Winning hearts and minds in a tougher market

The new world of private wealth management
A letter from Ben Narey

Dear customers and partners,

The recent financial crisis has caused many financial institutions to reappraise their approach to their clients and markets. Private wealth management is one area where financial institutions have increased their focus because of the many opportunities this segment provides.

Getting closer to clients is a key part of that process. Achieving that involves a number of challenges: improving client experience, rebuilding trust and providing the best possible advice to help navigate troubled markets.

Customer relationship management (CRM) systems play an important role in this process, but as part of a much broader revolution in workplace technology and employee empowerment. The net result is a better client experience enabled by more effective financial advisors.

We hope that the insights presented in this report will contribute to a wider discussion of these issues within the industry and to the creation of a closer partnership between technology and financial services to develop a more successful outcome for both industries.

Yours truly,

Ben Narey
Director of U.S. Financial Services

Microsoft in Financial Services

Financial services is a major industry for Microsoft Corp. Our commitment to the industry comprises client-dedicated accounts teams, and technology and industry specialists. Our solution areas embrace almost every facet of the industry, including client experience, governance, risk and compliance, payments, and operating capabilities. The U.S. Financial Services industry group led by Ben Narey is responsible for developing financial services solutions combining Microsoft capabilities with those of our partners, for our U.S.-based banking clients.

This is one in a series of thought leadership papers designed to share insight into leading industry issues and help our clients realize their vision of the future.

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A brave new world

Financial institutions face difficult markets and the urgency to attract and retain clients is greater than ever. Market conditions are very different from a decade ago. Investors are more cautious, regulation is tighter and there is more competition for the wallets of the wealthy. Despite these changes, many financial institutions remain locked in the practices of the past.

These past practices have often struggled to balance an advisory role with a product-push imperative. Less confidence in the predictability of markets has swung the pendulum back sharply in favor of the advisory model. Now financial institutions must help their clients navigate an uncertain future, while they also search for a new way forward in terms of the services they provide and the way they provide them.

Given this new market paradigm, Microsoft Corp. sees great opportunity for firms to focus on the liability side of the client’s balance sheet. To achieve this, institutions need a complete view of the client relationship. However, getting there poses many challenges beyond simply more information or better technology. It means a change in culture, process and skill set — a new client engagement model and a more collaborative approach within the firm to give clients the advice, solutions and experience they need.

An effective customer relationship management (CRM) system is central to this new approach. But CRM implementations sometimes fail to deliver the expected results. Tougher markets are less tolerant of false starts so the question becomes how can we make CRM deployments more successful?

The challenge of a new market

High net worth individuals (HNWI) have long been considered the sweet spot by financial services firms looking to gain market share by tapping into this very lucrative and profitable segment of the market. While many in the industry chase a market with investment products centered on wealth creation, they are failing to address the elephant in many living rooms: an aging population shifting toward retirement with different appetites for asset growth and income protection, and debt service levels that have never been higher.

This focus on HNWI ignores a huge segment — the majority of the population — that also faces a debt crisis. Although this segment possesses fewer liquid or even nonliquid assets, in aggregate its members could still represent a profitable market given the right mix of technology and service.

Unlike past market cycles, in which one product was struggling as others were booming, all markets have suffered from lower level activity. As markets retreat, financial institutions need to focus more on cross-selling and up-selling with existing customers while carefully developing new client relationships.
As evidence, witness the new fee-based annuity streams that are replacing traditional transaction revenues (commissions) of past years.

As an industry, financial institutions have done a good job helping customers manage the asset side of the balance sheet, but a poor job helping those same customers manage the liability side. To address this, financial institutions should consider adopting the concept of “lifestyle management” to get a complete view of the client. This is a universal need spanning across all investor segments, particularly at the low end of the asset spectrum. However, this type of offering rarely exists outside the family office or financial planner models, both catering to the more affluent market segments.

Financial institutions face at least two marketing challenges:

- Approach the very wealthy in a way that recognizes their fears and their smaller appetite for risk.
- Tap other markets previously considered uneconomical.

Both challenges desperately need to be solved to restore flagging revenues. The key to solving these challenges is to use technology to reach a segment of the market historically considered unattractive from an asset perspective, and offer a holistic view of any customer to now include the liability side of the balance sheet, creating real affinity and duration within the client relationship.

Empowering clients and advisors

CRM systems are often seen as a way to improve client relationships. But CRM by itself is not enough. The goal of a good CRM system in wealth management is not just to empower the financial advisor, but also to deliver a better experience for the client.

In turbulent markets, clients are most likely to stick with financial institutions that give them the best advice and those they believe have client interests at heart. Helping clients protect and grow their wealth is the job of financial institutions and advisors. But it is important that they have the right tools for the job beyond CRM.

Markets may be uncertain, but advice must be clear and unambiguous. It must be well presented and constantly available. Highly competitive environments demand the highest standards of presentation and execution. Technology has a key role to play here by transforming a world of occasional access to one of constant communication. Presentations and financial plans should be developed within the firm through collaboration technology and presented to clients using the latest data visualization tools on any device in any environment.

Client optimization tools such as predictive analytics and business intelligence solutions can be added to the CRM system to identify those clients that represent the best opportunity and to suggest what services are most likely to be of interest. In this way the firm can efficiently focus high-cost talent on those clients that add the most value. It can also offer data-rich, low-touch services to traditionally less profitable client segments, making them easier
to access and more profitable. All of this must be delivered at a lower cost within an enterprise-wide approach. The days of the stand-alone CRM system are over. (See Figure 1.)

In looking beyond CRM many financial institutions can deploy CRM systems more effectively and resolve a number of challenges that plague many traditional CRM users.

> Building closer relationships. The easier it is to get access to the client and for the client to connect with an advisor, the more likely the client will concentrate assets with a single provider. Fragmentation is a feature of the industry. Clients tend to manage their financial relationships in buckets with specific purposes, avoiding concentration in any one firm. Recent events have only served to increase this tendency. Clients are more sensitive to concentration risk than ever.

> A richer client experience. The consumerization of technology is impacting all industries including wealth management. Clients expect their financial providers to use the latest technology in engaging with them across all channels of communication. But consumers are also employees and sometimes financial advisors as well. They need access to the latest technology. In wealth management, firms not only compete for the most profitable clients, but also for the best financial advisors who can bring clients with them. Empowering financial advisors through technology is critical in the battle for clients.

> Complying with tougher regulation. The compliance environment needs to be part of the client relationship process, but managed in a way that is sensitive to client interests and at the same time leaves no gaps for regulatory scrutiny. Increased investor protection can be reconciled with improved client experience if documents can be made easier to complete pre-filled with client information and simpler to access for supervisory requirements. Financial reform and tougher supervision demand stronger governance standards. Interactions with clients must be recorded and documented.
Financial institutions must get closer to their clients to understand their needs, but they must be more productive in how they achieve this.

Improving margins. Increased competition has put pressure on fees and margins for some time across the industry while costs have continued to rise. These deteriorating economics have been one of the major forces behind industry consolidation. Financial institutions face more challenges with fewer resources. Thus, firms are focusing more on those clients and opportunities that provide the best return as well as creating a leaner operating environment in an attempt to increase client revenues at a lower expense.

Faced with these challenges, financial institutions must get closer to their clients to understand their needs and develop differentiated solutions, but they must be more productive in how they achieve this. CRM plays an important role, but by itself is not enough. It has to be part of an integrated suite of services and technologies that drive client experience, empower the financial advisor and improve the productivity of the enterprise.

Critical success factors

Making CRM work successfully in any organization depends on a number of critical factors. The most important of these are the overall business goal, the desired client experience, and the right culture and behavior model senior management wants to maintain within the firm. Getting this alignment is essential before a CRM deployment is even considered, because it will be a significant determiner in the choice of system, the deployment model, the level of support, the criteria for success and the implementation plan. Figure 2 highlights Microsoft’s ten best practices in CRM deployment in financial services.

While several of these best practices listed above seem self-explanatory we have chosen to highlight a few key ones below.

> Consider CRM a strategy, not just a process. The sales practice, client experience and the CRM system need to work in sync. In particular, the sales practices and procedures should drive the CRM functionality, not vice versa.

> Differentiate and segment your customers

> Define objectives, expected results and behaviors

> Standardize data

> Make it personal

> Test and empower

> Communicate success
It is possible for a CRM implementation to drive process improvement and cultural change, but it is important to have a clearly defined view of what processes and culture you want to establish as part of the strategy before you select the CRM system. The CRM system will become an enabler and remain transparent to the user. It will become how the sales process works within the sales and relationship management culture, and must be intuitive and connect the dots for the advisor. The goal will be to help the advisor spend less time behind the computer and more time front and center with his or her clients and prospects driving the trusted advisor relationship and creating buying affinities.

> **Secure and confirm executive sponsorship.** The CRM implementation needs senior management sponsorship and enterprise-wide adoption within the financial institution. Remember, it is the sales process that is being implemented; CRM is just the enabler of the process. Salespeople can sometimes be very independent and reluctant to adopt new processes. Early buy-in from salespeople and training in the sales process is essential for successful adoption, and CRM evangelism is more likely to have impact if it comes from the top. The implementation process should also be designed with executive sponsorship in mind. It is not a question of forcing a system on the enterprise, but rather of getting the right level of sponsorship from leadership to ensure an effective implementation and usage afterward.

> **Integrate the strategy across efforts.** There are a number of CRM products available on the market. But the days of buying stand-alone systems at a subsidiary or line-of-business level are over. Financial institutions expect their CIOs to deliver an enterprise-wide solution. Financial institutions will also need to consider the right deployment model. The trend is for these types of applications to migrate to the cloud, potentially reducing total cost of ownership and providing services to agents in the field who can access the system from any device. Many of the discussions about cloud-based CRM solutions and on-premises models focus on the issue of cost. But wider considerations are more important. The real value of a cloud-based CRM system is that it is easier to integrate within a broader enterprise architecture approach when other systems are also cloud-based.

> **Know your customer.** Knowing your customer really means collecting information about lifestyle, family circumstances, long-term goals and current service preferences. It also requires a detailed knowledge of the full extent of the client’s relationship with the firm and other firms he or she may be dealing with. As stellar returns become more difficult to achieve, financial institutions may have to scan more opportunities and collaborate more internally to generate innovative solutions. Helping clients deal with uncertain markets makes the advisory role much more important. To make this service model work requires financial institutions to focus more on information collection, data analysis, distribution and presentation.

> **Standardize data.** This may be the most difficult of initiatives and best practices in CRM deployment, particularly at the large, diverse and geographically dispersed enterprises. However, taking the time and effort to address the data challenges will pay off far beyond the confines of the CRM strategy. The utility of data where there is an effort at standardization can provide business advantages and real dollar revenue and operational cost efficiencies that have demonstrable return on investment for the firm. Addressing this issue early in the process pays dividends well into the future.
Financial institutions need clients more than ever, but a new approach is needed to retain existing clients and develop new relationships. Jumping on the CRM bandwagon may be a typical response, but a more thoughtful strategy is often needed to make this a success. Financial institutions must first consider the needs of the audience, the customer experience they are trying to achieve and the processes most likely to achieve this. They must also think about the workplace environment for financial advisors, how the advisors are most likely to be successful and what technology they need to ensure their success. Once that has been done, it will then become easier to pick the right CRM system, foundation layer and deployment model to ensure its success.