Achieving an integrated wealth management solution
Exploring current thinking and furthering the dialogue
Executive summary

The benefits to bank trust organizations, private banks, fee-based brokerage entities and registered investment advisors (RIAs) of achieving an integrated wealth management solution have been discussed within the industry for several years.

Many such organizations have studied different approaches, identified potential impediments, and engaged service providers and industry specialists to plan strategies and identify alternative operating models for consideration. This paper explores current thinking on the topic and attempts to further the dialogue across several important considerations. Several entities we have worked with are focused on integrating components in the front, middle and back offices. Progress has been slow due to real and perceived challenges, but leading organizations are now re-energizing their focus and developing the plans and tools to make an integrated wealth offering a reality.
Overview

Wealth management solutions continue to play an increasingly important role in the success of bank trust organizations, private banks, fee-based brokerage entities and RIAs. Organizations have historically built segment-based independent wealth management functions that include trust and brokerage, which provide for a competitive arrangement of product offerings and greater focus on fee-based income. However, organizations that have preserved redundant sales teams, investment management processes, and operational infrastructures often fail to achieve the scale and cost structures that are essential to remain competitive while at times competing for the same accounts and relationships. In our view, banks and customers realize significant cost savings when each component of the wealth offering is aligned and integrated. At the same time, the level of sophistication and expectations of the wealth client base is challenging organizations to provide a broader suite of products and services that brings together investment management and trust solutions. Based on published surveys, research, our observations and industry discussions with bank leadership, organizations are focused on four strategic imperatives:

1. Achieving sales optimization through a single or coordinated wealth advisor team working across rationalized account structures with less emphasis on a channel view of trust versus brokerage solutions
2. Optimizing the product offering through a “best of breed” set of services and solutions that improve the delivery of multiple investment products and services to the end client through a single view of the customer
3. Maximizing margin through operational economies of scale and reduced costs associated with combined operations and linked technologies
4. Leveraging with leading brokerage and trust service providers that can offer a variable cost model and pricing based on a fully scaled back office

We see these imperatives as unique challenges when considering how wealth management solutions are evolving. The bank wealth offering is often composed of some combination of an investment management group, a trust department and a registered broker-dealer, which find themselves competing internally for the same clients. In reality, clients often end up in a brokerage offering versus a trust offering based on a relationship, an informal segmentation model or a sales channel. In many cases, a client may end up being a client in multiple channels that provide varying client experiences. As a result, organizations have much to gain if they undergo real change toward an integrated wealth management solution that is led by the front office and senior leadership team.

However, progress in the industry has been slow. Banks and other organizations are working through both real and perceived challenges that span the regulatory landscape, internal organizational change and the client experience. As a result, many organizations have attempted a series of incremental and tactical changes that failed to achieve the potential rewards of comprehensive and strategic realignment of current solutions. Firms must realize that any successful strategy must be transformative in nature and should include a broad-based team from legal and compliance, front-office sales, relationship management, investment professionals, technology and back-office operations to build a cohesive plan for integration.
EY has explored each of these issues to offer our view of the importance for moving forward and accelerating toward a wealth optimization strategy that includes solving regulatory, product, technology and operational considerations. We have outlined our observations around three core themes and offer steps on how to resolve these challenges.

1. Offering a class-leading set of wealth solutions

The integrated wealth solution within an organization is essential to optimize the sales capabilities, products, and services available to new and existing clients. In our discussions, we see challenges related to segmentation based on organizations and people willing to relinquish control of the client relationships, investment activities, etc. As a result, opportunities to fully leverage organizational strengths and optimize client experience may be lost when clients are not integrated across traditional channels. The benefit of an integrated wealth operating model is that the organization and clients are leveraging the best components and cost structures of current investment management and trust solutions. The following are some ideas to consider:

- Meet clients’ expectations of greater transparency across wealth solutions that result in a single view of their account balances, activities and fees. Clients expect to have online and real-time access to their accounts, view a wide range of investment products, interact with portfolio modeling and planning tools, and perform securities trades. Organizations that maintain duplicate product-based tools and lack integrated solutions will not only lose market share to those firms that develop an optimized solution available to all wealth segments but will also have redundant platform costs.

- Know that clients and associates now expect there to be fewer differences in the content they see across lines of business (e.g., statement formats, asset classification schemes, performance reporting). Relationship management can spend less time explaining differences and more time focusing on relevant strategic discussions.

- Possess the capability to organize around a single sales force to reduce the risk that the best salespeople are constrained by segmentation, channel or product. Also, to the extent practical, wealth clients and prospects should be treated as an organization relationship where they have access to a broad range of contacts and wealth solutions. An integrated relationship model, led by a primary relationship manager (usually the financial advisor), should enable broader access to products and solutions, confirm that appropriate account structures are used and reduce customers lost through broker/financial advisor defections. In addition, the team should work under a compensation plan that stresses asset under management growth via fee-based income and client satisfaction and retention.

- Provide competitive investment returns, which are critical to attracting and retaining wealth clients. Organizations may be challenged to replicate investment management expertise in multiple channels. For example, the investment strategies and products available to trust clients are sometimes not as progressive or competitive as those offered within the bank. Integration will result in the bank’s wealth clients having access to a more comprehensive set of investment options and expanding the client base.
Optimizing operations in the front, middle and back offices

The cost associated with maintaining separate operations and accounting practices (e.g., trade vs. settlement date, principal and income segregation, mandatory reporting) has been a significant factor in making the business case toward integration. Organizations’ wealth models must gain economies of scale within the processing and operational functions of the front, middle and back offices. Typical functional areas of focus include client onboarding activities, workflow management, proposal generation tools, integration of investment management, brokerage and trust platforms, consolidated client statements, regulatory reporting, and performance reporting and trading. The failure to integrate similar functions across channels results in a high-fixed-cost infrastructure. Small to midsize organizations, especially, may not achieve scale without partnering with leading service provider organizations. The following examples illustrate the key areas of focus:

• Costs and head count associated with supporting separate trust and brokerage accounting and operations’ middle and back office result in a higher-fixed-cost structure.

• Maintaining customers on a trust-accounting application when they have no trust agreement may be seen as an opportunity to shift operational cost to a more efficient brokerage-based operating model, assuming there is no associated loss of important functionality.

• Consolidation of assets with a third-party brokerage or trust clearing and custody provider offers banks leverage when negotiating services related to trust and brokerage. Integration model strategies should include an assessment of leading third-party partners.

The opportunity to leverage platforms and solutions by vendors can create efficiencies across an organization’s wealth solution operation. Platform solutions can automate and integrate a number of functions across front, middle, and back offices and further solve regulatory reporting requirements. Additionally, vendors consistently maintain and update their product offerings to account for changes in regulatory and financial reporting, new software solutions driven by client needs and a desire to stay ahead of market directions. Organizations that engage in a partnership with a vendor that offers wealth solutions realize economies of scale, leverage the industry expertise of a platform partner, and reduce the need for system maintenance and updates of internal systems.
Navigating the regulatory landscape

An integrated wealth management solution requires operating across primary regulatory agencies such as the Financial Industry Regulatory Authority (FINRA) for brokerage activities and the Office of the Comptroller of the Currency for trust-related activities. The regulatory impact of an integrated wealth solution poses a relatively recent and complex set of questions that is new territory for many organizations. Firms that are not fully committed to an integrated wealth solution may see regulatory uncertainty as a means to keep the status quo. However, in our experience, effectively working through these questions based on a clear view of the operational changes being considered often results in practical solutions. Several principles have emerged that should be considered:

- Clients should be in the most appropriate account structure, and associated account fees should be commensurate with services provided. As investment firms move to brand RIA, brokerage and trust, and as optimization techniques such as asset location blur the lines between account and household suitability, the regulators are more actively questioning the suitability of the account structure and whether the bank or broker has placed them in the best account structure based on needs, constraints and costs. For example, moving trust clients who do not have a trust agreement to a brokerage platform may result in a more appropriate account structure, reduce operational costs and eliminate the need to integrate client account information residing on multiple platforms. Trust clients who do not have or require trust agreements or related service levels are an example of a potential regulatory and efficiency integration win/win. Organizations should consider reviewing whether client account structures are suitable to meet the needs of the client and align within the proper wealth solution.

- Major regulators have made public announcements regarding planned greater cooperation and information sharing across agencies. In our view, firms that maintain both brokerage and trust registrations already have the compliance and regulatory infrastructure in place to meet the requirements of both respective regulators.

- Trust organizations have a highly evolved and well-defined concept of fiduciary duties versus other investment management or brokerage offerings. As a result, clients moving from a full-discretion trust account to a full-discretion brokerage will by definition have a changing fiduciary landscape. Regulators are currently working to harmonize the principles of fiduciary duty, but in the interim organizations should take the initiative to understand and address any new client risks associated with moving agency trust accounts to a brokerage account. Combining trust and brokerage operations and assigning new brokerage transactions to former trust employees may result in new licensing requirements for trust employees. Organizations and employees should view this as an opportunity to increase employee knowledge and retention, given that licensing and supervision controls are most likely already in effect.

- Other operational impacts for consideration relate to how customers may react when faced with the paperwork requirements of a new regulatory scheme – for example, when customers move assets from a bank custody model to a brokerage custody and clearing model (and therefore face FINRA statement and confirmation requirements). These former trust customers may receive much more paperwork than they are accustomed to seeing. From a regulatory perspective, one could argue that providing clients with additional correspondence on their accounts and transactions as required under FINRA could be viewed as a positive. However, if customers do not want this new volume of information, they need not receive it as long as the trust fiduciary is receiving required correspondence.

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Conclusion

Growing and maintaining assets sourced through the wealth channel are a strategic priority of bank trust organizations, private banks, fee-based brokerage entities and RIAs. Our observations and research indicate that firms are uniquely positioned to continue to grow but must keep pace with fast-changing competition related to investment solutions, services and pricing. Issues and challenges to achieve an integrated wealth service model are real, but they should not be left unchallenged or unchanged. Overcoming internal challenges in these areas requires a strategic change management process and key stakeholder buy-in. Organizations that are able to integrate services and operations across wealth channels will benefit from an improved experience for existing clients, an increase in potential new clients and a lower-variable-cost structure.

At EY, our wealth management experience has taught us that a preeminent client experience is a key driver for retaining clients and maximizing revenue and profitability. Attempting to manage a client across different wealth solutions and operational models creates challenges and complexity that make this experience difficult to achieve. A comprehensive plan to integrate across lines of business will ultimately result in reduced costs and issues. The focus on the integration should be proper segmentation of client business, leveraging a vendor platform for efficiency and effectiveness, and solving regulatory reporting. With this approach, a wealth organization can optimize the offer for its clients and increase the potential for long-term, even multiple-generational, relationships and build a strategy that will capitalize on opportunities.

EY has experience assisting wealth management institutions with defining and implementing complex operating models and integration plans. Our suite of services has helped leading wealth management firms to develop and implement comprehensive wealth management offerings across brokerage, bank, insurance and asset management organizations.
Contact us to join you in defining and implementing your firm's unique brokerage and trust integration strategy

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