WealthTech 2017:
The Death of Legacy?

Wednesday, 29th March 2017 • 16:00 - 20:00

Fishmongers' Hall, London EC4R 9EL

Compeer LIMITED

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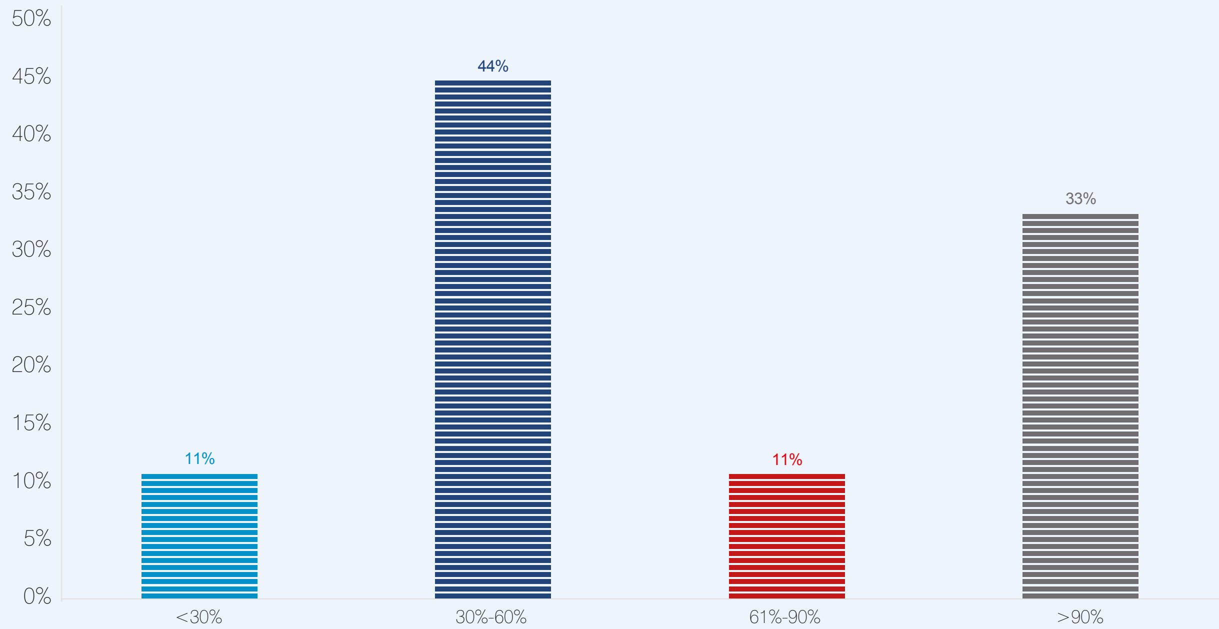
Research Findings

Results are from interviews with Chief-level and senior IT staff collectively responsible for:

£100 billion in assets under management

In percentage terms, by how much do you envisage growing your assets under management in the next 5 years?

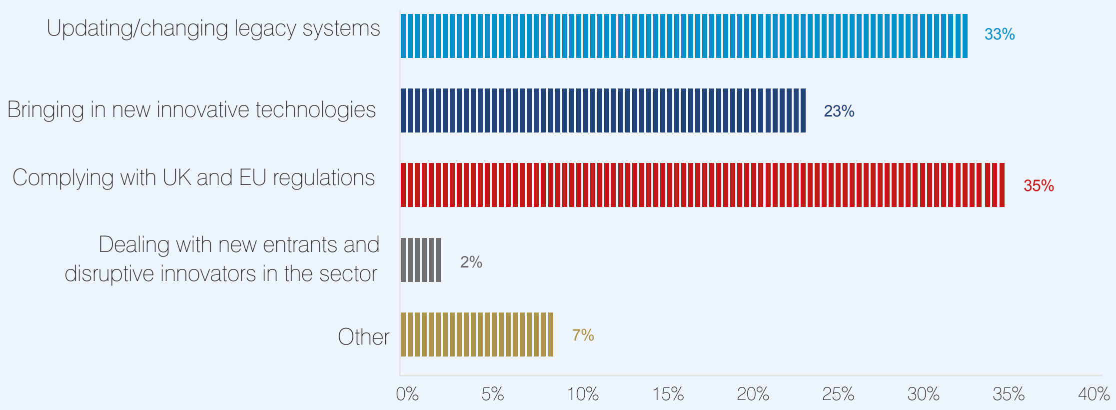
To get some context on how firms' IT will service the business and help drive growth, we needed to know how much growth was expected.



There were a small number of firms who did not have a specific growth target. The largest percentage of firms were aiming for up to 60% growth over 5 years, equating to an annual compounded growth rate of almost 10%. A third of firms were looking to reach much higher levels with some looking to double their assets under management. If this is to be possible, the industry must work hard to mitigate the effect their legacy systems could have on growth plans.

From a business perspective, please rate the top 3 most important challenges over the next 3 years*

Unsurprisingly one of the principal challenges to the business was dealing with regulation, though this only just beat legacy issues as being the most important issue. There are signs that the 'death of legacy' could be expedited if firms see updating or changing their legacy systems as one of the primary issues facing them over the next 3 years. In addition to this, firms said they would be dealing with the transition to innovative technologies, again something that could mean a speedier exit for legacy systems unable to develop alongside new technology. 'Other' challenges cited included cyber crime, data cleansing and integration with newly merged firms.

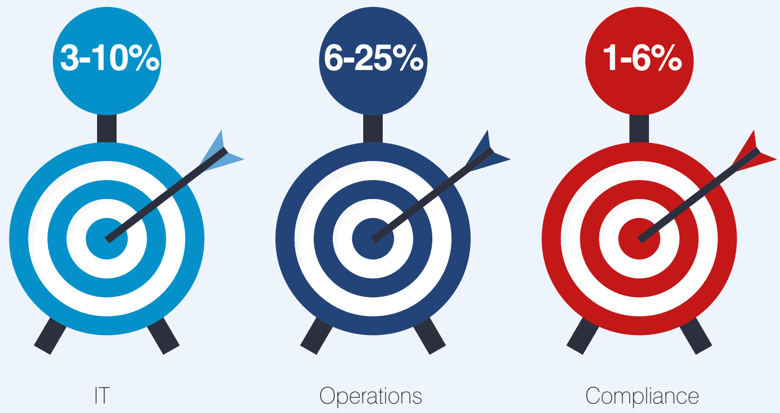


* Challenges receiving the top ranking received 3 points while the third most challenging received 1 point. The percentages shown are a proportion of the overall number of points collected across all challenges

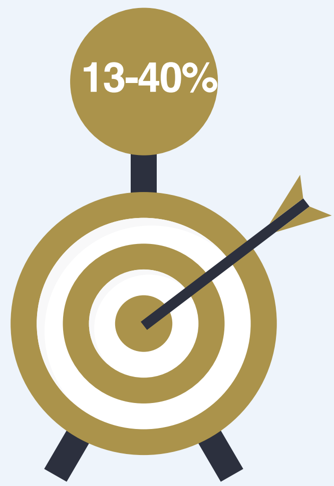
Approximately what are your costs as a percentage of revenue for the following departments:

Compliance has the lowest cost as a percentage of revenue – a point we touched upon in last month's research (which can be found at the back of this brochure). Operations takes up the largest percentage, with up to a quarter of revenue being used to pay for ops. IT costs are reasonable given the long list of investment options that firms are trying to prioritise. The lowest percentage for all three departments was a firm spending 13% in total, while the highest was 40%, a sign that legacy issues may not have disappeared just yet.

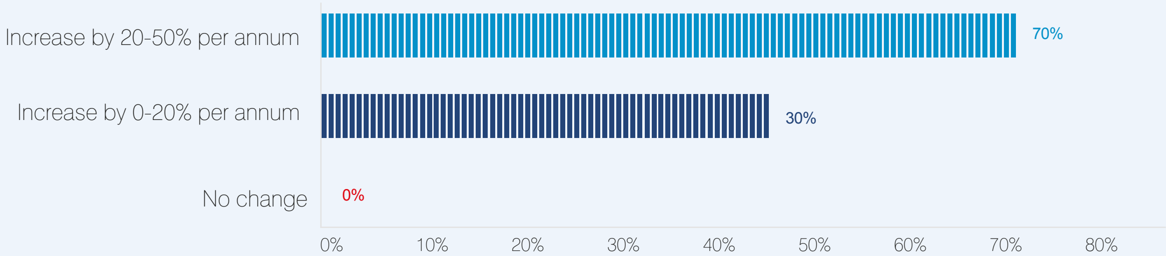
Average Cost Range



Three departments cost range



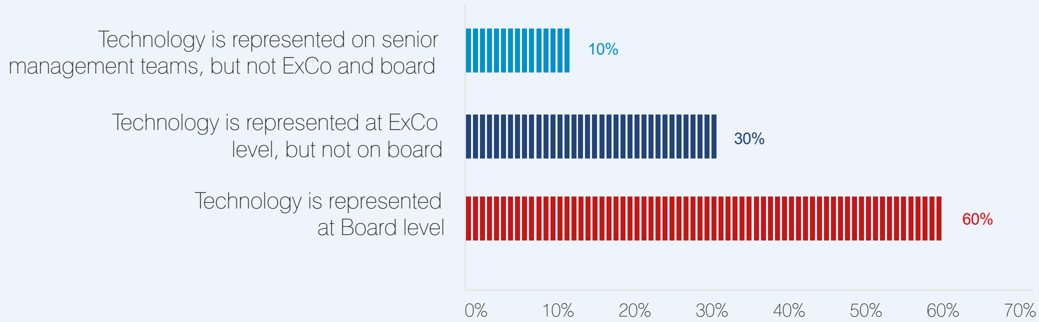
How much do you expect your technology spend to change in the next three years?



Most firms (70%) were looking to increase their technology investment by between 20% and 50% each year over the next three years. This bodes well for the death of legacy, but only if such investment is used to ensure improvements are not bolted on to existing legacy systems.

How does technology sit within your governance structure?

Technology is an increasingly important part of wealth management, so having the department represented at board level is likely the most appropriate decision, and we saw this to be the case for 60% of firms. A very small number of firms had decided that technology should be kept outside the remit of board and ExCo level responsibilities (10%). At these firms technology will of course be represented in some other guise, but via the various departments that use technology extensively.



What are your thoughts on the statement,
"Wealth Management firms should behave more like tech companies"?

Technology suppliers to the wealth management industry are increasingly associated with the FinTech movement, offering innovation to a normally quite traditional sector, but what of the wealth management firms themselves? Should they aim to behave more like tech companies, creating a synergy between innovation and service offering? The firms we interviewed were almost split, though slightly more than half (56%) thought investment management and not tech should be the focus for them. As we'll see however, that does not mean firms cannot get an advantage through the use of their technology.

Broadly disagree **56%**

Broadly agree **44%**

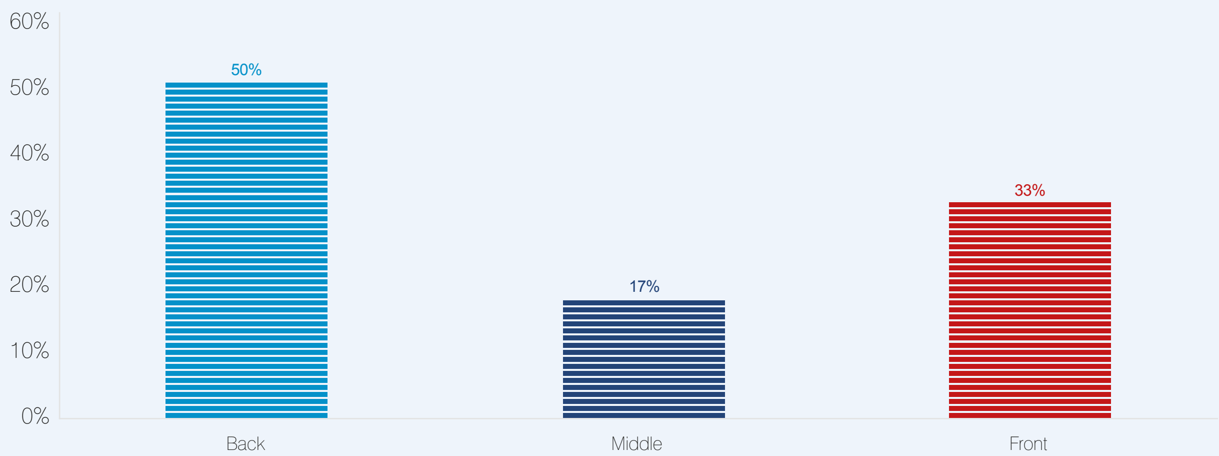
> **Technology isn't an end in itself. The 'end' in our industry is growing a client's investments.**

> **Yes, I agree with the sentiment because technology has a very important role to play.**

> **I'm not sure that's true. Tech firms don't have to focus on personal relationships like we do, nor do they have to deal with all this regulation.**

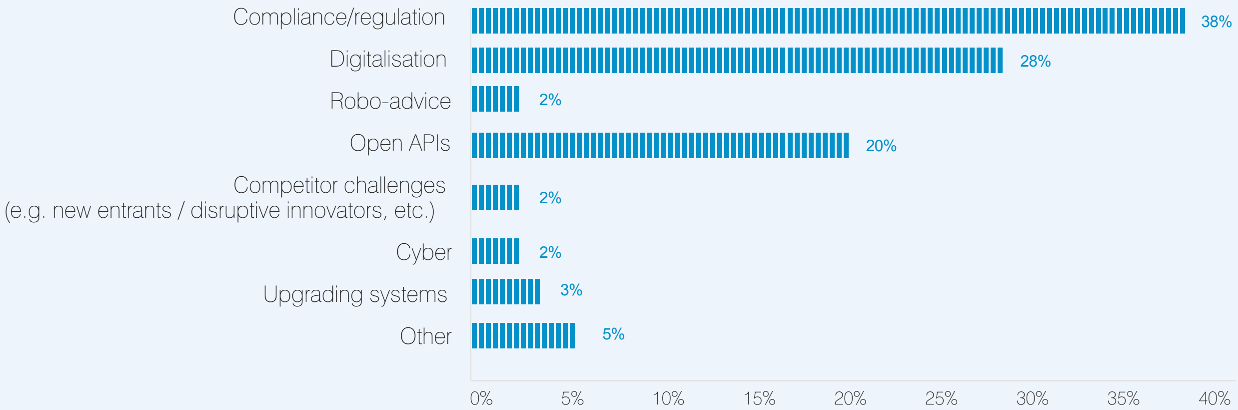
What are the main functional areas in which you feel you have legacy issues?

It's the back office that is often associated with legacy issues since it is the area where technology is often in place to help the business operationally. Indeed 50% of firms said the back office was the area where they were experiencing legacy issues while 33% mentioned the front office. Both front and back offices could benefit from IT upgrades where appropriate, since it is these areas of the business that are able to utilise improvements that could help with automation, CRM and straight through processing which links both areas together.



From an IT perspective please rank the top 3 most important challenges*

Again we see regulation as being a driver of IT challenges, despite it being a necessity that cannot be avoided. Digitalisation in its various forms was also high up on the list. Perhaps surprising was that cyber was low down the list of challenges, as was robo-advice which is often reported as being a disruptive innovator in our industry. It may not currently be a challenge because existing wealth firms are holding back, deciding to first observe how the new entrants perform. Open APIs was another popular IT challenge, outlining the importance of having programs that can interact and share data with one another effectively.



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Moving forward, what will you really want from a technology provider?

How would you describe your technology strategy / roadmap?

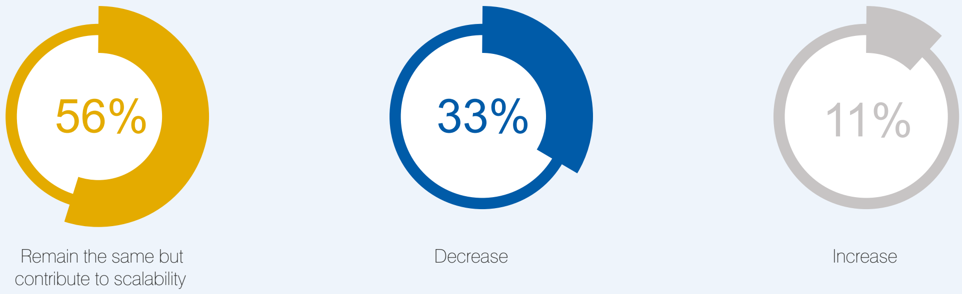
> **Digital and innovation for the next generation**

> **Keeping up with regulation, maintaining and updating our systems and maintaining scalability**

> **It's compliance-led at the moment**

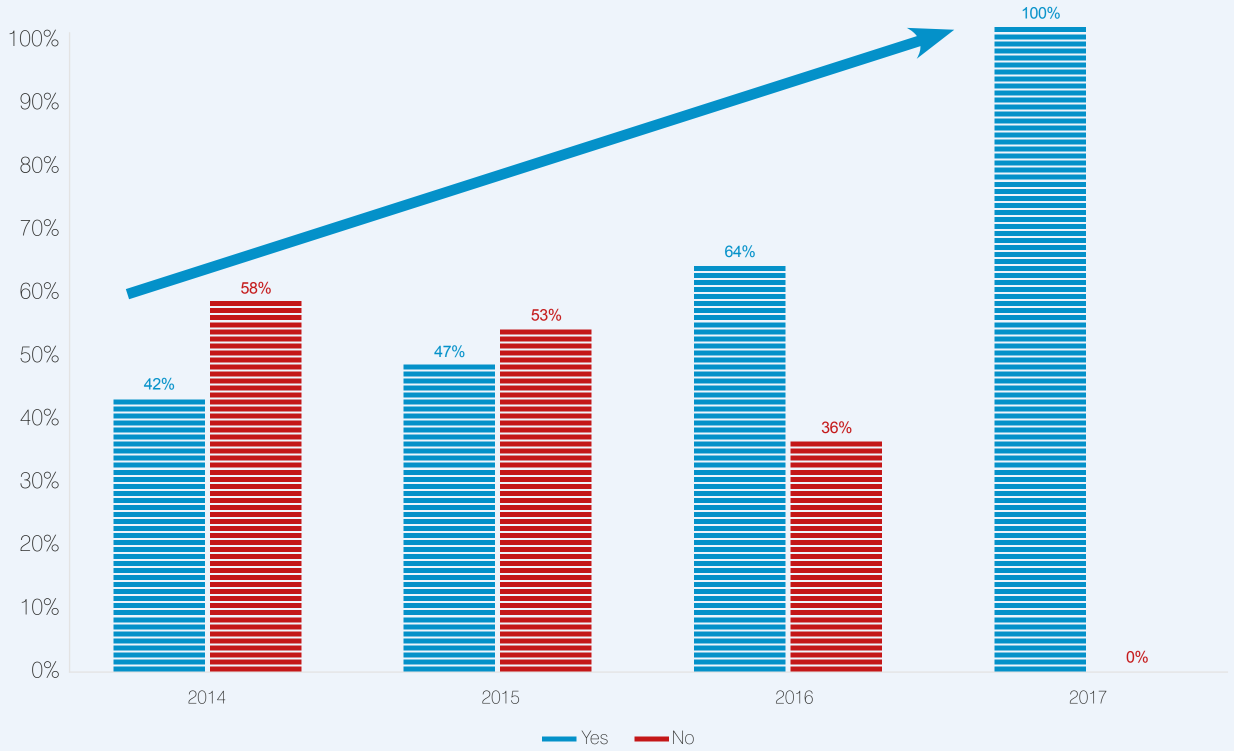
Have there been/do you expect any changes to staff numbers as a result of replacing a legacy system?

Legacy systems are associated with inefficiencies, one part of which involves utilising more staff than would otherwise be needed, for development and maintenance purposes. In fact, while a third of firms said replacing a legacy system would involve a decrease in staff numbers, most firms said staff numbers would remain the same but that the legacy replacement would be used to drive scalability. The small number of firms who thought replacement would increase staff numbers spoke of new systems being associated with growth and therefore a general increase in staff.



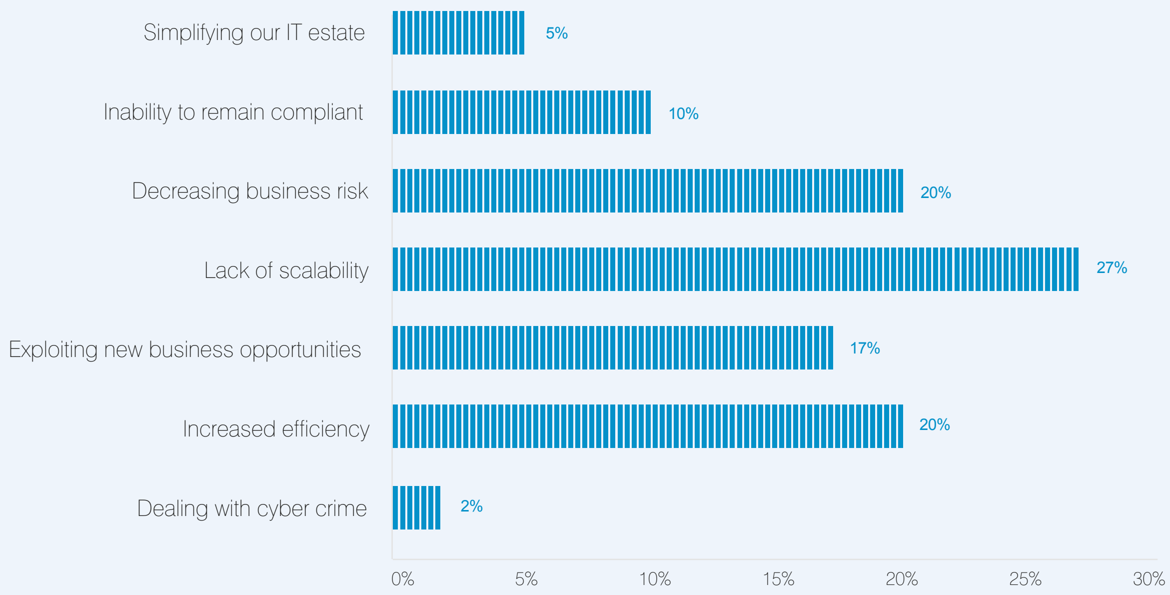
Do you think IT and technology can provide wealth management firms with a competitive advantage?

In the last 4 years there has been a strong movement towards an increased belief in the powers of IT in relation to getting ahead of the competition. In 2014 only 42% of firms thought IT could help their firm differentiate themselves. Technology was seen as just a ‘hygiene’ factor. This year however, all firms we spoke to said IT can provide a competitive advantage, with some even saying that the ‘hygiene’ element of IT can be a place for differentiation – doing more, quicker and more efficiently compared to their peers. Some firms made the point that IT would be much more important for the next generation and that UHNW clients were more keen to see higher levels of personalised service.



Which of the following were/are the factors of IT system change? Please rank the top 3 with 1 being the most important.*

The most important factor for system change was if the firm was unable to achieve scalability (27%) with their current architecture. Linked to the idea of scalability was the drive to increase efficiency (20%), particularly through things like automation in the back office. Again we saw cyber crime failing to be classed as an important issue, perhaps an indication that firms are getting better at dealing with the challenges associated with such threats.



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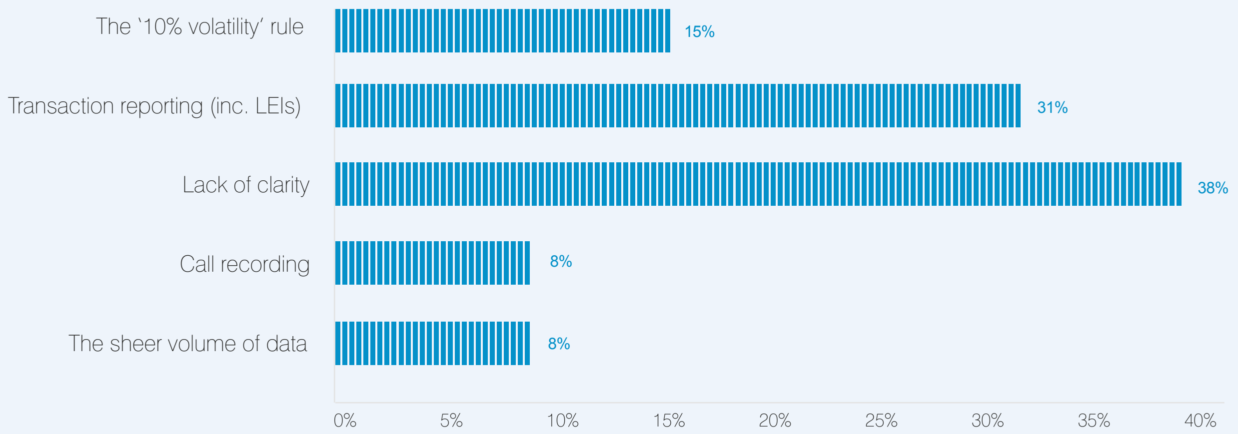
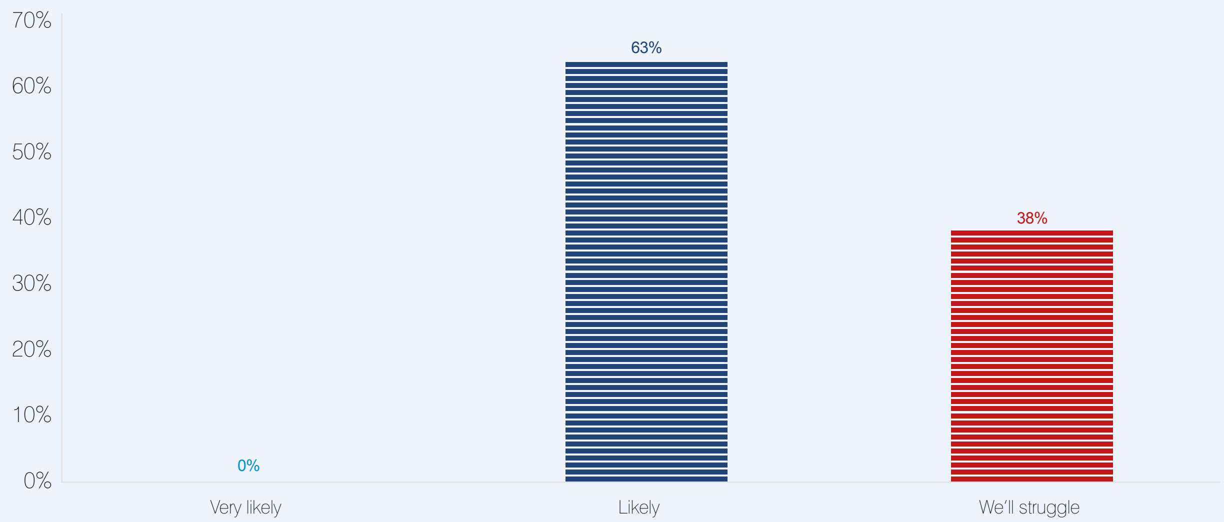
What are the main issues with MiFID II from an IT perspective?

Though transaction reporting and LEIs were seen as an important issue for MiFID II in terms of how IT systems were going to deal with them, the recurring theme of clarity again came up in our research, with 38% of firms mentioning it as a problem for their IT departments (and indeed the wider business). As our compliance research suggested (February 2017), principles-based regulation will mean there will always be an element of interpretation. However, technology and IT systems work on processes and rules that allow for replication. Before firms can make their IT systems work properly, they must first decide on how such ambiguities will be cleared up



Considering IT lead times, how likely is it that you will complete all necessary work for GDPR by the enforcement date of May 2018?

Compeer found that 41% of firms would struggle to meet the MiFID II deadline of January 2018 and a similar story has emerged with GDPR, due 5 months later. Nobody was very confident of getting all the work done in time and 38% said they would struggle to have everything done. Problems frequently cited by firms included the 'right to be forgotten', data classification, data encryption, retrieving all the necessary data and getting their entire client base to agree to the firm's use of data. A major problem with GDPR is not inherently linked to the regulation itself: the timing. Firms were often seen to be using a large part of their resourcing on MiFID II and did not necessarily have the option of starting work on GDPR in any real capacity.



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