Digital disruption and the game-changing role of technology in global wealth management

IT in Wealth Management 2015
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Welcome

Wealth management is changing. Multiple forces such as tighter regulation, fast-paced customer demands, market shifts, unconventional foes and disruptive technologies are creating a new playing field for wealth managers.

Within this new playing field, the role of technology is shifting. Technology has always been at the heart of how wealth managers do business. In the past, wealth managers have targeted their investments at the back office, driving efficiencies and cost reductions. The emergence of digital technologies for delivering services is forcing wealth managers to invest in their front-office digital capabilities or run the risk of falling behind. The digitization of the wealth management value chain and the increasing use of mobile devices for doing business is making it easier for new entrants to challenge the status quo and exploit areas of dissatisfaction and underinvestment.

This much is certain: wealth managers are left with no choice but to strategically invest in their IT. These IT investments are needed to modernize core banking platforms built around legacy technology and to improve the client experience through digital capabilities. The multiplication of channels for doing business will require larger outlays on technology than in the past.

In this edition of the report, we focus on the following four questions:

• What are the key digital technologies that are disrupting the value chain and how will these technologies shape the future of wealth management?

• How can wealth managers maximize the value they see from their technology investments?

• How can wealth managers smartly modernize their legacy core banking platforms, either through wholesale replacement or tactical improvements?

• What operating model for IT is required to compete in the digital economy?

The smart application of technology is turning into a source of competitive advantage, providing ample opportunity to level the playing field and to leap-frog the competition, for those that are prepared. We expect IT to take on a much more leading role in driving business change towards digitization.

We would welcome the opportunity to meet with you personally to discuss your needs and deliver individual insights. Please get in touch with us (see the list of contacts at the end of this report) or visit us at www.ey.com/wealthITsurvey for more information.
Executive summary

This report presents the findings of a comprehensive research initiative on the state of technology within wealth management. The report’s purpose is to analyze the role of technology within the industry and to consider how wealth managers can best strengthen their performance through the smart application of technology.

With the onset of digital technologies such as mobile, social, analytics and the cloud, the importance of technology for wealth managers is expanding. The competitive dynamics between wealth managers will increasingly be played out by leveraging technology to create advantages.

The report is presented in four chapters:

• Chapter 1 introduces the digital technologies that will enhance and redefine how relationships with clients are upheld and how business transactions are conducted. With the onset of these technologies, three emerging business trends in wealth management are presented.

• Chapter 2 reviews the IT performance of wealth managers across three wealth management hubs: Switzerland, Luxembourg and Singapore. Our benchmark captures the relative business performance against several technology parameters such as IT cost, IT architecture, staffing levels and sourcing models.

• Chapter 3 presents the state of core banking systems in the industry. Wealth managers feel encumbered by their overly complex IT legacy infrastructures. They are taking different routes to modernize their core banking architectures and achieve new levels of performance.

• Chapter 4 describes how existing IT operating models need to evolve in order to meet fast-paced business needs and accelerate technological innovation. With IT outsourcing increasingly prevalent in the industry to achieve economies of scale, wealth managers need to equip their retained IT organizations with strategic capabilities in order to capture the full benefit of IT outsourcing.
The main findings of the report are as follows:

1. **Digital technologies such as mobile, social, analytics and the cloud are rapidly converging on the wealth management industry.** These technologies will fundamentally shape client value propositions and operating models of wealth managers in the years to come.
   - The digitization of the wealth management value chain provides opportunities to create revenue uplift and lower the cost-to-serve by means of digitally-enabled client relationships, increased front-office productivity and operational excellence in the middle and back-office.
   - Analytics and big data present opportunities to monetize existing data assets by creating new business insights, improving decision-making and establishing new business opportunities.

2. **Measured improvements have been made in channeling IT expenditures towards change activities, with increasing amounts of total IT expenditures aimed at developing new IT functionality and improving business capabilities through IT.** Despite sizeable outlays on technology, wealth managers are not always left with the sense that their IT is fully in tune with the most important business priorities.
   - According to our benchmark, wealth managers spent an average of 16.3 percent of total operating expense on their IT in 2013, an increase of 0.4 percentage points compared with 2012.
   - 17.4 percent of wealth managers in our benchmark exhibit above-average IT spending but below-average business returns. For this group of wealth managers, IT investments do not result in proportional business returns; they spend too much on running their daily operations and too little on innovation that would set them apart from their competition.
   - The majority of wealth managers do not invest heavily in IT, but neither do they see high levels of business return from IT investments. To improve performance, this group of IT executors should focus current IT spending more on improvements and innovation in front-office tools and enablers, e.g., mobile banking or client analytics.

3. **Outdated core banking systems built on legacy technology are severely threatening the ability of wealth managers to launch new products and services, acquire other players and streamline operations.** A wave of transformational spend is hitting the industry, aimed at modernizing outdated technology and core systems. Wealth managers are pursuing separate strategies to modernize their core systems.
   - Players that have underinvested in technology in recent years are choosing to replace their core platforms. Migration to a wholly new IT platform requires substantial investment and disciplined implementation. If executed with care, platform migration can future-proof the business and enable new growth opportunities.
   - Other players are investing more tactically by reducing complexity and simplifying their IT architectures. This approach requires less upfront investment and minimizes business disruption, while still offering substantial benefit for both IT and the wider business.

4. **In order to compete in the digital economy, wealth managers must comprehensively retool the operating models of their IT functions.** Wealth managers are increasingly competing on time-to-market. This necessitates that wealth managers source the right technology talent to drive digital innovations and also increase the agility of their IT functions.
   - Increasing the agility of the IT function may be achieved by introducing a high-speed IT function geared towards the rapid build of IT solutions, based around quick, iterative cycles using agile development principles, with rapid feedback from internal and external customers.
   - Amidst increasing levels of IT outsourcing, wealth managers must ensure that the retained IT organization is equipped with key capabilities to capture the full benefit from IT outsourcing. The retained IT organization requires capabilities to define the IT strategy, manage supply and demand and orchestrate the delivery of IT solutions among multiple stakeholders.
Introduction: An industry in transformation
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Introduction: An industry in transformation

The origins of wealth management date back to the 14th century when the first banks across Europe started advising and managing the personal finances of wealthy families and merchants.

Since then, wealth management has developed into one of the most attractive segments within banking. Wealth managers are able to combine strong asset growth and rising profitability with low capital requirements and ample liquidity.

After years of stability, the wealth management industry has navigated some turbulent waters over the last decade. Some of the long-term effects of the global financial crisis can still be felt today, with wealth managers exposed to issues of trust and transparency and facing increasing downward pressures on returns.

Over the last 24 to 36 months, the wealth-management industry has enjoyed strong levels of asset growth across almost all regions. Nearly two-thirds of asset growth can be attributed to the cyclical rebounding of equity markets, however.

Despite strong cyclical growth, top-line revenue increases have not translated into proportional bottom-line returns. Across the board, all players face structural challenges and are confronted with the need to rebalance their business and operating models.

The wealth management industry is undergoing transformational change, with multiple forces converging: tighter regulation, fast-paced customer demands, market shifts, unconventional foes as well as disruptive technologies:

- The costs for regulatory and fiscal compliance will continue to rise in the foreseeable future.
- The needs of clients are changing in terms of product and services demanded as well as preferred channels for engagement.
- Wealth creation is shifting towards Asia Pacific, with these regions expected to disproportionately contribute to the global wealth management profit pool in the near future.
- Non-traditional players are entering the industry and capturing market share as well as applying downward pressure on margins.
- Digital technologies are disrupting traditional value propositions of wealth managers. Leading wealth managers are rapidly enhancing their digital capabilities in anticipation of evolving client needs.

The market environment is likely to remain volatile and highly competitive. The playing field for wealth managers will continue to evolve, creating both challenges and opportunities.

The smart use of technology is emerging as a source of competitive advantage, e.g., in the context of digital channels, the application of advanced analytics to improve key decisions around revenue and risk, and step-change improvement of core banking processes through industrialization strategies.
Increasing regulatory complexity

Keeping up with the dynamic regulatory environment at home and overseas is one of the biggest challenges wealth managers face today. Following the financial crisis and widespread political support for tighter oversight of financial services, new regulations have been created at a fast and furious pace.

To illustrate the growing volume of regulations, consider these examples: the agreement on the revised framework of Basel III was reached in 2010 and fills a total of 616 pages, a 20-fold increase compared with the Basel I framework. Collectively, all EU directives and other rules relating to banking regulation easily run to a total of more than 60,000 pages. For the US, regulatory legislation covers as many as 30,000 pages.

The overall stance on tax transparency is becoming more intense. Over the past 24 months, international efforts to reduce tax arbitrage and improve transparency of private individuals’ banking, including automatic exchange of information, have accelerated. In the future, it will likely be harder to avoid taxation.

For wealth managers, the regulatory environment is affecting both sources of revenue (e.g., through the ban on inducements) and the cost of doing business. The implications are far-reaching, with repercussions felt across the entire value chain. In response, players are adapting the structure of their business lines, revising their geographic footprint and fine-tuning their operating models. Smaller players in particular are struggling to manage the required changes and associated costs.

It is not just the sheer volume of new regulations that makes implementation complex. It is frequent uncertainties about interpretations, tight and delayed timelines as well as inconsistencies between regulators (especially regarding draft regulations) that are materially increasing the risk of non-compliance and challenging business models.

Wealth managers are finding that their state of legacy technology is not helping either: constrained system capacity, limited availability of test environments, static release schedules and fixed maintenance timetables make implementation more challenging.

2015 will see further regulatory milestones that wealth managers will need to meet. In the short to medium term, the stream of new and revised regulations will continue, triggered by efforts to harmonize national regulations globally to ensure a level playing field.
Towards tax transparency through automatic exchange of information

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Supranational organizations are driving regulatory initiatives to increase tax transparency. The foreseeable adoption of standards on the automatic exchange of information (AEOI) is one example of this trend.

The OECD published its proposal for a Common Reporting Standard (CRS) and a bilateral agreement (Competent Authority Agreement, or CAA) on February 2014. Both are intended to govern the automatic exchange of information in tax matters. In fact, they require the exchange of client data, which the corresponding financial institutions must collect in the participating countries. The exchange will take place automatically and at regular intervals between the tax authorities involved. As with FATCA, the CRS also requires natural persons to be identified, irrespective of whether they are direct account holders (“individual accounts”) or are behind structures or companies that are not transparent for tax purposes (“entity accounts”).

The schedule for implementation of the CSR is ambitious. More than 40 countries have already declared that they want to implement the CRS quickly. Expanded rules for accepting clients may be required to be implemented as early as 2015.

The CRS must be legally implemented at the national level. The CAA can be implemented among participating countries based either on a bilateral agreement or on an existing double taxation agreement.

Past tax problems at the bilateral level will not automatically be solved by an AEOI treaty. Therefore, wealth managers need to analyze their risks in the area of existing and new clients, determine what action is needed and take the necessary steps. A clearly structured and focused process is a key aspect in this regard.

As a result of the significant regulatory changes, business strategies and models need to be reviewed. A client and target market analysis will make the starting point on the path to tax transparency clear. In order to achieve this goal, a review of the value chain is also required. In particular, the focus is on client identification processes, necessary controls and changed tax reporting. Moreover, the value proposition and the country-specific range of products and services are also of central significance.

Efficient implementation through technology

IT and data management play key roles. Timely tracking and aggregated reporting are essential control instruments for management and a prerequisite for measuring project progress. Further, it should be assumed that the AEOI will present significant challenges in terms of the identification and reporting of clients, their assets and, if applicable, their income. AEOI will not target a single nationality as with FATCA, but will involve clients from a wide variety of countries. This increases the complexity of implementation of the AEOI, and it will once again put IT infrastructure and processes to the test.
Introduction: An industry in transformation

Higher consumer expectations

**A new wave of empowered clients is challenging the status quo in wealth management.** Clients’ expectations are shifting with respect to delivery channels, quality of service and client experience.

**Customer loyalty is plummeting.** As a fallout of the financial crisis, clients are often wary and distrustful of their wealth managers. Also, the obstacles in switching between financial institutions have been declining and clients have an increasing tendency to split their decision journey.

In all walks of life, digital technologies are enabling consumers to benefit from customized offerings and transparent fee structures. Consumers use digital technologies to leverage their buying power – by comparing prices, researching products and connecting with others to share experiences.

**Wealth clients appreciate the transparency and simplicity of the digital transactions they encounter in their daily lives.** The majority of wealth clients leverage technology to access financial information from multiple sources as a basis for investment decisions. With so much financial information available, wealth clients are increasingly better-informed. The traditional reliance on client advisors has diminished and wealth clients may even critically question the value that the client advisor can contribute.

In terms of services, clients have a strong preference for neutral advice as well as transparency on offerings and fees. Clients value interactions which are less product-oriented and more focused on specific needs. Clients appreciate their advisors taking the time to establish a comprehensive understanding of their financial situation and subsequently focusing on meeting these needs through a diversified range of products and services.

With the emergence of Generation Y, the traditional model of face-to-face client contact is changing. Generation Y individuals are accustomed to communicating through video calls or text messages and do not value face-to-face contact as much as previous generations. Through generational wealth transfer, the importance of Generation Y for wealth managers will increase.

Increased competition and new entrants

The competitive landscape for wealth managers is multidimensional, involving traditional and non-traditional players.

**For traditional players, a move towards consolidation is under way.** Several players are rebalancing their international wealth management operations, either focusing on growth markets in Asia and elsewhere or exiting the international wealth management industry entirely. Also, a trend towards market consolidation along the value chain can be observed. Several wealth managers are outsourcing their mid- and back-office activities to external providers. Already today, the largest of these external providers manage substantial volumes of client assets for the wealth managers they serve.

**Non-traditional players are entering the market.** Historically, the cost of regulation has been an obstacle to market entry that has been protecting incumbents. These barriers to entry are crumbling. New business models are emerging that rely on technology to meet evolving client needs. Armed with digital enablers, these new entrants are leveraging technology in ways that deliver lower cost but more customer-centric wealth management services. These services are provided on more efficient and flexible platforms that are able to scale rapidly.

**We are seeing new entrants attacking specific areas of the wealth management value chain.** These entrants are replicating value offerings that consumers are familiar with through their experiences with firms such as Apple and Amazon: immediate fulfillment through digital channels (no physical delivery and no paper trail), convenient online and mobile channels as well as highly customized and personalized client offerings.

For most wealth managers, these non-traditional entrants tend to come from wholly unexpected places. As an example, Google has already moved into the banking sector with the launch of Google Wallet. More recently, its late-stage investment fund, Google Capital, invested in a peer-to-peer lending marketplace called Lending Club, suggesting further interest in financial services.

**Disruptive market entrants have one thing in common: they are capturing market share, applying downward pressure on profit margins and in some cases, doing both.**
The gap between customer expectations and incumbent performance provides a classic opportunity for technology-based market entrants to fundamentally alter existing models. Successful market entrants combine a compelling value proposition with state-of-the-art technology. These players eventually overcome trust issues and regulatory barriers, leveraging technological innovation to deliver existing and new financial services at much lower cost.

Three types of non-traditional competitors are emerging (exhibit 1):

- **Aggregators** redefine the interface between banks and clients. Entrants such as Check24 and Moneysupermarket offer increased transparency on pricing and services to customers. These players apply pressure on profit margins of incumbents.

- **Innovators** introduce new products and services to customers, making use of powerful technology platforms to meet evolving client needs. These entrants capture market share and apply pressure on margins.

- **Disintermediators** redefine the rules of banking by eliminating the need for banks within the value chain. They offer an enhanced customer experience aimed at specific target groups. These entrants can both capture market share and apply pressure on margins.

These market entrants combine elements such as mobile distribution, social media and advanced analytics to devise a compelling value proposition that challenges the existing models of incumbents.

Three examples of market entrants that leverage technology to offer a compelling value proposition are Nutmeg, Fidor Bank and eToro.

- **Nutmeg** is an online investment manager tool that allows customers to invest manageable amounts of money in a portfolio of assets. Nutmeg decides how to invest clients’ assets based on client profiles, taking into consideration the amount of risk clients are comfortable with and the timeframe they want to invest for. Fees are charged as a percentage of AuM. Through a points-based scheme based on loyalty, referrals and assets invested, clients can reduce their fees further.

- **Fidor Bank** considers itself to be Germany’s first social bank. Fully licensed to operate as a bank since 2009, Fidor Bank builds its value proposition on digital and social mechanisms, with tight integration into the most common social platforms, e.g., sign-on through Facebook Connect. Fidor Bank calculates its payable interest rates based on the number of Facebook likes it receives. A variety of capabilities from P2P lending through crowdfunding are offered. Members of the Fidor community are encouraged to consult with each other and rate the products and services Fidor Bank offers.

- **eToro** is a social investment network that allows its users to follow the financial trading activity of other investors and copy them. Founded in 2007, its social trading services are based on a live stream of trading data that is uploaded to its online investment platform. Its platform and active trading community are its key differentiator, they enable investors to learn from, interact with and even automatically copy the investment styles of other network members in real time.
Exhibit 1

Several non-traditional players are entering the banking market. These entrants are capturing market share, applying downward pressure on profit margins or doing both.

<table>
<thead>
<tr>
<th>Classification of market entrants</th>
<th>Aggregator</th>
<th>Innovator</th>
<th>Disintermediator</th>
</tr>
</thead>
<tbody>
<tr>
<td>Redefines the interface between banks and clients</td>
<td>Introduces innovative products and services to customers</td>
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<td>Provides increased transparency on pricing and services to customers</td>
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<td>Offers an enhanced customer experience aimed at a specific target group</td>
<td></td>
</tr>
<tr>
<td>Applies pressure on profit margins of incumbents</td>
<td>Captures market share and applies pressure on profit margins of incumbents</td>
<td>Captures market share and applies pressure on profit margins of incumbents</td>
<td></td>
</tr>
</tbody>
</table>

Examples of market entrants within classification:

**Retail banking**
- Check24
- Mint
- Moneysupermarket
- Money Strands

**Wealth management**
- Garrett Planning Network
- My Financial Advice
- Personal Capital
- Sigfig
- eToro
- Ayondo
- Covestor

**Source:** EY analysis
Introduction: An industry in transformation

The game-changing role of technology

The world is characterized by a rapid pace of technological change, increasing connectivity and ubiquity, exponential growth of data and continuous innovation.

Whereas it took decades for the telephone to reach ubiquity, feature-rich “smart” phones required a fraction of the time to reach similar adoption levels. More recent innovations, e.g., tablet devices, are being adopted even more quickly. By the end of 2014, nearly 40 percent of the world population will be connected to the internet. The number of mobile subscriptions globally will amount to 96 percent of the world population. The global volume of data, including all types of data created by people, tools and machines, is expected to double every two years. Advances in computing power, storage media and communication speeds, along with improvements in materials science, have made technology available today that would have been considered unthinkable just a few years ago.

Technology has always been at the core of how wealth managers do business. In the past, wealth managers have targeted most of their technology investments at the back office, driving efficiencies and cost reductions. To maximize economies of scale, wealth managers with powerful platforms have brought as much volume as possible onto their systems, e.g., through acquisitions. Other wealth managers have used technology to move up the value chain, running core systems and operations on behalf of other banks.

In terms of how wealth managers are investing in technology, four developments are converging:

A. The ongoing standardization of core banking platforms
From a competitive perspective, the value of core banking technology and infrastructure is losing significance. Core banking technologies are increasingly standardized and software providers are more plentiful. Many wealth managers are choosing to adopt standard solutions rather than to customize off-the-shelf solutions or even develop their own.

B. IT outsourcing as a means to achieve scale effects
In search of opportunities to increase economies of scale, wealth managers are disintegrating their value chains and outsourcing large parts of their IT to third-party providers. IT technology suppliers are broadening their services, running and taking ownership of the entire spectrum of core banking applications for their clients through business process outsourcing (BPO).

C. Consumer technologies crossing over into the enterprise
Client advisors require applications and tools which allow them to stay connected with their clients and productive at all times. To support the highly mobile workforce, corporate IT is expected to develop solutions which allow mobile access to front-end tools and other enterprise content. Implementing new technologies such as mobile apps requires an overlay of security to satisfy regulators and internal compliance, in turn driving up costs.

D. Major technology investment required to improve the client experience
Wealth clients use digital technology extensively in their personal lives and expect similar convenience and ease-of-use in solutions provided by their wealth managers. To satisfy these demands, wealth managers need to invest heavily into their front-end tools, both for client advisors and clients. Creating and sustaining a highly digital client offering is one area where much of the competition and differentiation between players will come to pass.

Rapid advances in digital technology and infrastructure are enabling new business models in wealth management, providing incumbents and new entrants the opportunity to leap-frog the competition and level the playing field.
Cybersecurity: The cyber threat landscape and the disappearing perimeter

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Over recent years, more and more organizations in the financial industry have noted the increased relevance of cybersecurity and cyber threats – be it from a victim, press and media or from a regulatory requirements perspective. Digital, cloud computing and big data are making online services more open and accessible to customers and attackers alike. Critical information assets of organizations are more exposed to targeted attacks than ever. Banking players are high up on organized criminals’ and hactivists’ target list and will continue to be attacked. Cyber threats are seen as one of the most important threats over the coming years.

Wealth managers need to move at pace to keep up with the changing regulatory environment and avoid future fines, reputational loss or high implementation costs. Cyber threats will continue to multiply. The advent of the digital world, and the inherent interconnectivity of people, devices and organizations, opens up a whole new playing field of vulnerabilities. The short summary below highlights the top five reasons why effective cybersecurity is increasingly complex to deliver: they illustrate that the security defenses of organizations are under increasing pressure, further eroding the traditional perimeter and, in turn, creating more motivation for threat actors.

Change. In this post-economic-crisis world, businesses need to move fast. New product launches, mergers, acquisitions, market expansion, and of new technology are all on the rise; these changes invariably complicate the impact on an organization’s cybersecurity strength.

Mobility and consumerization. The adoption of mobile computing resulted in blurring organizational boundaries, with IT getting closer to the user and further from the organization. The use of internet, smartphones and tablets (in combination with bring-your-own-device) has made organizations’ data accessible everywhere.

Ecosystem. We live and operate in an ecosystem of digitally connected entities, people and data, increasing the likelihood of exposure to cybercrime in both the work and home environment.

Cloud. Cloud-based services, and third party data management and storage, open up new channels of risk that previously did not exist.

Infrastructure. Traditionally closed operational technology systems are now being given IP addresses, meaning that cyber threats are making their way out of the back-office systems and into critical infrastructures and automation systems.

Chapter 1:
The onset of digital disruption in wealth management
Chapter 1: The onset of digital disruption in wealth management

Digital technologies are emerging as disruptive forces for businesses across all industries. These technologies are moving beyond the experimentation phase and reaching levels of maturity that are forcing executives to take note or run the risk of falling behind. What is more, the rate of diffusion and adoption of these technologies is steadily increasing.

In wealth management, digital technologies are fundamentally transforming how wealth managers serve clients and conduct their business operations.

Consider the following three scenarios:

• Interactions among multiple digital channels will deliver a richer and more engaging customer experience than traditional face-to-face contact could ever offer.

• Social media will allow wealth clients to connect with successful peers, providing access to peer-rated investment strategies and advice.

• Algorithmic asset management and big data analytics will provide affordable access to individually tailored managed portfolios for a wide range of investors.

The emergence of digital technologies calls into question the traditional reliance on client advisors as the single source of financial advice. For wealth managers, less reliance on client advisors and a shift towards self-service and digital channels will bring down cost-to-serve. This in turn can pave the way for much more affordable value propositions in the growing segment of emerging wealthy.

Four technologies leading the charge

Several technology discontinuities are emerging and converging in four main areas (exhibit 2):

• Mobile is developing into the preferred channel for clients across all wealth bands, owing to the “anytime, anywhere” and context-aware capabilities that mobile devices offer.

• Social media and collaboration tools provide wealth clients the ability to interact with peers on portfolio strategies and client advisor performance.

• Through advanced analytics, wealth managers can improve insight generation and decision-making by infusing data into all aspects of revenue generation, cost control and risk mitigation.

• Cloud-based computing provides wealth managers the opportunity to reduce infrastructure costs and increase agility and time-to-market. Within wealth management, cloud computing is mainly used for non-core activities not involving confidential client data.

The combination of these digital technologies will fundamentally shape client value propositions and operating models of wealth managers in the coming years.

With the onset of the digital disruption in wealth management, the role of IT must change as well. Long treated as a back-office or support function, IT is now mostly considered a key enabler of business change and an important means for differentiation at the client interface. With the acceleration of technology innovation, we expect that the role of IT will further evolve, and that IT will take on a much more leading role in driving business change.
Chapter 1: The onset of digital disruption in wealth management

Exhibit 2
Emerging digital technologies are disrupting traditional value propositions and operating models in wealth management

<table>
<thead>
<tr>
<th>Applications for wealth managers</th>
<th>Emerging trends</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Mobile computing</strong></td>
<td><strong>Mobile-first development.</strong> User experience is designed for mobile first, then permeated to other channels</td>
</tr>
<tr>
<td>Increase productivity of client advisors and front-office staff through mobile access to enterprise applications</td>
<td>Relationship orientation. Tablet form factor shifting client experience from transactional focus towards stronger relationship orientation</td>
</tr>
<tr>
<td>Integrate mobile as key channel for clients to provide feature-rich services that enable wealth managers to deliver advice and engage on a personal level</td>
<td></td>
</tr>
<tr>
<td><strong>Social media</strong></td>
<td>The social CEO. Senior executives use social media to interact effectively with clients and engage within community</td>
</tr>
<tr>
<td>Use internal and external social networks to improve collaboration and knowledge sharing</td>
<td>Social media as service channel. Divert customer service requests from costly call centers towards social media interactions</td>
</tr>
<tr>
<td>Monitor client sentiment towards products and services by screening social media sites, respond rapidly to feedback</td>
<td></td>
</tr>
<tr>
<td>Apply social media to drive customer advocacy and establish trust with customers</td>
<td></td>
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<tr>
<td><strong>Advanced analytics</strong></td>
<td>360° client profile. Customer analytics that combines internal with external data sources to create real-time and holistic view on clients</td>
</tr>
<tr>
<td>Generate new insights through client profiles enriched with external data from social media to infer occurrence of major life events and promote financial products linked to these events</td>
<td>People analytics. Determine new approaches to attracting and retaining talent base through advanced analytics</td>
</tr>
<tr>
<td>Enhance risk models by applying advanced analytics to multiple data sources</td>
<td></td>
</tr>
<tr>
<td><strong>Cloud computing</strong></td>
<td>Pay-as-you-go cloud models. Ability to apply browser-based technologies for non-core business applications, such as enterprise content management, performance management cycle and recruitment</td>
</tr>
<tr>
<td>Use cloud offerings for non-core and non-critical services to turn large and up-front capital expenditures into smaller and ongoing operational expenditures</td>
<td></td>
</tr>
<tr>
<td>Drive standardization and faster development times through cloud development platforms</td>
<td></td>
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Source: EY analysis

A. Mobile device innovations

The number of mobile subscriptions worldwide is approaching the number of people on earth. By the end of 2014, mobile subscriptions are predicted to reach almost 7 billion, corresponding to a global penetration rate of 96 percent.

No consumer technology has reached widespread adoption so quickly, and no consumer device has allowed consumers to connect with each other so easily as the mobile phone. Numerous factors are converging to give mobile devices the capabilities, scale and reach achieved by few other technological advances: computing power and memory that come close to rivalling desktop PCs, extensive and context-aware functionality akin to that of a Swiss Army knife as well as increasingly ubiquitous network coverage. For consumers, the power of mobile lies in its “anytime, anywhere” capability.

The mobile channel represents an unparalleled distribution network, extending beyond geographic and demographic borders. Across all industries, the ubiquity of mobile technologies is providing ample opportunity to cultivate deeper customer engagement and boost brand loyalty.

In retail banking, the mobile banking channel has firmly established its place. The mobile banking landscape is evolving quickly, driven by constant innovation. All leading retail banks have established mobile banking apps. The functionality of these mobile banking apps are increasingly feature-rich, allowing clients to transact on the go, view graphical representations of account balances, perform secure messaging, block cards and execute basic trading functionality.
For wealth managers, mobile technologies offer new ways to interact with clients and deliver advice. Wealth managers are embracing the mobile channel, albeit slowly. Examples of wealth services offered on mobile devices are basic portfolio overviews, account details and office locators. Some players also provide transactional services such as deposits taking, quotes and trading. More advanced functionality includes the ability to open accounts, communicate with advisors, locate offices, interact through notification and alerts as well as report lost or stolen cards. Tablet form factors are providing new options to enhance the mobile offering in areas such as financial research, analysis and wealth planning.

B. Social media and collaboration

The widespread adoption of social media suggests a paradigm shift in how people interact, communicate and consume information. The implications for business are profound.

For consumers, social media provides a platform to influence opinions and sentiments. A single frustrated customer can launch a campaign against a company before the business even receives a complaint. This development has led to a shift in power to the benefit of the individual.

Increasingly, individual consumers are looking to other consumers (“people like me”) to gauge product suitability and assess trust and loyalty towards brands. Through social media and product platforms, these consumers are able to obtain transparent and rich reviews and ratings. Non-traditional advertising instruments such as word of mouth and viral messages are gaining in significance and displacing more traditional advertising mechanisms.

For wealth managers, social media provides a vital channel to address a prevalent trust deficit, observe client sentiment and monitor reputational risks. Through social media, wealth managers can re-engage with customers, shore up relationships with stakeholders and improve perceptions. Wealth managers are also recognizing the importance of staying on top of customer complaints and negative comments permeated on public forums.

One leading wealth manager has developed a professional “Facebook for independent financial experts”. The platform offers members the opportunity to meet and work with experts from other disciplines and jurisdictions, share ideas and expertise, enter into business partnerships, hire new staff and identify potential merger and acquisition targets.

One global bank uses social media to develop collaborative communities. Using crowdsourcing tactics, the institution is encouraging customers to propose new ideas and products, exchange opinions and vote on new products and services.
Chapter 1: The onset of digital disruption in wealth management

C. Advanced analytics and big data

Worldwide, the volume of data is growing at least 40 percent a year, with ever-increasing variety and velocity.

Over the last decade, the explosion of data has coincided with decreasing data processing and storage costs. Processing power, storage density and average connection speeds have been increasing exponentially. Along with better approaches to utilizing hardware, the full lifecycle of capturing, analyzing and extracting value from data is much more affordable and available to a wider audience compared with just a decade ago.

Three Vs are used to characterize the different aspects of what is commonly known as big data: volume, variety and velocity. Big data derives its greatest value from the immense amount of data that can be collected, stored and analyzed. Whereas smaller data sets require sophisticated analytical models to arrive at accurate predictions, even simple models can be highly effective with large data sets.

The main challenges of big data result not only from escalating volumes, but also from the expansion of data variety and velocity. Data is coming from more diverse sources, both internal and external, and in widely different formats, both structured and unstructured. Data is flooding in from public, proprietary and purchased sources: chatter from social networks, web server logs, traffic flow sensors, satellite imagery, broadcast audio streams, banking transactions, MP3s of rock music, the content of web pages, scans of government documents, GPS trails, telemetry from automobiles, financial market data, the list goes on.

Data needs to be processed in real or near-real time in order to be of greatest value. Nobody wants to judge whether a road is safe to cross based on a snapshot of traffic data that is five minutes old. The same thinking applies to many other business areas where data must be processed quickly to provide an advantage. The need for speed in moving data through its lifecycle is gaining in importance.

Technologies like Hadoop and MapReduce address many of the challenges of big data by no longer requiring that data be stored in a structured format to be processed. Instead, the data can be captured in whatever form it naturally takes (e.g., Facebook posts, audio recordings of customer service calls) and wherever it comes from (e.g., geographically dispersed across data centers or from the cloud).

The idea itself of creating business value from data is nothing new. Businesses have always wanted to derive insights from information in order to make better, smarter, real-time, fact-based decisions. What has changed is how the effective use of data is increasingly turning into a competitive advantage and separating leading firms from those that lag behind.

D. Cloud computing

Across all industries, the use of highly-scaled and shared IT platforms – commonly known as cloud computing - is growing rapidly.

Many organizations are realizing sizeable gains in cost and efficiency from the cloud. Some are even starting to build potentially disruptive new business models enabled by the cloud.

There are many benefits: the cloud enables companies to introduce new degrees of standardization, self-service as well as scale. The cloud can also provide greater flexibility and shorter contracts compared with traditional hosting arrangements. Especially in areas which combine elements of communication and collaboration, the cloud enables rapid delivery of services. For financial institutions, moving non-core and commodity activities to the cloud frees resources for higher-value uses around core business activities.

Smaller businesses are adopting the public cloud as a means to increase agility and access more computing power at lower cost.

For banks and other financial institutions, the public cloud has limited adoption. Technical limits and regulatory constraints around client data restrict the ability to move legacy applications to the cloud. Large banks with sufficient scale are building and managing private-cloud environments to gain some of the benefits while still maintaining control of data and applications.

Wealth managers are highly reluctant to move anything meaningful to the public cloud. In many jurisdictions, regulations restrict the movement of client data outside of the supervised territory and require that all data be segregated. Instead, wealth managers are working on their own private-cloud environments which they are using internally for basic infrastructure services, development platforms and non-core applications such as talent management and recruitment.
Chapter 1: The onset of digital disruption in wealth management

Three technology-enabled business trends to watch

Only slowly is the wealth management industry catching on to the digital revolution that has swept other industries. Digital tools such as mobile and analytics are providing wealth managers with a unique opportunity to modernize and reinvent their traditional ways of doing business - by better understanding and serving customers, improving business processes through automation and self-service as well as creating an information advantage by pinpointing useful data and then deriving insights from it.

To address these developments, leading wealth managers are building transformational programs centered around three themes:

- **Digital wealth manager**: harnessing digital technologies to engage with clients in new ways, enabling new revenue opportunities and reducing cost-to-serve. Additionally, driving operational efficiencies through marked improvements in core functions, from the front-through to the back-office (exhibit 3)

- **Analytical banking**: leveraging analytics tools and technologies to generate new levels of insight, improve decision-making and establish new business opportunities (exhibit 4)

- **Industrialized core banking**: improving core banking processes through standardization and straight-through processing while achieving fuller and more strategic business integration with key sourcing partners (exhibit 5)

A. Digital wealth manager

**Digital touchpoints are quickly becoming the channel of choice for wealth clients worldwide.** But digital is much more than just a digitized interface to the client. At its simplest, digital encapsulates the conversion of analog into digital information. Taken as such, digital affects the entire wealth management value chain. As wealth managers extend their digital capabilities, virtually every aspect of the value chain can be captured and stored in some digital form.

Wealth managers stand to benefit from improved digital capabilities in two ways: revenue uplift by means of more interactive relationships providing cross- and up-selling opportunities and substantial reduction of cost-to-serve. Many wealth managers are wrongly focusing their digital investments on customer-facing solutions. They can extract just as much value, if not more, from investing in middle- and back-office process improvements that drive operational efficiencies. In fact, the greatest bottom-line impact may come from cost-savings and changes beyond the interface with customers. Digital capabilities provide the opportunity to achieve a marked improvement in core functions, from the front and middle office all the way through to the back office.

We see three areas where digital can add significant value for wealth managers: digitally-enhanced client relationships, increased front-office productivity and middle- and back-office operational excellence.
Digitally-enhanced client relationships

**Most players are still trailing the spectrum in enhancing customer engagement through digital capabilities and channels.** Client interactions in wealth management are still largely focused on face-to-face contact. Digital technologies will never replace face-to-face interactions wholesale. Rather, they offer the means to enrich and extend these interactions. Across the industry, digital capabilities and channels are quickly developing into a must-have, not something that sets wealth managers apart from their competition.

**The mobile channel is crucially important for wealth managers.** Especially for highly mobile, entrepreneurially-minded high net worth clients, mobile is the channel of choice. Wealth managers are responding to this trend by creating mobile apps that allow clients to engage on products and services. The universe of such apps is diverse and steadily developing, ranging from simple transactional-type services to rich advisory and relationship-oriented functionality. The ubiquity of table devices provides additional opportunities to extend mobile offerings even further. These devices can be used to offer more feature-rich, interactive and dynamic capabilities, for client advisors as well as for clients.

**Supporting a single channel such as mobile will not be enough.** Consumers are constantly switching between devices – conducting research on one device then converting on another one. For this reason, wealth managers need to put truly integrated multi-channel access into place.

Digital channels also allow wealth managers to leverage social media connectivity. Social media platforms provide client advisors with the ability to address a larger number of clients. Also, the creation of online communities encourages clients to engage more actively with their peers on investments.

Increased front-office productivity

**There is a compelling need to increase the productivity of client advisors.** Client advisors may spend more than one third of their time on non-client-facing tasks. Also, the number of clients a single client advisor serves is steadily increasing. Technology provides several opportunities to increase the productivity of client advisors and reduce the amount of time spent on low-value and administrative tasks.

Instant messaging, email, web portals and social networks provide a cost-effective solution to handling client queries. Web portals can be used to capture know-your-customer data and provide clients with a platform for 24/7 account management. Use of widespread web conferencing facilities and video calling channels such as Skype can be used as a replacement for client travel and face-to-face meetings, whilst offering clients the flexibility of “anytime, anywhere” support.
## Operational excellence in the middle and back office

By employing digital technology in the back and middle offices, wealth managers have the opportunity to **reduce overheads within the value chain** and create a flexible infrastructure that can rapidly adapt to the changing regulatory landscape.

### Advanced systems for digital document management

- Ensure data is managed securely and efficiently across the value chain.
- Modern platform and portfolio management systems offer core features such as auto-rebalancing that can reduce time-intensive manual processes.
- Real-time portfolio data can provide automatic alerts and client-triggered portfolio checks to ensure ongoing suitability of investments.

### Exhibit 3

#### Digital wealth manager

Harnessing digital enablers to enhance customer engagement and achieve operational efficiencies

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### Enabling technologies

- **Mobile computing**
- **Social media**
- **Advanced analytics**
- **Cloud computing**

### Applications

- **Digitally-enhanced client relationships**
  - Enrich and extend client interactions through an enhanced multi-channel client experience with integration of social media across all channels, enabling a seamless flow from idea to analysis through to execution

- **Increased front office productivity**
  - Increase productivity of clients advisors and reduce the amount of time spent on low-value and administrative tasks through use of instant messaging, web portals, web conferencing facilities and video calling channels

- **Operational excellence in middle and back office**
  - Employ digital technologies in the middle and back office to reduce overheads within the value chain and create a flexible infrastructure

---

### Benefits for wealth managers

- **Revenue uplift** through more interactive relationships providing cross- and up-selling opportunities
- **Substantial reduction of cost-to-serve** through digital channels and digitization of value chain from front to back
- **Ability to personalize products** specific to channels

---

*Source: EY analysis*
B. Analytical banking

Wealth managers have access to enormous volumes of valuable data, ranging from massive amounts of market and financial data to their own store of client data.

With the aim of gaining a distinct advantage over the competition, wealth managers are increasingly investing into their ability to derive more tangible value from their data. Thanks to advanced analytics, wealth managers are able to do so in three ways: generating new insights, improving decision-making and creating new business opportunities.

Generating new insights

There are many ways for wealth managers to create value-adding insights from their volumes of proprietary data. Traditionally, most players have focused on their client data to identify revenue opportunities. Some players are applying similar techniques to their employee data, with the goal of utilizing their people assets in more productive ways.

In the area of customer analytics, one global retail bank analyzes the transactions of its customers to infer the occurrence of major life events such as marriage or a new job. The bank then uses this information to promote high-value financial products that are strongly linked to these major life events, such as home mortgages or joint savings accounts. Another bank enriches a 360-degree view of its clients with external data from social media to determine a range of suitable products for the client. The front-office is then equipped to offer these products to the client at the next opportunity, e.g., when the client enters a branch or contacts customer support.

In the area of people analytics, one global universal bank measures an array of workplace variables to determine new approaches to attracting, retaining and growing its talent base. Using data analytics, the bank analyzes variables such as compensation, performance ratings, supervisor skill and time in the role to identify concrete measures to address attrition. The insights generated through this exercise have resulted in a number of initiatives that determine whether talent may be ready for new roles or even a career change.

Improved decision-making

Every single major decision to drive revenue, to control costs or to mitigate risks can be infused with data and analytics.

In the past, wealth managers have heavily invested in information systems and warehouses designed to support management in steering the business. However, many of these management information systems fail to deliver the insights required to make effective decisions. Big data has the ability to improve management decision-making in two ways: firstly, by enriching data from management information systems with intuitive graphic elements and secondly, by integrating data from external systems such as financial markets, regulators and other stakeholders. The result is an accessible, uniform, real- or near-real-time view of operations that allows different departments to speak a common language and base their decisions on the same facts.
New business opportunities

By making their data available for a price, wealth managers can develop new revenue streams.

One international bank leverages its data on credit card activity to provide external firms from different industries with information they can use for their own benefit. Aggregating and ensuring the anonymity of personal data is vital to reduce sensitivities around privacy concerns. Leveraging such transactional information and making it available to other firms to perform their own business intelligence is only a start. Further enriching such data with information from external sources can enhance the value proposition of this data for third parties.

Exhibit 4

Analytical banking
Generating new insights from existing data assets and improving decision-making

<table>
<thead>
<tr>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Harnessing <strong>large, dynamic and disparate volumes of data</strong> created by people, tools and machines to derive <strong>real-time and value-adding business insights</strong> that relate to clients, risk, performance and productivity</td>
</tr>
<tr>
<td>Improving <strong>decision-making</strong> and identifying <strong>new business opportunities</strong> by monetizing data assets</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Enabling technologies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mobile computing</td>
</tr>
<tr>
<td>Social media</td>
</tr>
<tr>
<td>Advanced analytics</td>
</tr>
<tr>
<td>Cloud computing</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Applications</th>
</tr>
</thead>
</table>
| **360° client profiles**  
Create a holistic view of clients by enriching internal data with external data from social media sources to generate next-product-to-buy scenarios |
| **People analytics**  
Avoid unwanted attrition by analyzing variables to determine attrition likelihood (e.g., compensation, performance ratings, supervisor skill and time in role) and identifying concrete measures to improve retention of highly skilled professionals |

<table>
<thead>
<tr>
<th>Benefits for wealth managers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ability to generate new insights on clients by means of holistic client profiles</td>
</tr>
<tr>
<td>Improved decision-making by enriching management information systems with external data sources</td>
</tr>
<tr>
<td>New revenue streams by making data available for a price</td>
</tr>
</tbody>
</table>

Source: EY analysis
C. Industrialized core banking

**The search for a sustainable operating model in banking continues.** Amidst tighter regulation, plummeting demand and cost structure challenges, many banks are struggling to earn their cost of equity.

**Banking is not the first sector to experience such a singular combination of developments.** Other industries have successfully re-engineered and industrialized their operating models to enable growth and drive stable returns.

**Much of the inspiration behind the concept of industrialization in banking is drawn from the automotive industry.** Automotive manufacturers rely on standardized operating platforms during the manufacturing process to create production consistency and economies of scale. Consumers see outwardly distinct and highly differentiated models that share common design, engineering and production efforts as well as major components. Automotive manufacturers maintain highly successful relationships with their suppliers and outsource as much as 80 percent of their production.

Banks are starting to embrace similar strategies to reduce the cost and complexity of back-office operations while maintaining outwardly distinct and differentiated client offerings.

In order to industrialize their operating models, banks are pursuing three broad themes: outward differentiation, inward simplification and process excellence.

**Outward differentiation.** Banks are investing in differentiation initiatives that will improve the effectiveness of their sales force, increase their understanding of customers and allow them to tailor or bundle products that are attractive for their different customer segments.

**Inward simplification.** Operating model simplification can be addressed through a number of approaches that aim to rationalize and optimize service delivery as well as increase productivity and utilization. Examples include optimizing the organizational setup through delayering and de-ranking, adjusting the regional and global footprint of back-office staff, focusing skills within centers of excellence or shared service functions as well as adjusting to different outsourcing models such as IT and business processing outsourcing, joint ventures and managed service.

**Process excellence.** Banks understand the absolute need to prioritize execution as a core capability. This means achieving excellence in executing business processes as well as in planning and managing investments and change programs across the organization. Process excellence can be improved by streamlining and automating processes to reduce costs while improving utilization and controls.
**Chapter 1: The onset of digital disruption in wealth management**

Enabling technologies

**Definition**
- Driving simplification "on the inside" by leveraging ecosystem of suppliers and external partners and enforcing standardization of core banking processes as well as enabling differentiation "on the outside" by enhancing value chain management and increasing speed and flexibility of client interactions.

**Applications**
- **Outward differentiation**
  - Tailor and bundle products that are attractive for different customer segments to improve effectiveness of sales force.
- **Inward simplification**
  - Simplify operating model by rationalizing and optimizing service delivery and increasing productivity, e.g.,
    - transforming "in-house" operations and IT to external delivery models
    - standardizing core processes through streamlining and automation of processes.
- **Process excellence**
  - Achieve excellence in business processes as well as planning and managing investments and change programs.

**Benefits for wealth managers**
- Reduced cost and complexity of back-office operations.
- Maintenance of outwardly distinct and differentiated client offerings despite inward standardization.

Source: EY analysis
Chapter 2:

IT performance in wealth management
Chapter 2: IT performance in wealth management

EY’s annual IT benchmarking survey of wealth managers has one primary objective: to analyze general IT performance data and its relationship to business results to better understand how strategic factors and choices influence IT performance and business results.

For this purpose, EY polled senior IT executives from 27 wealth management firms across three major wealth management hubs: Switzerland, Luxembourg and Singapore.

Survey participants range from local wealth managers operating within a single market to globally-integrated players with clients across multiple jurisdictions, both onshore and offshore. Also, the sample covers both pure-play wealth managers with focused client offerings as well as diversified wealth managers providing a broader range of banking services.

Our benchmark captures the relative business performance against several technology parameters such as IT cost, IT architecture, staffing levels as well as sourcing models. We calculated key IT cost ratios in order to identify the positions of individual wealth managers in their IT investment cycles. The key ratios calculated are IT cost as a percentage of operating income (IT cost-to-income ratio), IT cost as a percentage of operating expense (IT share of cost), average IT cost per FTE and average cost per IT FTE. Additional IT cost ratios are IT outsourcing ratio, IT change ratio and IT capital expenditure ratio. In terms of business results, we consider normalized operating income and cost-to-income ratio.

Measured progress, more work to do

IT costs in banking are high compared with other industries. Banks must fulfill exacting regulatory requirements, resulting in IT costs that do not contribute to operating income. Banks also rely heavily on IT as part of their front-office distribution mechanisms as well as their back-office operations. Consequently, IT costs (measured in terms of operating income as well as operating expense) in banking are higher than those in other industries.

Across banking segments, transaction banks typically display the highest IT costs (measured in terms of operating expense). Transaction banks rely heavily on superior levels of automation and straight-through processing in order to drive down unit costs, a key competitive advantage in transaction banking. Asset managers commonly display the lowest IT costs relative to operating expense. IT costs of wealth managers are significantly lower than those of transaction banks, yet higher than those of asset managers. By and large, wealth managers and retail banks exhibit similar levels of IT spend relative to operating expense.

According to our global IT benchmark for wealth managers, IT costs represented 16.3 percent of operating expense in 2013, an increase of 0.4 percentage points compared with 2012. IT costs as a percentage of operating income increased slightly from 11.2 percent in 2012 to 12.5 percent in 2013 (exhibit 6).
Wealth management as an investment-advisory discipline incorporates financial planning, investment portfolio management and a number of aggregated financial services. Wealth management is practiced mainly by private banks as well as wealth management units of large universal-banking groups.

EY’s annual IT benchmarking survey covers wealth managers from three major wealth management hubs: Switzerland, Luxembourg and Singapore.

**Switzerland**
The financial sector is a central pillar of the Swiss economy, generating over 10 percent of the GDP and accounting for 5.9 percent of total employment in Switzerland in 2013.

The key players in the Swiss financial sector are banks, with wealth management at the core of the banking business. Swiss banks are heavy-weights of the global wealth management industry and feature at the very top of global rankings.

For many years, the banking secrecy act accentuated Switzerland’s status as a safe haven. In the short to medium term, more stringent regulation of offshore banking operations is expected in the form of an international standard on the automatic exchange of information.

**Singapore**
Globally, Singapore is the fastest growing wealth management hub.

Several factors have triggered this development: Singapore’s stable political climate, favorable tax regime, privacy in financial matters as well as its proximity to important markets in Southeast Asia.

Also, Singapore’s government actively supports the wealth management industry with subsidies and tax incentives. In recent years, Singapore’s financial regulator, the Monetary Authority of Singapore, has taken a tough stance on tax evasion by making it a criminal offense for banks to accept undeclared or laundered money. The strong growth of the sector has resulted in great demand for highly-qualified staff.

The local labor market is not always able to meet this demand.


**Luxembourg**
With over USD 3 trillion of assets in investment funds, covering both traditional and alternative asset classes, Luxembourg is the largest international investment fund domicile globally and the leading cross-border distribution hub for investment funds. Luxembourg’s success has been fuelled by its ability to offer an attractive platform for retail funds distributed in Europe and globally. Investment managers authorized in Luxembourg with an “EU passport” are allowed to conduct investment activities throughout the EU.

In recent years, unmatched political and budgetary stability, government support, a stable tax environment and a location at the heart of Europe have increased Luxembourg’s attractiveness as a financial center.
Regional variation

The development of IT budgets varied by region, resulting from differences in growth cycles and unit staff costs. In Switzerland, IT budgets grew by 36.2 percent between 2009 and 2013. In the same period, operating income grew by 5.2 percent and operating expense by 29.6 percent. The percentage of IT cost in relation to total operating expense remained fairly flat, from 16.2 percent in 2009 to 16.6 percent in 2013. Measured in terms of operating income, IT costs amounted to 13.8 percent in 2013. IT cost in relation to banking FTE came down to USD 57,970 – a decline of 5.5 percent compared with the previous year.

In Singapore, operating income and operating expense grew by 35.5 percent and 41.7 percent, respectively; in Luxembourg operating income and expense declined by 29.7 percent and 26.9 percent, respectively. During the same period, IT budgets in Singapore grew by 64.6 percent and in Luxembourg they declined by 2.2 percent. Singapore had the lowest IT share of cost at 14.0 percent in 2013, compared with 16.2 percent in Luxembourg and 16.6 percent in Switzerland. Compared with other regions, wealth managers in Singapore appear to be underspending on IT.

Exhibit 6

Slight increase in relative IT spend levels, with variations among wealth managers across markets and growth cycles

Source: EY IT Benchmark of Wealth Managers 2014
Note: all USD dollar figures are calculated based on fixed 2013 exchange rates
Chapter 2: IT performance in wealth management

Business volume

A commonly held belief is that operating IT at scale creates cost advantages. With this logic, larger players are able to benefit from economies of scale that help them drive down IT unit costs.

All told, our results reveal that the differences in IT costs between smaller and larger players are less pronounced than commonly assumed. In 2013, wealth managers with less than USD 15bn AuM spent 13.4 percent of operating income on IT and 16.3 percent of operating expense on IT. Players with more than USD 15bn AuM spent 11.4 percent of operating income and 16.3 percent of operating expense on IT (exhibit 7).

These results demonstrate that business volume is not a prerequisite for gaining scale benefits. Smaller players can obtain these by smartly outsourcing their IT and other back-office services. This allows them to add capacity as needed and to adopt more scalable technologies to provide additional flexibility.

Business mix

In relative terms, pure-play wealth managers spend more on IT than diversified players with a broader mix of banking services and products (exhibit 7).

In 2013, the pure play wealth managers spent 15.3 percent of operating income and 17.5 percent of operating expense on IT. Diversified players on the other hand spent 10.4 percent of operating income and 15.4 percent of operating expense on IT.

Wealth managers with a diversified product mix appear to benefit from scope economies, with synergies among IT applications and infrastructure across product lines.

Exhibit 7

Limited scale advantages for larger players, smaller players able to benefit from scale advantages through IT outsourcing

<table>
<thead>
<tr>
<th>Assets under management (in USD)</th>
<th>IT-cost-to-income ratio</th>
<th>IT share of cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;15bn</td>
<td>13.6 12.2 14.6 12.5 13.4</td>
<td>14.9 15.2 16.2 16.1 16.3</td>
</tr>
<tr>
<td>&gt;15bn</td>
<td>9.3 9.4 9.7 9.6 11.4</td>
<td>16.5 15.9 15.9 15.7 16.3</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Business model¹</th>
<th>IT-cost-to-income ratio</th>
<th>IT share of cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pure play²</td>
<td>11.9 12.6 16.1 13.4 15.3</td>
<td>14.9 15.5 17.5 16.6 17.5</td>
</tr>
<tr>
<td>Diversified³</td>
<td>11.4 9.7 9.7 9.6 10.4</td>
<td>16.2 15.5 15.1 15.4 15.4</td>
</tr>
</tbody>
</table>

Note: all USD dollar figures are calculated based on fixed 2013 exchange rates

¹ business model based on self-assessment of surveyed wealth managers
² business model focused on wealth management
³ diversified business model, covering wider range of banking services (e.g., retail banking)
IT cost distribution

Total IT spend comprises all IT spend types across all IT functions, e.g., IT operations, application development and maintenance, IT support, voice and data.

We analyze the breakdown of IT spend by functional area in order to compare run-the-bank and change-the-bank IT spend. Run-the-bank spend are those expenditures required to maintain existing IT operations without adding new functionality. Change-the-bank spend reflects investments into innovations, primarily in application development aimed at evolving and improving current IT functionality.

Wealth managers spent less on "lights-on" cost and are targeting larger proportions of IT budgets towards change activities. Between 2009 and 2012, change budgets increased, from 33.1 to 33.8 percent, relative to total IT spend. In 2013, the change ratio increased to 40.4 percent of total spend (exhibit 8).

This increase in change-the-bank spend demonstrates that wealth managers are developing new IT functionality and improving business capabilities through IT. At the same time, a reduction in run-the-bank spend illustrates that wealth managers are finding ways to run their IT operations more efficiently. The slight reduction in run-the-bank spending may call for some new investments to reduce IT landscape complexity and redundancies and to retire legacy systems. Change-the-bank spending will need to be managed proactively through continuous project planning and prioritization, tight business cases for all large projects and further optimization and standardization of application development processes.

Capital spend ratios remained steady between 2009 and 2012 and increased in 2013, peaking at 15.7 percent, compared with 13.5 percent in 2009 and 2010.

Exhibit 8
Wealth managers are spending less on “lights-on” costs and increasing expenditures on change activities

<table>
<thead>
<tr>
<th>% of total IT spend</th>
<th>by change ratio</th>
<th>by cost type</th>
<th>by functional area</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009/10</td>
<td>33.1</td>
<td>66.9</td>
<td>others</td>
</tr>
<tr>
<td></td>
<td>33.8</td>
<td>66.2</td>
<td>voice and data</td>
</tr>
<tr>
<td></td>
<td>40.4</td>
<td>59.6</td>
<td>IT support functions</td>
</tr>
<tr>
<td>2011/12</td>
<td></td>
<td></td>
<td>end-user computing</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>data center</td>
</tr>
<tr>
<td>2013</td>
<td></td>
<td></td>
<td>applications²</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>% of total IT spend</th>
<th>by change ratio</th>
<th>by capital expenditure</th>
<th>by operating expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009/10</td>
<td>13.5</td>
<td>86.5</td>
<td>13.6</td>
</tr>
<tr>
<td>2011/12</td>
<td>13.6</td>
<td>86.4</td>
<td>15.7</td>
</tr>
<tr>
<td>2013</td>
<td>15.7</td>
<td>84.3</td>
<td>12.0</td>
</tr>
</tbody>
</table>

Source: EY IT Benchmark of Wealth Managers 2014
1) Full category breakdown only available for reduced sample size
2) Functional area category "applications" covers both maintenance and development
Making IT spend more effective

In times of intense competition and margin contraction, wealth managers are trying to stretch capital and operating budgets and do more with less.

The quality of IT, measured in terms of application availability, degree of automation and length of processing times, significantly influences business success and brand image from the viewpoints of customer satisfaction and loss of potential business if systems are down or not user-friendly.

However, and often despite large outlays on technology, wealth managers are not always left with the sense that IT is fully in tune with the most important business priorities.

As part of our effort to understand the return on IT investments for wealth managers, we studied the relationship between financial performance and IT spend. As a measure of financial performance, we took annual operating income, as a measure for IT investment we took total annual IT cost, both values normalized over banking FTE. This analysis helped us identify those players that spend carefully on IT and successfully apply these investments to capture business value.

There is no straight-line relationship between IT spend and business returns. High IT expenditure does not always equate to superior performance. Spending more on IT clearly does not translate into above-average returns and some wealth managers with large IT budgets have trouble in leveraging their investments to generate high revenue growth. Interestingly, scale does not guarantee IT cost advantages. Larger players in our sample do not derive scale advantages and lower IT unit costs due to their size. More business volume leads to a larger IT footprint and more complexity, which becomes more difficult to manage effectively.

As part of our analysis, we have segmented the players participating in our benchmark into four categories (exhibit 9).

**Effective business enablers.** Our findings illustrate that 17.4 percent of wealth managers are able to generate above-average returns while investing significantly less on IT than their peers (upper left quadrant in exhibit 9). This group of effective business enablers maintains a low level of IT spending but successfully puts IT investments to good business use. The players in this group can further optimize their IT spending portfolio as well as selectively rebalance IT investments to stay on top of market developments. Building capabilities in strategic areas such as digital or big data will allow IT to exploit innovations quickly.

**High IT spenders.** 17.4 percent of wealth managers exhibit above-average IT spending but below-average operating income (lower right quadrant in exhibit 9). For this group of high IT spenders, IT investments do not result in proportional business returns. It is likely that these players spend too much on running their daily operations and too little on innovation that would set them apart from their competition. High IT spenders should reduce spending, selectively invest to improve business performance and achieve better alignment with business objectives. This can be done by evaluating IT projects with regard to benefits and cut projects that are not strategic.

**Heavy IT transformers.** 21.7 percent of wealth managers spend heavily on their IT and see proportional business returns coming out of these investments (upper right quadrant in exhibit 9). The majority of players in this group have undergone high-impact IT-enabled transformation programs, resulting in IT investments that are higher than their peer group. Over time, the group of heavy IT transformers should cut back spending without losing efficiency and limiting innovations. These players should improve their governance and performance-management techniques to align IT spending more strongly with priorities once the current phase of transformation is complete.

**IT executors.** The majority of wealth managers, 43.5 percent, do not invest heavily in IT, but neither do they see high levels of business return for their IT investments (lower left quadrant in exhibit 9). To improve performance, this group of IT executors should focus current IT spending more on improving and innovating front-office tools and enablers, e.g., mobile banking or client analytics.
Three skills to master

Our experience shows that players that are best able to ensure their everyday IT spending is efficient and their IT investments target the highest-impact projects master three skills: strategic alignment, controlled demand management and forceful complexity management.

Strategic alignment
Wealth managers that achieve superior returns for lower IT expenditures are much better at aligning IT spending with strategic priorities of the business. These wealth managers also form their IT strategies in close cooperation and alignment with the business by using formal governance processes and engaging the business to focus on value creation levers that are influenced by IT.

Controlled demand management
Leading wealth managers endorse highly controlled demand management processes to govern project selection and funding. The goal of these processes is to realize the value of IT investments by establishing controls on incoming demand, effectively coordinating resources and providing transparency on performance over time. To reduce the number of non-critical projects entering the pipeline, leading players require that each incoming change initiative (e.g., for application development) articulate the expected return on investment as part of the approval application. This ensures that resource consumption and returns are made transparent and that management has visibility on IT spending.

Forceful complexity management
Leading wealth managers apply discipline in cutting complexity across multiple layers, by applying strong governance frameworks, architecture review and design authority boards and streamlining application and infrastructure environments. By shoring up discipline and governance around key IT complexity drivers, wealth managers can reduce operational costs and improve quality and time-to-market of solution delivery.

Exhibit 9
Leading wealth managers spend less on IT than their peers but are able to generate above-average operating income

<table>
<thead>
<tr>
<th>Normalized operating income vs. IT spend</th>
<th>Actions to influence trajectory</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating income / banking employee (t USD)</td>
<td>A Effective business enablers</td>
</tr>
<tr>
<td></td>
<td>▶ Rebalance IT investments</td>
</tr>
<tr>
<td></td>
<td>▶ Build capabilities to exploit emerging innovations quickly</td>
</tr>
<tr>
<td></td>
<td>B Heavy IT transformers</td>
</tr>
<tr>
<td></td>
<td>▶ Align IT spending with priorities</td>
</tr>
<tr>
<td></td>
<td>▶ Redirect spending after transformation</td>
</tr>
<tr>
<td></td>
<td>C High IT spenders</td>
</tr>
<tr>
<td></td>
<td>▶ Cut non-strategic IT projects</td>
</tr>
<tr>
<td></td>
<td>▶ Ensure alignment with business</td>
</tr>
<tr>
<td></td>
<td>▶ Prioritize development and speed delivery</td>
</tr>
<tr>
<td></td>
<td>D IT executors</td>
</tr>
<tr>
<td></td>
<td>▶ Increase front-end investments to build out new sources of income</td>
</tr>
<tr>
<td></td>
<td>▶ Redirect back-end spending to boost cost performance</td>
</tr>
</tbody>
</table>

Source: EY IT Benchmark of Wealth Managers 2014
Note: all figures for full-year 2013; all USD dollar figures are calculated based on fixed 2013 exchange rates
Looking ahead

As wealth managers position themselves within their playing fields, more and more business executives are acknowledging the strategic value that technology and IT can provide to their business beyond just cutting costs.

Yet as business executives look to invest into new capabilities to capture emerging growth opportunities, many CIOs are still concentrating on regulatory compliance, client data confidentiality and cost optimization.

These are some of the findings of our survey, which asked IT executives within wealth management to state their spend priorities for the coming year (exhibit 10).

For IT executives within wealth management, the top three IT spend priorities for the coming year are regulatory compliance, information protection and IT cost optimization. Regulatory compliance is rated by 92 percent of respondents as a top priority, information protection by 72 percent and IT cost optimization by 68 percent. Front-office process automation and improvement is a priority for 64 percent, back-office process automation for 48 percent of respondents. Back-office automation is a much lower priority compared with last year, when 77 percent of respondents stated it as a high priority. In the past, many wealth managers have focused most of their efforts towards efficiency improvements within the back-office. The data suggests that many wealth managers have now addressed the back-office and are looking towards other areas to achieve additional improvement and efficiency.

**Exhibit 10**

Regulatory compliance still at the very top of the CIO agenda, with information protection a close second

<table>
<thead>
<tr>
<th>Area for spend priority in coming year</th>
<th>% of responses stating high priority</th>
</tr>
</thead>
<tbody>
<tr>
<td>ensuring regulatory compliance</td>
<td>92.0</td>
</tr>
<tr>
<td>increasing information protection</td>
<td>72.0</td>
</tr>
<tr>
<td>IT cost optimization</td>
<td>68.0</td>
</tr>
<tr>
<td>front-office process automation and improvement</td>
<td>64.0</td>
</tr>
<tr>
<td>reducing cost of ongoing support</td>
<td>64.0</td>
</tr>
<tr>
<td>upgrading existing systems</td>
<td>56.0</td>
</tr>
<tr>
<td>improving IT service continuity</td>
<td>52.0</td>
</tr>
<tr>
<td>improving IT service levels</td>
<td>52.0</td>
</tr>
<tr>
<td>improving IT staff skills (including training)</td>
<td>52.0</td>
</tr>
<tr>
<td>mobile devices and apps for relationship managers</td>
<td>48.0</td>
</tr>
<tr>
<td>back-office process automation and improvement</td>
<td>48.0</td>
</tr>
<tr>
<td>communication performance and capacity management</td>
<td>46.2</td>
</tr>
<tr>
<td>upgrading IT infrastructure</td>
<td>40.0</td>
</tr>
<tr>
<td>governance and/or organization improvement</td>
<td>37.5</td>
</tr>
<tr>
<td>reducing number of technologies</td>
<td>33.3</td>
</tr>
<tr>
<td>outsourcing/insourcing of business functions</td>
<td>28.0</td>
</tr>
<tr>
<td>upgrading desktops/laptops</td>
<td>21.7</td>
</tr>
<tr>
<td>outsourcing/insourcing of IT functions</td>
<td>20.0</td>
</tr>
<tr>
<td>cutting number of IT consultants/temps</td>
<td>16.7</td>
</tr>
<tr>
<td>increasing IT staff headcounts</td>
<td>8.3</td>
</tr>
<tr>
<td>bringing outsourced functions in-houses</td>
<td>8.0</td>
</tr>
<tr>
<td>social media</td>
<td>4.2</td>
</tr>
<tr>
<td>cloud computing implementation</td>
<td>4.2</td>
</tr>
<tr>
<td></td>
<td>0.0</td>
</tr>
</tbody>
</table>

Source: EY Survey of IT in Wealth Management 2014
Chapter 3:
Next generation core banking
Chapter 3: Next generation core banking

At the heart of every wealth manager’s IT infrastructure lies its core banking system. The core banking system is the technology workhorse that processes virtually everything that wealth managers do, linking customers to products and services, across the front, middle and back office.

Core banking systems emerged in the 1970s with the introduction of mainframe-based transaction processing. These systems were designed to handle large volumes of transactions in a centralized fashion, both efficiently and dependably.

Since the emergence of these host-based core banking systems, banking and technology have evolved dramatically. Today’s banking environment is characterized by market volatility, regulatory uncertainty and accelerated time-to-market cycles. Also, customers now use a wide array of access channels and expect round-the-clock service. Technology has evolved as well. Today’s high-performance IT systems rely on modular architectures, flexible communication infrastructure and plug-and-play functionality.

Many of the core systems developed in the 1970s and 1980s are still in use today. Despite reaching their end-of-life, these outdated platforms persists because of the cost, complexity and risk of transferring day-to-day operations to modern technology and infrastructure.

Not surprisingly, wealth managers operating such legacy platforms feel encumbered by the inflexible banking processes, overly complex IT infrastructures and high costs these systems entail.

One global wealth manager found that the running costs of its highly fragmented landscape of multiple legacy systems across markets and regions, based on antiquated technology, was too high to sustain. Adapting its platform to new regulations was increasingly difficult across multiple systems and delivering a globally consistent client proposition nearly impossible. Another wealth manager realized that its old and unwieldy core banking system was severely hurting its ability to control costs. Manual workarounds and a mushrooming volume of custom applications ran up tens of millions in additional annual IT spending. A third player found that its platform, made up of multiple incompatible vendor packages and in-house applications, was limiting its ability to aggregate client data across business units.

While a number of leading wealth managers have begun to transform their IT platforms, many others are taking only tentative steps. This approach not only delays the inevitable but also introduces new risks.

The case for platform modernization

Wealth managers have historically underinvested in technology. Reality is catching up as the growing complexity of outdated systems is threatening the ability of wealth managers to launch new products and services, acquire other players and streamline operations.

As the challenges associated with these core systems become more extreme each year, most wealth managers realize that it is a question not of whether but rather when to substantially invest into their IT platforms.

The stakes are high and amidst growing competitive pressure, a wave of transformational spend is hitting the industry, aimed at modernizing out-dated technology and core systems.

What is this technology investment chasing? The list of benefits wealth managers hope to derive from technology investments is long: improved client value propositions – enabling a compelling client journey by improving tools and capabilities, both for client advisors and clients; improved cost base – reduced complexity and greater automation in order to achieve significant and sustainable cost savings; faster time-to-market – enabling shorter response times to market developments and the ability to take advantage of business opportunities; consistency and control – streamlined development of new regulatory requirements, a single client view and improved management information systems.

In modernizing their IT landscapes, wealth managers are pursuing two distinct strategies: strategic investment in wholesale platform migration or tactical investments into IT architecture simplification and improvement.
A. Strategic platform replacement

The requirements of a modern-day core banking system are diverse: powerful digital and analytics capabilities, adaptability in response to frequent regulatory changes and a highly scalable architecture to support mergers and acquisitions. Also, core banking systems must be adaptive to new paradigms: able to adjust to new business and cost models, decouple data from business functions and assemble internal and third-party providers. All the while, core systems must offer superior levels of automation and scalability to enable a competitive cost base.

Migration to a wholly new platform requires substantial investment and disciplined implementation. If executed with care, platform migration can future-proof the business for the foreseeable horizon and enable new growth opportunities.

Despite the myriad shortcomings of many outdated core systems, building a compelling financial case for platform migration can be surprisingly difficult. A financial case based solely on incremental cost savings over time can appear marginal as it may take time for the incremental savings to materialize. Additional strategic benefits can support the financial case, for example through reduced cost and complexity of integrating acquisitions.

A much more compelling financial case can be built by recognizing that migration to a new platform offers a once-in-a-generation opportunity to overhaul and improve the entire operating model and organization, not just the technology environment.

By taking a long-term view over the next 5 to 10 years and simultaneously seizing the opportunity to refine their operating model, wealth managers will find it much easier to rationalize the investments required for wholesale platform migration.

In combining the platform migration with operating model redesign, wealth managers can capture the dual benefit of a modernized technology environment with comprehensive retooling of the fundamental capabilities and business processes. This will lead to a better customer experience, more cost-effective operations and a stronger competitive position overall.

Package selection

As the core banking platform touches upon so many aspects of the business, selecting the right technology vendor can make or break the financial case and ultimately, the overall success of the transformation.

The vendor landscape for wealth management solutions is fragmented. Only a handful of vendors provide capabilities across the full value chain. The ecosystem of technology vendors is dynamic and expanding; vendors in the retail and payments space are continuously broadening their functional coverage towards wealth offerings through targeted investments and acquisitions.

Given the differences between business and operating models of wealth management, rarely will a single vendor solution address all requirements. A robust and judicious vendor selection process is crucial to gain sufficient transparency on the different vendor packages, gain clarity on the strengths and weaknesses of the individual packages and ultimately allow the final decision to be made with conviction and confidence.

Too often, the selection process is run by IT project managers alone, with little or no direct involvement from the business. Platform migration is fundamentally about long-term business transformation and not just an exercise in hooking up the pipes in the IT environment. It is therefore imperative that senior business and IT leaders fully engage themselves in the planning and selection process.

Wealth managers are taking different approaches to vendor selection, resulting in different levels of insight and commercial leverage. Traditional approaches to vendor selection combine paper-based vendor responses to a catalog of questions with varying degrees of face-to-face interaction and collaboration. To provide greater clarity with regards to the real capabilities of the different solutions, wealth managers may incorporate vendor engagement workshops to discuss proposal elements, use business scenarios or proof-of-concepts to bring the vendor solution to life, or conduct reference site visits to see how the solution has been adopted.
We have found that the champion/challenger approach strikes a good balance between upfront investment and sound decision-making as well as commercial sense.

With the champion/challenger approach, the objective is to quickly short-list two (or three at a maximum) vendors and to focus all subsequent efforts on these. All short-listed vendors are engaged in proof-of-concept exercises to compare and contrast vendors in parallel or back-to-back. Importantly, advanced negotiations are run in parallel with all short-listed vendors to maintain commercial leverage and to arrive at the key commercial principles that will form the basis for the contract. The champion/challenger approach requires solid preparation, strong business engagement and can be logistically challenging. The benefits of this approach are a detailed understanding of a narrow set of vendors, reduced levels of sales team involvement and the maintenance of commercial leverage throughout the entire process.

How to make the journey successful

Over the past decade, many attempts to replace core banking platforms have gone amiss.

One global wealth manager incorrectly viewed its platform migration as a clear-cut IT implementation project and directed its IT team to engage with the chosen vendor to execute on the transformation. With the business team largely disengaged, the initial architecture did not include several key requirements such as a single and unified client database. This oversight resulted in costly design changes at a later stage.

With such late and unforeseen business requirements frequently bogging down projects and resulting in costly project overruns, the overall business value of platform migrations can easily come into question.

In recent years, however, a more advanced understanding of key success factors has brought marked improvements in planning, project management and platform design.

Today, most transformations can be completed successfully with much smaller variations in time and budget.

One diversified wealth manager for instance dedicated a large portion of the total project timeline to upfront planning of the transformation with the technology vendor. During this period, the two partners diligently defined the business and IT requirements, established performance indicators and agreed on key milestones. Investing sufficient up-front time in the planning process significantly helps to build organizational consensus, speed implementation and reduce errors. In the past, platform migration programs have often been plagued by the tug of war between standardization and customization. A single-minded quest to customize a chosen vendor package to meet specific business requirements can quickly lead to unwieldy designs and inefficient processes. Recognizing that only a solid level of standardization can achieve sustainable benefits in cost reduction, the pendulum between standardization and customization has firmly swung towards standardization.

By making adoption rather than adaption the rule and by focusing only on a handful of agreed-upon business priorities, wealth managers can successfully toe the fine line between common processes that promote efficiency and tailored offerings that meet the needs of business units.
B. Tactical investment in IT architecture simplification

Many wealth managers face a common but serious IT problem: the complexity and fragmentation of their corporate IT architectures.

Radically simplifying and streamlining any given IT architecture can extract untapped business value from existing IT assets and deliver significant and long-term cost savings. The savings to be gained by reducing IT architecture complexity can be sizeable. One global financial services firm came to the conclusion that reducing its application count by a fraction would enable the businesses to save several millions of spend each year.

Compared with strategic platform migration, taking a tactical approach by radically simplifying the IT architecture requires less upfront investment and minimizes business disruption, while still offering substantial benefit for both IT and the wider business.

Complex and fragmented corporate IT architectures typically develop over time. With many IT initiatives driven by short-term business needs and executed with only minimal regard for long-term blueprints, the complexity of any given IT architecture invariably grows gradually and organically. The result are IT architectures that resemble a patchwork of duplicate applications and systems as well as redundant and inconsistent data.

A highly complex IT architecture can easily impede the business in seizing emerging opportunities, making it less agile and responsive to change. Also, it can translate into unreasonably high IT costs and unsatisfactory service levels.

Given such a situation, making a conscious and disciplined effort to forcefully simplify and improve the corporate IT architecture can achieve a step change in IT cost reduction and efficiency improvement – while creating more headroom for innovation and building new IT capabilities.

We have found that taking a phased approach towards IT architecture simplification can help wealth managers achieve a continuous realization of business benefits while minimizing disruption along the way. Improvements can be made selectively and gradually, with quick wins during early stages and more enduring wins during the middle and towards the end of the journey.
The phased approach we suggest consists of three steps.

1. The first step is to define a **high-level blueprint** of the target IT architecture. At a minimum, the blueprint consists of enterprise-wide design principles as well as key metrics for the target IT architecture. The design principles define the qualitative standards and guidelines across the different architecture layers, e.g., data model, applications, integration platform and infrastructure. The key metrics define in quantitative terms “what good looks like” for the target IT architecture, e.g., the number of applications, interfaces, data repositories and technical infrastructure elements during “business as usual”, i.e., once the simplification effort has run its course.

2. In a second step, IT must then define a series of programs to aggressively **attack the complexity** of their IT architecture. Some examples of programs that can deliver benefits both in the short and medium-term are the following.

   **Forcefully decommission applications.** Review usage patterns of applications and vehemently switch-off applications that have not been used in the last six months. The reaction from the business will provide a yardstick to determine how critical the application is and whether the application can be safely retired or not. One European bank conducted an application rationalization analysis and found that nearly 30 percent of all applications were strong candidates for decommissioning and that a large fraction of these could be decommissioned immediately.

   **Streamline technologies.** A large set of diverse technologies, e.g., programming languages and operating systems, can create an enormous drag on IT efficiency. Pinpointing and discarding unsupported technologies, non-standard tools and redundant versions can pave the way for increased standardization, resulting in lower support and maintenance expenditures.

3. As the third and final step, once some of the programs have run their course and provided some early successes, IT should establish **the steady-state governance for the IT architecture** that will ensure that IT complexity is kept at bay over time. The target governance may consist of design authority and architecture review boards spread strategically across the organization. The objective of these boards is to ensure that the guidelines are adhered to and that complexity does not slowly creep back in through lack of discipline and poor decision-making.

IT simplification is a challenging but rewarding exercise. If executed with care, it can help wealth managers increase their agility, flexibility and efficiency. These are essential prerequisites – not only for competing but also winning in these challenging times.
The degree of functional integration of businesses processes within the core banking platform offers an indication of how well the platform is utilized and leveraged.

Vendor platforms provide functionality across the full value chain, from customer relationship management, sales and distribution, service and product offering, through to order management and settlement and finally, client and regulatory reporting.

Not all wealth managers apply all modules provided by the vendor solution. Instead, more tailored solutions are anchored on top of the core banking platform, leading to additional effort for one-time integration and ongoing maintenance.

We polled wealth managers to determine which banking processes are operated from within the core platform and which are implemented through add-on tools (exhibit 11).

The largest opportunity to further leverage core platform capabilities are in the front-office. Fifty-six percent of respondents state that client relationship management applications runs off of the core platform, 48 percent state the same of their sales and distribution processes. Many wealth managers deploy separate solutions for client relationship management to address tailored requirements, e.g., for client data confidentiality. In the back-office, functionality for risk (e.g., credit risk control management) and for compliance (e.g., legal documentation management) is fully integrated within the core banking platform in 52 percent and 48 percent of cases, respectively. Core banking systems are well integrated in functional areas such as order management and settlement as well as product management.

Increasing the functional integration of the core platform follows five steps:

1. **Identify opportunities to rationalize satellite applications** that may be able to run within the core banking platform
2. **Evaluate existing functionality** offered by the core platform and evaluate against the rationalization opportunities identified
3. **Decide on which opportunities for rationalization** should be pursued
4. **Re-engineer businesses processes** to fit the model provided by the core banking platform and implement the new processes and finally
5. **Retire satellite applications** once the functionality is implemented in the core banking platform

Doing so will involve trade-offs that need to be balanced from a holistic perspective as well as adjustments to existing processes. These adjustments may be complex, but can represent a major element in reducing IT architecture complexity and improved utilization of the core platform.
## Exhibit 11

**Largest opportunity to improve utilization of core banking system in the area of front-office applications**

<table>
<thead>
<tr>
<th>Opportunity to integrate satellite functionality within core banking system</th>
<th>Trading services and trading support</th>
<th>Risk</th>
<th>Financial</th>
<th>Compliance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Client relationship management</td>
<td>Order management and settlement</td>
<td>61%</td>
<td>52%</td>
<td>70%</td>
</tr>
<tr>
<td>Service and product offering</td>
<td>Research and analysis</td>
<td>61%</td>
<td>70%</td>
<td>48%</td>
</tr>
<tr>
<td>Order management and settlement</td>
<td>Product catalog management</td>
<td>74%</td>
<td>72%</td>
<td>72%</td>
</tr>
<tr>
<td>Reporting</td>
<td>Execution management</td>
<td>61%</td>
<td>52%</td>
<td>48%</td>
</tr>
<tr>
<td>Specific product processing</td>
<td>Trade reporting</td>
<td>71%</td>
<td>70%</td>
<td>72%</td>
</tr>
<tr>
<td></td>
<td>Allocations</td>
<td>71%</td>
<td>70%</td>
<td>72%</td>
</tr>
<tr>
<td>Client facing common product processing</td>
<td>63%</td>
<td>72%</td>
<td>70%</td>
<td>48%</td>
</tr>
<tr>
<td>Market facing common product processing</td>
<td>74%</td>
<td>72%</td>
<td>70%</td>
<td>48%</td>
</tr>
</tbody>
</table>

*Source: EY Survey of IT in Wealth Management 2014
Note: integration level within core banking system based on self-assessment of respondents*
Survey of IT landscapes

In order to understand the IT landscapes of wealth managers, EY polled IT executives with regard to the setup of their platform architectures. Our analysis focused on the most meaningful correlations between IT architecture complexity and overall IT cost. We also examined the long-term IT cost levels of the common vendor platforms in order to establish a baseline of the total cost of ownership of different vendor packages.

As in previous years, we asked IT executives to classify their IT landscapes based on the following taxonomy:

- **Self-developed platform** – in-house development, with some externally-acquired software components
- **Best-of-breed platform** – fully-licensed vendor platform, with significant custom enhancements
- **Standard platform** – off-the-self vendor platform, with minimal customization

Nearly 50 percent of all surveyed participants deploy highly-standardized, off-the-shelf packages and adapt internal business processes around the core functionality offered by the vendor platform. Twenty-six percent of surveyed wealth managers operate best-of-breed platforms. These are wealth managers with highly bespoke business requirements that choose to purchase off-the-shelf software and further enhance it to meet specific business requirements, often to such a degree that the original software provider no longer supports maintenance. In terms of ongoing cost, these best-of-breed architectures typically incur high maintenance cost through the combination of license and in-house maintenance.

Twenty-six percent of surveyed wealth managers operate a self-developed platform. Historically, especially large wealth managers have built the majority of their IT applications in-house. Our poll confirms this, with nearly 50 percent of all large players in our sample operating a self-developed platform. In contrast, for small players the use of standard software is the norm. Seventy-one percent of wealth managers in our benchmark operate a commercial package with little modification. The IT landscapes of wealth managers vary across regions. Thirty-six percent of wealth managers in Switzerland operate self-developed platforms, compared with 9 percent in Luxembourg.

The complexity of a given IT architecture materially influences, and even may limit, how efficient IT can be run (exhibit 12). For wealth managers that classify their IT architecture as best-of-breed, the average IT share of cost amounted to 20.6 percent, compared with 14.6 percent that operate a standard platform and 14.1 percent that operate an in-house developed platform. Cost variations can also been seen among those players that operate a highly-standardized platform. Depending on the chosen platform, the IT share of cost varies between 12.7 percent on the low end and 16.3 percent on the high end of the spectrum.
### Exhibit 12

**Best-of-breed core banking platforms tailored towards bespoke requirements exhibit highest total cost of ownership**

<table>
<thead>
<tr>
<th>Core banking platform classification</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard platform²</td>
<td>13.2</td>
<td>13.7</td>
<td>15.3</td>
<td>13.8</td>
<td>14.8</td>
</tr>
<tr>
<td>Best-of-breed platform³</td>
<td>22.7</td>
<td>21.3</td>
<td>20.7</td>
<td>19.8</td>
<td>20.6</td>
</tr>
<tr>
<td>Self-developed platform⁴</td>
<td>12.1</td>
<td>12.3</td>
<td>12.4</td>
<td>15.1</td>
<td>14.1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Standardized platforms only, by package vendor</th>
</tr>
</thead>
<tbody>
<tr>
<td>package A</td>
</tr>
<tr>
<td>package B</td>
</tr>
<tr>
<td>package C</td>
</tr>
<tr>
<td>package D</td>
</tr>
<tr>
<td>package E</td>
</tr>
</tbody>
</table>

Source: EY IT Benchmark of Wealth Managers 2014

---

1) classification of platform architecture based on self-assessment of surveyed wealth managers
2) off-the-self vendor platform, with minimal customization
3) fully-licensed vendor platform, with significant custom enhancements
4) in-house development, with some externally-acquired software components
Chapter 4:
Moving towards a new model for IT
Chapter 4: Moving towards a new model for IT

Within wealth management, most IT organizations have undergone significant change over the last few years. Forced to do more with less, IT organizations have become more cost-effective, more outsourced – and more complex. The IT function is commonly set up as an intricate matrix organized around technology-specific domains, split between run and change responsibilities, with multiple layers of business relationship managers, technical experts and program managers spread across the IT organization.

Organizational complexity severely limits the agility and responsiveness of IT in meeting fast-paced business demands. For IT, several developments are coming to a head and forcing IT organizations to rethink their traditional ways of working:

• The digitization of the wealth management value chain is exposing IT departments to a continuing flood of new and sophisticated technologies.

• With the commoditization of technology, business is increasingly tech-savvy. Technology spending is moving away from IT to other parts of the organization.

• Increasing levels of IT outsourcing in wealth management are forcing IT departments to redefine their mandate, organizational setup and roles.

• Wealth managers are competing on how quickly digital innovations get to clients. For this reason, time-to-market is quickly displacing more traditional IT performance metrics such as efficiency and reliability as key business priorities.

• Agile and iterative development cycles require close alignment between business and IT, mandating that IT establish better and more trust-based relationships with their business peers.

In the digital economy, the IT organization needs to be at the forefront of those players that want to compete and win. Doing so requires greater IT delivery performance across the board. The IT organization has to transform and improve not only how it works within its own function, but also how it collaborates with the rest of the business and external providers.
Refining IT’s operating model

As stated, a majority of executives within wealth management would describe their IT function as a mostly reactive unit: focused on regulatory compliance, client data confidentiality, managing cybersecurity and operational risks rather than technology advancement and innovation (see also exhibit 10).

Given such a picture, the ability of IT to strongly support the business on their digital agenda will rightly come into question. Wealth managers looking for more agility and responsiveness from IT must thoroughly transform their IT functions. Addressing the need for improvement with tactical and short-term fixes will not work.

Wealth managers that successfully manage to realign their IT organization will find themselves better placed to compete in the digital economy. To effectively deliver on step change improvement of IT performance, two elements are critical: top-quality technology talent and superior organizational agility.

Top-quality technology talent

A motivated and innovative workforce that is able to solve the organization’s most complex technical problems and engage senior business leaders is the single most important asset of any IT organization.

Delivering difference-making degrees of performance will require IT to vigorously address its talent agenda in three ways: firstly, by retaining and developing the internal talent pool; secondly, by sourcing talent gaps externally and thirdly, by maintaining flexible contracts with technology vendors that allow IT to bring in specialist resources quickly during demand peaks.

Given the cost and time required to integrate new talent into any organization, IT should always first focus on retaining and developing its internal IT talent pool. Retaining internal talent, in particular high performers, hinges on two levers: compensation and reward as well as career development and learning opportunities. Adjustments in compensation and incentives may be required to align with market levels. Effective measures to foster development and learning include trainings, job rotation as well as senior and external exposure.

Retaining existing talent is important, but will not be enough. The IT function will also need to source talent externally to address talent gaps. An influx of new talent will help IT to bring in leading technology practices. Finding the right technology talent that combines all desired qualities is hard. In most cases, much of the effort in finding new talent will be handled by internal or external recruitment teams. IT can however take positive action by building a persuasive talent value proposition that encapsulates goals and incentives as well as development and learning opportunities.

Finally, meeting volatile and unpredictable demand may not always be possible with internal resources alone. In order to rapidly scale up the workforce, all IT functions should maintain flexible contracts and relationships with agencies and technology vendors so that they can bring in specific skills quickly and efficiently when the need arises.
Superior organizational agility

Agility – a simple word. But businesses across all industries are starting to realize that agility may be the single most critical business capability to have.

What applies to businesses across all industries also applies to wealth managers. Competing on time-to-market and how quickly digital innovations get to clients, the well-being of wealth managers increasingly depends on their collective ability to operate in a highly agile and responsive manner.

**Business agility is a broad concept that encompasses a wide range of attributes and capabilities.** At the level of the individual, agility demands the ability to accelerate, stop and change course and improvise when the situation demands it. At the level of an organization, agility calls for the ability to rapidly adapt to market and environmental changes in productive and cost-effective ways.

With current IT operating models, the demands for speed and agility emanating from the accelerating pace of the digital economy will develop into a considerable source of friction. To keep pace, IT will need to substantially retool its traditional operating model.

**This much is certain: one operating model for IT is no longer enough.** The need for speed mandates two different operating models that coexist within the same IT organization: the “traditional” operating model delivers service to the business in its customary role and at optimized speed, while the second “high-speed” operating model supports the business on digital developments.

The mandate of the high-speed IT function is to support the business in generating benefits quickly. The high-speed IT function will help the front-office by building modular components that can be quickly combined into “solution architectures” for specific opportunities. The modular components will encompass business processes and the underlying software and infrastructure components, with flexible back-end connectors into legacy systems.

**The high-speed IT function will turn to quick, iterative builds using agile development principles**, with rapid feedback from internal and external customers. This approach increases speed and reduces the reliance on extensive business analysis and project-management associated with more stringent waterfall-based delivery methods.

**The high-speed function will exhibit a start-up culture and mindset.** Its IT performance measures will be biased towards time-to-market and innovation, with performance measures such as efficiency, and reliability taking a subordinated role.
IT organization benchmark

We polled wealth managers to determine the makeup of their IT organization in terms of headcount, total personnel costs and cost per internal IT FTE.

Across all surveyed wealth managers, the average size of the internal IT organization was 8.0 percent of total bank FTE. To gain additional flexibility, all wealth managers employed additional external IT employees (exhibit 13).

For wealth managers that rely on internal IT sourcing, 9.5 percent of the total organization work within IT. For those players that outsource the majority of their IT function, this value was 5.3 percent. Personnel costs as a percentage of total IT budget amounted to 28.6 percent in 2013. Players that operate IT internally spend 34.9 percent of total budget on IT, outsourced players 17.0 percent.

Total personnel costs are affected by personnel costs for IT specialists. Including all non-wage labor costs, the average cost per internal IT employee was approximately USD 166,000 in 2013. There was a wide range among survey participants, with wealth managers in Switzerland having the highest average cost per internal IT employee (USD 185,000 in 2013) and players in Singapore the lowest (USD 129,000).

<table>
<thead>
<tr>
<th>Classification of IT sourcing model¹</th>
<th>Internal IT sourcing²</th>
<th>Selective IT outsourcing³</th>
</tr>
</thead>
<tbody>
<tr>
<td>IT FTE as % of total FTE</td>
<td>2009 2010 2011 2012 2013</td>
<td>2009 2010 2011 2012 2013</td>
</tr>
<tr>
<td>external IT employees</td>
<td>11.4 12.7 12.9 13.2 12.4</td>
<td>8.5 9.0 9.2 9.8 9.5</td>
</tr>
<tr>
<td>total</td>
<td>8.5 9.0 9.2 9.8 9.5</td>
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<tr>
<th>IT personnel expense as % of total IT cost</th>
<th>2009 2010 2011 2012 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>total</td>
<td>34.0 36.7 33.8 30.9 34.9</td>
</tr>
<tr>
<td>average</td>
<td>34.1</td>
</tr>
</tbody>
</table>

<table>
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<tr>
<th>Cost per internal IT FTE (t USD)</th>
<th>2009 2010 2011 2012 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>total</td>
<td>164.7 154.9 166.0 169.3 166.9</td>
</tr>
<tr>
<td>average</td>
<td>164.4</td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th>2009 2010 2011 2012 2013</th>
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<tbody>
<tr>
<td>157.8 161.4 164.1 169.8 166.8</td>
</tr>
<tr>
<td>average</td>
</tr>
</tbody>
</table>

Source: EY IT Benchmarking in Wealth Management 2014
Note: all USD dollar figures are calculated based on fixed 2013 exchange rates
¹) classification of IT sourcing model based on self-assessment of respondents
²) majority of IT operations performed in-house
³) large share of IT operations outsourced to third-party vendor
Extracting value from IT outsourcing

As wealth managers redefine their operating models and strengthen their core capabilities, they depend on a wide range of sourcing solutions to give them access to talent, scale and advanced services. In the current cost environment, sourcing solutions are increasingly relevant for large parts of the value chain. For most wealth managers, non-core functionalities are periodically coming under review for outsourcing opportunities.

Also for IT, outsourcing to technology vendors is a critical element of the IT operating model. Technology vendors can provide a range of benefits. Through greater economies of scale, access to low-cost labor and process efficiencies derived from experience, vendors can offer lower cost. Through the maturity of their processes and their proximity to technology developments, they can provide higher quality. They are also able to provide agility and responsiveness through their ability to quickly ramp-up or scale-down resource capacity.

What are the benefits for wealth managers? Cost reduction and cost variability (i.e., the ability to convert a fixed cost base to a flexible one that responds to peak demand without ramping up internal resources) are the two primary drivers of IT outsourcing. Additional drivers of IT outsourcing are potentially high switching costs, loss of control over critical services as well as guaranteed levels of service. Disadvantages of IT outsourcing are operationally risks can easily arise from security breaches or the inability of the provider to comply with legal and regulatory requirements.

Whereas IT outsourcing can create tremendous value, achieving the full set of intended benefits from IT outsourcing is not straightforward. Making IT outsourcing arrangements deliver maximum value hinges on three elements: a capable and committed vendor, an optimized relationship between both contracting parties and a strong internal IT organization that is able to sustain the benefits.

- **Capable IT vendor.** Performing the vendor selection with diligence and foresight is critical for success. The number of credible providers is expanding materially. Vetting and choosing among the different providers is becoming progressively more challenging and time-consuming.

- **Optimized relationship between contracting parties.** IT leaders need to ensure they fully understand the contract’s most critical elements as well as the risks to which they might be exposed to under different business scenarios. Successfully negotiating the outsourcing contract requires input from a range of internal stakeholders, not just IT management.

- **Strong internal IT organization.** The retained IT organization must ensure a coordinated performance from both vendors and internal delivery groups. To be successful, the IT organization must retain key capabilities to effectively and efficiently manage vendors and all aspects of the outsourcing program.

Research shows that the benefits realized from IT outsourcing often fall short of expectations. There are many reasons why IT outsourcing fails to deliver the full expected benefit. One reason may lie with the vendor. IT executives will be often heard complaining that their vendors are not performing according to the agreed contract. Another reason may lie with the outsourcing IT function itself. Too often, the IT organization is reduced to a thin layer of contract managers sitting between the business and third-party vendor.

The capabilities of the retained IT organization are essential for delivering the intended benefits from IT outsourcing. Equipping the retained organization with the correct skills is paramount to extracting the full value from IT outsourcing.
The retained organization

Irrespective of the exact IT outsourcing setup, there is one part of the IT organization that will always remain in-house: the retained IT organization.

Post-outsourcing, the role of the IT organization changes, from that of executor to that of orchestrator. The IT organization will do much less of the traditional run-the-bank and change-the-bank activities, leaving many of these to the third-party provider. The primary objective of the retained IT organization becomes that of ensuring a coordinated performance from both vendors and internal delivery groups. **The retained IT organization requires capabilities in three central areas: IT strategy, management of supply and demand and solution delivery.**

**IT strategy**
The retained IT organization must define the catalog of IT services that are needed to support the business on an ongoing basis and in a manner that is consistent with the IT strategy. Over time, the retained IT organization must also refresh the IT strategy to ensure alignment with the broad set of business goals.

**Management of supply and demand**
The retained IT organization must manage the supply by administering and monitoring the outsourcing contract. The retained IT organization must also proactively balance and streamline demand by ensuring operational efficiency, effectiveness and reduction in complexity as well as by ensuring long-term alignment of interests between both parties (e.g., through financial incentives that encourage cost control). Over time, the retained organization may also need to adjust volume and nature of the outsourced IT services.

**Solution delivery**
The retained IT organization must ensure that changes and improvements, e.g., in response to regulatory requirements, are delivered in time, within budget and at the desired level of quality. The retained IT organization must integrate delivery from external and internal service providers by clarifying roles, ensuring that the parties work together effectively, and by creating transparency regarding service problems and requests in line with business needs.
IT outsourcing benchmark

IT outsourcing is widely practiced by wealth managers. The potential for cost savings remains the single biggest stimulus for wealth managers that outsource elements of their IT. The services that fall under IT outsourcing range from desktop services, local IT support, and application development to outsourcing of production and operations.

Sixty-six percent of wealth managers in our sample state that they outsource parts of their IT service delivery, while the remainder operate the majority of their IT internally. Especially among smaller wealth managers, IT outsourcing is common practice, with more than half of all wealth managers with less than 15bn AuM outsourcing large parts of their IT. Among larger wealth managers, only 27 percent practice IT outsourcing widely.

The degree of outsourcing ranged from 1.3 percent to 86.1 percent of total IT costs. Especially smaller players apply IT outsourcing extensively to achieve scale advantages. As an unweighted average, outsourcing costs accounted for 38.4 percent of survey respondents’ total IT costs (exhibit 14).

Several surveys reveal a high degree of dissatisfaction with the cost savings realized from IT outsourcing. Our findings confirm that IT cost savings correlate with increased levels of IT outsourcing only to a degree. For those players that outsource upward of 40 percent of their total IT budget, the long-term average IT-cost-to-income ratio was 13.2 percent, the IT share of cost 16.8 percent. Players that outsource less than 30 percent of their IT has a comparable IT-cost-to-income ratio of 10.8 percent and IT share of cost of 15.3 percent.

Exhibit 14
Players that practice IT outsourcing exhibit higher total cost of ownership than players with in-house IT functions

Source: EY IT Benchmark of Wealth Managers 2014
Note: all USD dollar figures are calculated based on fixed 2013 exchange rates
1) classification of IT sourcing model based on self-assessment of respondents
2) majority of IT operations performed in-house
3) large share of IT operations outsourced to third-party vendor
Evolving priorities for core IT capabilities

In today’s rapidly changing environment, IT leaders face a range of difficult challenges and decisions. IT leaders must constantly scan the terrain and make strategic bets. All capabilities are important, but some will prove more important than others, depending on organizational context. Making the right moves can mean the difference between a thriving wealth management business that is propelled by an agile IT function or an IT function that fails to provide any meaningful impetus for the business.

What is more, the increasing pace of digital innovations is putting tremendous strain on core IT processes. IT leaders must ensure that the IT function maintains a sufficiently strong and flexible suite of capabilities that underpin the core IT processes.

We polled IT leaders within wealth management to gain an elevated view on how IT leaders rate the importance and maturity of core IT capabilities. We applied the IT Capability Maturity Framework (IT-CMF) as a framework for core IT capabilities (see the sidebar for more information on this state-of-the-art framework). In order to allow for a comparative analysis between the surveyed wealth managers, IT leaders were asked to self-assess the importance and maturity of their IT capabilities on a scale from 1 (low) to 5 (high).

### Exhibit 15

IT executives rate rigorous solutions delivery and effective risk management as capabilities with the highest importance

<table>
<thead>
<tr>
<th>Core IT capability</th>
<th>Importance(^1, 2)</th>
<th>Maturity(^1, 2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk management</td>
<td>4.3</td>
<td>4.0</td>
</tr>
<tr>
<td>Business planning</td>
<td>4.2</td>
<td>3.4</td>
</tr>
<tr>
<td>Sourcing</td>
<td>3.9</td>
<td>3.8</td>
</tr>
<tr>
<td>Strategic planning</td>
<td>3.8</td>
<td>3.5</td>
</tr>
<tr>
<td>IT leadership and governance</td>
<td>3.8</td>
<td>3.7</td>
</tr>
<tr>
<td>Business process management</td>
<td>3.8</td>
<td>3.6</td>
</tr>
<tr>
<td>Capacity forecasting/planning</td>
<td>3.7</td>
<td>3.6</td>
</tr>
<tr>
<td>Accounting and allocation</td>
<td>3.6</td>
<td>3.5</td>
</tr>
<tr>
<td>Service analytics and intelligence</td>
<td>3.4</td>
<td>3.4</td>
</tr>
<tr>
<td>Innovation management</td>
<td>3.4</td>
<td>3.3</td>
</tr>
<tr>
<td>Organization design and planning</td>
<td>3.4</td>
<td>3.4</td>
</tr>
<tr>
<td>Demand and supply management</td>
<td>3.3</td>
<td>3.3</td>
</tr>
<tr>
<td>Budget management</td>
<td>4.2</td>
<td>3.9</td>
</tr>
<tr>
<td>Solutions delivery</td>
<td>4.0</td>
<td>3.9</td>
</tr>
<tr>
<td>Supplier management</td>
<td>3.9</td>
<td>3.8</td>
</tr>
<tr>
<td>Budget oversight and performance analysis</td>
<td>3.5</td>
<td>3.7</td>
</tr>
<tr>
<td>Portfolio planning and prioritization</td>
<td>4.4</td>
<td>3.8</td>
</tr>
<tr>
<td>Funding and financing</td>
<td>4.1</td>
<td>3.6</td>
</tr>
<tr>
<td>Research, development and engineering technologies</td>
<td>3.6</td>
<td>3.5</td>
</tr>
<tr>
<td>People asset management</td>
<td>3.7</td>
<td>3.5</td>
</tr>
<tr>
<td>Total cost of ownership</td>
<td>3.7</td>
<td>3.6</td>
</tr>
<tr>
<td>People asset management</td>
<td>3.7</td>
<td>3.6</td>
</tr>
<tr>
<td>Knowledge management</td>
<td>3.4</td>
<td>3.6</td>
</tr>
<tr>
<td>User management and training</td>
<td>3.4</td>
<td>3.6</td>
</tr>
<tr>
<td>Relationship asset management</td>
<td>3.3</td>
<td>3.3</td>
</tr>
<tr>
<td>Enterprise architecture management</td>
<td>2.7</td>
<td>3.1</td>
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<tr>
<td>Service provisioning</td>
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<td>3.6</td>
</tr>
<tr>
<td>User experience design</td>
<td>3.7</td>
<td>3.4</td>
</tr>
<tr>
<td>Total cost of ownership</td>
<td>3.5</td>
<td>3.4</td>
</tr>
</tbody>
</table>

Source: EY Survey of IT within Wealth Management 2014

\(^1\) scoring based on self-assessment, on a scale of 1 to 5, with 1 lowest and 5 highest

\(^2\) due to differences in methodology, scoring results align to but may not be directly comparable with a complete IT-CMF assessment
According to our findings, the most important IT core capabilities are risk management and solutions delivery. On a scale of 1 to 5, IT leaders rate the importance of risk management at 4.3 and solutions delivery at 4.4 (exhibit 15). Risk management in IT means proactively assessing, monitoring and minimizing the exposure and potential impact of IT risk levels. This includes IT security, business continuity as well as regulatory and legal compliance. IT leaders rate the maturity of risk management within their organization as 4.0. Solutions delivery is a core competence for any IT function. It involves specifying, designing, implementing, validating and deploying solutions (both hardware and software) that effectively address the organization’s IT requirements and opportunities. Solutions delivery includes requirements gathering and analysis – as well as design, implementation, testing and deployment. The self-assessed maturity in solutions delivery is rated at 3.8, indicating room for improvement in this important activity.

On the low end of the spectrum, activities such as innovation and user experience design are rated as low importance, with values of 3.4 and 3.3, respectively. Equally, wealth managers rate their maturity in these areas as low, with maturity ratings of 2.9 and 3.1. With the ongoing digitization of the wealth management chain, it is expected that activities of this nature will only increase in importance.
The IT Capability Maturity Framework (IT-CMF) is a state-of-the-art management framework designed to help organizations optimize their IT capabilities and maximize IT’s delivery of business value. The IT-CMF is the creation of the Innovation Value Institute (IVI), a global consortium of leading industry, government, not-for-profit and academic organizations that aspire to establish a gold standard for managing IT for business value.

IT-CMF complements legacy approaches (such as CMMi, ITIL, COBIT, etc.), providing an umbrella framework to holistically manage the IT function for performance and business value. It takes a holistic view, covering all IT activities in a single framework and using an internally consistent methodology. It also distinguishes itself through its emphasis on delivering real, quantifiable results and improving business value.

The framework segments the activities of an IT function into four strategies or macro-capabilities:

Managing IT like a business. Adopting business practices to run the IT operation with the goal of maximizing the overall business value that IT contributes to an organisation.

Managing IT for business value. An integrated process of selecting and implementing investments in IT that will likely bring the highest value to the organisation.

Managing the IT capability. Describes what IT can do for the organisation collectively. This macro-capability covers knowledge, skills, tools, processes, abilities and motivation available in the IT department to support the enterprise business activities.

Managing the IT budget. A proactive and explicit strategy for finding a sustainable economic model for IT products and services. This includes unit cost reduction components, a method for identifying rapidly maturing low-cost technologies and a mechanism for shifting saved money into investment budgets.

Each macro-capability incorporates multiple capabilities. In all, the framework examines 35 such capabilities. Each capability is further broken down into capability building blocks. For each block, the IT-CMF defines five maturity (or developmental) levels, from “initial” to “optimizing”. Assessing the maturity level of the various building blocks helps the IT function understand its current position, make comparisons with benchmarks and peer companies and define a target level that will maximize the generated business value for the company.
Methodology

Our IT benchmark includes a wide range of wealth managers, from players operating in a single market to globally-integrated players with clients across multiple jurisdictions, both onshore and offshore. Our sample also covers pure-play wealth managers with focused client offerings as well as diversified wealth managers providing a broader range of banking services.

To achieve a reasonable degree of comparability in IT cost positions and corresponding ratios for our benchmarking study, we chose wealth managers with similar business models and client value propositions. We focused on wealth managers with a predominantly relationship-oriented business model. As a result, our benchmarking survey is centred on three wealth management centres with players that share this characteristic: Switzerland, Luxembourg and Singapore. Taken together, these three wealth management centres amount to nearly one-third of total client assets under management globally. Markets with more brokerage-oriented business models, e.g. the US market, are excluded from this year’s survey.

Acknowledgements

Twenty-seven wealth managers provided data for this survey. In preparing the report, we used actual data for 2009 through to 2013, all provided by the participating wealth managers. Furthermore, we used simple averages in order to ensure consistency. Not all wealth managers provided data for all measures and for all years. Detailed IT cost breakdowns involve data only from those wealth managers that provided a complete functional split.

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