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WEALTH AND THE CROWD

Building a sophisticated and nuanced model for serving the broader wealth spectrum

By Sanjay Marwaha
Client Partner,
Securities and Capital Markets

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Introduction

It has long been accepted that the private banking and wealth management space is changing. Over the past few years, financial uncertainty and the explosion of regulatory reforms has had an increasing effect on the investment appetite of the market. Market forces have no favorites; the crisis has hurt everyone – no matter the size of their wallet. With this, motivations for personal investment have also changed: the industry has moved from 'wealth creation and development' to a more 'wealth assurance' bias.

The competitive landscape has not stood still either. Money managers are springing up every week with innovative, low overhead models that are forcing the traditional stalwarts into unfamiliar territory. Given the market and economic pressures, wealth managers are forced to go where the business is. If one cannot service the narrow segment, then the next option is to service a broader base. Therein lies the rub, the traditionally narrow yet deep model is unsustainable for a large customer base. In these changing times, technology and automation become the enabler.

Moving forward, a traditional business optimization approach may not be sufficient. As wealth managers are unfamiliar with the environment, they are also unprepared for the dynamic changes to their customer base. A customer-centric approach will enable a multi-faceted adoption of high-impact technologies that integrate with the lives of these new investors.

This paper explores some of the thinking required to follow and change the investor community. True success will come from understanding 'The Crowd'.

Who is in the Crowd?

Traditionally, advisors have sought ultra-high-net-worth (UHNW) and high-net-worth (HNW) individuals; those with investable worth of approximately $25million and $1million, respectively. Heightened competition and scarcity of investable funds have forced a broadening of horizons to include the Mass Affluent (MA) and Young Affluent (YA) groups. To be sure, the assets, and subsequent profits, from each group would be far less; however, when one factors in their business over time, an interesting picture arises.

Wealth mobility has rarely been a topic of interest for advisors. The top and bottom of the spectrum hardly see much movement; the rich tend to remain fairly rich whereas those of more modest means have limited opportunities to significantly increase their wealth. The MA and YA groups show heightened wealth mobility and, over time, successful individuals will move into the HNW or UHNW group. Curiously, these groups also exhibit similarly disruptive investment ambition, which makes their interest in aggressive products and strategies greater.

Assets are not the only driver for understanding the crowd. Age is a major factor in determining how one addresses the changing demographics of the investor space. By definition, the YA group is early in their wealth cycle and shows considerable potential for the future. MA customers, although less dynamic, may also be seen to be on a journey, albeit a multi-generation one, towards entering the HNW group. Lastly, one must not forget that UHNW and HNW individuals will also spawn the MA and YA investors of the future as they expire.

The crowd is a much larger, diverse group than wealth managers are used to. It grows by drawing from the broader wealth spectrum or from younger potential customers; and swells more as the familial picture becomes important for long-term business growth.

What is the Crowd up to?

Considering some of the parameters by which HNW customers are traditionally understood, some interesting trends are beginning to emerge. All of the traditional measures - wealth, business category, profession, spouse and offspring, portfolio composition and regulatory data are showing increasingly rapid change.

A customer's 'Spouse and Offspring' is one area where a growing number of younger customers are adopting non-traditional

> "Over the past three years, Celent has seen significant change in digital technology. Wealth managers are adopting different approaches to digital based offerings depending on the needs of their clients and their objectives. The self-directed market has been the most active on developing the mobile and social channels for investors, but full service firms are also embracing these channels and seeing the benefits they can bring."
>
> Isabella Fonseca,
> Research Director, Securities & Investments, Celent

lifestyles such as remaining single for longer, starting families later, adopting a child, choosing a domestic partnership or even being more open about same-sex relationships in light of recent legal and political changes around the world.

Crowd customers have also shown more investment conscience with respect to their portfolio composition. Greater demands are being placed upon advisors to be more aware of corporate stocks that demonstrate negative social qualities.

The world continues to shrink and as a result leads to an increase in investor diversity. Many more entry-level customers originate from overseas, or perhaps have multiple homes, or even a dual citizenship and indeed may have 'non-domestic' status across multiple jurisdictions. Recent regulatory changes demand greater reporting transparency with respect to international holdings, making monitoring of such data paramount in the regulatory 'new normal'.

These are only a few examples but the key question remains: how ready are wealth managers to succeed in the face of such change? The cold data tells only half the story. To effectively gain an advantage in the crowd, a deeper understanding of the way in which they live their lives is required. **Figure 1** displays some very interesting indicative statistics affecting the investor spectrum.

Today, one sees that the use of social media, ownership of smartphones, and adoption of mobile financial apps taper off as one moves up the age spectrum. This trend remains fairly constant even in the world of wealth management. Thus, a traditional wealth management firm will be ill suited to fit with the lifestyle of the younger customer.

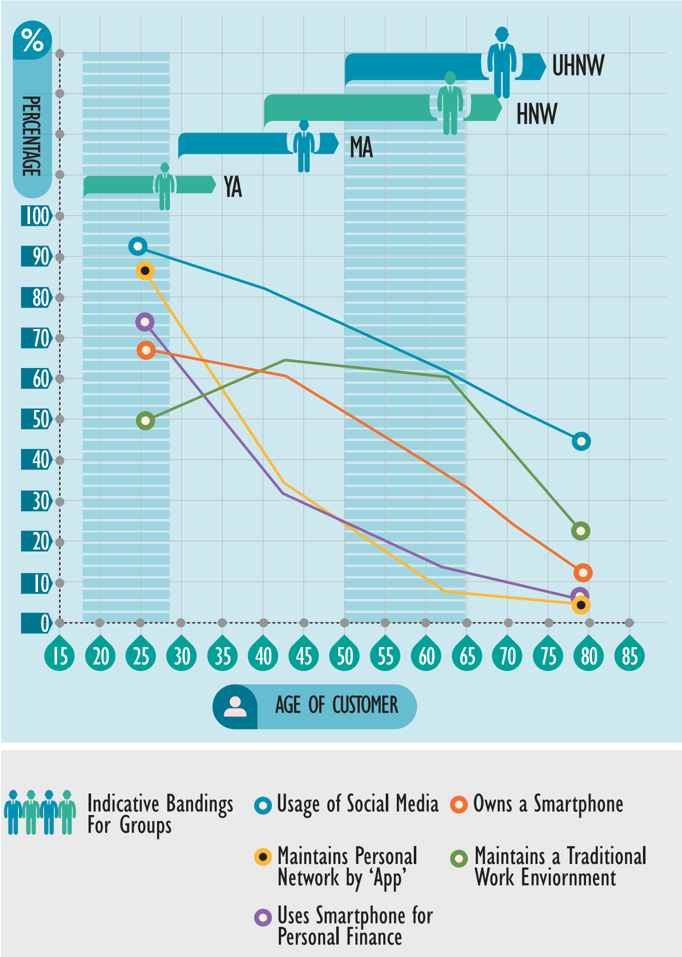

Figure 1 | Demographic statistics affecting the investor spectrum

Examining data around 'traditional work environments' reveals another interesting trend. In the 35-60 year old spectrum, most professional customers maintain an office or place of work. For older customers, this drops off rapidly as they retire but increasingly the younger professional in the new world economy is more mobile and is starting to shy away from having a defined place of work. This trend is likely to continue, which may prove concerning for managers who have immature or non-existent mobile capability.

Figure 2 highlights some interesting information around how investment managers communicate with their clients and the current out-of-phase approach to the crowd.

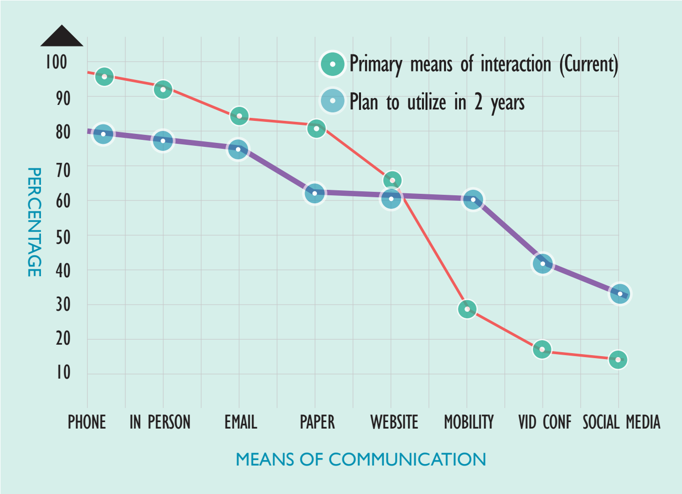

Figure 2 | Means of interaction between wealth managers and their clients

Again, there is nothing too ground breaking in the data, however, there are some interesting conclusions that one may draw. At present, wealth managers have still not embraced social media and mobility. Strangely, even though the industry seems to have accepted that these channels are critical to future success, the adoption over a two year timeline is not very high; particularly when one considers that estimates for the future usually run higher than delivered results.

Research on the adoption of video conferencing suggests that the continuing increase of use is almost wholly attributable to mobile phones. The proliferation of smartphones with in-built cameras and the use of apps such as Facetime or Skype have meant that mobility is not just a conduit to access websites; but the features of these devices will drive future usability and lifestyle. Interestingly, the connection between mobility and video conferencing is not highlighted in many of the strategic plans for wealth managers.

A closer and final look at **Figure 2** shows that a majority of the list is point-to-point communications. Mobility and social media introduce concepts that are at odds with the typical wealth management firm. The first is actually a platform, signaling a need to change the inherent understanding of everything that is done with regards to the mobile phenomenon. The second is a true channel, providing the means to communicate with a wider customer base, which is both an opportunity and a threat for the business.

Barriers to success in the Crowd

Adopting a successful model for the crowd is far easier said than done. A voyage of consolidation must be embarked upon before any mobile or social media program may prove successful. Some of the common failings of the wealth management enterprise are examined below.

The most common challenge for investment management firms is their use of Client Relationship Management (CRM) software. Typically, they are using a dated platform that has not been successfully adopted by their own advisors. This has led to patchy client data retention, unpredictable performance across client service teams and inaccurate client profile data. Many wealth managers are in the process of moving, or planning to move, to a next generation CRM system that will enable cross-channel integration and collation of vast amounts of client data.

Data complexity continues to plague wealth managers as their book of business has grown over time. As new product and service streams have been adopted, new data structures and data-marts have sprung up to meet these complex functional needs. However, little thought has been given to how the big-picture will shape up.

As systemic and data complexity has grown, so too has process inefficiency. Tribal knowledge and power fiefdoms are likely to have grown over time, feeding off the lack of adoption of CRM tools or the inconsistency of client data. As data and tools are transformed, a process reengineering exercise should yield significant savings of time and money.

The Four R's of the Crowd

Although views differ as to the exact number and composition of the principles of successful wealth management, to simplify matters only four competencies are referred, which are the four R's of Reputation, Relationship, Reporting and Routes.

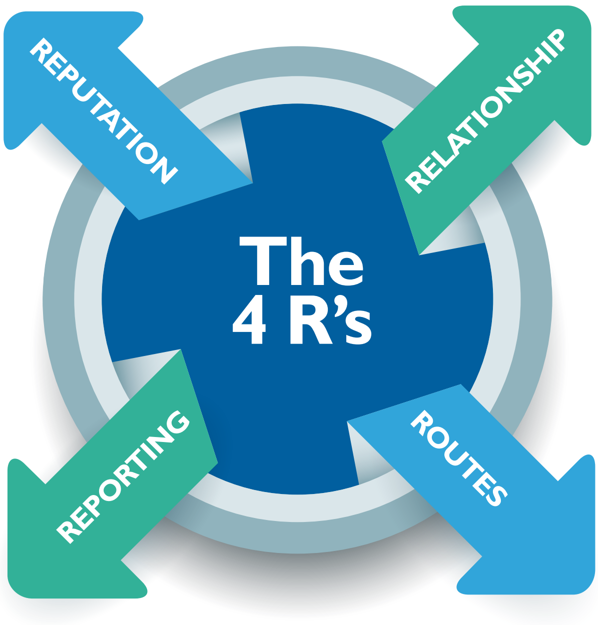

Figure 3 | The Four Competencies of Success in the crowd-centric model

Reputation - the perception of the firm by an interested potential client base; the fit of the firm to a specific rung on the wealth ladder; the success of the products and strategies.

Relationship - the depth of the advisor-client trust; the responsiveness of the firm to client needs; the insights about the client's lifestyle and concerns.

Reporting - the readiness of access to data; the confidence in a truly integrated, single-source of data; the adherence to modern reporting techniques leading to ease of understanding.

Routes - the number of channels a client may access their information from; the completeness and speed of each channel; the flexibility of the advisor to meet a customer on their terms.

Ten years ago, many industry consultants were stipulating a model whereby UHNW and HNW customers would only be interested in the personal touch. Mass Affluent customers would look for a combination of personal touch and technology enabled service while the Young Affluent customers would be all about the technology. The model has certainly evolved and it is now obvious that technology is blurring lines; not only in terms of the choice of channel but also in terms of how it enables the business.

REPUTATION

In the crowd-centric world, one's reputation is tied even more closely to the sentiment of a significantly wider audience than before. As a vast number of interactions take place at any given moment; the key question is how aware is the firm of their brand in real-time? Social Media Monitoring is one of the avenues by which wealth managers can achieve this but it would require breaking the approach into three streams:

General Brand Sentiment - A suitable implementation of a big-data tool that constantly trawls social media looking for use of the brand identity. The general sentiment attached to the brand on a calibrated scale would then be determined. The numerous data-points associated with the entire customer base may prove very useful in understanding brand positioning as compared to the competition, in the context of new product launches, performance in the public eye and any loss of service or crisis.

Customer Issue Handling - In combination with a Social Media Action Center, a firm will be able to track specific issues, communicate directly with customers, notify advisors and head-off flash points. Experience shows that customer satisfaction on a Net Promoter Score (NPS) scale is significantly increased when proactive resolutions are employed.

New Customer Acquisition - An extended use of monitoring techniques would be to identify negative sentiment relating to the competition. At a macro level, such analysis may lead to strategic advantage. At the micro level, individually unhappy prospects may be identified for approach.

An important facet of maintaining one's reputation remains security. Enabling customers and advisors on mobile and social media channels brings inherent issues with respect to data security, privacy and credibility. A deliberate and considered approach is required to manage this thin line of security wherein too much security will detract from the experience and frustrate customers; while, too little security doesn't bear talking about.

RELATIONSHIP

Driving a successful relationship is certainly the most important facet of success; and as such is the lever most frequently pulled. Unfortunately, it is too often pulled in haste. This is one lesson to be learnt from early adopting industries such as retail banking. Currently, most large banks are in their second or third generation of mobile enablement, having already deployed mobile websites, native apps and hybrid environments. More than the choice of technology, successful mobility strategies employ two main themes: easy-to-learn navigation (User Experience) and customizable function-sets (Personalization). For the wealth manager, the idea of providing access based upon profiles is an excellent way of ensuring a suitably function-rich environment for the user while keeping the application simple.

Though not the topic of this paper, there are some interesting uses for deep data analytics when employed with customer information. By looking closely at large volumes of investment data alongside the customer behavior data stored in a CRM system, the following value-additions may be employed:

Recommendations - Client intelligence sheets that give interesting activity suggestions to the customer. The tools capable of doing this can create the sheets automatically in full English syntax and provide the customer with close to 'personal touch' service without the overhead of personnel.

Next-Best-Interaction - Suggestions to advisors and outbound client service personnel for selecting the course of greatest success for investment decisions or product offerings. These suggestions are based on internal performance data gathered across the firm with respect to the customer profile information.

For the crowd, a relationship with their wealth manager is less likely to be dependent on personal touch and more likely to be based on the quality of the intelligence they receive, the speed of response they get and how proactive the firm can be. Much of that will be dependent upon the quality of the personal information that the firm keeps on its customers. While this translates to the need for good CRM systems, document management, and so on; it also requires soliciting the best practices advisors already employ and automating them into the in-house systems.

REPORTING

For the traditional investment customer, wealth managers would deem absolute performance as the key performance indicator; usually to the detriment of everything else. The crowd, although still looking for strong returns, is more technologically savvy and resides in an accelerating world, which means:

Real-time Reporting - Portfolio performance data with very little latency that enables rapid decision making and that can be accessed at any time, on any device.

Visualization - Seamless representation of reports across a laptop, mobile phone, or a tablet. Some of the more advanced analytics tools in the industry - Opera, IBM, SAS, to name a few have stunning visual representations of portfolio data that enable the customer with deep drill down capabilities.

ROUTES

In almost all cases, people experience retail banking before private banking and it is the big banks that set the bar. The figure below depicts an approximation of the channels leveraged across the wealth management spectrum.

Banks will traditionally look at six channels: branches, ATMs, call centers, web, mobile and social media. Retail investment houses are not that dissimilar. Fidelity Investments, Charles Schwab, and T. Rowe Price all have store locations and instead of ATMs they have kiosks in those stores.

From a technical perspective, servicing all of these channels is relatively simple but may require a change in mindset for firms more traditionally working with HNW clients:

Self-Service - Crowd customers are impatient and technically astute. The firm will need to furnish customers with the ability to perform increasingly complex functions without delay and without the intervention of a company representative.

Start here, Finish Anywhere - Each customer will likely own a phone, a laptop, and a tablet. Firms need to ensure that customers can start their enquiries on one platform and have it seamlessly ported to another device.

Build once, deploy many - By consolidating development tools, a firm will become nimble enough to meet the ever changing needs of the crowd customer. Deployments across channels should be 'built once, deployed to many', speeding the time to market and decreasing the effort to support customers' devices.

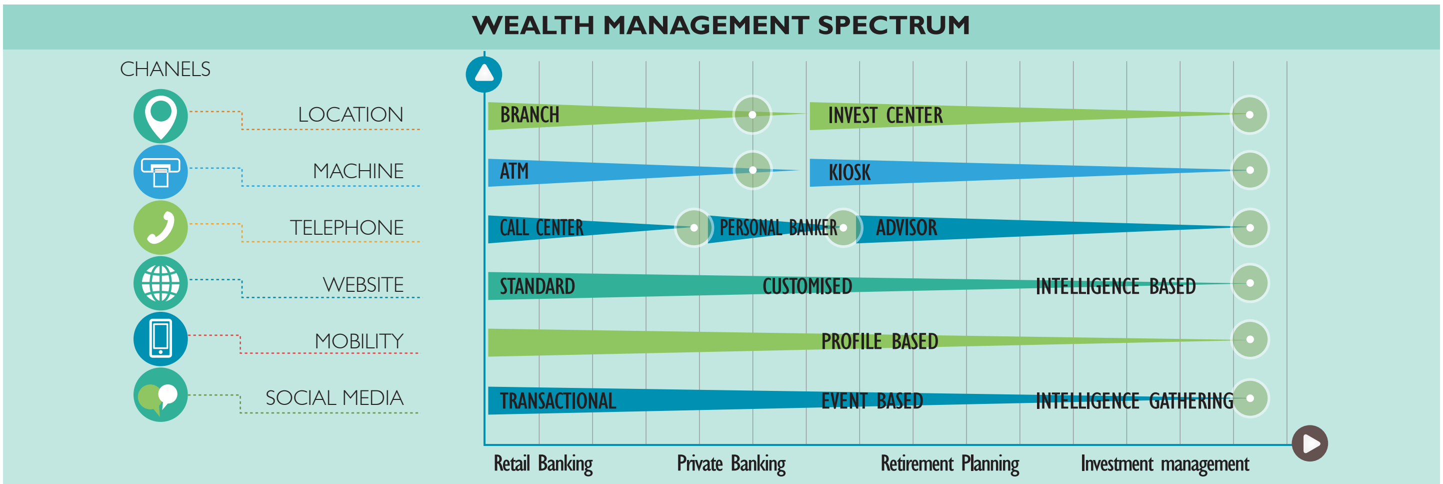

Figure 4 | Differing channels across wealth management

Winning over the Crowd

The ubiquitous use of mobile devices has been seen for quite some time. In recent years, wealth managers have adopted different approaches based upon whether they felt the phenomenon was applicable to an investor scenario, or whether individuals would allow such a channel to govern their money, or whether mobility would push traditional web access aside. It can now be said that all investors from YA to UHNW will have the need for full multi-channel offerings. Further, it is not just the quantity but the quality of each channel that will decide the winners from the losers.

Social media should be viewed as an uncommon opportunity to tune business to the lifestyles, needs and desires of the growing client base. The medium is all about the richness of data that can be farmed; data in the public domain and data that wealth managers hold about their customers. Truly, the pulse of the crowd is in the network.

Finally, it is seen that too many firms are racing to embrace mobility and social media without examining their frailties in enterprise technologies. Fixing data, implementing and adopting strong customer relationship management systems and cleaning up business processes should be the highest priorities. These changes will not only serve wealth managers as they move to their 'new normal' but will also aid them with intelligent decision making and insights in their traditional businesses.

About the Author

Sanjay Marwaha is a client relationship executive for Wipro Technologies' Securities and Capital Markets business and a specialist in managing Asset and Wealth Management clients. He can be contacted at: sanjay.marwaha1@wipro.com

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