



Scorpio Partnership

## Strategic key findings report

# The future of private client reporting A tool for growth

September 2008

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## Overview

During April and May 2008, Scorpio Partnership was engaged by Aloc to undertake a pan-European assessment looking at the future of high-net-worth (HNW) client reporting over the next five years.

The research focused on a range of wealth management and private banking firms targeting private clients with a minimum of EUR100,000 in investable assets. The research methodology included primary interviews with 35 key decision makers at firms in 10 European markets – Switzerland, Luxembourg, Sweden, Finland, Ireland, Spain, Poland, Czech Republic, Hungary and Spain. The countries were selected to give a representative distribution across old and new Europe.

The typical titles of those who took part in the research were Chief Operating Officer, Head of Private Clients and Head of Private Bank. Together, these executives represented private banks and wealth management firms with total assets under management in excess of USD500 billion.

It should be noted however that due to the sample size and interview methodology the charts in this report are only intended to be illustrative of general findings. Not all interviewees responded to each question and because responses were unprompted interviewees may have given multiple responses to each question.

## About ALOC

ALOC A/S is a market leader in the field of financial software. The Danish privately held software company has its head office in Denmark and a branch in Norway specialises in

- Portfolio & Risk Management
- Trading & Order Management

Since 1985 ALOC has developed software for the financial industry. Among ALOC's clients are the largest and most important players in the financial markets of the Nordic Region. This includes:

- Banks
- Brokers
- Dealers
- Stock Exchanges
- Mutual Funds
- Pension Funds
- Mortgage Credit Institutions

ALOC is a dynamic and focused software house and software development is carried out in close co-operation with the clients, often as long-term strategic projects. The vision is to turn complexity into software that is simple to use and to operate. More than 130 enthusiasts in a unique corporate culture carry the daily business to deliver world class financial overview. This overview gives the client decision making power, resulting in a competitive edge.

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## About Scorpio Partnership

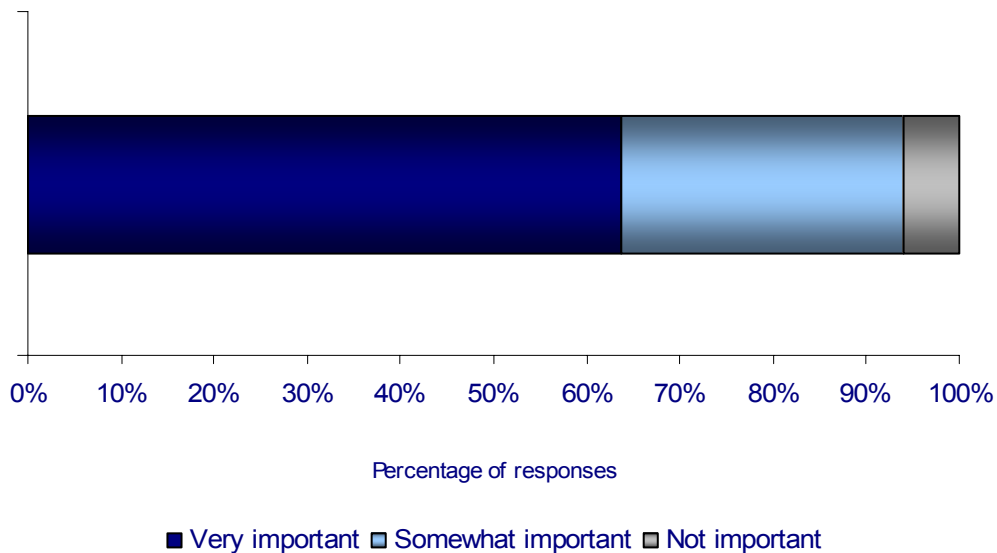
Scorpio Partnership is a strategy firm focused exclusively on the needs of the wealth management industry, those who supply to it, and high-net-worth clients. The firm was established in 1998 in London and now operates internationally with a team of 14 strategy consultants and analysts. We leverage our deep market expertise to provide a vision for the future of wealth management, as well as the practical means to turn opportunities into value for our clients. Notably, the specialist firm has been voted leading global consultancy in wealth management\* in each of 2006, 2007 and 2008 and is a market leader for business solutions. \*Wealth Briefing

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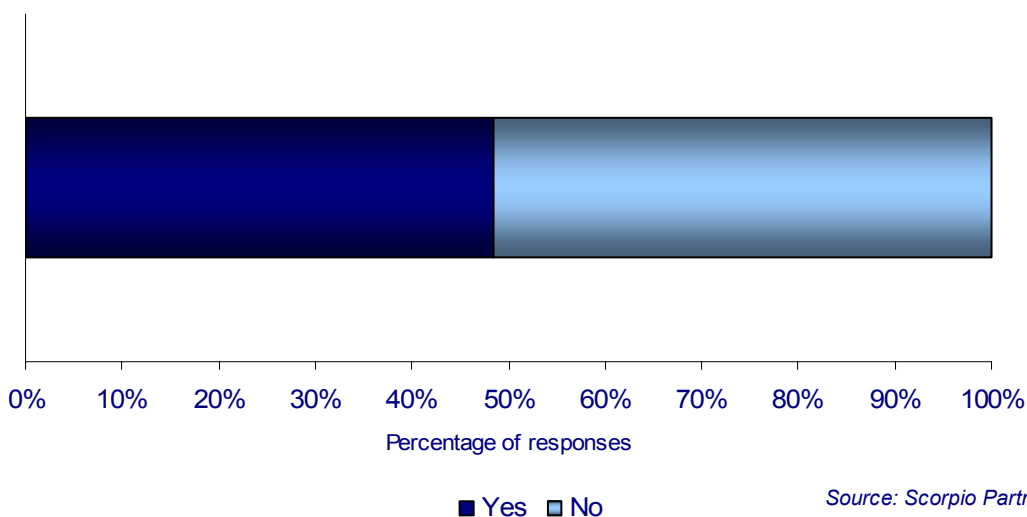
## Importance of client reporting – now and in five years

Over 90% of the participants regarded client reporting as important and 65% believe it is a very important element of the wealth management proposition today. Moreover, 50% of the respondents felt it would increase in importance over the next five years (Figures 1 & 2).

**Figure 1: Overall importance of reporting to the value proposition**



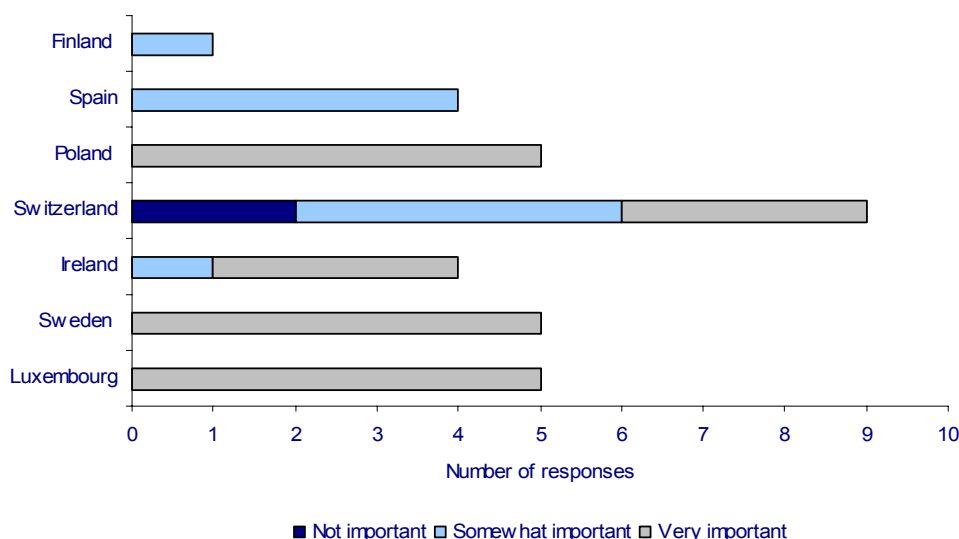
**Figure 2: Overall likelihood of reporting to increase in importance over the next five years**



Source: Scorpio Partnership

In particular, participants in fast-growing and evolving wealth markets like Ireland, Sweden, Luxembourg and Poland place emphasis on the importance of client reporting. They highlighted that high-quality client reporting represents an opportunity to differentiate and educate in a changing competitive environment (Figure 3).

**Figure 3: Importance of reporting to the value proposition today, by country**



Source: Scorpio Partnership

In Ireland and Sweden, the markets are witnessing the entrance of a number of new players providing increased portfolio sophistication and international focus. More transparent and detailed reporting is not only a differentiator, but also provides a tool for the relationship manager to explain the asset allocation process. This in turn can provide the opportunity to discuss new products that would enhance the client's portfolio and increase diversification.

Moreover, the ability to include the client's total net position and assets and liabilities was felt to add value to a client and would be a motivator for the client to place more assets with the firm.

Meanwhile, Luxembourg has undertaken an ambitious programme to build its private banking sector by 2015. Many wealth management players are responding to the challenge by increasing operational efficiencies, including investing in new reporting systems or upgrading and adding new functionality to existing systems as part of this drive. The view was that the complex demands of HNW and ultra-high-net-worth (UHNW) clients who book assets in offshore centres need to be met with sophisticated and transparent reporting systems.

Interestingly, Poland was an example of a fast growing market where reporting was highlighted as a very important area of development today, but less so in five years time (Figures 3 & 4). In this instance there is clearly a recognition of the importance of private client reporting. However, participants were not yet fully decided on what the strategic path of reporting will be relative to other critical parts of the business in both the front and back-office.

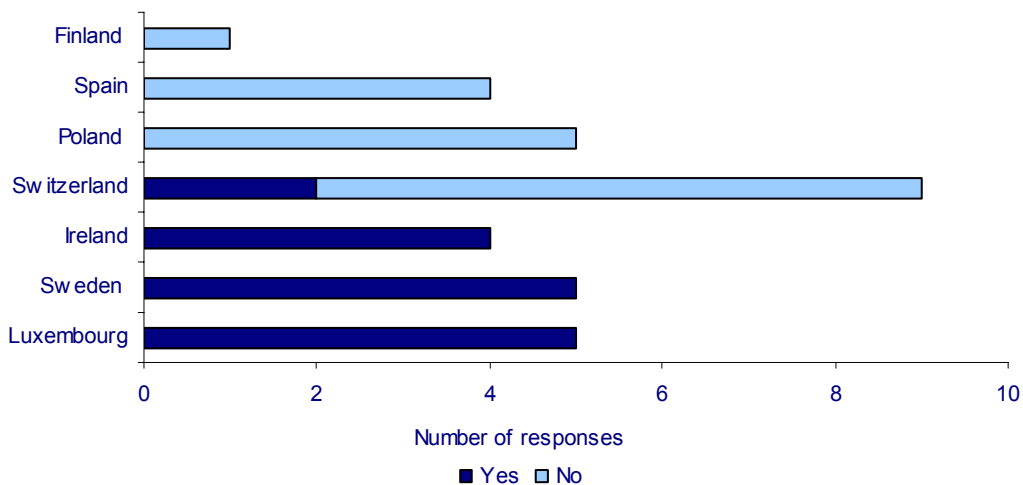
Meanwhile, Switzerland was the one market bucking the trend. Here, reporting was seen as a relatively unimportant part of the client proposition today and unlikely to become more important over five years. The Swiss market considers reporting to be a commodity with a poor return on investment. This view was due to the fact that most players are already meeting the high standards of the Swiss Performance Presentation Standards (SPPS).

These standards provide a detailed framework for performance reporting in the Swiss market. They include the recommendation that Swiss banks report on the total return against an appropriate benchmark. Swiss firms also typically report time-weighted returns in line with the SPPS standards.

However, there was a view among Swiss providers that the SPPS regime may soon change with Switzerland embracing global performance standards, reflective of the international nature of its wealth management business.

The majority of Swiss banks have therefore identified front-office technology spend as the most critical area. Although some Swiss respondents believed real value could be added in client reporting for the UHNW segment, and this was regarded as a very important area for future development (Figures 3 & 4).

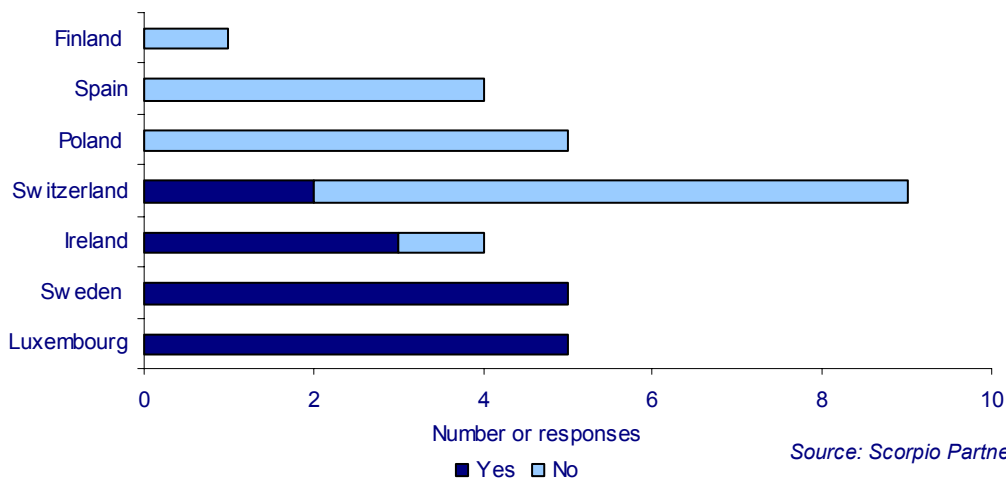
**Figure 4: Likelihood of reporting to increase in importance over the next five years by country**



Source: Scorpio Partnership

Reflecting these market trends, Luxembourg, Sweden, Ireland and to a lesser extent Switzerland were the markets where participants felt that reporting will be seen as a differentiator in five years' time (Figure 5).

**Figure 5: Overall view on whether client reporting will be seen as a “differentiator” in the client value proposition over the next five years**

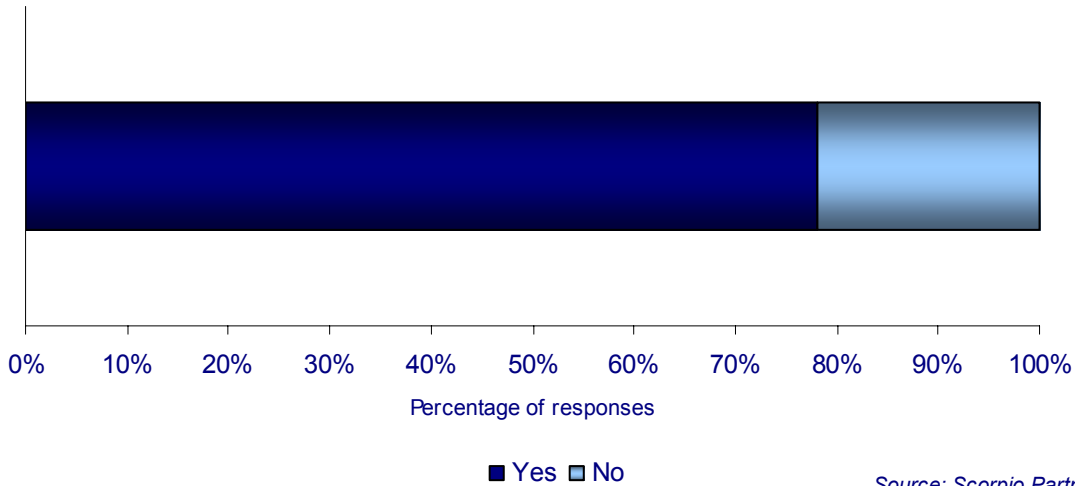


Source: Scorpio Partnership

## Innovation in client reporting

The overwhelming majority of respondents believed that there will be specific innovations in client reporting in the future (Figure 6). Key topics were the use of the internet and the ability of clients to customise reports.

**Figure 6: Do you think there will be specific innovations in client reporting?**



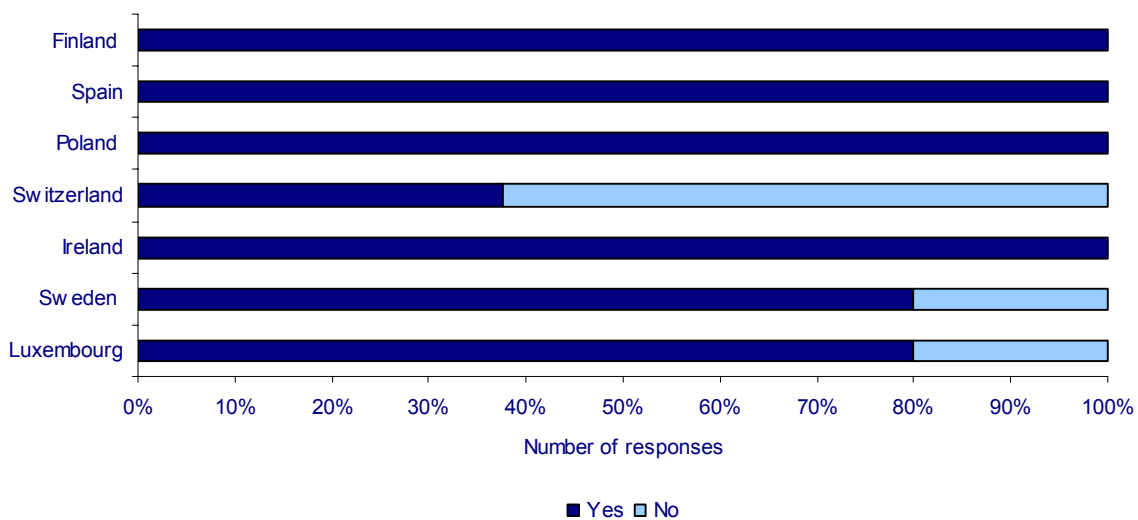
Source: Scorpio Partnership

The ability to customise the reporting interface was an innovation mentioned in the Luxembourg, Swedish and Irish markets in particular. By contrast, this capability is already fairly standard in Switzerland and hardly featured in participant responses.

The participants were unanimous that internet-based solutions are the most likely source of innovation in the future (Figure 7).

Participants observed that the internet has a role to play both for client reporting and as a tool to facilitate interaction between clients and advisors.

**Figure 7: Does the internet have an important role to play in the future of private reporting?**



Source: Scorpio Partnership

Many felt that to achieve this goal their internet strategy needs to be carefully implemented, as there is equally the potential to disintermediate clients if the internet approach is poorly executed. In particular, they were considering solutions that supported the dialogue between the relationship manager and the client through the simplification of the reporting process and the provision of underlying data.

In addition, the ability to segment the portfolio by asset class, region, and currency; the use of benchmarks and other analytical tools to determine the risk return profile of the portfolio has the ability to add value to the entire client spectrum.

Participants felt the most effective way to implement this solution would be to equally empower relationship managers and clients to view the information simultaneously either on the internet or through a downloadable file.

Participants also felt that online reporting would be seen as value added by clients as long as the technology has effective exception reporting filters. They felt that comprehensive periodical updates were also preferable to real-time data to minimise the potential for errors and avoid the risk of clients losing confidence in volatile markets.

However, some cautioned against overplaying the value of the internet as it is essentially only a tool to transfer information. Consequently, the real value will continue to be added by relationship managers.

Finally, participants were also concerned about integrating disparate systems and believed that there will be a shift towards standardisation or interoperability. Moreover, the increasing importance of Web 2.0 technologies will require that future reporting systems are far more customisable, especially with relation to the user interface and presentation format.

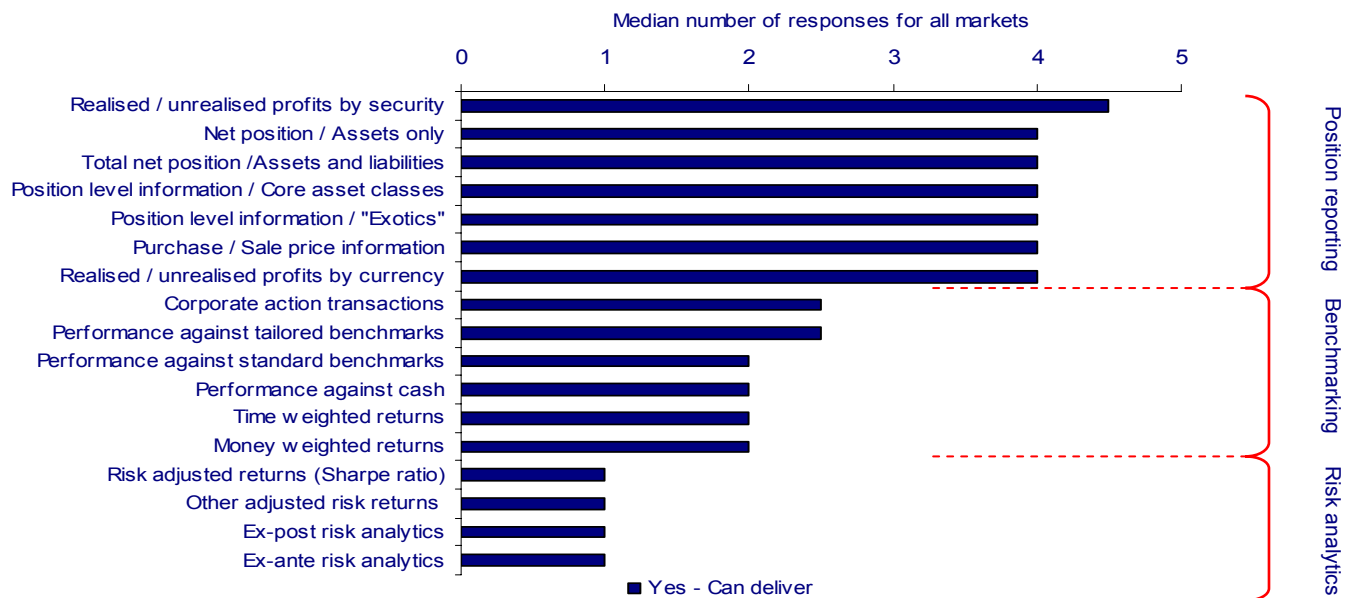
## Client reporting – key components

The responses suggest that position reporting is core to the private client reporting package offered by most wealth management institutions today. Many of the participants indicated that their institutions were able to deliver comprehensive position reporting to clients, including asset and liability reporting and position-level reporting across a wide range of asset classes (Figure 8).

Far fewer providers, however, offer comprehensive benchmarking in their client reports. In fact, participants were equally split on the value benchmarking adds to the client report. Those in favour argued that reporting performance against a benchmark informs the client both about the market and the bank. For these providers, the use of benchmarks doubles as a tool for educating the client on the long-term investment and asset allocation strategy of the wealth manager.

Those against benchmarking argued that it can lead to clients taking a short-term view of their portfolio, particularly if exposed to direct equities. Short-term benchmarking in today's volatile markets does little to foster confidence among clients. Others observed that the use of tailored benchmarks allows wealth managers to portray their relative performance favourably, which may not always be reflective of the market realities.

**Figure 8: What elements of the client report can you deliver today?**



Source: Scorpio Partnership

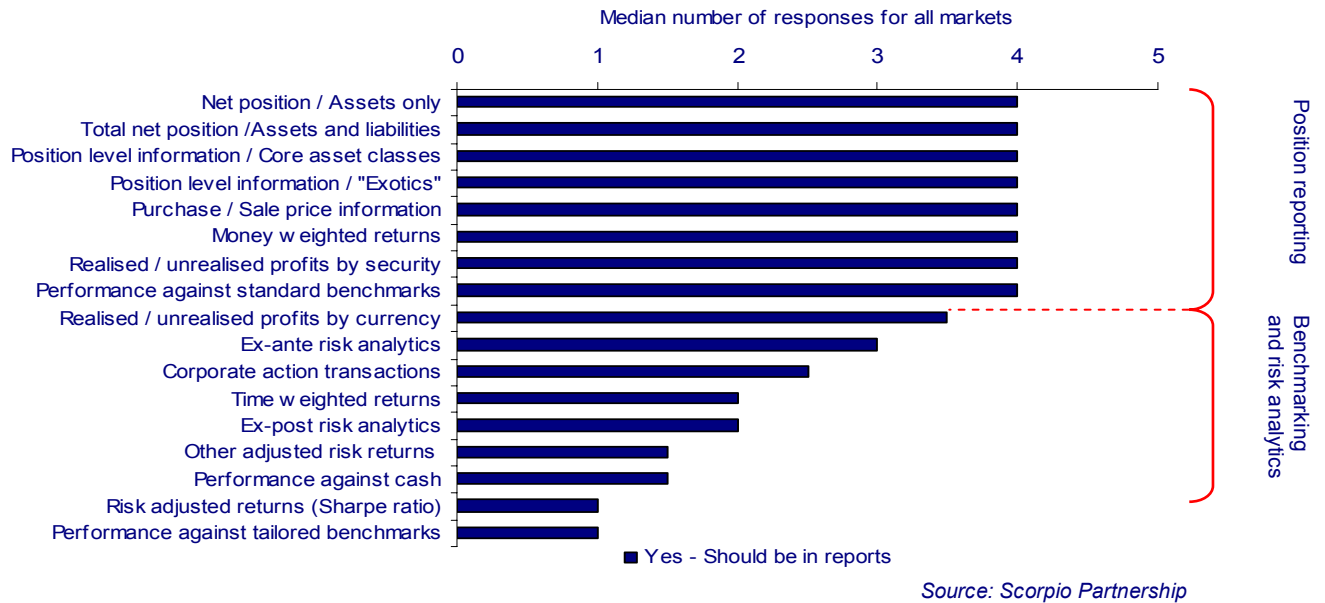
Participants were, however, in agreement that the inclusion of complex benchmarks and risk analytics are largely unnecessary for most private clients. The common view was that most HNW clients are unable to understand these complex performance measures and therefore saw very little reason to focus resources on developing these capabilities.

Indeed, it tended only to be wealth managers based in Switzerland and Luxembourg who felt that time-weighted and money-weighted returns and risk analytics had a place in the client reporting package. This reflects the fact that as Continental Europe's leading offshore centres Switzerland and Luxembourg tend to have a higher concentration of UHNW clients and family offices than other onshore markets. However, even these wealth managers noted that they would only be included in the reporting package on request.

Following on from this, when asked what a high-quality client report should contain, most participants echoed the views on the importance of position-level reporting and benchmarking against standard benchmarks (Figure 9).

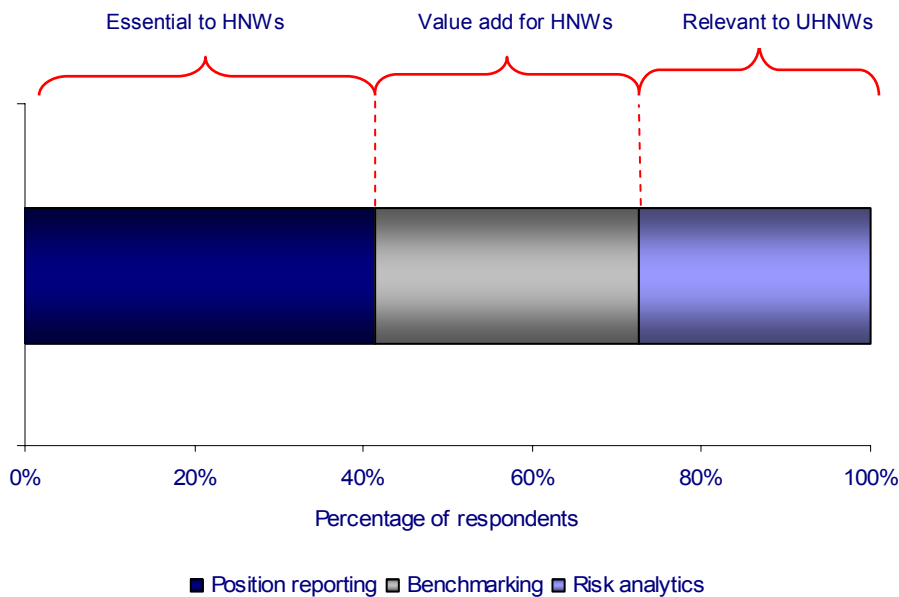
Interestingly, however, the responses suggest that participants believe that money-weighted returns and ex-ante risk analytics may also creep into the reporting agenda as a new generation of clients emerge, a significant percentage of whom are increasingly financially aware.

**Figure 9: What should a high quality client report contain?**



The interviews strongly suggest there is an industry-wide consensus on the components of a client report that are essential, relevant or value added to the different segments of the private client market (Figure 10).

**Figure 10: The key components of a client reporting package**



When considering the business processes that are essential to achieving high-quality reporting, the participants agreed on the importance of having effective back-up systems. Indeed, they felt the wealth management industry at large has accepted this as an essential requirement (Figure 11).

Other processes that were judged to be important were the ability to automate input and output for all instruments; the ability to standardise transaction processes; the ability to integrate systems (both between the front- and back-offices and within the back-office); effective exception reporting; automated tax calculations; and, speed.

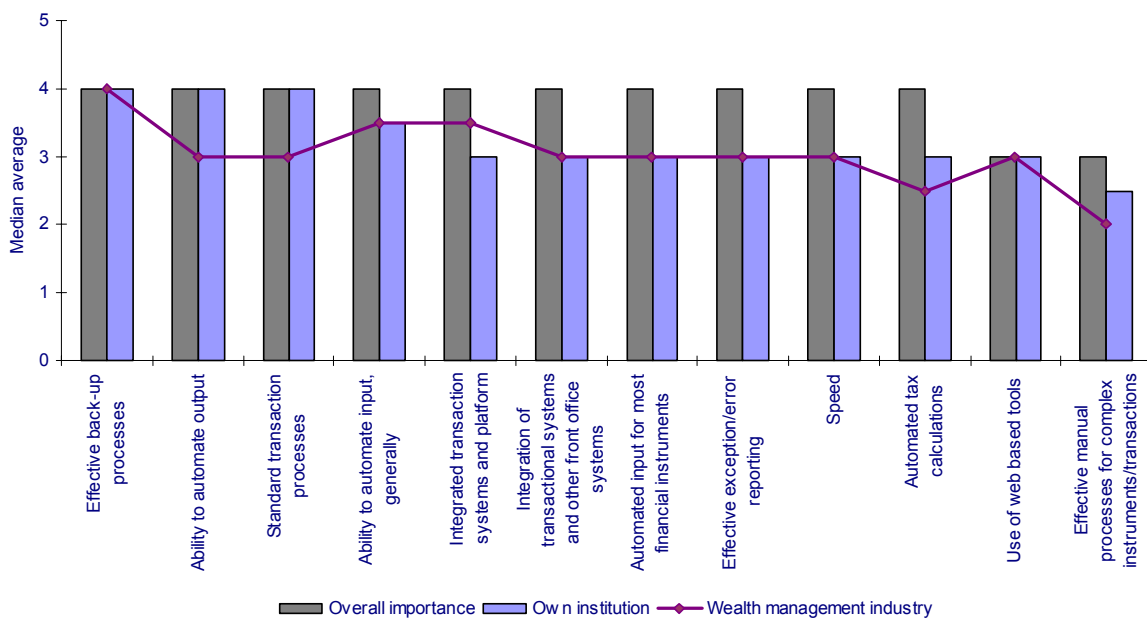
Interestingly, most participants felt that the industry has not fully recognised the importance of all these processes in determining the quality of client reporting.

Indeed, most participants felt they were meeting the necessary standards in only a couple of areas: their ability to automate output and standardise transaction processes.

On balance, these responses suggest that the industry as a whole is not achieving the high-quality of automated processing that is believed to be necessary to effective client reporting. In particular, connectivity between systems in the back-office was felt to be the industry's greatest area of weakness.

By contrast, many felt they were ahead of industry standards in their ability to automate tax calculations and in their use of manual checks to ensure the effective processing of complex transactions. This reflects the importance that has been given to these issues by the front-office. However, in turn, it would suggest that these processes have been identified as areas of priority at a number of institutions, potentially at the expense of other back-office activity that would enhance client reporting.

**Figure 11: How important are the following components in delivering high-quality private client reporting?**

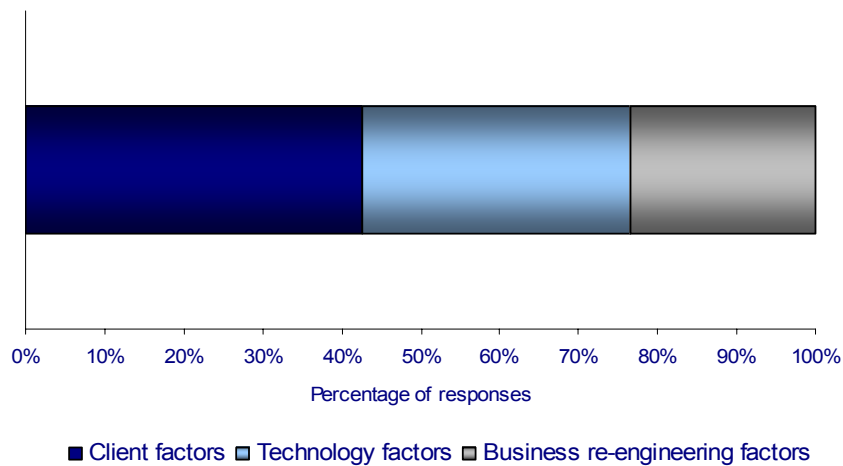


Source: Scorpio Partnership

## Drivers of change in reporting

Looking to the future, the majority of respondents believed that client demands will be the main driving force behind developments in client reporting in the future (Figure 12). There was an acceptance among respondents that the client occupies a central role in future technology budget decisions and therefore the adoption of new reporting systems.

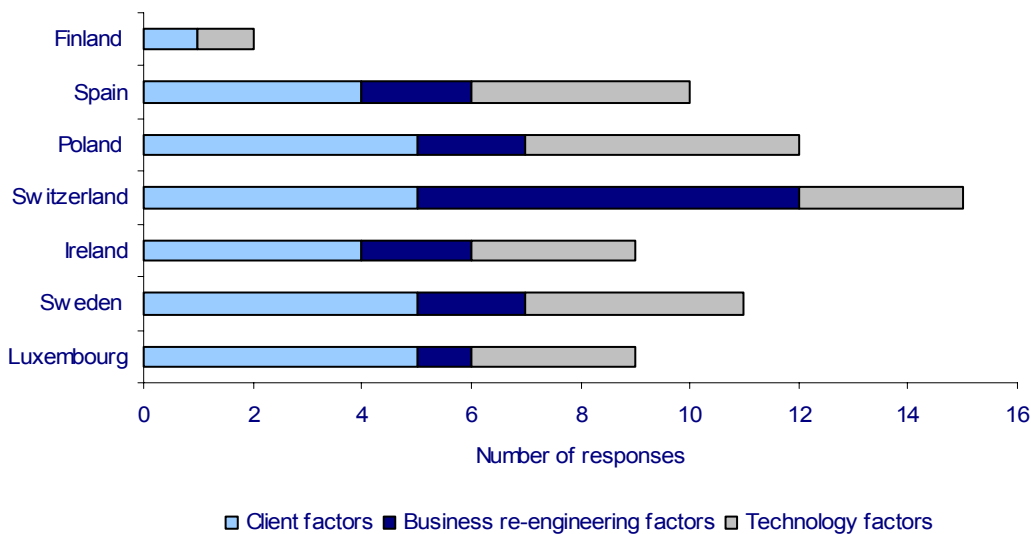
**Figure 12: Factors driving the changing importance of reporting in the overall client proposition**



Source: Scorpio Partnership

This view was widely held across all markets. Although, Switzerland once again bucked the general market trend. Here, business re-engineering factors were cited to be more important than client factors as a driver of change. This reflects the fact that Swiss wealth managers tend to customise off-the-shelf reporting solutions in order to offer more highly-tailored reporting (Figure 13).

**Figure 13: Factors driving the changing importance of reporting in the overall client proposition by country**



Source: Scorpio Partnership

In other markets, those citing business re-engineering factors as drivers of change in the reporting process tended to comment on structural themes affecting the wealth management market.

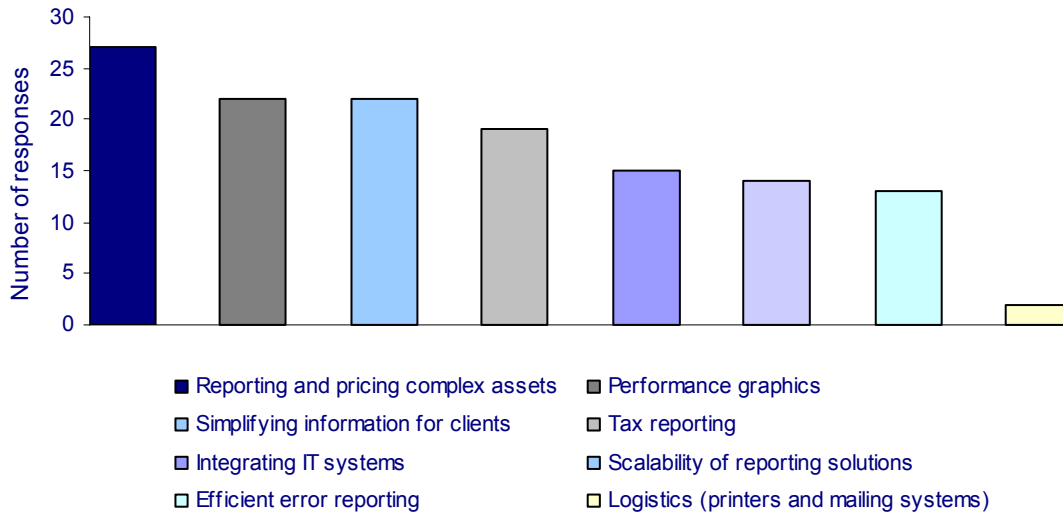
So, in Sweden the shift towards more complex portfolios means there is a push towards the simplification of information. Moreover, with the advent of new onshore wealth management firms setting up in Sweden and existing players opting to keep assets onshore there has also been a rise in the need for comprehensive tax reporting solutions.

In Ireland, the change in asset allocation away from property and direct equities towards funds, alternative investments and structured products has required radical re-engineering of the reporting processes. Meanwhile, the increasingly sophisticated client base is driving demand from the front-office for benchmarking. Indeed, in this respect Ireland stands out from the other markets in its drive to include tailored benchmarks, money-weighted returns, unrealised/realised profit and corporate actions in client reports.

## Challenges in reporting

Complexity of financial instruments proved to be the key obstacle to delivering quality reporting in all the markets. This increased complexity in the investment arena also fed through to some of the other key challenges, such as ensuring that current reporting systems are scalable to deal with future demands (Figure 14).

**Figure 14: What are the top obstacles to delivering high-quality reporting?**



Source: Scorpio Partnership

However, the ability to deliver information in such a manner that it informs clients rather than confuses them and the integration of legacy systems were also seen as major challenges.

The integration of legacy systems was of particular concern to respondents in Luxembourg where the banks traditionally have a separate management and operational structure to the parent institutions. In turn, this presents other difficulties, particularly if systems are to be integrated group-wide or with the scalability of the in-house technology solutions, if they are not.

## Conclusion

Reporting will remain important to the overall wealth management proposition, now and in the future. However, reporting is likely to be integrated as a support tool for additional services in the proposition. Industry leaders are looking to achieve greater efficiencies and added benefits from their existing systems; for some this means a wholesale change in their approach to reporting.

Therefore, advisors will increasingly look towards reporting systems that will provide them with the means to differentiate their wealth management offer and also deepen existing client relationships.