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# Customer Centric Wealth Management

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## Executive Overview

The recent financial crisis has affected economies, both developed and emerging, across the world. Investors who relied on the experienced hands of financial advisors for managing and growing their wealth didn't benefit as many saw their hard earned wealth erode to a significant extent. The resulting loss of trust in financial advisors, new market regulations and reduced margins have severely impacted the way wealth management industry will function in the days to come. The objective of this paper is to highlight the key trends in wealth management industry, key challenges faced by wealth management firms and financial advisors, and how a customer centric wealth management solution can help them address many of these challenges. The paper also briefly mentions Oracle's offerings for a customer centric wealth management solution.

## Introduction

The unprecedented global downturn and its fallout on the world financial markets brought to light many inherent loopholes in the functioning of financial system. Most of the developed world was in recession, and even the emerging economies saw significant reduction in their GDP growth. Considered as the worst global financial crisis since the Great Depression, it has caused wealth erosion at various levels and affected all asset classes and regions albeit in different degrees. According to Morgan Stanley's estimates, global wealth which peaked at \$125 trillion

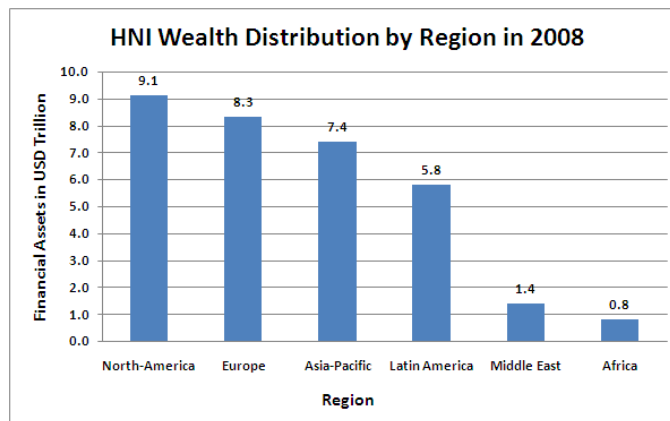


Figure 1: HNI Wealth Distribution by Region in 2008

(a figure quoted by United Nations) went down by 16 percent or \$20 trillion since mid

2007. For High Net Worth individuals<sup>1</sup> (HNWI) investors using Private Banking<sup>2</sup> services, the loss is estimated at 20 percent of their financial assets or close to USD 8.9 trillion.

The total financial assets held by HNWI in the world stood at USD 32.8 trillion (2008)<sup>3</sup>. Within this North America, Europe and Asia-Pacific account for more than 75% of the wealth as shown in Figure 1.

The recession led to a significant fall in the number of HNWI from a high of 10.1 million in 2007 to 8.6 million in 2008, as most individuals experienced, on average, a 20-40 percent fall in total wealth. The number of HNWI in the U.S. fell 18.5% in 2008 to 2.46 million but it still accounted for 28.7% of the global HNWI population.

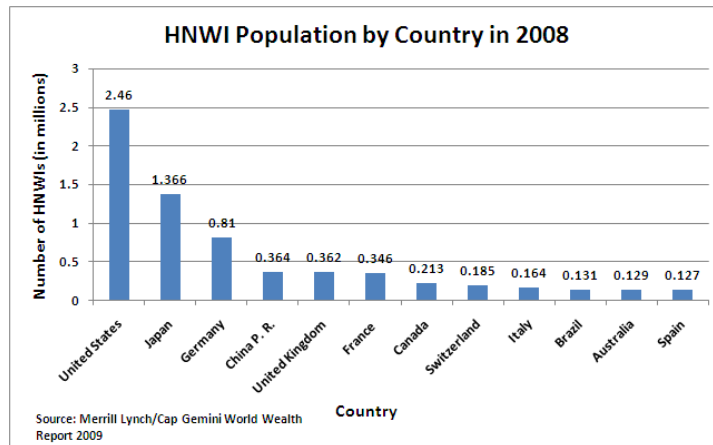


Figure 2: HNWI Population by Country in 2008

The Merrill Lynch/ Capgemini annual survey 2009 of the assets and number of high net worth individuals shows that despite the relatively short term snags caused by the credit crunch, over the medium term, the wealth and number of rich individuals is expected to rise to USD 48.5 trillion by 2013, equating an annual rise of 8.1 per cent over the next

<sup>1</sup> High Net Worth Individuals (HNWI) have at least US\$1 million in investable assets, excluding primary residence, collectibles, consumables, and consumer durables

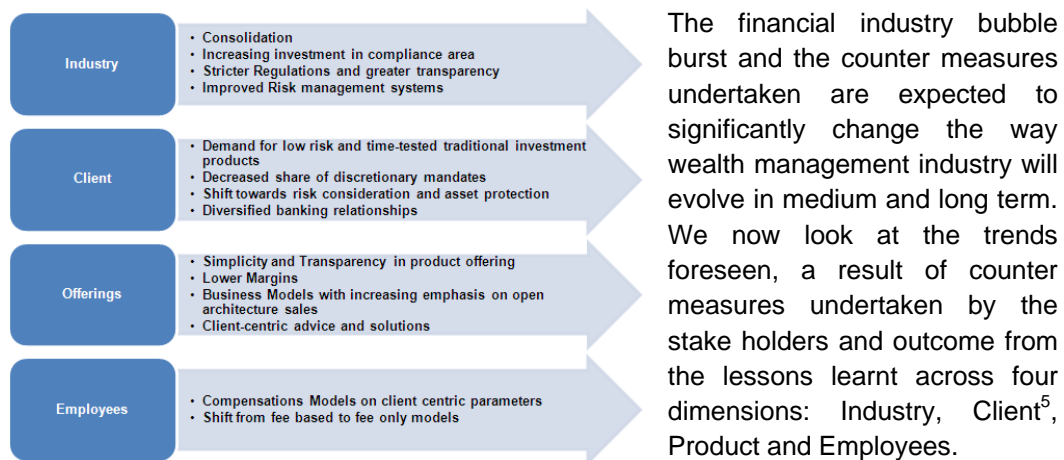
<sup>2</sup> "Private banking" is used as a term for the management of assets of private clients (households).

<sup>3</sup> 'World Wealth Report 2009' by Merrill Lynch and Capgemini

four years. Even a downward revision to such a forecast would still represent a healthy growth rate. According to a study by Oliver Wyman, only about 50% of HNWI assets are professionally managed, so there is still a great potential for the wealth management industry.

The year 2009 showed some signs of improvement in global economy with select developed economies like U.S. coming out of recession. Further, the markets in BRIC countries (Brazil, Russia, India and China) showed great resilience and have continued to be attractive despite the crisis. Wealth in these countries along with North America is expected to drive growth fuelling the need for wealth management<sup>4</sup> services.

## Wealth Management Trends



**Figure 3: Wealth Management Trends**

<sup>4</sup> “Wealth Management” is used as the generic term for the management of assets. This includes wealth management for private as well as for institutional investors

<sup>5</sup> The terms “Client”, “Customer” and “Investors” are used inter-changeably

### **Industry**

- Rising costs and falling revenues will see consolidation in this still heavily fractured industry
- Calls for tighter and more comprehensive regulation of wealth management industry are leading to increased investments in compliance area
- Increasing government involvement in influencing business strategy and may result in tighter licensing requirements for wealth managers, prudent and ethical business practice and increased focus on customer education
- Better and more robust risk management systems will be the order of the day

### **Clients**

- Investors have become more cautious than ever before and are becoming increasingly conservative towards risk. Investors look to shift away from offshore to onshore wealth management, from exotic investment products to more time tested traditional investment products
- Investors seek to have greater control of their wealth and look at reducing the share of product offerings with discretionary mandates
- Investors are expected to be more critical of advice and products
- Investor shift from performance consideration to risk consideration and asset protection
- More and more investors will seek diversification of banking relationships as a risk containment measure

### **Offerings**

- Simplicity and transparency in product offering will be paramount, not complex financial re-engineering
- Dramatic decrease in appetite for complex financial products like structured products and a shift away from discretionary mandate, which were the sources of high income will result in margins coming under pressure in short and medium term
- Business models will lay increasing emphasis on open architecture sales and in generating superior risk adjusted return for clients, thereby binding customer relationships. Move is expected from product centric to customer centric advice and solutions

## Employees

- Compensation structures of relationship managers<sup>6</sup> will be based on client centric parameters like retention value, consistency in performance etc.
- Shift from fee based to fee only models that encourages advice backed sales

## Challenges in Private Banking

Private Banking clients are high-value, high net worth individuals whose financial services need(s) go far beyond basic banking and investment products. Their requirements typically include protection and growth of assets, tax and retirement planning, and generational transition of wealth. Sustaining business from these clients is the biggest challenge but at the same time they also result in biggest potential payoff. Hence in order to secure high stake finance deals from such clients, private banks need to pay a level of attention to



**Figure 4: Challenges in Private Banking**

relationships that go well beyond normal. It's a well known fact that acquiring a new customer is far more expensive than retaining an existing customer. In such relationship-

<sup>6</sup> The terms "Relationship Manager", "Financial Advisor", "Advisor" and "Private Banker" are used inter-changeably

dependant banking operations, it becomes all the more important for the private banks to focus on growing their existing book of business.

However the volatility in the capital markets and a negative development in equity prices and other asset classes, a result of the financial crisis, caused steep declines in assets under management of private banks and also resulted in increasingly wary clients who have lost confidence in their financial advisors and wealth management services as a whole. This led to dramatic reduction in margins for advisors. To add to this, advisors are now faced with clients who are demanding fast, personalized service through all access channels at their convenience. The customers have also become more cautious now and are diversifying their banking relationships allowing them to direct their assets to the best deal/advice available in the market. So unless customers are assured that their service provider is proactively managing their wealth, is deeply concerned about fulfilling their investment objectives and can offer distinctly value-added services, they would as well bring an end to the relationship. It is now imperative that wealth management / private banking firms align their business strategies to manage and develop client relationships and adapt rapidly to the changing business environment.

To sum up, private banks are faced with several challenges which they need to address as a high priority:

- Customers are increasingly skeptical of dealing with Financial Advisors. There is a dire need to focus on customer retention, and work on regaining customer confidence, trust and loyalty
- Maintaining client profitability, re-building asset bases and at the same time sustaining fee structures is becoming a humongous challenge
- Catering to 'Just-in-Time and Just-for-Me' customers with pro-active and unbiased investment advice. Personalized services require extra-ordinary efforts and decisiveness of action
- Improving marketing effectiveness by developing a holistic view of the customer, understand their financial goals and suggesting products which best suit their interests
- Developing lead generation capabilities to identify existing customers and draw out the most profitable customer for private banking services
- Low Financial advisor productivity due to manual handling of key processes and their inability to offer clients the right advice at the right time

- Providing a consolidated view of key information, processes and people from various surround systems
- Adherence to stringent regulatory compliance requirements

## Customer Centric Solutions for Private Banking

Customer centric wealth management / private banking solutions offering a fusion of Customer Relationship Management (CRM), advisory, transaction management and portfolio management, help address many of the challenges faced by the industry. These solutions enable institutions to create competitive advantage through service differentiation, uplift relationship manager productivity and sustain customer relationships. Such a solution for Private Banking helps relationship managers identify, acquire, retain and expand customer relationships.

### **Identification**

Customer centric solutions provide analytical tools that have capabilities to slice and dice customer information and obtain critical insight into customer intelligence. These solutions enable relationship managers to:

- Determine most profitable customers and view customer information across Lines Of Business (LOB)
- Determine products and services which are most profitable
- Identify the best performing private bankers/ financial advisors/ relationship managers
- Determine segmentation strategy for the client base
- Identify cross-sell and up-sell opportunities

### **Acquisition (Pre-Sales and Sales)**

Customer centric solutions provide facility for comprehensive marketing, campaign management and opportunity management capabilities for effective handling of pre-sales life cycle in a private banking firm. The solution allows users to:

- Align campaign profiles to targeted customers and execute marketing campaigns. Monitor effectiveness of campaigns in real-time
- Identify large opportunities to increase product penetration and retention rates

- Determine the elapsed time between opportunity identification and deal closing
- Manage application processing and opportunity tracking effectively
- Profile clients based on wallet share, credit history, profitability ratings, financial account portfolios, assets, products and accounts held with competing institutions for appropriate product sales and further give appropriate product recommendation
- Execute recommended investments



Figure 5: Customer Centric Solution for Private Banking

### Retention and Expansion (Service)

Customer centric solutions enable front-line employees with the tools to own client relationships more proactively and profitably. It provides them with ability to provide

personalized service to customers and measure the success of the services provided. The solution provides features to:

- Monitor portfolio performance
- Manage portfolios vis-à-vis stated investment objectives and provide for periodic rebalancing
- Test drive investments to check the efficacy of investment strategies
- Link transactional and relationship data together to give sales and service people a consolidated 360° view of all products held and services used by client and his households at any point of contact and provides an integrated desktop experience
- Alert advisor or client about returns, exposures, portfolios at risk, maturities etc through collaboration tools
- Notify relationship managers of impending review of client portfolios, service requests from client etc.
- Track, manage and report team activities and performance across organization
- Differentiate customer service based on value of account
- Enable risk management and regulatory compliance
- Enable synchronization of all channels (web, phone, email, face-to-face, branch) allowing clients to choose their preferred communication channel for optimum convenience
- Manage compensation and incentives for front-line employees

### **Reporting**

- Customer portal to facilitate online access to portfolios and on demand report generation
- Comprehensive set of operational and management reports that would drive controls and ensure good corporate governance
- User-friendly reports with rich graphics for transparent client reporting

### **Technology**

- On-Premise, Hosted as well as At-Premise deployment models of customer centric solution to suit the regulatory requirements of clients across different geographies
- Standard interface mechanisms including web services, message based, file feeds etc for information exchange with surround systems

## Benefits of Customer Centric Wealth Management Systems

- Improved revenue growth through more effective and efficient marketing and sales strategy
- Increased customer base and customer wallet share, with increased cross-sell and up-sell through targeted communication, a result of better insight into customer intelligence
- Higher customer retention through improved customer services
- Better co-ordination of customer and employee information across channels and LOBs
- Service differentiation on variety of parameters based on client profile and segmentation
- Improved operational efficiency and shortened sales cycle through better productivity of relationship managers
- Improved turnaround time on resolving client and employee issues with right solution
- Reduced silos of information
- Multi-channel support delivering consistent services

## Conclusion

While the world continues to search their way out of the recent financial turmoil and recession, it has no doubt churned out the inherent faults in the wealth management industry and the larger financial system. With below par performance of wealth management firms and wealth managers coupled with substantial customer wealth erosion, industry players find themselves in an ethos where customers are apprehensive of the abilities of advisors in managing their investments and their effectiveness in providing various wealth management services as a whole.

In order to counter these apprehensions, Wealth management firms are now actively seeking and evaluating avenues to re-build the lost trust. They are looking at engaging their customers in managing their investments in a more collaborative and transparent manner. At the same time, wealth managers are also seeking to empower themselves

with complete and comprehensive customer information in order to provide the best advice and the best solution at the right time.

A customer centric solution catering to the needs of the wealth management industry is just the right solution that would help overcome many of the challenges faced by advisors at every stage of the wealth management business cycle covering identification, acquisition, servicing and reporting. Key differentiators for a successful system include support for:

**Superior Client Servicing Capabilities** - namely analytics driven marketing and campaign management, family relationship view, advice based sales, continuous monitoring and reporting of wealth performance.

**Increased Operational Efficiencies** – automated planning, execution of investment strategies, online collaboration tools.

**Strong Management Oversight** – online monitoring of advisor performance, institutionalizing compliance, and mitigating risk through timely reporting information dissemination across all levels of organizational hierarchy.

A customer centric solution benefits wealth management firms through focused marketing, timely advice, transparent portfolio management, improved and advisor productivity resulting in enduring customer relationships and increased wallet share.

With increasing focus on client-centricity through well defined client segments, better understanding of client needs, individualized value propositions and proactive effort in exceeding client expectations are the key success imperatives. A customer centric solution for wealth management would continue to be one of the major deciding factors for wealth management firms in ensuring customer loyalty by differentiating their services from other players and gaining competitive advantage.

## Oracle's Solutions for Wealth Management

### **1. Oracle FLEXCUBE Private Banking**

Oracle FLEXCUBE Private Banking is a comprehensive, web-enabled wealth management application that provides a single platform to plan, record, track, and manage the overall wealth of a customer, across a range of asset classes and instruments.

#### **Key Features**

- Capture client information
- Profile customers for risk appetite
- Recommend investment strategies appropriate to risk profile, needs and wants
- Originate orders and record trade executions
- Perform pre-trade compliance
- Quick search filters for order book and trade book
- Tailor multi-currency portfolios
- Unify wealth at individual level & family level
- Perform portfolio valuation; calculate returns and risk
- Simulate investment strategies & rebalance Portfolios
- Monitor and manage advisor performance
- Track revenues through commissions and fees
- Provide customer access to the application for performing self-service functions
- Collaborate with customer using tools like alerts, messaging center & interactions
- Publish rule-based advertisements
- Generate comprehensive reports for clients, operations & management
- Integrate with surround systems

#### **Deployment Model**

- On-Premise

## 2. **Oracle CRM On Demand**

Oracle's CRM On Demand delivers the industry's most complete subscription-based solution for sales, marketing, and service, providing organizations of all types and sizes with rapid time to business value. The solution enables financial advisors, such as financial planners and wealth advisors to better leverage their clients' profile and portfolio information to identify cross-sell and up-sell opportunities, improve customer retention and increase wallet share with their customers.

### **Key Features**

- Automatically create, assign and qualify leads
- Enable lead and opportunity revenue tracking
- Consolidate portfolio, leads, opportunities, notes and tasks for a household
- Single view of book of business for individuals as well as household
- Household, financial and investment risk profile tracking
- Integrate with Microsoft Outlook and Lotus Notes
- Automatically link incoming and outgoing e-mails with associated contacts, accounts, leads and opportunities

### **Deployment Model**

- Hosted – Single Tenant, Multi-Tenant and @Customer

## 3. **Oracle Siebel CRM Financial Services - Wealth Management**

Oracle Siebel CRM provides a platform for advisors at wealth management divisions of banks, brokerage firms, and insurance organizations to grow assets under management with new and existing clients through targeted marketing and sales, provide consultative advice to clients and reestablish client trust and confidence

### **Key Features**

- Profile customer/household for one view of the client
- Segment clients on profitability and deliver tiered service
- Generate client call lists to offer targeted products and services
- Manage marketing campaigns & events
- Manage referrals
- Manage households

- Manage financial investment goals and milestones
- Manage financial accounts
- Service book of business
- Support for Know Your Client and USA Patriot Act compliance
- Integrate with email and calendar
- Integrated analytics

**Deployment Model**

- On-Premise

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