

EMC PERSPECTIVE



Reader ROI

- Clients across all segments are demanding more information about how their portfolios are performing and what they are getting from their advisory relationships.
- Delivering personalized performance reporting involves well-defined calculations supported by a complex data consolidation, integration, and management effort.
- Client reporting is moving beyond simple performance and transaction detail into “client review” presentations, offering an opportunity to differentiate and deepen the client relationship.

Best-in-Class Wealth Management Client Reportings

Overview

Clients who hold assets at multiple institutions look to their primary financial institutions for a consolidated view of holdings and a total net worth picture. For this reason, firms that can execute upon aggregated reporting to capture non-custody assets and a total net-worth balance-sheet report will earn greater client satisfaction and share of wallet.

Client reporting challenges

Firms are under a great deal of pressure to enhance their reporting capabilities. Some of this pressure comes from regulations (e.g., the Investment Advisers Act of 1940 (Rule 204-2), Patriot Act, and SOX) other pressures are the result of the need to report on increasingly complex investment vehicles.

However, perhaps the greatest pressure emanates from the expectations of clients who demand high service levels and a consistent experience across channels. Those in the higher asset-level segments tend to have the most demanding expectations. However, these expectations are adopted over time by those in the lower asset-level segments as well.

To justify value over time to these clients, firms need to:

- Show recent and historical performance in context
- Link proprietary investment strategy to risk/return
- Provide investment ideas (cross-selling)
- Offer differentiated services tailored to the particular segment—from basic extras and rewards programs on the low end to concierge services and bill payment on the high end

But aggregating information into client-centric reports poses many challenges.

Data must be pulled from multiple performance and accounting platforms, each with inconsistent analytics and different calculations and conventions. And, because data aggregation is not automated, report generation burdens the advisory team and operations groups which use a combination of manual work-arounds and disaggregated reporting solutions.

With no end-to-end automated solution in place, the workflow and tracking of the report creation and generation involve multiple reviews by advisors, legal, compliance, and marketing. Proprietary and third-party solutions for generating client reports are costly, standalone solutions with limited capability for customizing reports. When using a number of these solutions, it is necessary to cobble together client reviews and report documents with divergent processes and conventions—such as branding and layouts—across advisory teams, regions, and lines of business.

With the administrative burden of manually developing client reports, financial advisors (FAs) are less productive and unable to focus on high-value activities such as client acquisition or cross selling.

Client reports are typically provided to the client by mail, electronically, or via hard copy at a quarterly review meeting, with divergent client experiences across different channels.

This disjointed client experience across channels decreases both client satisfaction and trust in the relationship with the advisor and financial institution. This decrease in client satisfaction is complicated by perceived—and, in some cases, actual—data integrity issues resulting in “varying accounts of the truth.”

Islands of improvements

Firms are addressing these challenges from a variety of perspectives.

- **Client-centric Strategy:** Migration from account-centric to client-centric processes, applications, and data, allows a more integrated service model, providing a single 360-degree dashboard view of the relationship across accounts and products.
- **Consolidated FA Desktop:** Some firms have adopted a single, integrated FA workstation to support end-to-end workflow across the wealth management value chain—from client profiling to client report generation.
- **Enterprise Content Management:** Common processes and tools for content acquisition, review, storage, and distribution across all content types (e.g., market commentaries, client statements, and presentations) and delivery channels (e.g., online, advisor and call center) can ensure that multiple versions of content are not in use.
- **Data Management/Data Aggregation:** In some cases, companies create centralized repositories of data (e.g., client information) to enforce business rules and ensure data integration

A comprehensive solution

It is clear that the industry is moving away from the standard boilerplate PowerPoint for the entire client base and is moving toward customized/personalized reporting based on client preferences and delivery channels.

Financial advisors are deemphasizing the use of traditional monthly/quarterly mailed reports in favor of more detailed analyses and “client reviews” that show performance, investment strategy, products/services recommendations, and market commentary.

Because so many affluent investors are heavy users of online services, the client online experience merits serious consideration and investment. It should include a family hierarchy and total net worth picture, current/target portfolio mix, and investment research and financial calculators/modules. In addition, it should offer performance characteristics and portfolio analytics which can be adjusted dynamically for periodicity and alternative planning scenarios. And it must offer the ability to perform drill-downs and roll-ups at all nodes of the family/relationship, typically accommodated through the online interface.

Firms which cater to ultra-high-net-worth individuals (UHNWIs)/family office clients must take special care to normalize data definitions and aggregate data across multiple sources in order to report on both custody and non-custody assets and provide a total net-worth picture which includes non-market assets. This may require changes to legacy applications (e.g., portfolio accounting/management, risk/compliance, workflow), pricing across multiple systems, and identification/implementation of a data aggregation tool.

Third-party vendors may deliver some of the required functionality. However, out-of-the-box solutions often will require expert configuration or customization to meet the firm’s needs.

Historically, the industry computes performance returns at the account level on a monthly basis using the Modified-Dietz method, with daily calculation, when necessary, to deal with significant (>10 percent of accounts) cash flows. Recently, some organizations have launched initiatives aimed at calculating daily returns to comply with Association for Investment Management and Research (AIMR)/Chartered Financial Analyst (CFA) standards by 2010. In the same time horizon, some firms expect to deliver security-level returns.

Organizations that have attempted to move to daily computation have been constrained not only by the volume of additional computation, but also by data scale, quality, and the functional constraints imposed by their portfolio accounting and other upstream systems.

The trend towards managed (discretionary) account offerings is a further complicating factor, adding the requirement to address “ownership” of cash flows where more than one manager or strategy is involved (e.g., Unified Managed Accounts, Multi-Strategy Portfolio).

The widespread desire to respond to client demand by offering performance reporting in the retail brokerage and advised mass-affluent segments is constrained by the scale of the required computation and the current price point (\$20-30 per account per year). Few vendors have demonstrated the ability to scale to satisfy the millions of accounts typically required by bulge bracket firms.



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