

Transforming the worth of wealth

Selected insights on the strategic topography of the UK wealth management industry



September 2008



Transforming the Worth of Wealth

Foreword

By SEI

What now?

At a time when unprecedented uncertainty is roiling the capital markets, executives throughout our industry are asking fundamental questions about what they should do to meet today's challenges and capitalise on tomorrow's opportunities. Wealth management executives recognise that they must transform their businesses to continue to thrive and many have taken early steps on the path toward these needed changes. Others are just beginning.

At SEI, we work with leaders in every corner of the wealth management industry worldwide. These relationships, combined with the research and analysis we conduct with respected thought leaders, provide us with insights into how leading firms are answering today's existential question – “what now?”

Scorpio Partnership's paper, [Transforming the Worth of Wealth](#), shares some of what we're seeing, hearing and thinking about how some firms are creating winning answers to that fundamental question. Timely and thoughtful papers like these help wealth management executives understand the changes that stand before them and help them navigate their individual path of business transformation.

We believe this paper casts light on three qualities embodied by tomorrow's leaders in the UK wealth management industry: focus, innovation and execution.

Focus

Despite the turmoil in the markets, we are surrounded by opportunity. Wealth and investable assets have grown dramatically around the world, but the challenges of the current environment make it difficult to manage anything more than simply caring for the needs of current customers. These demands for our immediate attention are understandable, but we think that firms who also make time to attend to the future will be well rewarded. And importantly, the opportunity to serve new customers and new segments will require enhanced capabilities born of fundamental change.

At SEI, we believe achieving the needed changes will require firms to create the time to focus intently on the few things that matter most:

- **Business model** ~ structuring the firm to best deploy its resources and capabilities. This focus on designing/clarifying the business model enables the firm to profitably mobilise its core strengths against its best market opportunities.
- **Segmentation** ~ enriching the process for targeting the right customers. Using multi-dimensional criteria to find precise combinations of common customer needs and appropriate firm solutions.
- **Customer experience** ~ Thoughtfully evaluating and prioritizing the needs of the customer in these segments. Redesigning advice and service to consistently meet the life-based goals of these customers.

Wealth management firms have broad and deep capabilities, yet many are challenged by their inability to effectively and efficiently serve the new wealth segments that are most desirable. We believe that refining the business model, segmentation approach and client experience can improve their ability to leverage their capabilities and capitalise on new opportunities in the market.



These requirements are broadly recognised and executives are evaluating their options and charting their path through the needed changes. We believe that the focus of market leaders evidenced by Scorpio's analysis will be critical for all firms who are playing to win.

Innovation

For many firms, the goal of business transformation is the same. They seek to become the trusted advisor and integrator for new, wealthy customer segments. However, this destination requires new ways and new answers for serving customers.

At SEI, we believe that systematic innovation is necessary to effectively enable the business model's delivery of a differentiated experience to the chosen customer segment. In our view, these innovation efforts should concentrate in four key areas:

- **Business infrastructure** ~ this represents the combination of the wealth manager's business processes and supporting technology— it is the backbone of its operation.
- **Sourcing** ~ expanding the familiar buy-build-partner options to achieve sustainable, long-term growth by working with other firms in new ways.
- **Relationship management** ~ reorienting this discipline away from just being product experts. What is needed are customer experts who create a differentiated experience for their defined segment by carefully managing all of the “moments of truth” – those precious moments spent in front of the customer.
- **Products and services** ~ creating complete solutions that package advice and globally sourced investments in ways that are designed to precisely meet the needs of selected client segments.

Each firm will take a unique approach to innovation and the outcomes of their efforts will vary widely. However, all firms will benefit from concentrating in the same key areas. Scorpio's paper reveals both the diversity of innovation and the powerful impact of these innovations on the firms' results.

Execution

Lastly, at SEI we believe that executives must provide strong leadership to their firms throughout the entire change process. Focus and innovation are necessary, but insufficient, if firms are to be successful in their unique transformation journey. Execution quality is the final attribute we see demonstrated by the forward-looking firms in Scorpio's analysis.

This execution quality reveals itself in both cross-functional coordination and excellence “norming”:

- **Cross-functional coordination** ~ success requires the coordinated efforts of a global managed services network. No firm has all of the capabilities needed to succeed without help. However, working with new partners in new ways requires effective and ongoing coordination.
- **Excellence “norming”** ~ every firm has unique capabilities and unique strengths. Winning firms find ways to identify their internal champions at all levels and leaders facilitate broad adoption of these internal best practices. Hence, individual excellence becomes team excellence and team excellence becomes the new firm norm.

Focus, innovation and execution. These are three of the attributes that we see in the “captains of industry” which Scorpio profiles in the [Transforming the Worth of Wealth](#). These forward-looking firms are transforming their businesses in ways that extract substantially more value from the firm's business of serving the wealthy. For many, the transformations they're undertaking will provide entirely new capabilities to design and deliver a differentiated, holistic client experience. For others, they will simply add scale and effectiveness over their legacy approach. For all, the changes will be an essential part of thriving in today's turbulent marketplace.



Everyone won't make it.

Change is difficult – even when the call to action is clear and the path discernable. Sometimes the markets move faster than firms are able or willing to change.

While some firms will cling too long to their current approach, we believe tomorrow's leaders in wealth management are undertaking the needed transformations already. These executives understand the sea change underway in our business. And they are thoughtfully, methodically and steadily leading their firms on a transformational journey.

Scorpio Partnership has been alert to the early moves of these emerging pioneers. We share their enthusiasm for these firms' early successes and are pleased to be able to add some of our perspectives to their analysis.

It is an extraordinary time to be in the wealth management industry. Both the challenges and the opportunities are unprecedented. We look forward to hearing your thoughts on the points-of-view in this paper. What is more, we welcome a conversation to learn your perspectives on the future of our industry and how your firm is answering the question: "what now?"

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Background to the thought leadership

Summary issues

The UK onshore market is embracing innovation in positioning

- Market share between firms is scattered, but many are gravitating to the mass wealth market (GBP500,000 – GBP5 million) to ensure sustainable profitability.
- Market winners in terms of net new money are mid-size firms that actively target clients with a broad discretionary models-based capability linked to specialist asset advisory.
- Organic growth has been preferred over acquisition for taking market share, but firms are still guilty of under investing in developing the capabilities of its sales distribution and product platform.

Differentiation to win will require a shift in the usage of investment platforms

- The similarity of conventional product offerings has placed greater emphasis on differentiation through product structuring, asset allocation and wealth advisory.
- Investment platforms are steadily being required to enhance differentiation with client knowledge management that can support a holistic service delivery model.
- There is a growing acceptance that clients with much higher wealth values are willing to accept packaged investment products.
 - Models are increasingly used for portfolios up to, and beyond, GBP10 million.

Upgrading the front office will dictate the success of the proposition

- There is a notable shift to advice-based wealth management but it will require investment – some still hope it is sufficient to just “*change the label on the door*”.
- Enhancements to the client proposition are evident among market winners.
 - Expenditure in brand and client knowledge development is increasing.
 - Usage of above the line marketing to target new business is rising.
 - Early signs of advances in ongoing professional development for relationship managers, particularly re-tooling advisors, is having an impact on the bottom line.
- Visionary CEOs are actively linking the proposition enhancements to upgrading the product platform and operational systems to compete.

*Between October 2007 and September 2008 **Scorpio Partnership**, supported by **SEI Investments**, led an examination of the different business models, operational issues and attitude toward market segmentation at 25 wealth management institutions in the United Kingdom. The objective has been to plot the industry's evolution and identify distinct variations among different business models in terms of the paths to success. Crucially, the aim has been to identify the true captains of the industry and what can be learnt from them.*



Introduction

The UK onshore wealth management market, defined individuals with more than GBP100,000 in marketable wealth, has seen rapid growth in assets under management (AuM) since 2005. The market now amounts to GBP1.64 trillion (some USD3 trillion) of assets and has grown between 7% and 10% per annum. The strong performance has been boosted by the more than 200,000 onshore high net worth (HNW) individuals with more than GBP1 million in the UK with a combined total wealth of GBP723 billion.

At a macro level the 25 institutions analysed during the year account for 9% of the total market potential. In this context, average AuM growth among the 25 firms assessed was 56% while client growth was just under 15% in the same three-year timeframe.

Due to pressures on winning new business from HNW clients, the market is transforming the approach to targeting wealth segments and there has been an adjustment to the type of product and service solutions on offer. Indeed, the balance of strategic interests is very much in favour of intelligent organic growth leveraging the skills of the in-house sales force operating off an efficient platform. An interesting example in this is **St. James's Place**.

The alternative growth model – acquisitions – is less attractive although most chief executives continue to claim an interest to buy. However, they decry the lack of opportunity and high multiples currently being commanded. Thus, while there have been deals – for instance, **Tilney Investment Management** by **Deutsche Bank**, **Quilter's** by **Citi** and **Baker Tilly** by **Towry Law** – most have been small, relative to the overall market.

Amid the shifts in the business landscape in terms of competitor offerings, our analysis indicates there are now eight business models in operation (Figure 1). This new layer of insight into the topography of UK wealth management is crucial to better understanding why certain businesses are succeeding in a segment as others do less well or even fail.

In our view, based on analysis of data and the strategic actions of the companies, each model has different performance characteristics, effective market approaches and viable target wealth segments. Some of the distinctions may appear to be subtle in the current market as the differences between the firms are still being crystallised. However, it is clear the model types are having different impacts on success in winning market share. Notably, many challenge for the same private investor profiles even though those in management believe their market segments are distinct.

Figure 1: Different operating models in the UK wealth management market

Single family office	Universal private bank	Private client asset manager	HNW independent advisor (Whole of market IFA)
Multi-family office	Boutique private bank	Retail bank wealth manager	Mass-affluent IFA (Whole of market or multi-tied IFA)

Source: Scorpio Partnership

Indeed, aligning the model to the right target wealth segment remains the most significant challenge executives will face. Market winners are now taking a closer look at the optimal wealth strata to operate in and they are adjusting their delivery platforms to succeed. Notably, the high AuM growth rates at 56% for the firms assessed aligned to the lower increase in client numbers at 15% suggests there is already market trend toward successfully upgrading the wealth proposition.

These businesses are succeeding in either deepening their asset volumes from existing clients or are moving up the wealth levels to secure higher ticket sizes. Or both. The significant issue here is what can be learnt from these institutions?



In fact, the assessment of the 25 institutions suggests a recognition that organising an effective product delivery platform – either through internal means or with external support – is critical to winning market share. Moreover, the visionary captains of industry acknowledge that outstanding platforms alone will not enable them to continuously beat the competition. In fact, in our view, the key is to improve the ability of the front-end to deliver the platform capabilities to the target client in a manner that is efficient while also having the *appearance* of customisation.

Therefore, the examination of 25 major entities in the UK market show clearly that the competitive battle is now shifting almost entirely to differentiate on the service model but, crucially, this does not mean that the product platform is less important – they are *conjoined*.

Meanwhile, aligned to the renewed view on the structural issues of the business, many firms are now reviewing the means by which they can win market share through marketing, communications and branding. For instance, the efforts of **Barclays Wealth** in its above the line campaign have made a huge dent in the broader client psyche of what wealth is.

In fact, after many initially suggested this was “downgrading the market” they realised this initiative was having notable impact. Moreover, the more prescient chief executives realised their service teams might in fact be out of touch with the current client attitudes and this could be incorrectly influencing their strategy. Survival for most will depend on becoming more visible. But this visibility must be targeted in order to yield results while managing costs.

Therefore, the assessment of the models now suggests clearly that above the line marketing will be commonplace, particularly in the segment of GBP500,000 to GBP5 million. Indeed, in our view, it is clear the techniques of the retail financial services sector are creeping into the wealth management market, albeit slowly. Many of these techniques are invaluable to efficient and predictable business operations.

With this in mind, institutions are beginning to grapple with communicating a consistent proposition and fresh experience through branding, market positioning and, ultimately, their relationship managers. A strong example of innovation in this field has been **Route Group** a smaller wealth manager targeting specifically one wealth segment with **The Route City Wealth Club** by offering a constant message of professional empathy.

Based on this market status, chief executives should take note the industry is very much now entering the age of (re)developing the client experience. This will require firms to upgrade all stages of the business process to ensure success. Indeed, those that recognise the operational and asset management platform must be more effectively linked to the service delivery capability at the front end will be the true winners of the game.



The UK wealth management industry today

UK market grown trends point toward opportunities in the volume market

- In 2008, the onshore UK wealth market, defined as individuals with GBP100,000 or more in marketable wealth, is now sized at GBP1.64 trillion and has grown at 7% - 10% per annum for the last three years to 2008.
- All client segments have experienced growth in the UK in the last three years.
 - The GBP500,000 – GBP5 million segment has 1.3 million potential clients. This segment also controls around GBP750 billion in wealth and has grown the most in real terms over the last three years.
 - The UHNW (GBP10 million+) segment has a bright-lights effect and draws in many institutions. However, client-pressure on fees and the costs of delivering bespoke mandates means this arena has difficulty delivering a scalable business proposition.
- The core concentration of UK wealth management in terms of private investors and the institutions serving them remains London-centric, but there is a trend to the regions.
 - Institutions are gradually taking the proposition to the regions in an attempt to improve the connectivity with clients and widen product distribution channels.
 - This regional targeting concentrates on the GBP500,000 to GBP5 million bracket.
 - The intention in the regions is to offer a broader fund-based asset management supported, increasingly, by an enhanced financial advice and structuring solution at the front-end. The traditional stockbrokers model has faded away.

Segmentation is now developing in sophistication through enhanced market knowledge

- Client-driven models are revising the standard AuM-based segmentation techniques used to capture market share.
 - Linear segmentation such as targeting clients only by AuM levels is becoming outmoded and unsophisticated.
 - Wealth pyramids are useful for basic business planning but fail to determine true client activity potential or profitability.
 - Asset levels are also less of a guarantee of clients suitability or profitability levels as the market shifts to advice-based wealth management.
 - Trigonometric segmentation is becoming accepted.
 - This includes assessment typically by source of wealth, lifecycle and AuM. The process provides truer insight into buying triggers and investment habits. Ultimately this information is key to driving revenue for the firm.
- The market is propelled by a desire to differentiate propositions relative to other wealth managers but few are actually managing to separate from the pack, particularly in terms of product offer. As a consequence, innovators are starting to focus capital investment on front-end delivery and distribution, including more sophisticated client profiling strategies.



There is strong evidence suggesting eight operating models in the UK onshore market

- The eight – almost distinct – models help refine the business priorities in terms of product and services mix. This is also having an impact on the firm’s operational set-up and its propensity to outsource.
 - The alignment to models is in its nascent stages as several institutions still mix models to be ‘all things to all people’ rather than ‘all things to some people’
 - Several captains of industry now acknowledge the asset management engine room can be constant irrespective of the client segmentation.
- To date, in terms of financial performance, no single business model has proven itself to be the standout success. This suggests the industry is still in the “building stages” of refining the proposition.
 - Average growth in AuM across the 25 analysed institutions was 56% between 2005 and 2008 which is notably high, but there is no clear rationale behind the true reasons for this success.
 - More importantly, there is no predictability in this growth rate continuing. Several captains of industry are acknowledging this and assessing measures to ensure a longer-term positive outcome.
- The true challenge for all models is enhancing the distribution channels to supply new assets to the business.
 - The focus is now on customer service differentiation as well as asset management product differentiation through optimising the platform.
 - The implementation of service differentiation components into the business is still considered a somewhat “radical” concept although clients’ have been demanding this for some time.

Three broad business trends recur as key drivers of transformation across all models

- Discretionary portfolio management is at last a core business line and growing within most firms, and set to increasingly dominate.
 - 68% of analysed firms claim to have >75% of assets in discretionary mandates.
- Model portfolios are now actively used in the sub-GBP5 million bracket but are also being trialled for clients with up to GBP10 million in portfolio assets.
 - Institutions offering model-based investments to lower AuM clients are growing at a higher rate than those focused on the top-end or using bespoke solutions.
- The alignment of product propositions to client needs and operating systems is central to the financial success of the UK wealth management models.
 - The traditional segmentation of offerings based on “affordability” is being replaced by segmentation based on “needs”, although this is requiring a major transformation in sales and service approach.



Where is the wealth game concentrated?

The UK is among the top wealth markets in the world. Both real assets and the number of individuals are at an all-time high on the radar of ever opportunistic wealth managers.

The onshore UK wealth market has reached a new peak in 2008. Some four million individuals control this wealth with more than GBP100,000 each to invest.

Amid this boom, market attention and strategy has focused predominantly on reaching higher-AuM clients. Indeed, many institutions are now building a profile among UHNW clients, believing that higher-AuM clients also hold higher profitability.

However, financial analysis shows this segment of the market is costly to serve sustainably and, as some have discovered, it is also a difficult one to achieve traction with in terms of market access. The core reasons are that service expectations are higher than many can provide and clients also exert pressure on fees from providers. As a consequence many firms are retrenching away from an UHNW focus to the HNW arena where opportunities to scale distribution are greater.

On an analysis of market data this is clearly logical. The pool of HNW and UHNW individuals is eclipsed by the GBP100,000 – GBP1 million segment which has typically been considered to be less attractive for wealth management. This pool of clients is 96% larger in volume and controls some 21% more marketable wealth compared with the onshore HNW and UHNW sectors.

A focus on six-figure *and* “low” seven-figure wealth has significant implications for the wealth industry. Seeking growth in this sector requires greater above the line marketing, mass-customisation of portfolios, refined value propositions and developing consistent product delivery channels to clients. The sales model is also likely to need adjustment.

Notwithstanding this, it is clear from research that several wealth managers are now finding this community to be an important part of their future growth plans. Some captains of the industry are actively building their agendas around tapping this sector in the short to medium term, which includes more mass-market approaches.

The successful models are embracing an aggressive growth plan in front-office services while optimising asset management, often through outsourcing. Moreover, many consider the real prize is in enhancing regional market coverage (Figure 2).

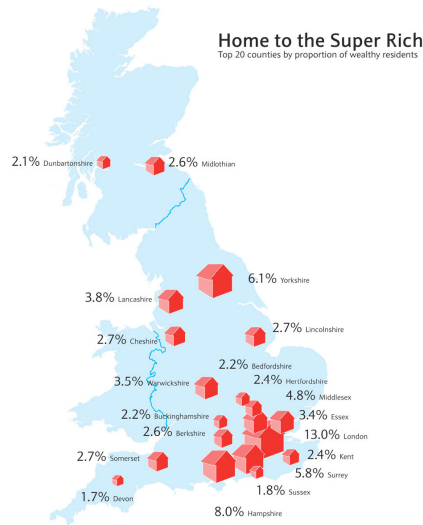
To date, however, wealth management remains a predominantly London-centric game. Operationally this is not surprising as London is a global financial hub for investment opportunities. However, for distribution businesses – like wealth management – there is a need for deeper market penetration beyond the M25. Several institutions are accepting this.

Previous business strategies for the regions assumed it was acceptable to cover opportunities with travelling sales teams. Push back from clients and intermediaries due to lack of local commitment meant this strategy has had limited success. Moreover, smaller regional players maintained a tight grip of market share and were upgrading product capabilities.

A notable example here would be Liverpool-based **Tilney Investment Management** which has subsequently been acquired by **Deutsche Bank** to augment the German bank’s UK onshore growth plans. Tilney is a firm that possesses a major regional presence in the north of England and their dominance has effectively shut out many firms from the south.



Figure 2: Wealth distribution in the UK



Source: Barclays Wealth

Further examples of the push beyond the M25 are **Kleinwort Benson Private Bank** which has been building a network of regional offices organically in the last year. Even **Goldman Sachs**, which is traditionally not an adopter of regional distribution, has opened offices in Birmingham in order to get closer to potential clients.

While organic growth has been a route for some models, acquisition has supported others, including **Deutsche Bank**. Another is **EFG Private Bank** which bought **Ashby London** in Wolverhampton and Birmingham-based **Harris Allday**. Meanwhile **Towry Law** has conducted an ambitious acquisition programme, buying **Baker Tilly Financial Services**, in March 2007 as well as **Analysis**, **McGowans** and **Hazlems Financial** between December 2007 and January 2008.

Indeed, innovative executives are using acquisitions as an opportunity to move to single operating and asset management platforms. This is not purely a cost-cutting exercise but undertaken in order to achieve uniformity and scalability in the future business model. Thus, the outsourcing market is increasingly attracting attention from expansion-hungry executives. This is most apparent for institutions with under GBP7.5 billion in regional AuM focused on targeting clients with less than GBP5 million in investable assets.

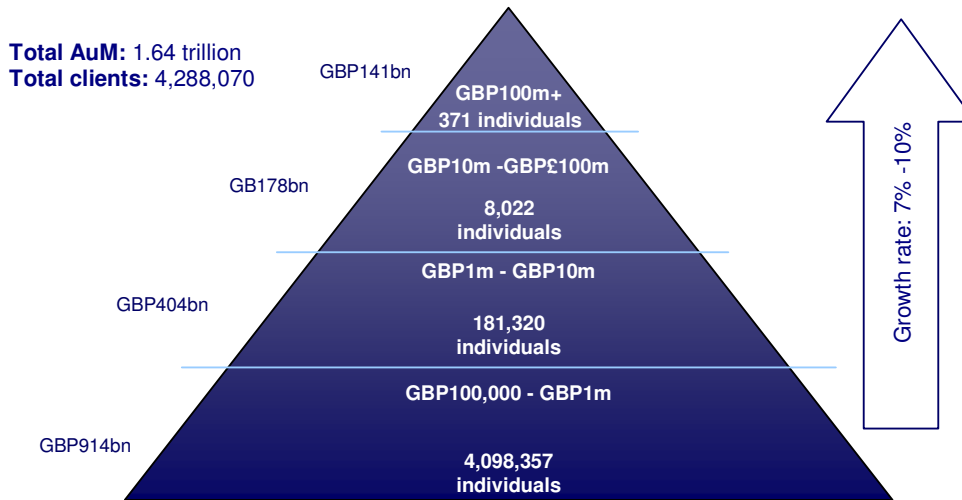


Linear segmentation: The wealth pyramid

The UK onshore wealth market has experienced growth rates of 7%-10% during the last 36 months. Furthermore, the market looks set to maintain positive momentum for the next 12 months, in spite of market conditions.

The onshore wealth pyramid below is drawn from Scorpio Partnership's proprietary wealth modelling database (Figure 3). Current analysis indicates there are some 8,393 UHNWs controlling assets in excess of GBP10 million each. The UK market is also an important centre for offshore resident non-domiciled business. While market data in this area is opaque, our estimation is that there are a further 1,700 UHNWs with assets over GBP100 million using London in an offshore context.

Figure 3: The UK onshore wealth market



Source: Scorpio Partnership Wealth Distribution Analysis, 2008

However, the key market landscape is the sub-GBP10 million arena. Indeed this segment has over four million potential clients and GBP1.318 trillion in marketable assets. Furthermore, the delineation between mass-market and HNW is being challenged from a product perspective. Business models now suggest that wealth managers in the UK onshore market optimise profitability at GBP500,000 to GBP5 million per client and many firms have average portfolio sizes below GBP1 million. This remains an unspoken 'secret' of the market.

Further, no institution or operational model dominates conclusively in the UK wealth management arena. Indeed, the 25 institutions analysed in the last 12 months control an average GBP5.7 billion in AuM. Indeed, none of the 25 analysed institutions controls more than 2.5% of the UK onshore wealth market opportunity. This data factor alone often lures new challengers to the wealth spectrum.

Critically, in today's environment, the winners are those that are trying to develop scalable platforms for growth and offer a transformational client-service model. In this context, the pendulum has shifted to the front-office and reinvigorating delivery channels as the product spectrum becomes more similar, if not identical, across market players.



The new market winning approach: segmentation trigonometry

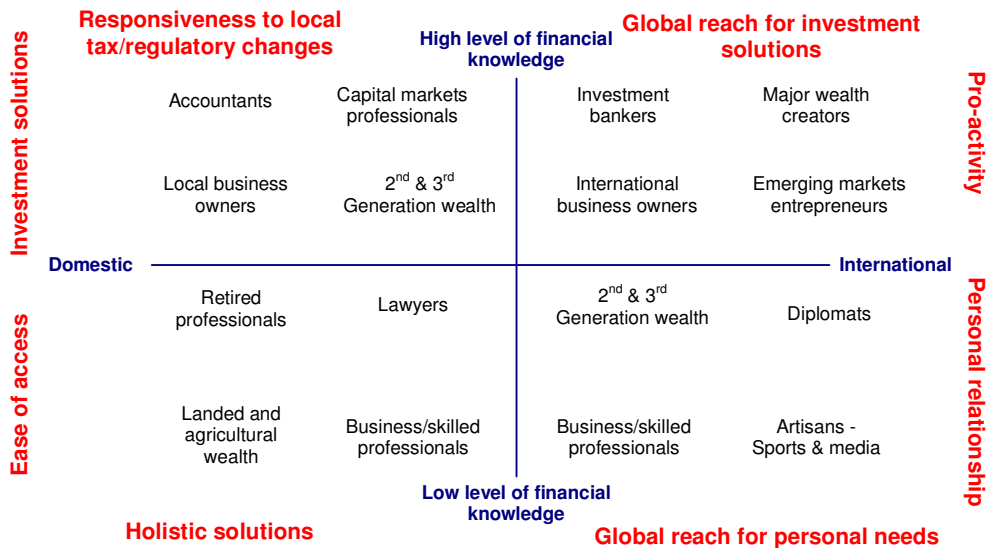
The segmentation of clients by asset level is a useful exercise for business case planning. However, in the UK (and elsewhere) this approach is increasingly being seen as very mono-dimensional and has limitations on the positioning of the business.

The days when clients are solely profiled on the apparent size of their wallet (or, more likely, their estimated revenue potential to the relationship manager) are likely to diminish. This is particularly the case as we now enter the age of the value of the front office client experience which can deliver much greater granularity on business requirements from the clients.

Crucially, increased information on client requirements is now adjusting the way wealth managers can assess suitability levels for product and service. Our analysis of client needs through thousands of investor interviews indicates the distinct variation in interest for wealth management based around the source of wealth linked to geographical interests and knowledge levels of private clients.

Indeed, CEOs that try to hold the view that one size fits all are at risk of being too simplistic. The insight in Figure 4 shows what ranges of solutions should be offered in the UK based on awareness, background and needs on the part of the client. This insight is a critical milestone in the industry development. The crucial question is how will wealth managers consistently gain from this insight in advance of selling their products. In this context, our research has shown that the source of wealth and professional background has a strong influence on habitual spending on investments.

Figure 4: Variations on client requirements within the UK wealth market



Source: Scorpio Partnership

An additional area of business segmentation after assets and wealth source profile that is slowly taking effect in the strategies of several business models is the stage of wealth in the life of the client. UK wealth managers are gradually acknowledging the impact this approach to segmentation has on product positioning. This may all seem obvious but the key issue is very few firms look at this insight strategically when making decisions on infrastructure, product development and resourcing.

In fact, rather horrifyingly, most wealth managers have assumed they address the “stage of wealth” issue by pairing a client with a similar aged relationship manager. However, while this does not actively address the product requirements at a business level, it does appear to foster a good bond between the RM and the client. So good, in fact, that when the RM moves to a new institution, the client goes with him along with the assets. This outcome is hardly the institutional relationship executives strive for. Moreover, today’s clients are seeing through this trick because the RM is insufficiently skilled or empowered to manage their requirements.



Shifting value toward the client experience

The key issue in today’s business models for wealth management is the juxtaposition of investing considerable effort and money in being bespoke for an exclusive few while the reality is that the engine room of the business is in the “volume” market.

In fact, based on client research assignments undertaken by Scorpio Partnership during the last decade, the truly consistent profitable target market spans the wealth client that possesses net investable assets of between GBP500,000 and GBP2.5 million.

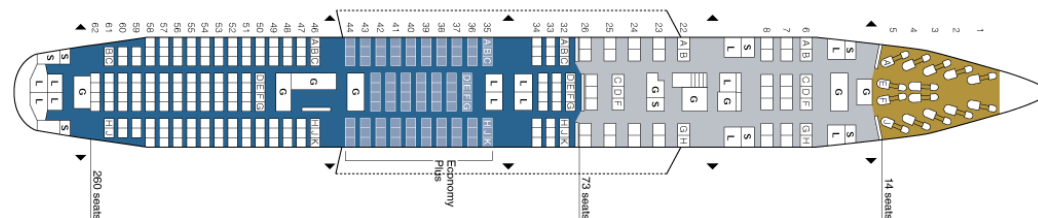
Indeed, some institutions are even acknowledging strong opportunities in the GBP250,000 – GBP500,000 segment too. Historically, this particular sub-segment triggered many forms of strategic prejudice among wealth management firms. So much so, that many businesses have tried to ignore the value of this arena and the main beneficiaries have been “premier” wealth solutions offered by banks and IFAs.

Overall, our assessment does not ignore the importance of the wealth segments above GBP2.5 million. But consistency of successful models in terms of market penetration, revenue and profitability above this point become less apparent. Indeed, many wealth managers trying to operate above this line often turn their backs on basic operational and asset management efficiencies that can be introduced. They remain convinced that the only true path to success is an internal solution and this is simply not a viable option. Once again, the business juxtaposition is clear.

Crucially, the volume wealth market is now being better understood in the UK. Moreover, the business models assessed are actively growing in this area when they have strong packaged product solutions that operate off a solid platform. In reality, the needs of the clients in this group are constant and, therefore, scalable. Further, clients in the volume-market are also accustomed to common access to products alongside (optional) enhanced service levels.

In reality, our assessment is this segment can be equated to the business class, or in some cases premium economy, of a commercial airline (Figure 5). In essence, these customers are aware of their wealth, their buying power and are typically prepared to agree a premium cost in return for better outcomes. To complete the analogy the plane is the same for all passengers but the experience of the flight changes for those willing to pay the premium depending on their circumstances and needs. This is the future vision of the wealth industry that can dictate the strategic orientation of the business. Most should accept premier and business class offer the best sustainable margins when operating on a standard platform.

Figure 5: The new perception of the wealth management market experience



The client-provider interaction tiers

	Volume wealth management	Wealth management	Private banking	MFO, SFO or Independent boutique
Knowledge	Self selection on investments	Volume-based advisory	Model-based advisory	High level advisory
Deliverable	Commoditised products	Packaged products	Selected products	P2P investing and access
Difference	“Facilitation” experience	“Convenience” experience	“Life sensitive” experience	“Limited edition” experience

Source: Scorpio Partnership



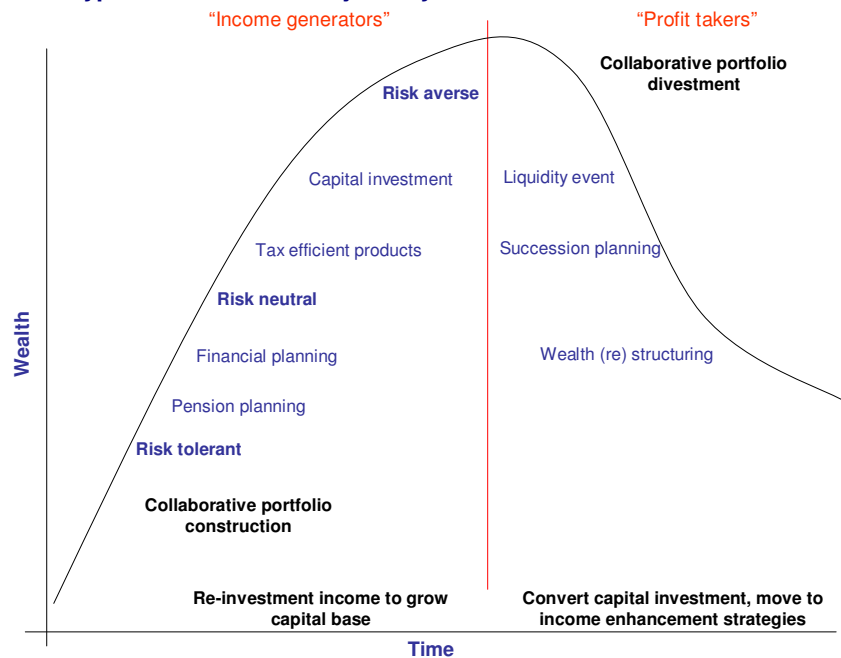
Ultimately, the client is seeking a “wealth management experience” which is a combination of strong personal service and longer term investment management. To clients this has demonstrable fee value which is defensible by institutions if the experience is positive.

Of note, the investment management proposition does not significantly change with wealth in this segment but the service expectations of clients do. Therefore management executives are increasingly starting to focus on the differentiating element from a client’s perspective – the front office.

Importantly, the connection between client experience and product proposition is somewhat new to the UK wealth management market and only informed with detailed client research, insight and knowledge. Over time this will improve as insight deepens.

Even at this point, the key shift in the market is the realisation that asset segmentation must be combined with profile segmentation when it comes to product and service development. In this context the diagram below (Figure 6) outlines the journey of asset accumulation over time and wealth. Crucially, this is also linked to the different product and service requirements and could offer a clear adjustment to the business positioning if greater attention is paid to it.

Figure 6: The typical UK HNW client journey



Source: Scorpio Partnership

In this context of mapping the typical client’s journey the first point of reference is the allocation of income into capital enhancement strategies. These individuals effectively regularly re-invest from their income into capital growth investments and longer term wealth planning solutions. Additionally, at this stage in the cycle clients are attuned to tax efficient products as well as pension planning and financial planning. They are “long term market buyers” in the main.

The second key stage in the life cycle is, in effect, the reverse. Here there is a “profit takers” mindset, drawing income from the capital base. This is inevitable to support changing life circumstances.



Notably, during the first stage the client is accustomed to risk. They balance this against a rationale that their capability to generate income remains in place irrespective of their investments. In the latter stage, although the clients may have larger sums of capital, they often appear to have a different risk characteristic. This is rooted in their uncertainty about how long they need to generate income separate to their investments.

In the context of the client journey above, the industry vanguard is now engaging with clients to collaboratively construct portfolios and the long-term business orientation. These firms are beginning to accept that a heightened sense of awareness of the client profile at a strategic level will help direct business, influence product development and drive service solutions.

Several institutions are now linking this understanding to their wider asset gathering strategy. For example, **Kleinwort Benson Private Bank** has engaged in a long-term reorientation of the business to focus on the HNW market of wealth generators – City professionals, entrepreneurs, and business owners. Even more radically **Best Invest** has opened its entire system architecture for clients to self-construct portfolios online, giving them access to the same toolkit as its relationship managers.

In effect, **Best Invest** has repositioned itself as a knowledge hub and provider of both information and product. Further, they are targeting “future wealth” that are currently in income mode. This is along a similar vein to another pioneer, **Route City Wealth Club**.

Of significance is that this approach is bearing fruit for all three firms. The analysis indicates institutions that have made the commitment to better understand clients on their own terms to advance their market segmentation are now capitalising on their investment, achieving AuM growth rates in excess of 100% since 2005. Notable examples include **Investec Private Bank** and **Heartwood Wealth Management**.



Re-evaluating the sub-optimal business

The industry has built its foundations on a tradition of exclusivity. This remains, but cracks are showing. The key cause for the cracks is that sustaining the model of wealth management has often forced businesses to make concessions on entry levels to win business. However, on winning the businesses, most firms have been relatively slack in deepening the share of investments substantively over time.

Notably, wealth managers continue to set hurdles above the 'real' minimum entry levels. In general, the stated investment threshold of the 25 firms examined was some 100% higher than the actual entry level of clients. Indeed, 25% of institutions in the analysis had an average AuM per client under 50% of the stated minimum.

This approach to lowering entry thresholds in order to win new funds and client relationships is causing systemic problems. In fact, the business models of most firms are oriented toward hunting for new assets with new clients. Therefore recently signed up clients are overlooked when it comes to product up-sell. The consequence, over time, is the firm can become overweight with client accounts that are sub-optimal for the overall proposition.

Critically, the research has shown that these "lower value" assets are in fact not potentially sub-optimal to the firm (which is often the assumption made by chief executives). These clients are, however, in the wrong product proposition to make their booked assets a viable relationship. Indeed, it is notable that many firms are now recognising that it is possible to optimise the book of business through a creative use of outsourcing.

Of note, institutions that are offering model-based investments and packaged investment solutions to lower AuM clients have grown at a higher rate than those that focus on the top-end or using bespoke investment solutions. A minority of firms assessed in this exercise appear now to be recognising this and attempting to shift toward offering a more packaged asset management solution in order to address the client base rather than lose it entirely. One example is **Towry Law**, which has developed a range of in-house OEICs.

Notably, this insight is being borne out in the improved understanding of the market delineation. There are now clearly eight distinct models with the potential to succeed in wealth management across the huge spectrum of clients.



Business models in the UK onshore wealth market are distilling

The UK onshore wealth management market is complex in the context of the apparent non-consistent requirements of the clients. The very fact that the industry is steeped in the promise of a personalised and bespoke offering is also its Achilles heel as many strategists and chief executives struggle to rationalise the solution within acceptable expenditure levels.

However, the early shoots of strategic consistency are appearing. Several firms are now attempting to introduce a clear articulation of the value proposition, while refining its target client segment and consolidating its product delivery channels. In the case of three very different market solutions – **Investec Private Bank**, **Fleming Family & Partners** and **Towry Law** – this refinement has led them to grow substantially, relative to the average growth rate of 56% for the 25 analysed institutions.

The key feature of these three firms is that they operate in distinct market segments and their business models are also showing signs of distinction from each other. Indeed, annual research of more than 200 institutions globally by Scorpio Partnership is now clearly highlighting eight different business models operating within the wealth management landscape. Critically, as the industry further distils in terms of market focus, it is likely these eight models will begin to demonstrate greater individuality in terms of its client base, product line-up and operational requirements. This is an exciting breakthrough for the industry.

Introducing the models in the UK wealth management landscape

- i. **Mass-affluent financial advisor:** Target client range – GBP50,000+
Typically this model concentrates on independent financial advisors to wealthier mass-market clients. Under the new depolarised regime, most are not “independent” but will be able to provide a “whole of market” approach to product selection. The businesses may be separated from any other financial institutions or can also be linked to a retail wealth management provider. Within these businesses, the use of tax wrappers is commonplace. Many of these firms are giants in the retail space but are also beginning to turn their attention to the private client arena. Examples include **Hargreaves Lansdown** and **St. James’s Place**.
- ii. **Retail bank wealth manager:** Target client range – GBP100,000 +
The retail model is the engine room of the mass market wealth solution in the UK onshore industry. Notably, the solutions offered by retail bank wealth managers must be packaged products that are typically non-complex in order to achieve scale within manageable costs. The businesses thrive on the internal referral networks to secure clients, but the main casualty in this model is the level of customer attention which is limited or non-existent although it is worth noting that at several firms this is changing. Examples at the top end include **HBOS Private Bank** and **HSBC Premier**.
- iii. **HNW independent advisor:** Target client range – GBP250,000+
This model has historically been overlooked by many in wealth management, although it is the view of Scorpio Partnership this community represents the powerful “majority” of market share among HNWs and UHNWs. Crucially, this model is steadily increasing its asset management capabilities, through the prudent inclusion of third party expertise. Finally, due to depolarisation, this community can now officially claim rights to be “independent” which is a compelling draw for most clients. Increasingly, the market winners in wealth are targeting specific client profiles – such as City-based executives (**Heartwood Wealth Management** or **Route Group**), women (**Bramdiva**) and specific geographies.



- iv. **Private client asset manager:** Target client range – GBP250,000+
This is the traditional mainstay, and possibly most contentious, of the UK wealth management landscape. Notably, the minimum investment threshold in this category is still relatively low. This is explained by the fact that many businesses in this model must lower their thresholds to attract sufficient investment volumes for their proposition. Additionally, this business sector remains the most scattered in terms of market segmentation and this will require the most attention among chief executives moving forward. The mainstay revenue line for this sector is either advisory investment services (the modern term for brokerage) or discretionary portfolios that are either bespoke or models-based. Examples include **Close Wealth Management, Tilney** and **Rathbones**.
- v. **Boutique private bank:** Target client range – GBP500,000+
While the terminology might upset some operators in this category, the model is effectively focused on remaining a targeted bank and asset manager within one business. In the UK context these institutions can be highly focused on lending/deposit taking or investment management as core business but they are rarely “top of the class” in both categories. Market access to clients is concentrated on the sales force and distribution is generally limited by broader brand recognition. Examples include **Hoare & Co, NM Rothschild, Arbuthnot Latham** and **EFG Private Bank**.
- vi. **Universal private bank:** Target client range – GBP1 million to GBP20million+
This category is the second most prevalent model in the market after the private client asset manager model although in terms of total AuM these firms are the giants of the market. The institutions target a broad range of client segments and offer a wide range of banking and investment solutions, often with a strong offshore capability. This is typically not joined up very well, or at all, with the onshore business. On the investment management side, the portfolios are increasingly models-based as well as operating on an open architecture platform. The private bank often draws on the commercial or investment bank to access clients. Examples in this broad group are **SG Hambros, Barclays Wealth** or **Investec Private Bank**.
- vii. **Multi-family office:** Target client range – GBP10 million+
This business model provides investment management and asset allocation services to a limited number of UHNW families and individual investors. The businesses are typically either rooted in a small group of individual families or, increasingly, are the creation of investment professionals that are seeking to specifically target the wealth segment. At this stage, most businesses in this category have limited scalability in terms of distribution or investment management solutions but some are addressing this through launching their own funds. Increasingly, this category of businesses is placing greater importance on the asset allocation strengths of the model to both win and retain clients. Examples in this sector include **Iveagh, Sand Aire, Fleming Family & Partners** and **Guggenheim Partners**.
- viii. **Single family office:** Target client range – GBP100 million+
The final model is the investment vehicle for a single individual or family. The business is typically focused on asset allocation, investment monitoring and increasingly on managing segregated portfolios on behalf of family beneficiaries. It is debatable whether the single family office is established to be commercial in the conventional sense as they are often intended to dis-intermediate the principal family members from interacting with financial institutions on an individual level. Moreover, the offices are also intended as an investment aggregator and administrator for the family. Nonetheless, there is often a “reverse commerciality” of the initiative which is that families consider it a cost saving to establish an office when they look at the associated expenses and fees related to having the family assets traditionally managed by private banks consolidated in one location.



And what next ...?

Future growth for the UK wealth management industry is likely to be rooted in the GBP500,000 to GBP5 million segment. However, few institutions are aligned to this arena at present. Successful wealth managers are trying to understand the financial buying habits of clients by examining professional needs and life-wealth goals, not only investable assets. This approach to segmentation and business positioning is starting to take institutions into competition with operating models outside their traditional peer group.

The competitive landscape is changing rapidly but there is little differentiation between propositions and no business model has taken a significant lead in market share. Understanding the eight business models will allow wealth managers to re-evaluate the positioning of their own operations. This deeper understanding will be critical in order to compete in the future market.

Operational platforms will need to upgrade product delivery to achieve greater volume in the future market. Funds and alternative assets will also likely continue to grow in popularity. Further, global investment coverage will also be increasingly desired by clients at all levels of wealth. Currently, few of the operating systems in the leading firms analysed by Scorpio Partnership are optimised for this shift. Therefore, most systems are not aligned to support product distribution in the future market.

Matching products to client segments is a fundamental challenge to the industry. Some firms are moving toward offering product on the basis of need, not affordability, to different client segments. Discretionary models-based portfolio management is increasingly common as wealth managers look to scale-up their core engine-room. Also, product pushing is slowly being replaced by collaborative portfolio construction between the relationship manager and client. However, this collaborative effort requires wealth managers to invest in services that overlay the portfolio management suite to differentiate the overall proposition. This may be too expensive for some firms that insist on the manual element of this part of the relationship.

Differentiation through service is a new concept to most in the UK wealth industry. However, few firms have articulated a distinct target-client segment and identified service needs. In the UK market financial planning is becoming more prominent in the mass-affluent and lower-HNW arena. Wealth managers will also need to connect these services to the underlying product offer through the front office in order to define the “wealth management experience”.

To this end, the front-office will continue to emerge as the key point of differentiation between providers. Investment in brand, above the line marketing and re-skilling relationship managers is beginning to be seen as important although most firms still have little comprehension of the level of business investment required here to make a substantive shift in their market share. Moreover, action in this area remains relatively embryonic. Aligning operational capabilities, products and services through the front-office will require transformation across the business.

Nonetheless, some wealth managers are embracing transformation in order to drive ahead of their peers. However, this presents executives with business-critical choices. The vanguard is examining the outsourcing market as a potential catalyst to redeploying capital to differentiation in the front-office. To a few, this appears to be the “smart” reallocation of costs while investing in winning future wealth.