in their end-to-end processes, which ends up translating in higher operating costs and errors. Over the past twelve years, the advisors' books have changed from being focused on transaction fees to management fees. In 2018, in the Canadian brokerage channel, commissions comprised 25.8% of revenue, down from 45.8% in 2008. On the contrary revenue from fees has gone up from 43.7% in 2008 to 66.6% in 2018.[1] Given this trend, advisors will need to continue to grow their AUM and books of business. The firms are also expecting the advisors to focus on higher net worth clients, in order to continue to develop closer relationships with existing clients and build new relationships with prospects. While the industry has significantly improved the advisor experience through process automation and digitization, advisors and their teams need systems to meet the fast paced and frequently changing needs of their customer.

COVID-19 continues to put a strain on wealth managers around the world. This new environment is challenging the existing norms and traditional operating models for firms as they rush to respond to evolving customer expectations. The rapid shift to digital and non-physical interactions during this pandemic has exposed the vulnerabilities of those early investment decisions which relied heavily on face-to-face interactions between financial advisors and their clients. Fragmented integrations between multiple systems were made to serve as a stop gap and limit potential downtime for key applications, while also allowing financial advisors to continue to support their clients. The ongoing pandemic is a wake-up call for firms to re-prioritize their agendas and truly think about how to manage the integration of their key systems across their digital platform.

1. https://www.investmentexecutive.com/newspaper_/news-newspaper/business-of-advice-continues-to-evolve/

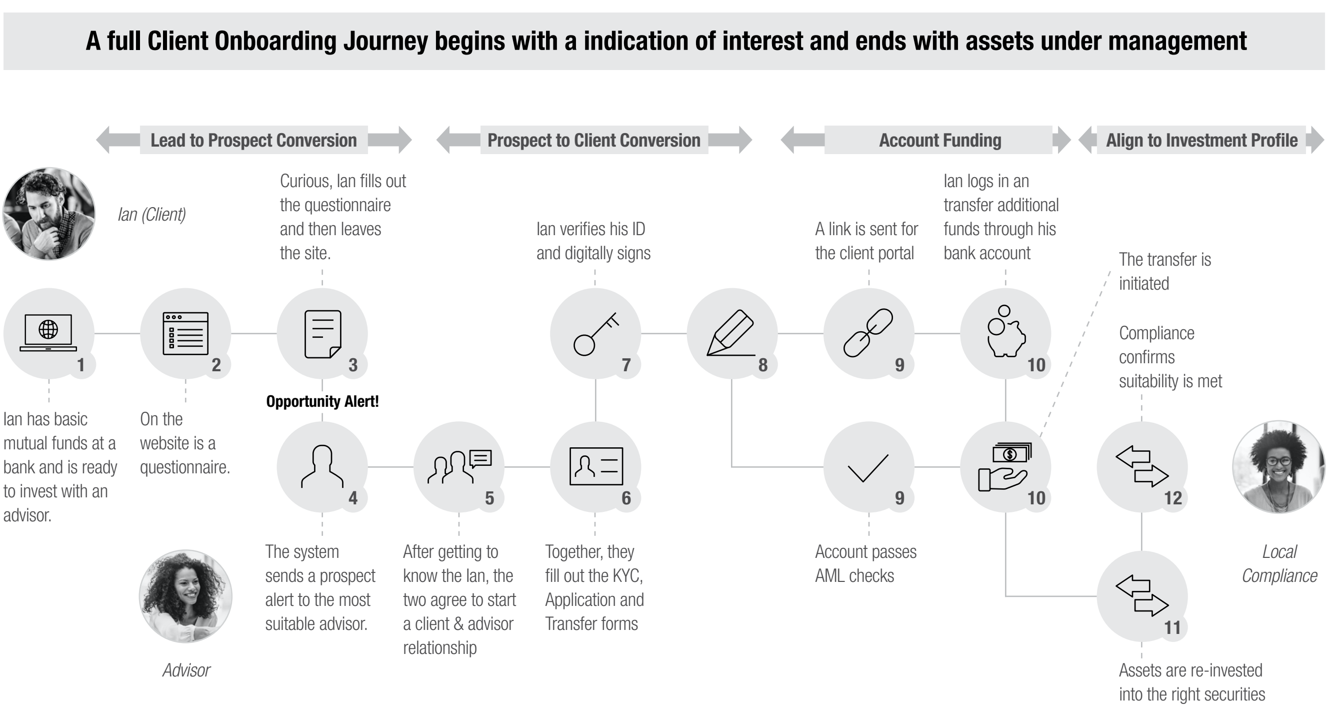
APPROACH TO ACHIEVING A MORE INTEGRATED ECOSYSTEM

Firms looking to find solutions that meet the needs of all layers of an organization need to align with the following four key principles:

1) FOCUS ON THE END-TO-END JOURNEY

Amid assessing how to integrate the systems within an organization best, the sight of an end-to-end journey should not be lost. Processes such as account open and transfers of assets are important to the clients, advisors, and back-office teams. Rather than building back-office or front-office automation components, organizations should be envisioning building a solution that takes the client's request from the very first step (i.e., a conversation with the advisor or an inquiry on a website) to the actual execution and exchange of the money transaction in the back end. Solutions should allow a client to see an in-session account open process that does not require a visit to the advisor's office nor manual paperwork. For transfers of assets, organizations should seek to create a solution with validations, warnings, and informational messages to steer an advisor to properly capture and submit the request, while the back-end automation takes care of submitting the request to the delivering organization seamlessly. Finally, advisors need to be notified when assets arrive to make the necessary changes to align with the client's investment profile. This is all to be accompanied by transparent status tracking and notifications for all parties.

Figure 2 – Client Onboarding Journey



2) MODULARIZE THE ORGANIZATION'S PROCESSES INTO FUNCTIONAL BLOCKS OR COMPONENTS

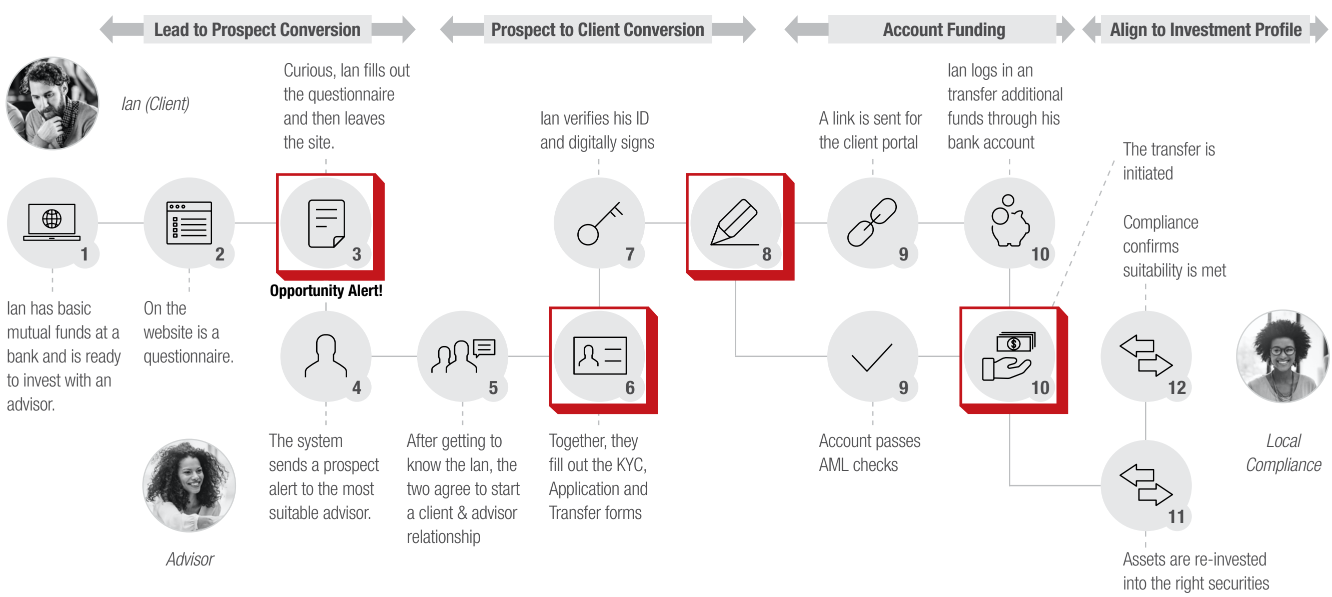
When a firm undertakes an integration project, it will inevitably bring forth unique challenges, depending on its existing technology stack. As the number of systems grows, so do the complexities that arise with integrating them. Therefore, it has become imperative for organizations to manage project complexities by modularizing key processes into functional blocks. A functional block is a self-contained, re-usable component from which business solutions are built. The block has specific goals, with well-defined inputs, outputs, and business rules for use. A key aspect of the functional block involves changing its purpose using pre-built points of configurability. These points allow functional blocks to be customized for various uses. Please refer to figure three below.

The journey of onboarding a client can be split into small re-usable components so that they can be shared across other journeys. Some examples are:

- In steps three and six of the journey, the client is filling out a form. While the data captured may be different from form to form, the act of collecting data, inputting it onto a form, validating the data, and then submitting it is common. The process is the same and thus re-usable, while the scenarios in the form can vary.
- In step eight of the journey, the client is electronically signing the form. Similarly, in the example discussed above, the rules and experience associated with eSignatures are common. They can be shared regardless of whether they were initiated through a client onboarding journey or a contract negotiation journey.
- In step ten of the journey, the client is submitting a transfer request. In this case, the process of submitting, fulfilling and monitoring is common regardless of whether the transaction is a transfer, a trade, or an address change. Having a common infrastructure to support the same overarching process can accelerate the implementation of net new transaction types.

Figure 3 – Modularized blocks highlighted in the journey

A full Client Onboarding Journey begins with a indication of interest and ends with assets under management



3) CENTRALIZE BUSINESS RULES

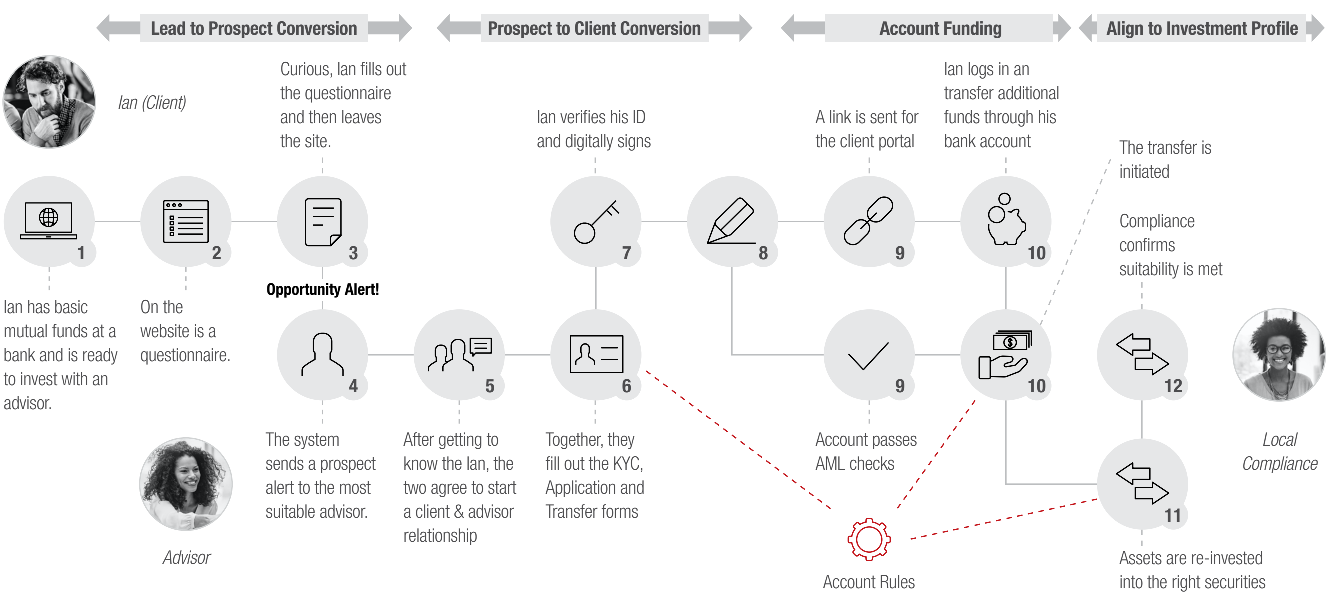
Consolidating business rules in one centralized location is not only good data governance, but it also gives organizations the flexibility to respond to changing market conditions instantaneously. The rules stored in a single repository can be configured centrally and fed to all upstream and downstream systems. By removing the need to update rules in multiple locations, firms can streamline their processes and thus claim the first-mover advantage over their competitors.

In the case of an account open request, the centralization of account rules results in leveraging all, or a subset, of those same rules when opening accounts, transferring assets and trading securities. For example, take the scenario where an account rule indicates that only certain products are allowed to be traded or held in the account. These rules are set during the account open request and are used during transfer and trading. This need for flexibility has become more prominent during the COVID-19 pandemic. As with many other industries, wealth managers have been forced to overhaul their services almost overnight due to COVID-19 ramifications. The TSX Composite Index fell ~60 percent between February 20, 2020 (17,994.06) and March 23, 2020 (11,228.49), leading to large-scale withdrawals during the early days of the pandemic.[2] Naturally, wealth managers were required to adapt to these changing circumstances.

Mark Noble, executive vice president of ETF Strategy with Horizons ETF Management (Canada) Inc. claims most high-margin/high-risk products that firms were about to launch could potentially be shelved for a future date and replace those with low-margin/low-risk options.[3] This allows clients to switch out of highly volatile investment products into safer options for capital preservation purposes. Alternatively, there remains a customer base segment, which prefers to take advantage of market volatility to reap benefits. New Jersey-based ETF provider ETF Managers Group LLC recently launched a biotech ETF (GERM.NV) to track companies testing vaccines and treatments for infectious diseases.[4]

Figure 4 – Centralized business rules and where they are triggered throughout the journey

A full Client Onboarding Journey begins with a indication of interest and ends with assets under management



2. https://money.tmx.com/en/canadian-markets
3. https://www.investmentexecutive.com/newspaper_/building-products-for-a-different-world/
4. https://etfmg.com/funds/germ/

Having the ability to change the product eligibility rules on an account quickly, firms can develop COVID-19 friendly investments. For example, an account that traditionally does not hold money market funds could be switched to do so so that clients are not forced to liquidate their investments.

In summary, organizations that have adequately integrated and centralized business rules in a single source have the flexibility to reimagine their offerings more rapidly than competitors who must withstand extensive changes to numerous systems for a single product change.

4) CENTRALIZE CAPABILITIES

Investing in a platform with a robust set of capabilities is different from investing in a platform that can integrate with best of breed solutions that specialize in their own distinct set of capabilities. What wealth managers should be focusing on is seeking to utilize flexible platforms that can be easily integrated with existing systems. Ideally, a firm will want to leverage its platform's capabilities, but if the organization wishes to utilize a pre-existing solution that already works, then it should seek to eliminate redundancy in solutions. For example, when a firm already has an eSignature solution in place, they can integrate the capability rather than be forced to use the platform's solution. The benefit of doing so ensures a consistent client experience, regardless of the process. Furthermore, changes can be managed by a centralized group owning the experience around the capability, which results in a one-stop-shop for activities such as system updates, deploys and configurations.

SAMPLE CASE STUDY – "IDEAL EXPERIENCE"

Imagine a large wealth manager who ends up having true transparency into their key end-to-end processes. Based on this manager's many years of experience with manual processes, errors and rejected transactions from other institutions, this wealth manager implemented a platform that enabled them to track their processes from end to end in real-time, shorten their time of converting leads to clients, have a modularized platform that enabled them to grow their inventory of automated processes and centralize their business rules.

When an individual would browse the wealth manager's website, if they decided to leave their email or commenced with opening an account but abandoned the process halfway, a task would be generated for an advisor to follow up on the lead. When an advisor would reach out to the lead, the process of opening the account could re-start. Once all account information was gathered, the forms were sent to the prospect for the e-sign ceremony.

Upon receiving the forms back, the platform triggered a compliance task so that the account could be approved for transactions. When the account is approved, it is ready for transactions. The client commences depositing the money into the account. The deposit triggers a task for an advisor to make investments on behalf of the client based on the pre-agreed upon investment policy. As a result of this task, the advisor logs into the trading system to execute the client trades. In addition to making contributions to the recently opened accounts, the client decided to transfer assets from other firms, triggering a transfer of assets process. Similar to the account open process, the system enforces warnings, error validation and informational messages based on the transfer process in question and a set of business rules associated with the transfer.

Throughout the whole process of account open, the transfer of assets and ultimate re-investing of those assets, the wealth manager can see real-time process statuses both in the front-end for advisors, clients, and the back-end operations employees.

Process transparency is accessible and visible by all stakeholders, providing live updates and statuses, resulting in accuracy and swift providing of products and services to the clients.

Figure 5 – End-to-End Request Management in an Average Wealth Management Firm in Target State

The request is tracked from the very first moment when a prospect is converted to a client, all the way to the last step of the fulfilment. The request never leaves the centralized platform and the platform provides an integrated digital experience for all stakeholders and manages the request end-to-end providing accuracy and STP.

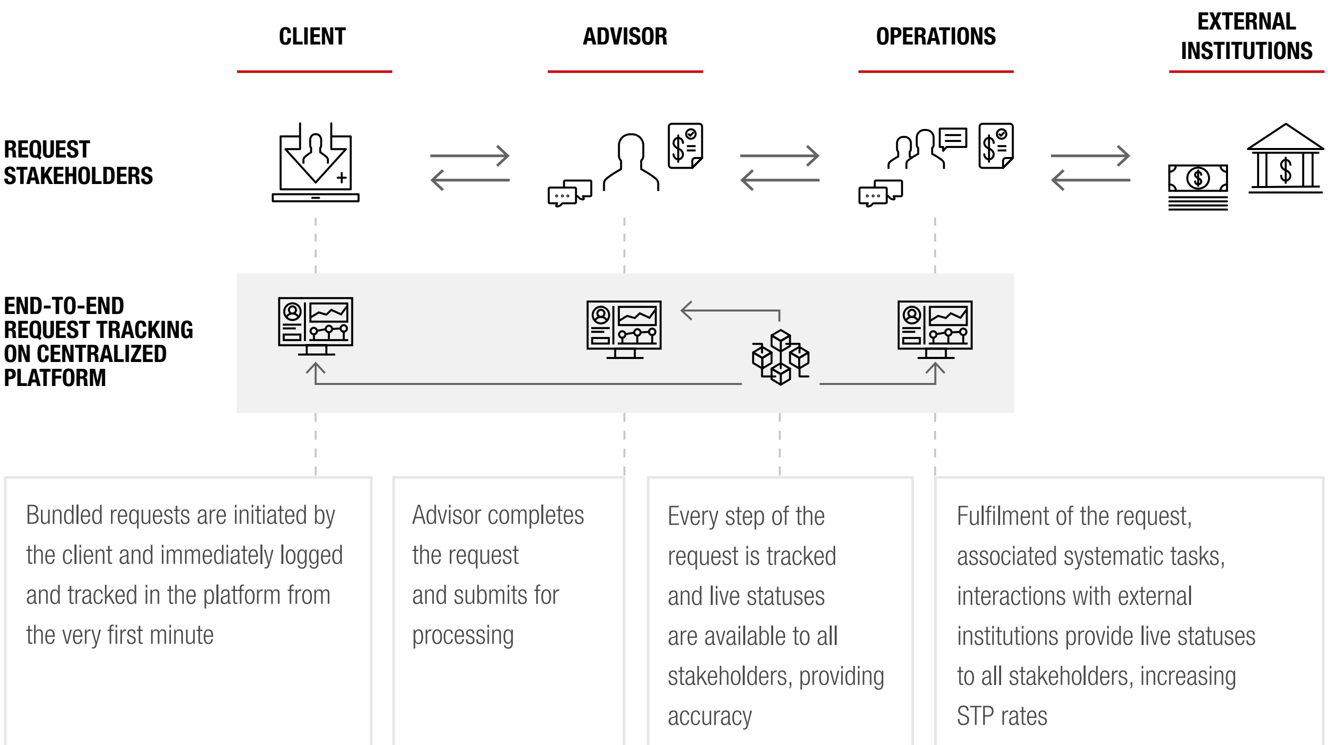


Figure 6 – Key benefits from a modularized platform with end-to-end process transparency

Key Benefits	Wealth Manager	Client
Paperless processes	• Elimination of handwritten forms • A lower percentage of manual processing efforts	• Ability to e-sign documents in person or remotely
Data capture error minimization	• Validation errors, informational and warning messages from authoritative reducing data capture • Lower document rejection instances • Higher STP rates	• Complete the document once before it is ready for processing
Real-time processing	• Automatic account number generation and transfer submission	• Minimizing the time spent
Transparency	• Real-time end-to-end process	• Knowledge and comfort knowing the status of the transaction/process
Omni-channel	• The ability for advisors to commence and resume from multiple devices enhancing communication with the client	• Ability to log into the client portal from any device available
Regulatory checks	• Enhanced UI allowing for accurate information collection with robust business rules validations	• Automated KYC validation completed within minutes
Bulk request processing	• Multiple requests processed at the same time for a single account • Systematic account openings and dissemination of transfers of assets for multiple delivering institutions	• Complete multiple transactions and account openings in one setting • Minimize time spent opening accounts and requesting transfers
Integrated business rules	• Ability to respond to changing market conditions	• Product accessibility

CONCLUSION

As the world is moving towards a more digitally integrated place, end-to-end client-focused digital experiences are key. The "full service" wealth business definition has changed as clients have been forced to do more independently as they try to navigate the non-face-to-face methods of collaboration and consent.

The introduction of Client-Focused Reforms (CFR) in 2019 in the Canadian wealth management industry has introduced new complexities where product mix and the design of pre-packaged products like mutual funds or model portfolios will see major shifts. In addition to knowing their customer, Advisors will be pressured to ensure they also know the products they are selling. High configurability will become the new cutting-edge solution being offered at firms and the only way to keep up is to become agile.

Following the four principles to achieve better end-to-end solutions will enable wealth management firms to respond to future challenges much quicker, more efficiently, and with less cost.

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ABOUT CAPCO

Capco is a global technology and management consultancy dedicated to the financial services industry. Our professionals combine innovative thinking with unrivalled industry knowledge to offer our clients consulting expertise, complex technology and package integration, transformation delivery, and managed services, to move their organizations forward.

Through our collaborative and efficient approach, we help our clients successfully innovate, increase revenue, manage risk and regulatory change, reduce costs, and enhance controls. We specialize primarily in banking, capital markets, wealth and asset management and insurance. We also have an energy consulting practice in the US. We serve our clients from offices in leading financial centers across the Americas, Europe, and Asia Pacific.

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