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September 28, 2009

Operational Efficiency More Urgent For Wealth Industry Recovery Says Industry Luminaries

Wendy Spires Deputy Editor

Operational efficiency will be more important than ever as the wealth management industry recovers from the effects of the financial crisis and firms position themselves for growth, according to speakers at a recent briefing in London.

Wealth management firms' margins are under pressure as a result of the credit crisis, not least because of reduced assets under management; costs need to be reduced, while service levels need to be maintained, if not improved, in an increasingly competitive environment.

Wealth managers face a formidable challenge, but also considerable opportunities to improve cost effectiveness and operational agility, as was agreed by those attending "Operational Efficiency & The Bottom Line" - a breakfast briefing hosted by *WealthBriefing* and ERI Banking Software.

The potential for operational efficiency to improve was made clear by some striking statistics emerging from the briefing. According to Andy Hogan, a director in the Performance Improvement Consulting team at PricewaterhouseCoopers, "client relationship managers spend 40 per cent of their time on contacting and servicing existing clients, and 16 per cent on error resolution and administration." This leaves CRMs spending just some 16 per cent of their time prospecting for new clients, PwC's private banking and wealth management survey found, Mr Hogan said.

The proportion of CRMs' time spent on administrative tasks could even be as high 25 per cent, according to Steve Dyson, managing director of Steve Dyson Associates. These statistics indicate that there are serious savings to be made at many firms, as according to Mr Hogan, "at least 10-20 per cent of firms' cost base is yet to come out of their platforms." Fragmented or outdated legacy systems are a drain on a number of businesses, the speakers concurred, and there are huge benefits to be had through increased automation, and the eradication of duplication and errors.

But improved operations can deliver more than just cost and time savings, and will be a key differentiator between firms, according to the briefing's speakers. As a result of the financial crisis, a wealth manager's size is no longer a guarantee of success, and we now have a climate where "pre-eminent names can disappear" overnight, said Ian Woodhouse, a leading independent wealth management consultant. Clients' trust in their managers has been eroded, but one of the briefing's key themes was that improved operations can be a powerful means of rebuilding this trust.

As Mark Lillie of Bank of America/Merrill Lynch pointed out, “particularly in the high net worth area, service quality is key”, and the need to improve client reporting was unanimously held to be a priority for the wealth management industry. The financial crisis has meant that clients are now more sophisticated – and risk aware – than ever. As Mr Hogan noted, “transparency is a theme which arises again and again” and clients are now demanding more granular reporting. Timely, in-depth and accurate reporting is a weighty concern, and operations will play a key role in providing what clients, and importantly regulators, want.

While the consensus seems to be that the wealth management industry will not return to pre-crisis levels of financial health for another three years, speakers at the briefing urged firms to position themselves for growth as the recovery kicks in.

Mr Woodhouse highlighted the increased importance of having a more flexible operational model to achieve a cost/income ratio of 65 per cent or less in sharp contrast to inflexible models with cost/income ratios of 80 per cent or more. Future winners would have greater clarity of their target operating model which would also be better aligned with the business goals, he said.

While making huge investments in new technology is simply unfeasible for many firms at the moment, the consensus at the briefing was that improvements to operational efficiency simply cannot be ignored. As BoA/Merrill Lynch’s Mr Lillie pointed out, “operations are both cost and revenue orientated”, and as the wealth management industry recovers, operational efficiency will determine which firms emerge as winners.

In the words of Jean-Pierre Flais, deputy chief executive of SG Hambros, “there is no magic formula”, but a scaleable platform that’s positioned for growth should be a priority for chief operating officers across the industry.