The Front Office of the Future

Research Partner:

Investing in your Client

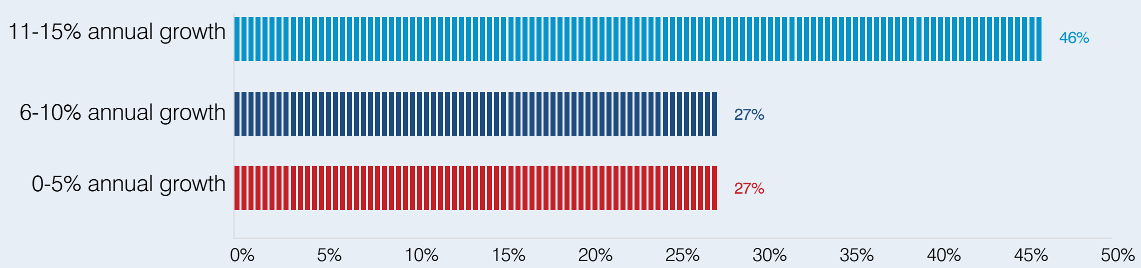
Results are from interviews conducted with Chief level and senior Front Office staff from an equal split of Private Banks, Full Service Wealth Managers and Private Client Investment Managers collectively responsible for £176bn of assets under management.

This is equivalent to **26%** of total assets held by wealth managers.

What is your business strategy in terms of growth of client base and assets under management over the next five years?

In order to understand the growth that firms' front offices will need to support, we asked for their business strategies in terms of growth of assets under management and targeted client base.

Not all firms gave a specific target growth rate of assets under management. Some firms were instead targeting clients with a minimum amount of investable assets, or certain client sizes such as high net worth or ultra high net worth (with the respective wealth brackets changing per firm). Other client types that firms were aiming for included entrepreneurs, international clients, 'HENRYs' (High Earning Not Rich Yet) 'accumulated wealth', 'wealth creators' and 'future wealth'.



Of those with a target growth rate for assets under management, the most popular rate was up to **15%** annual growth, which could equate to up to **100%** growth over five years.

Will any current inefficiencies or challenges to the front office need addressing in order to be scalable and achieve your growth plans?

All firms interviewed gave examples of current inefficiencies that could potentially hinder growth plans. Answers covered areas such as technology, compliance, reward structures, automation, and paper-based processes. How might firms overcome these challenges? One interviewee said “technology is the answer to everything.”

> **Requirements around suitability mean more requirements for technology solutions and higher levels of automation.**

> **We are over-bespoke, and over-service smaller clients.**

> **The front office is much less scalable than the back, due to the high touch in the former.**

> **The biggest challenges are processes, including: client onboarding, KYC, operational day to day, payments, documenting, and transactions.**

> **Yes, team and remuneration structures.**

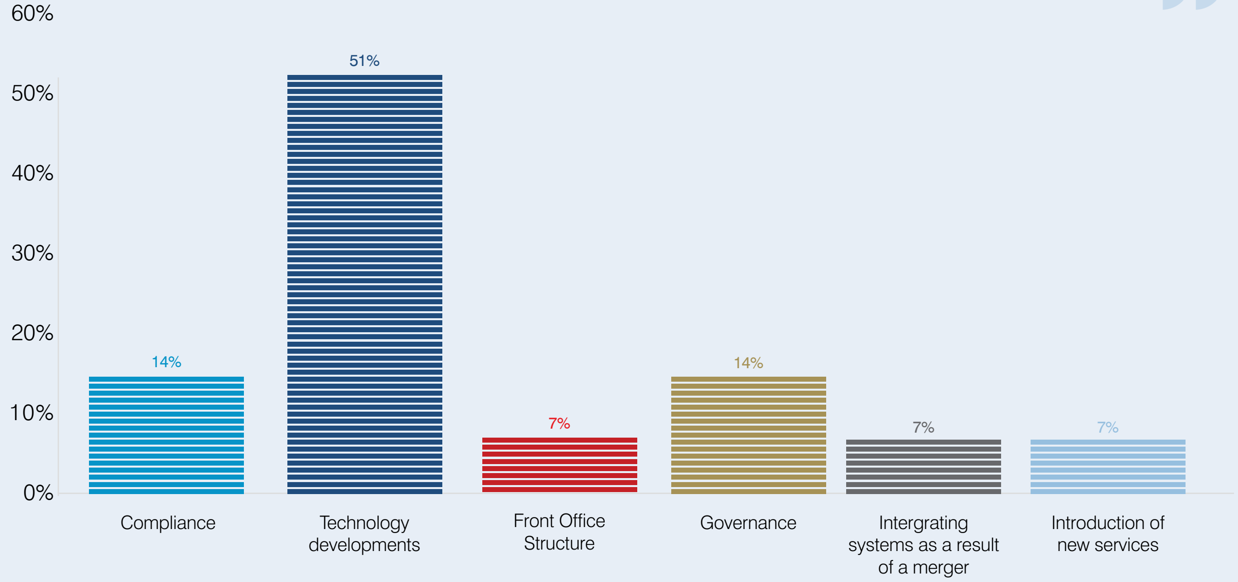
> **Too much is done manually or on spreadsheets.**

What’s been the most important development to your front office in the last five years?

> **The standardisation of platforms and the client portal.**

> **Five years ago we were using four platforms, which led to data duplication, and many manual processes.**

> **Regulation – the requirements for evidencing, suitability, investment rationale etc. There has been a “tsunami of governance”.**



The most frequent development centred on changes to technology, such as implementing new systems. Compliance and Governance took the joint second spot, as firms have faced increasing regulatory requirements and a “tsunami of governance”.

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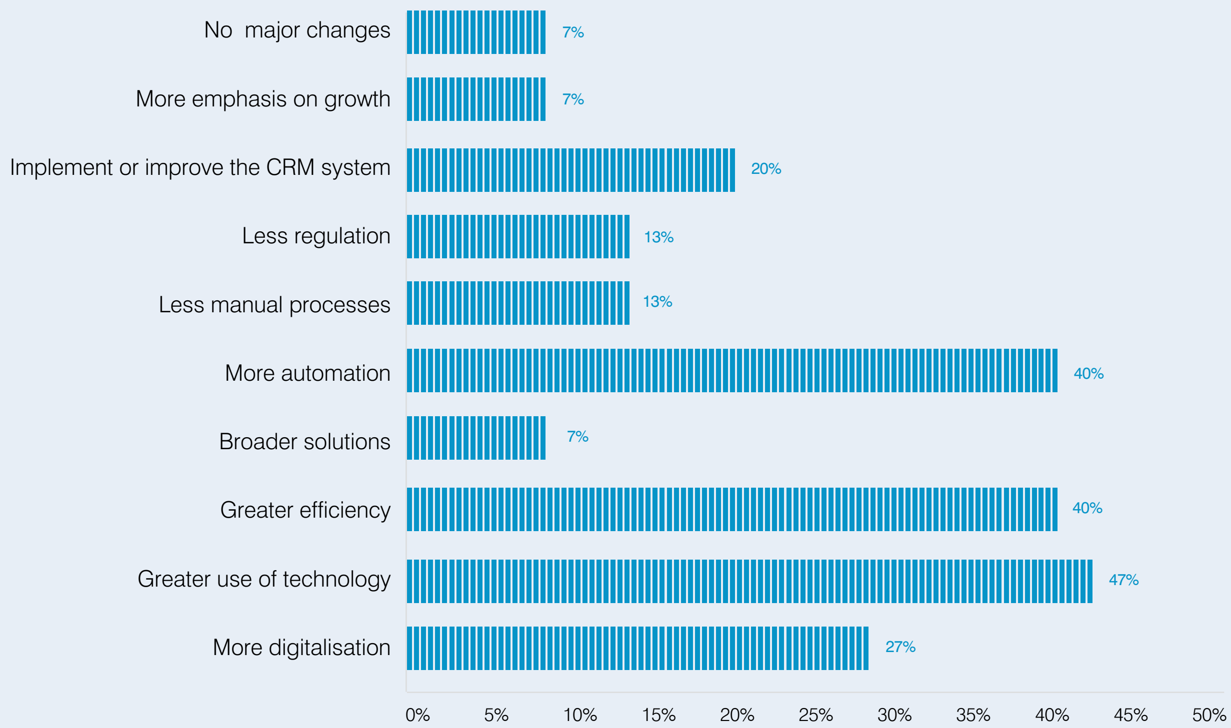
How is your front office structured? Do your clients have access to a relationship manager in addition to an investment manager, or does their investment manager fulfil both roles?

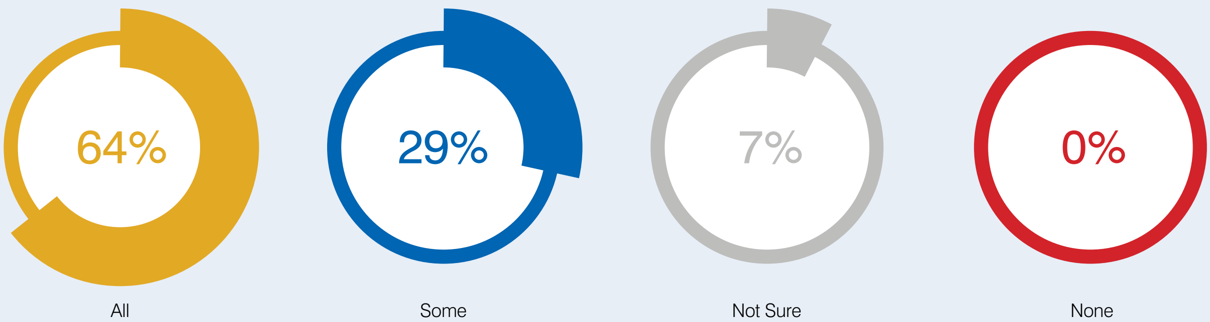
As part of the research for last year's front office project, Compeer compared the profit margins of firms with separate relationship managers and investment managers to those of firms where the roles are combined into a singular investment manager role. The latter group had a profit margin that was 0.4% higher than the former, which could have a high impact in an environment of continued pressures on margins. We therefore decided to look at the models used by firms interviewed for this year's research project, and a little over half provide clients with an investment manager only.

Will any current inefficiencies or challenges to the front office need addressing in order to be scalable and achieve your growth plans?



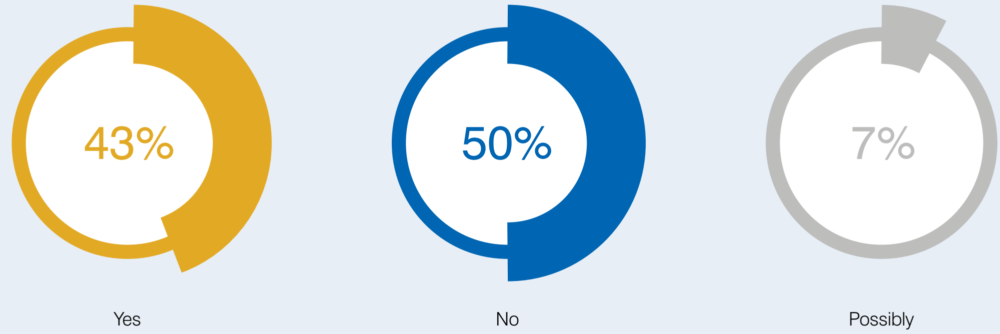
Firms tended to give several changes, with standout answers including greater efficiency, greater use of technology, more automation and more digitalisation. Only a small percentage of firms would like to see no major changes to the front office.

How many of these changes do you think will occur?



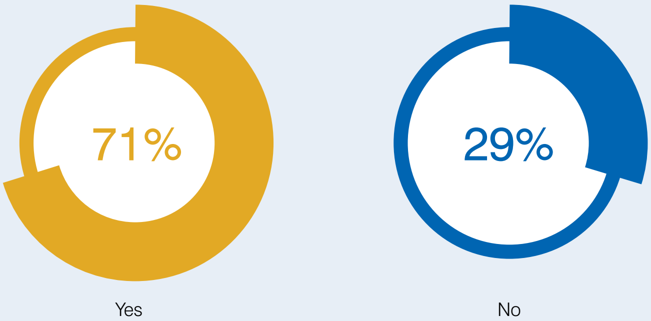
Whilst firms would like to see many changes occurring, only 64% of firms were confident that they would see all of their hoped for changes.

Are there any services not currently being offered that should be?



Half the firms interviewed did not believe they should offer further services. But, the remaining firms are either intending to, or are looking into extending their service proposition. Areas for expansion included more philanthropy, investment consulting, concierge services, mortgage services, enhanced tax services, and the more fundamental service of online payments.

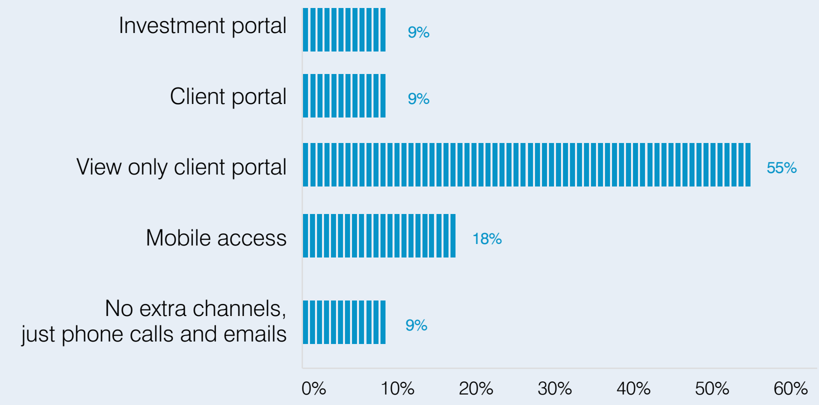
Do you expect any elements of your current front office to disappear in the next five years?



Whilst just under a third of interviewees do believe elements of the front office will disappear, only two firms believe full services will go: execution only services and human-led advisory services. The elements that were mentioned tended to focus on support tasks such as paper management and paper-based processes, meaning it is more likely that the way services are provided will change, rather than the services themselves.

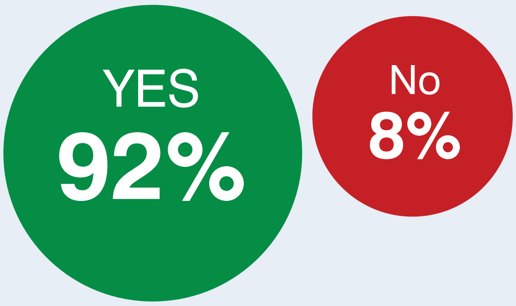
> **Excessive letter writing.**

Which channels do you currently use to supply your service proposition?



On the whole, firms interviewed are not using many interactive channels to provide their services. The most frequent offering is a read-only client portal, (although a few were not currently offering this,) leaving much scope for future improvement and the introduction of new channels. However, over 90% of firms are planning on introducing further channels and/or functionality such as self-service to existing channels.

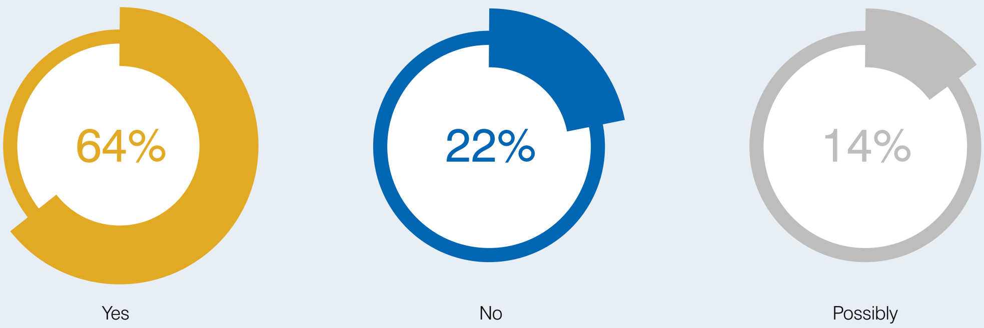
Will you introduce any additional channels or functionality in the future?



Areas that will be introduced in future include:

- A mobile app
- An online portal
- Secure messaging
- Self-service
- A specialist portal for different client segments
- Content broadcasts

Is there a conflict between trying to provide your key clients with a high end client experience that feels individual and is at the same time scalable?



Two thirds of firms interviewed felt there was a conflict between providing a high end client experience and doing so on a scalable basis. It was explained by all participants that the answer to this question is dependent on factors such as having a good support system, organised processes, the use of technology, automation, and the segmentation of clients. However, it was felt by some that even when supporting processes are scalable, investment managers and client advisors have a certain capacity. Furthermore, one firm made the point that there is high touch on the advisory side, but discretionary is more scalable.

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How does technology support your front office strategy? What more could it do?

Answers to this question varied from technology being an integral part of strategy, to technology providing no support in terms of improvement and development.

> **Technology doesn't help us to get better currently, but there is lots of potential there.**

> **It is mixed. Often technology wastes time. CRM input takes longer. Technology should try and understand business needs better.**

> **It needs to become seamless, for example straight through processing and omnichannel.**

> **Management Information is improving dramatically, via a data warehouse.**

> **Further automation could help.**

> **It is becoming more integral.**

Does automation feature in your front office processes?

YES **58%**

No **42%**

Whilst automation does currently feature in front office processes for over half of the firms interviewed, many stated that this needs to be increased. Areas where automation currently features included: communications, incoming payments and trade processing.

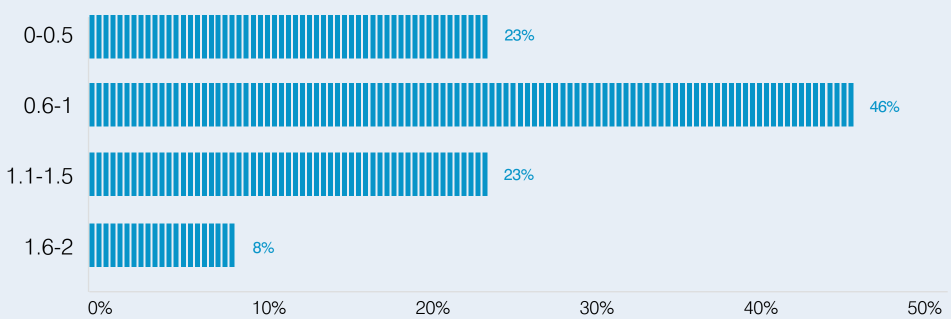
Will this increase in future?

YES **91%**

No **9%**

Earlier in the research, firms stated that they would like to see more automation in the front office in the next five years. It is therefore no surprise to see that the vast majority of respondents are planning on increasing their own levels of automation.

What's the number of support staff per front office professional?

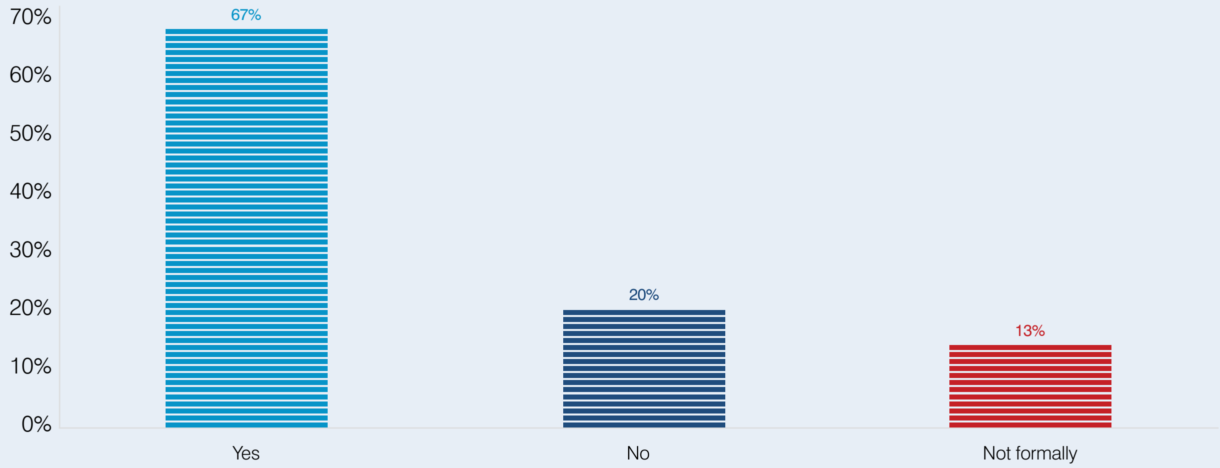


We asked this question because the lower the number of support staff per front office professional, the more time the latter must spend on non-revenue generating admin tasks, and the less time they have available to spend with clients. This is especially important where there is a lack of automation and heavy presence of manual processes.

The most popular answer to this question was between 0.6-1 support staff members per front office professional. It is interesting to see that almost a third of firms have more than one support staff per front office professional, whilst the average ratio across all firms was 0.8.

Have you reviewed levels of client satisfaction?

It is positive to see that the majority of firms have reviewed client satisfaction, although 13% answered that this was more of an anecdotal process. Of those that have conducted formal interviews, we asked how frequently these are carried out. The most frequent answer was every couple of years, although for some firms this was dependent on the value of the results of previous reviews. The highest frequency of reviews was conducted on a monthly basis for a rolling sample of clients.



How will the front office of the future enable you to be more client centric?

The key response to this question was that a greater use of technology and automation will allow investment managers more time to spend with and focus on clients.

"**Greater use of technology and automation will allow more time for investment managers to meet or service clients.**"

"**It will be more focussed, more productive, and will achieve a better performance.**"

"**More consistency regarding the client experience.**"

"**More use of technology and automation will give investment managers more time.**"

"**It will free up the bankers from manual work. This will give them more time to go and talk to clients. They currently risk becoming box tickers and form fillers. On average, they spend two thirds of their time on admin.**"

"**The use of technology to improve efficiency will give investment managers more time and allow them to use their time more efficiently. Clients will also be more involved.**"

"**It will have a more effective workflow which is automated and has a strong process.**"

"**Automation and systems to take away the admin to free up time to focus on clients.**"

What are the challenges in using and achieving goal based planning?

Challenges included:

1. **Data management**
2. **The cost of advice for specific goals**
3. **Having the skills internally**
4. **Suitability**

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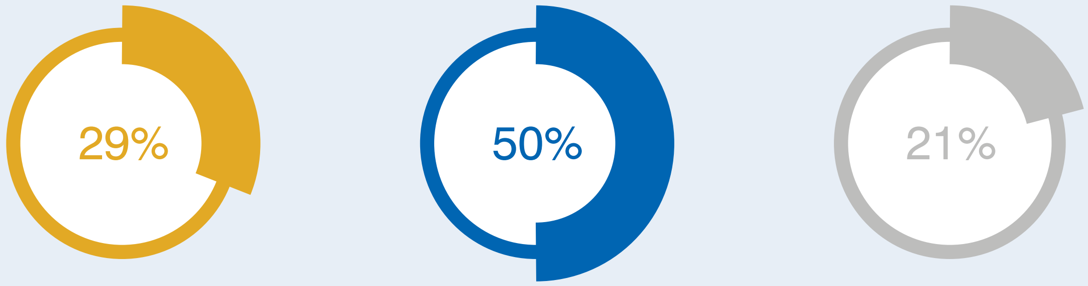
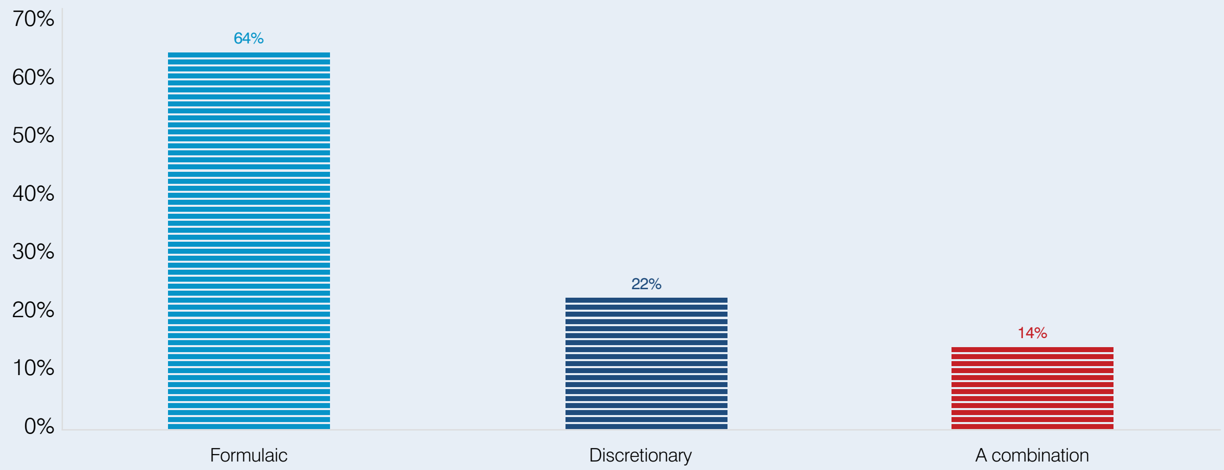
Do you conduct client exit interviews?

Only just over a quarter of firms conduct client exit interviews, and this is a regular procedure for only one firm. Other firms who answered yes said that they do not regularly conduct exit interviews, and they are done on an ad hoc basis. A further 21% stated that clients will give a reason for leaving, but this is normally a drop down menu exercise or telephone call. This data is sometimes collated by firms to see the trends in client movements. Over half of the firms are not conducting client interviews, or as a minimum asking for a reason for leaving.



Yes | No | Clients normally give a reason for leaving but no formal interview is undertaken

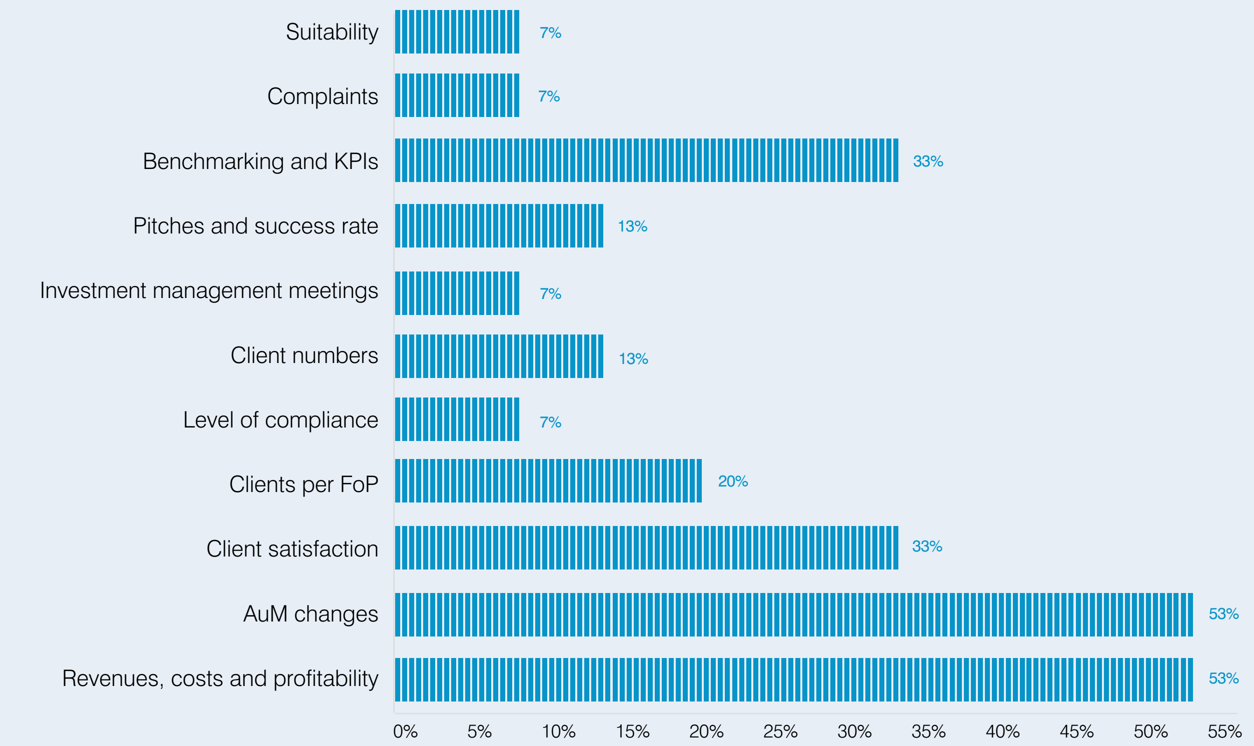
How do you set Front Office remuneration?



Two thirds of firms interviewed set remuneration on a purely formulaic basis, whilst 22% took a discretionary approach. Of the formulaic approaches, this is typically based on direct profit, so revenues minus direct costs. Of the quarter of firms who set remuneration on a discretionary basis, this is based on a much broader range of factors. These included:

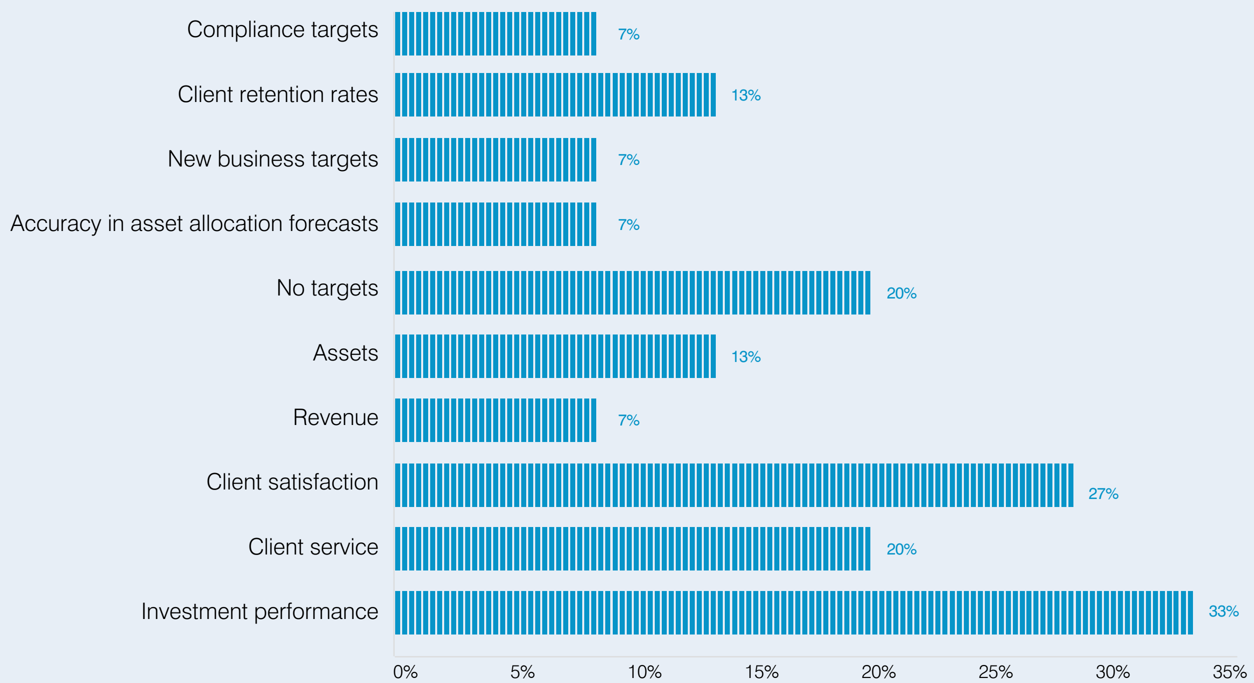
How do you measure front office productivity?

By far the most popular ways of measuring front office productivity were to look at revenues and profitability, and changes in assets under management. The two other measurements that stand out are client satisfaction, and benchmarking and KPIs.



How are front office performance targets set?

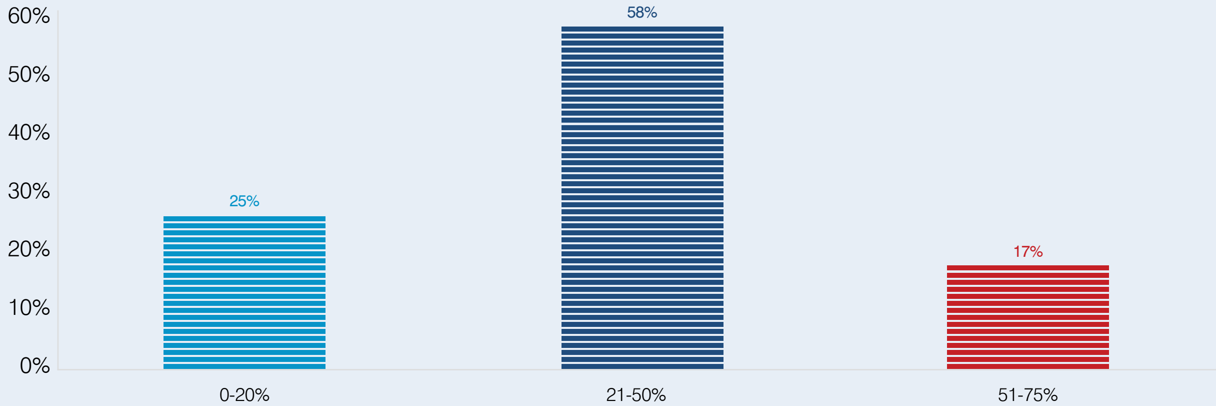
Firms have a large range of performance targets, although the most popular target is investment performance. This is encouraging, as ultimately Compeer research has consistently shown that this is an important factor for clients when deciding on a wealth manager. What is rather interesting is the fifth of firms who do not set specific performance targets, although this tended to be because the focus was on client service instead.



How much time as a percentage of the normal working week do your front office professionals spend on compliance-related issues?

In total, 75% of firms interviewed stated that their front office professionals are spending more than 20% of their time on compliance-related issues. Whilst these results are not unexpected, given the continued pace and volume of regulation, this is nonetheless a significant amount of time that could otherwise be spent with clients. Indeed, one firm stated that their Head of Investment Management spends closer to 90% of their time on compliance, whilst an average over the whole team is closer to 20-30%. Another answer was simply "too much". However as another interviewee pointed out, it is hard to define what is strictly compliance-related, as a lot of admin work could come under the definition, but should be completed regardless of regulation. As another interviewee put it, "most compliance is good business practice."

> **Too much.**



Do you measure client profitability?

The majority of firms interviewed do not measure client profitability, although some do look at areas such as average return by team and client revenue. Although, a large proportion who answered 'no' do not look at this at all. As one firm explained, they could measure client profitability but don't, as they know how long it takes for a client to become profitable, and the minimum fee is set with profitability in mind. For other firms we might presume that they are only taking on clients that meet their minimum asset requirements. The firms that measure client profitability do so on varying levels. Some are able to run a full client profitability report, whilst others have a more basic system with minimum fees per service.

> **Not explicitly, but a new reward structure incentivises this in the background.**