

Wealth Management *Today's Technology Challenges*



RGS Management Whitepaper

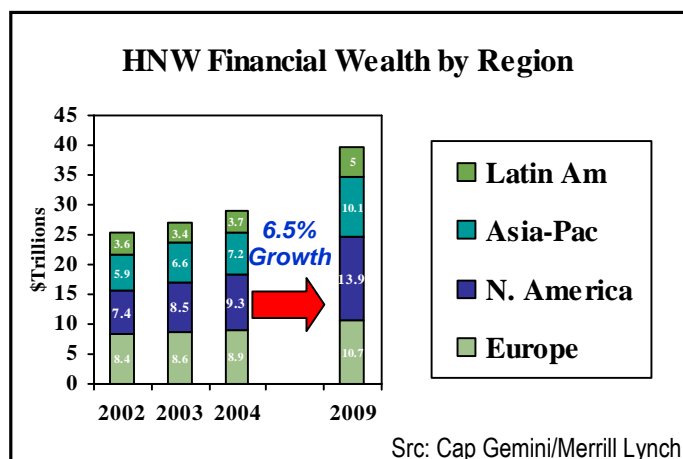
Background

In today's volatile and strained economy, the wealth management and high net worth (HNW) area remains one of the fastest growing segments of financial services worldwide. While HNW management has been traditionally associated with the capital market side of financial services, this is rapidly expanding and evolving as well. As lower tier HNW customers grow their asset base, non capital market companies, including insurance and community banks, are fighting to keep the mind's share and lion's share of their customer's assets. There isn't a financial services institution that wants to abandon this market to a competitor. Why? Because it's highly profitable and indispensable in maintaining growth in this industry.

Wirehouses, independent investment advisors, family offices and mutual funds companies, such as Merrill Lynch (shortly to become part of Bank of America), Morgan Stanley and Fidelity, have long been associated with this service. They frequently have business units with the terms Private Client and Client Advisor in them. These companies have been built from the ground up for this purpose.

Banks, whether international or regional, have addressed this market by forming dedicated business units, frequently known as Private Banking in the larger banks. After the repeal of the 1933 Glass Steagall Act, many banks quickly purchased a brokerage to get started in this business. Citibank's merger with Solomon Smith Barney and UBS' purchase of Paine Webber are typical examples of multinationals going multipurpose. HNW clients get special treatment and perks from the bank to maintain most or all of their assets with them. Lastly, banks are also traditionally perceived as the most trustworthy to maintain your money.

Life insurance companies, such as Nationwide and NY Life, have business units that work with HNW clients to diligently retain assets that



have been bequeathed to beneficiaries for example, often comprising millions of dollars that are tax free. This money would too frequently be transferred to a competitive institution specializing in the HNW market. Financial advisors are now an integral part of the life insurance industry and many of them have licenses to sell stocks, bonds and mutual funds alongside a deferred annuity.

Lastly, the growth numbers indicate that this business is expanding worldwide. The number of HNW individuals is expected to double in the next several years while Assets Under Management (AUM) is growing at nearly 10% in the U.S. and even faster in Asia. HNW clients are global in their thinking and investing, and institutions such as Citi have infused large amounts of capital into technology to improve their position in this market.

HNW is truly a life event based management process, so critical relationship information such as family, children, estate planning, real estate, tax advice, asset allocation, education planning and life insurance are all ingredients in managing HNW clients. Many Ultra-HNW families are creating long term plans in which family members are treated as business divisions and as result many wealth advisors essentially serve as CFO's to these clients.

Business Challenges and Issues

Small and large firms alike have a vested interest to grow their market share and enhance their stature. They must be able to do this while remaining flexible and adaptable to fast-paced and rapidly changing markets and trends. Some of the key challenges that lie ahead for the global wealth management industry include how to:

Enhance Client Relationships – The building of deeper and more valuable relationships will result in greater client satisfaction, retention and loyalty. And spending resources and time on understanding client behavior is time and money well spent.

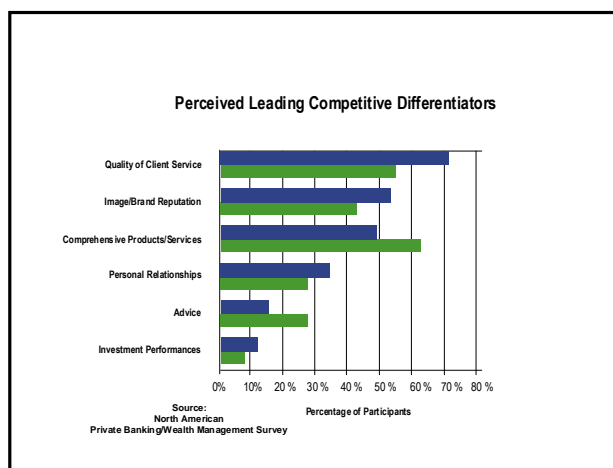
Attract Profitable Clients – One of the primary ways to build a profitable clientele is through referrals. Some of your more highly satisfied clients typically serve as a conduit to attract

new relationships. However, often only a small percentage of your clients actually provide or agree to be a referral source. The best client managers frequently get 70 – 80% of their most profitable new customers through the referrals, while other HNW client managers settle for 30 – 40%, believing that is good enough.

Cultivate Intergenerational Wealth – Another important investment lifecycle demographic includes the ability to chart a course for multiple family members, especially those families in the \$5 - \$30 million asset range where inheritance, estate management and trusts play a key role in nurturing wealth spread over several generations.

Create Value-Add Services – The clear winners are the investment advisors that can translate client needs into relevant services and products that meet those demands. In addition, those wealth managers that are perceived as offering independent advice and products will go even further with developing client loyalty.

Build an Effective and Efficient Support Structure – True to form, your team and your business support structure can represent a differentiating factor with your client base. Your business infrastructure should organizationally reflect the types of clients that you maintain. While most HNW clients are generally high-touch, high-maintenance, the question is how to optimize the capabilities of your team while matching the technology delivery and management systems to your clients' needs and demands.



So across the boundaries of investment management, there lie these and many other challenges, including how to:

- Effectively Serve the Mass Affluent Market
- Integrate a Global Approach to Client Management
- Deliver a Wide Variety of Third Party Products While Maintaining Profitability
- Provide Services Across Different Channels
- Aggregate holdings across all institutions

These and many others are the business challenges facing a growing and demanding market.

Technology Challenges and Issues

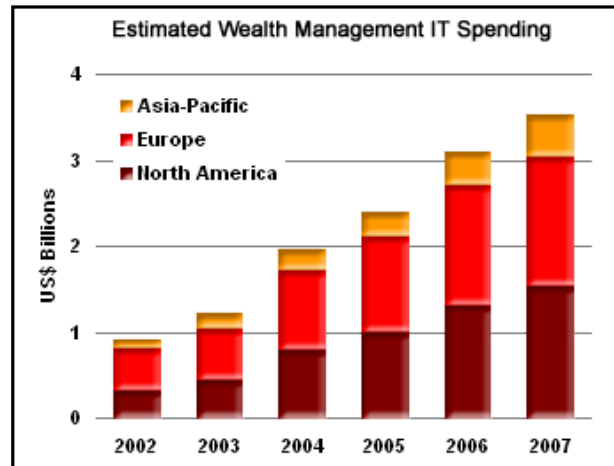
Given the intensity and diversity of this business, the need for innovative and effective technology is increasing beyond the capabilities of many of this area's traditional suppliers. In fact, as you dig deeper into many of the technology offerings that are available now, some of them are clearly outdated in their attempt to meet the needs of this demanding segment.

As we push the capabilities for the HNW client, some of the obvious technology challenges include how to:

- Obtain a clear, accurate and up to the minute picture of holdings across multiple accounts and institutions, whether in-country or out.
- Present this information in way that helps both the client and advisor understand and collaborate on where holdings are located, managed and maintained.
- Deliver key elements of this picture to their corresponding constituents at the time and by the means that is most appropriate to them (in person by paper, over the fax or over the Internet, by mobile technology, etc.)

- Provide a consistently clear and deeper understanding of your clients' demographics, psychographics, behavior and needs

- Match products and services that consistently meet the demanding requirements of the HNW client, while tracking profitability by product and service for both the advisor and advisor's management



Src: Cap Gemini/Merrill Lynch

- Create an environment that scales to meet the needs of many customers while uniquely satisfying individual requirements
- Integrate key elements of compliance that satisfy the demands of this highly regulated industry.

In short, the requirements of this industry are evolving rapidly to encompass complex demands that cannot be delivered in traditional ways. Therefore, first and foremost, technology must deliver on conveying fundamental value, to the advisor and to the client. As we have been indicating, the primary objective of this value promise needs to be linked to the highly personal nature of this business. Thus technology must support the goal of enhancing personal touch, not detracting from it, as it so often has done.

Second, to grow the business profitably, this goal of personalization must be coupled with a highly scalable and efficient middle and back office. From risk to reconciliation, from compliance to settlement, the various business functions of wealth management must be brought together in a cohesive and coherent whole.

Those are just some of the challenges and issues from a technology perspective. From this point, we explore some possible innovative approaches to bringing solutions to these issues.

Wealth Management from RGS Management

At RGS Management, we see that HNW management consists of several business technology capabilities including the integration and management of:

- 1) Customer data and client information
- 2) Portfolio and performance reports
- 3) Customer relationships information
- 4) Compliance
- 5) And data presentation and user experiences

Rather than force-fit a wealth manager, large or small, into a one-size fits all software solution, RGS Management provides a customizable set of solutions and an architecture based on today's industry standards. This includes a technical processing and analytical engine, a search engine, and a supplier of aggregated financial data which is custom tailored by client. These primary components are then architected to present and deliver client position and performance reports, as well holdings and transactions to both the investment advisor and client. In addition, clients can look at their holdings through a secure family hierarchy window.

With this in mind, clients and investment advisors can order up views of their performance and risk in near real-time and engage in deeper exploration of portfolio and asset information. Managers and marketing directors who are behind the scenes of the investment advisor can look across multiple investment advisors and clients to understand products acquired, and customer behavior and profitability metrics. In summary, investment advisors can now obtain the 360 degree view of their clients' holdings across institutions, while better understanding their behavior and likelihood to purchase a certain financial

product. At the same time, clients can visualize their holdings across the spectrum of family members while allowing individual control by member.

Summary

As the world shrinks and capitalism becomes the economic standard around the globe, many more individuals and families are looking to the wealth management industry to protect and grow their assets. And the growth of high net worth is not only coming from North America and Europe, but from Brazil and Latin America and from many parts of Asia and the Mideast.

In such an environment, the 21st century financial manager, investment advisor and family office are required to meet many challenges, from potential new competitors to probable additional regulatory controls. Having a flexible and robust technology architecture will be one of the keys to your success.

**For further consultation, contact RGS Management Corp.
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