Wealth managers face numerous challenges in their efforts to drive profitable growth. Increasingly demanding clients, rising business complexity and costs, and difficult macroeconomic conditions are all taking a toll.

At the same time, the operating models that support the core business are under pressure from a variety of forces. As wealth managers seek to enhance profitability and growth, they will be asked to do more with either static or reduced resources. Now is the right time for them to review and update their operating models.

Wealth managers that develop a clear vision of their target operating model will be able to build a case for positive change, effectively prioritize initiatives, and ensure the best use of resources. They will also gain an advantage over key competitors, many of which are likely to maintain the status quo while taking a wait-and-see attitude.

Of course, developing a vision and attaining that vision are often miles apart. Achieving an agile and efficient operating model is a multiyear journey that must be carefully designed with both the overall business strategy and the needs of end customers—relationship managers and financial advisors, as well as clients—foremost in mind. Indeed, the difficulty of optimizing the operating model is one reason why relatively few wealth managers have given the task as high a priority as they should.

Before undertaking this journey, however, wealth managers must have a clear grasp of the underlying forces driving the wealth management business and the impact that these forces have on their operating models.

A Tough Time for the Industry
Wealth management is taking distinctly different paths in different regions. Rapidly developing economies are riding a wave of strong growth—one that is expected to continue for the next five to ten years, regardless of how equity markets perform. By contrast, highly developed markets, such as North America and Western Europe, are experiencing slower growth. Players in developed markets, in particular, will have to innovate by differentiating their value propositions and improving their go-to-market strategies if they hope to gain share and attract strong net new inflows.

Some leading wealth managers in developed markets have already taken positive steps. But without a full redesign of the operating model, these initiatives will be hamstrung and unable to deliver profitable, meaningful, sustainable growth.

Such industry dynamics raise a key question: Given the actions that wealth managers have taken, what is holding so many back from lifting their operating models—and the businesses that those models drive—to the next level? The answer lies partly in current industry trends.

Exploding client expectations. Client demands have been growing for many years and show no sign of abating. More and more buyers of wealth management services want the same multichannel access to products and advice that their retail banks and other service providers deliver. In addition, mainstream clients are increasingly seeking services historically reserved for high- or ultrahigh-net-worth clients, such as access to alternative products and customized, long-term financial planning. Further, wealth managers are facing new demands from the next generation of clients, who differ from traditional clients in terms of the type and frequency of interactions expected. Next-generation clients are more focused on the availability and functionality of digital channels, and they want much higher levels of transparency and personal involvement in the investment decisions made on their behalf.

Greater complexity. Every year seems to bring new validation steps, forms, and handoffs that create more complexity in processes, systems, and interactions with both the front office and clients. Much of the burden stems from regulation, such as measures related to know-your-customer (KYC), anti-money-laundering (AML), and other guidelines that involve the collection and analysis of customer data. Product and service innovations, as well as more granular segmentation—necessary as they are—also add complexity. Needless to say, greater complexity means higher costs.

Legacy systems. Legacy systems and processes make true change in operating models that much more difficult and time-consuming. For example, many wealth managers have engaged in mergers and acquisitions (M&A) activity without integrating new platforms. Most of their processes are therefore built—inefficiently—on and around older systems and a disjointed
Challenging macroeconomic conditions. In the current low-growth, high-volatility environment, uneven returns in financial markets not only create less predictability in terms of asset growth but also drive more conservative allocations—for example, toward lower-fee products. Moreover, some government policies intended to fuel growth have created a flat yield curve and significantly dampened the spread on such banking products as deposits and loans. This, in turn, has intensified the imperative to find cost improvements despite the ongoing need to invest in innovation, the latest technology, and top-flight human resources.

Ultimately, each wealth manager must build the right operating model for its organization based on its starting point, resources, and aspirations.

Choosing the Right Operating Model

The leading wealth managers of tomorrow will need an operating model that is considerably more agile and efficient than the ones most players work with today. In our view, the first step toward developing that model is to clearly define the strategic vision and roadmap for your wealth-management business. This plan should include target client segments and sources of potential advantage—such as product breadth, service models, price positioning, advisory capability, and mobile functionality.

Once aligned on the strategic vision, wealth managers need to begin making critical decisions regarding the target operating model. These choices will vary by player, but typically they involve domains such as processes, work structure, and people and organization (see figure 1).

Processes. Processes are typically a function of legacy systems and practices, degree of automation, and integration across multiple platforms. Questions that wealth managers should explore include the following:

- Is a full overhaul of legacy systems feasible or desirable?
- What can be achieved by redesigning end-to-end processes without significant technology investment?
- Where can technology enhancements enable process improvements and add value to the client experience?

People and organization. New operating models often require updated skill sets, both during the journey to the target model and later on, in order to maintain operating efficiency. Wealth managers must carefully examine all aspects of their human resources and how they are deployed. Questions to explore:

- How do both individual and departmental roles need to change?
- What level of coaching and training is needed to support the capabilities required by the new model?
- How does the leadership model motivate behavior, and to what degree are metrics and measurement systems set up to reinforce the target state?

Wealth managers embarking on the effort to optimize their operating models have found that choices such as those noted above are
highly interrelated, meaning they must be addressed holistically, not as isolated, siloed issues. And it’s critical to start with an accurate sense of the difficulties likely to be experienced across the operations value chain, which is inherently complex (see figure 2). Those institutions that persevere are likely to find themselves with an operating model that looks quite different from those of their key competitors.

World-Class Wealth Manager Operating Models

Developing your ideal operating model can involve tradeoffs among a number of potential goals. There is no silver bullet. But truly world-class operating models in wealth management share certain characteristics. They enable the following:

Maximum front-office effectiveness. Advantaged operating models allow front-office staff to concentrate on client-focused activities by providing the information and tools required to acquire, serve, and retain clients. Such models leverage advanced analytical techniques to reap the full value of both internal and external sources of data.

A seamless, multichannel client experience. Advantaged operating models feature efficient, error-free processes with low cycle times that are able to minimize data loss and downstream reworking and manage multiple entry points into end-to-end processes. They also provide an efficient and effective multichannel client experience. As a result, they allow the front office to relinquish control of operational activities.

Full, flexible support of business needs. The best operating models efficiently manage the product complexity that your value proposition requires, while also managing the multiple service models that your chosen segmentation demands.

Cost reduction through greater scale. Where benefits can be gained from scale or consistency, advantaged operating models establish pools of resources focused on similar tasks. They develop process and technology platforms that deliver location-agnostic, scalable operations. High automation levels, smooth workflow management, and a single primary source of client data are other common characteristics.

Flawless delivery on risk management and compliance requirements. Leading operating models maintain the integrity of risk management and compliance procedures. They reduce risk while increasing overall efficiency.

Once the framework has been established for the target operating model, wealth managers need to define a path from point A to point B. For some players, this process will be short and relatively straightforward. But most will take a longer, more winding road to transformation. Large wealth managers with legacy technology and processes to cope with typically require an 18- to 36-month effort involving stakeholders from across the organization.

Seize the Moment

Reworking your operating model does not have to involve a big-bang, do-it-all-at-once mentality. Indeed, although the transformation roadmap should be an aggressive one, it should be drawn as a series of realistic,
achieveable steps. Each step should deliver clear and tangible benefits to clients, sales and front-office staff, support teams, and the overall cost structure.

Moreover, to execute the program successfully and avoid joining the industry players that are falling behind, wealth managers must have several critical elements in place. First, there must be commitment from the top. True transformation requires substantial resources (both financial and human) and involves major issues that mandate the support and hands-on participation of senior management. Keep your eyes on the prize, never losing sight of the final goal, and establish clear metrics to measure progress over time. It’s also important to ensure that the entire team recognizes and celebrates milestones along the way.

Arriving at the target model will require a strong focus on change management and organizational buy-in at every stage. Reconsider your talent requirements, particularly in middle and back offices, as roles evolve to include more responsibilities. If seasoned executive capability for a large-scale transformation isn’t available in-house, look outside the organization. Third-party vendors will likely be vital to the success of the transformation as well, so identifying the right partners should be a top priority.

Further, it’s critical to keep in mind that the quest for a new operating model is a business endeavor enabled by technology, not driven by it. Key roles and decisions, especially when defining and implementing the new model, should therefore arise from the needs of the business.

Finally, substantial change will require cooperation with internal stakeholders, especially those in the front office and sales force, who will need to feel they have a vital role in shaping the new solution—a solution that will create value for them.

Ultimately, wealth managers that fail to tackle operational barriers to optimal performance will find themselves losing ground in a market that is becoming ever more competitive. Compliance risk reduction, front-line retention, cost position, and the ability to increase the client base are tall hurdles that are directly affected by the choice of operating model.

Wealth managers that are willing to invest intelligently and deliberately to define their vision—and then translate that vision into a robust operating model over time—will be well-equipped to handle changing market dynamics while maintaining attractive levels of profitability. These players will be positioned to turn a daunting challenge into an opportunity to become true market leaders.

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