

Improving IT performance in global wealth management

For most wealth managers, measured improvements have been made in channeling IT expenditure toward change activities, with increasing amounts of IT spend aimed at developing new functionality. Yet, despite sizeable outlays, wealth managers are not always left with the sense that their IT is fully in tune with the most important business priorities.



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There is no straight-line relationship between IT spend and business returns. High IT expenditure does not always equate to superior performance.



As a rule, IT costs in banking are high compared with other industries. Banks must fulfil exacting regulatory requirements, resulting in IT costs that do not contribute to operating income. Banks also rely heavily on IT as part of their front-office distribution and back-office operations. Consequently, IT costs measured in terms of operating income as well as operation expense are higher than in other industries.

To give some perspective on how IT costs vary across the different banking segments, here are some examples. It is transaction banks that typically display the highest IT costs (relative to operating expense). They rely heavily on superior levels of automation and straight-through processing in order to drive down unit costs; a key competitive advantage in transaction banking. On the other hand, it is asset managers who commonly display the lowest IT costs relative to operating expense. While the IT costs of wealth managers are

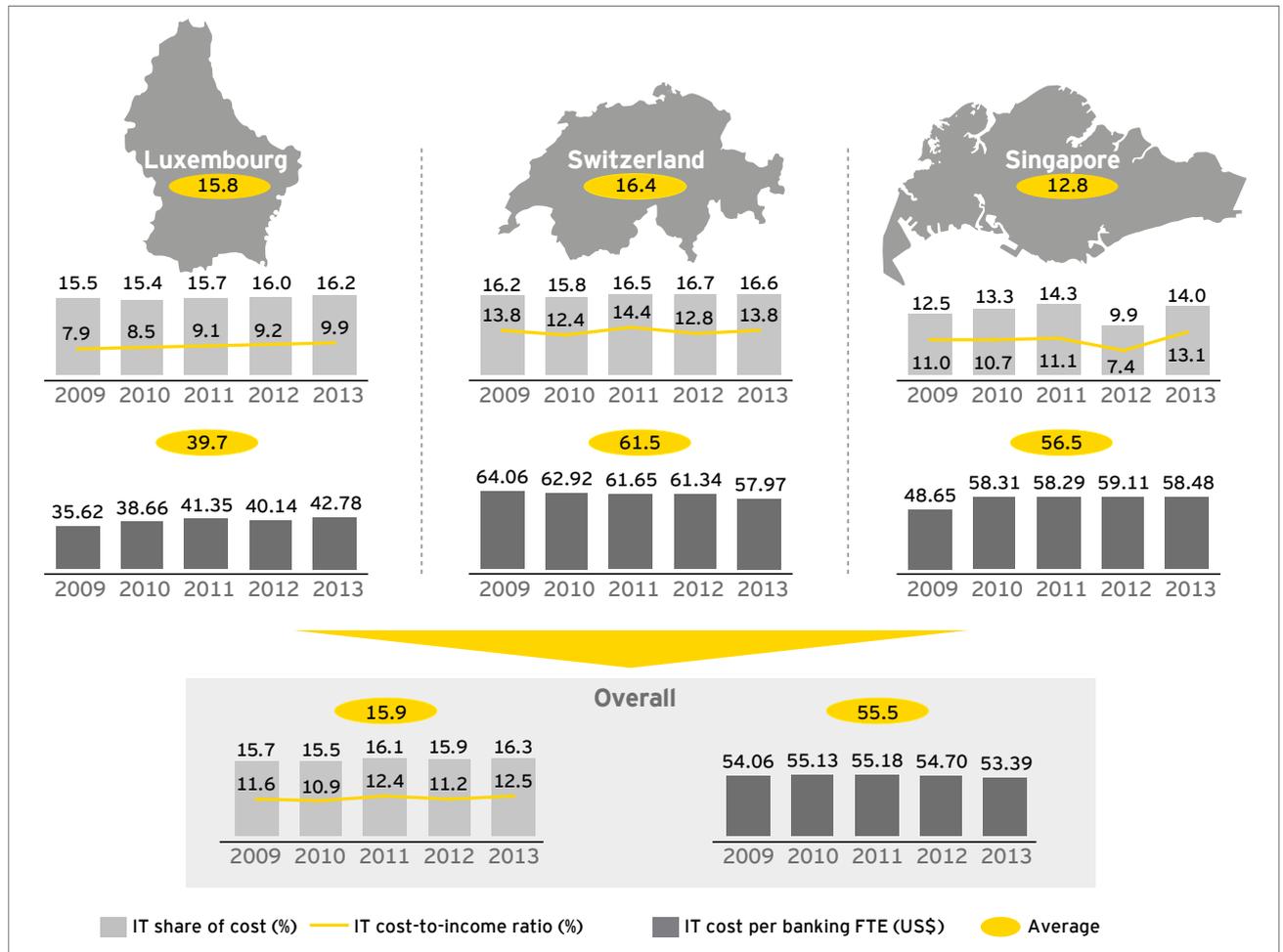
significantly lower than those of transaction banks, they are still higher than those of asset managers. Generally, wealth managers and retail banks exhibit similar levels of IT spend relative to operating expense.

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EY's annual IT benchmarking of wealth managers¹ has one primary objective: to analyze general IT performance data and their relationship to business results to enable a better understanding of how these are influenced by strategic factors and choices. In this year's benchmarking exercise, we polled senior IT executives from 27 wealth managers across 3 major wealth management hubs: Switzerland, Luxembourg and Singapore. Participants ranged from local wealth managers operating within a single market to globally integrated players with clients across multiple jurisdictions, both onshore and

1. Digital disruption and the game-changing role of technology in global wealth management, EY, 2015, www.ey.com/WealthITsurvey, accessed March 2015.

Figure 1. Slight increase in relative IT spend levels, with variations among wealth managers across markets and growth cycles



Note: all US\$ figures are calculated based on fixed 2013 exchange rates
 Source: *Digital disruption and the game-changing role of technology in global wealth management*, EY, 2015.

offshore. The sample also covered both pure-play wealth managers with focused client offerings, as well as diversified wealth managers providing a broader range of banking services.

The report shows the relative business performance against several technology parameters, such as IT cost, IT architecture, staffing levels and sourcing models. We calculated key IT-cost ratios in order to identify the positions of individual wealth managers in their IT investment cycles. The key ratios calculated are IT cost as a percentage of operating income

(IT cost-to-income ratio), IT cost as a percentage of operating expense (IT share of cost), average IT cost per full-time equivalent (FTE) and average cost per IT FTE. Additional IT-cost ratios were the IT-outsourcing ratio, IT-change ratio and IT-capital expenditure ratio. In terms of business results, we considered normalized operating income.

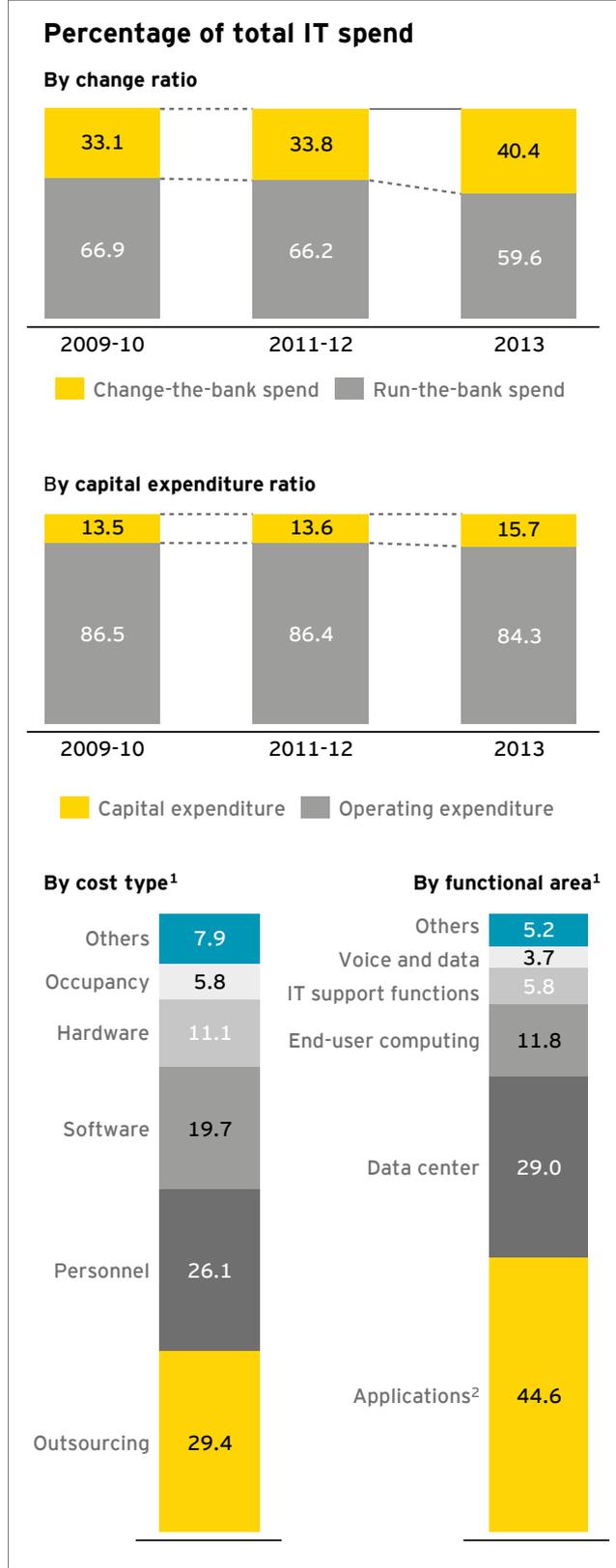
According to our survey, IT costs represented 16.3% of operating expense in 2013, an increase of 0.4 percentage points compared with 2012. IT costs as a percentage of operating income increased

slightly from 11.2% in 2012 to 12.5% in 2013 (see Figure 1).

The development of IT budgets varied from region to region, depending on the differences in growth cycles and unit staff costs. In Switzerland, IT budgets grew by 36.2% between 2009 and 2013. In the same period, operating income grew by 5.2% and operating expense by 29.6%. The percentage of IT cost in relation to total operating expense remained fairly flat, from 16.2% in 2009 to 16.6% in 2013. Measured in terms of operating income, IT costs amounted to 13.8% in 2013. IT cost in

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Figure 2. Wealth managers are spending less on “lights-on” costs and increasing expenditures on change activities



Wealth managers who achieve superior returns for lower IT expenditures are much better at aligning IT spending with the organization’s strategic priorities.

Notes to Figure 2

1. Full category breakdown is only available for reduced sample size.
2. Functional area category “applications” cover both maintenance and development.

Source: *Digital disruption and the game-changing role of technology in global wealth management*, EY, 2015.



relation to banking FTE fell to US\$57,970, a decline of 5.5% compared with the previous year.

In Singapore, operating income and operating expense grew by 35.5% and 41.7%, respectively; in Luxembourg, operating income and expense declined by 29.7% and 26.9%, respectively. During the same period, IT budgets in Singapore grew by 64.6% and, in Luxembourg, they declined by 2.2%. Singapore had the lowest IT share of cost at 14.0% in 2013, compared with 16.2% in Luxembourg and 16.6% in Switzerland. In comparison with other regions, wealth managers in Singapore appear to be underspending on IT.

IT cost distribution

For the purposes of our study, total IT spend comprised all the various types of IT expenditure that occur across every IT-related function, e.g., operations,

application development and maintenance, IT support, and voice and data.

Our analysis compared “run-the-bank” and “change-the-bank” IT spend. By run-the-bank spend, we mean any expenditure required to maintain existing IT operations without adding new functionality. Change-the-bank refers to investments into innovations, primarily in application development aimed at evolving and improving current IT functionality.

We found that wealth managers are spending less on everyday IT costs (what is referred to as “lights-on” costs). Instead, they are targeting larger proportions of their IT budgets toward change-related activities. For example, between 2009 and 2012, these change budgets increased from 33.1% to 33.8%, relative to total IT spend. In 2013, the change ratio increased to 40.4% of total spend (see Figure 2).

This increase in change-the-bank spend demonstrates that wealth managers

are developing new IT functionality and improving business capabilities through IT. At the same time, a reduction in run-the-bank spend illustrates that wealth managers are finding ways to run their IT operations more efficiently. The slight reduction in run-the-bank spending may call for some new investments to reduce IT-landscape complexity and redundancies and to retire legacy systems. Change-the-bank spending will need to be managed proactively through continuous project planning and prioritization, tight business cases for all large projects, and further optimization and standardization of application development processes.

Capital spend ratios remained steady between 2009 and 2012, and increased in 2013, peaking at 15.7%, compared with 13.5% in 2009 and 2010.

Making IT spend more effective

Given the current levels of intense competition and margin contraction, wealth managers are trying to stretch capital and operating budgets and do more with less.

The quality of IT, measured in terms of application availability, degree of automation and length of processing times, significantly influences business success and brand image. This is particularly so when considered from a customer satisfaction perspective or from a potential loss of business viewpoint, due, for example, to systems being down or not being user friendly.

However, and often despite large outlays on technology, wealth managers are not always left with the sense that IT is fully

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To reduce the number of non-critical projects entering the pipeline, leading players require that each incoming change initiative articulates the expected return on investment as part of the approval application.

taking into account or “in tune” with the most important business priorities.

As part of our effort to understand the return on IT investments for wealth managers, we studied the relationship between financial performance and IT spend. As a measure of financial performance, we took annual operating income and, as a measure for IT investment, we took total annual IT cost; both values were normalized over banking FTE. This analysis helped us identify the players that spend carefully on IT and successfully apply these investments to capture business value.

There is no straight-line relationship between IT spend and business returns. High IT expenditure does not always equate to superior performance. Spending more on IT clearly does not translate into above-average returns, and some wealth managers with large IT budgets have trouble in leveraging their investments to generate high-revenue growth.

Interestingly, scale does not guarantee IT cost advantages. Larger players in our sample did not derive scale advantages and lower IT unit costs due to their size. More business volume leads to a larger IT footprint and more complexity, which becomes more difficult to manage effectively.

As part of our analysis, we have segmented the players participating in our benchmark into four categories, which are detailed here (see also Figure 3).

Effective business enablers. Our findings illustrated that 17.4% of wealth managers were able to generate above-average returns while investing significantly less on IT than their peers (upper-left quadrant in Figure 3). This group maintained a low level of IT spending but successfully put IT investments to good business use. The players in this group can further optimize their IT spending portfolio as well as selectively rebalance IT investments to stay on top of market developments. Building capabilities in strategic areas such as digital or big data will allow IT to exploit innovations quickly.

High IT spenders. We found 17.4% of wealth managers exhibit above-average IT spending but below-average operating income (lower-right quadrant in Figure 3). For this group, IT investments do not result in proportional business returns. It is likely that these players spend too much on running their daily operations and too little on innovation that would set them apart from their competitors. High IT spenders should reduce spending, selectively invest to improve business performance and achieve better alignment with business objectives. This can be done by evaluating IT projects with regard to benefits and cutting projects that are not strategic.

Heavy IT transformers. We discovered that 21.7% of wealth managers spend heavily on IT and see proportional business returns coming out of these investments (upper-right quadrant in Figure 3). The majority of players in this group have undergone high-impact IT-enabled transformation programs,

resulting in IT investments that are greater than those of their peer group. Over time, heavy IT transformers should aim to cut back spending without losing efficiency and limiting innovations. These players should improve their governance and performance-management techniques to align IT spending more strongly with priorities, once the current phase of transformation is complete.

IT executors. A large proportion of wealth managers (43.5%) do not invest heavily in IT, but neither do they see high levels of business return for their IT investments (lower-left quadrant in Figure 3). To improve performance, this group should focus current IT spending more on improving and innovating front-office tools and enablers, e.g., mobile banking or client analytics.

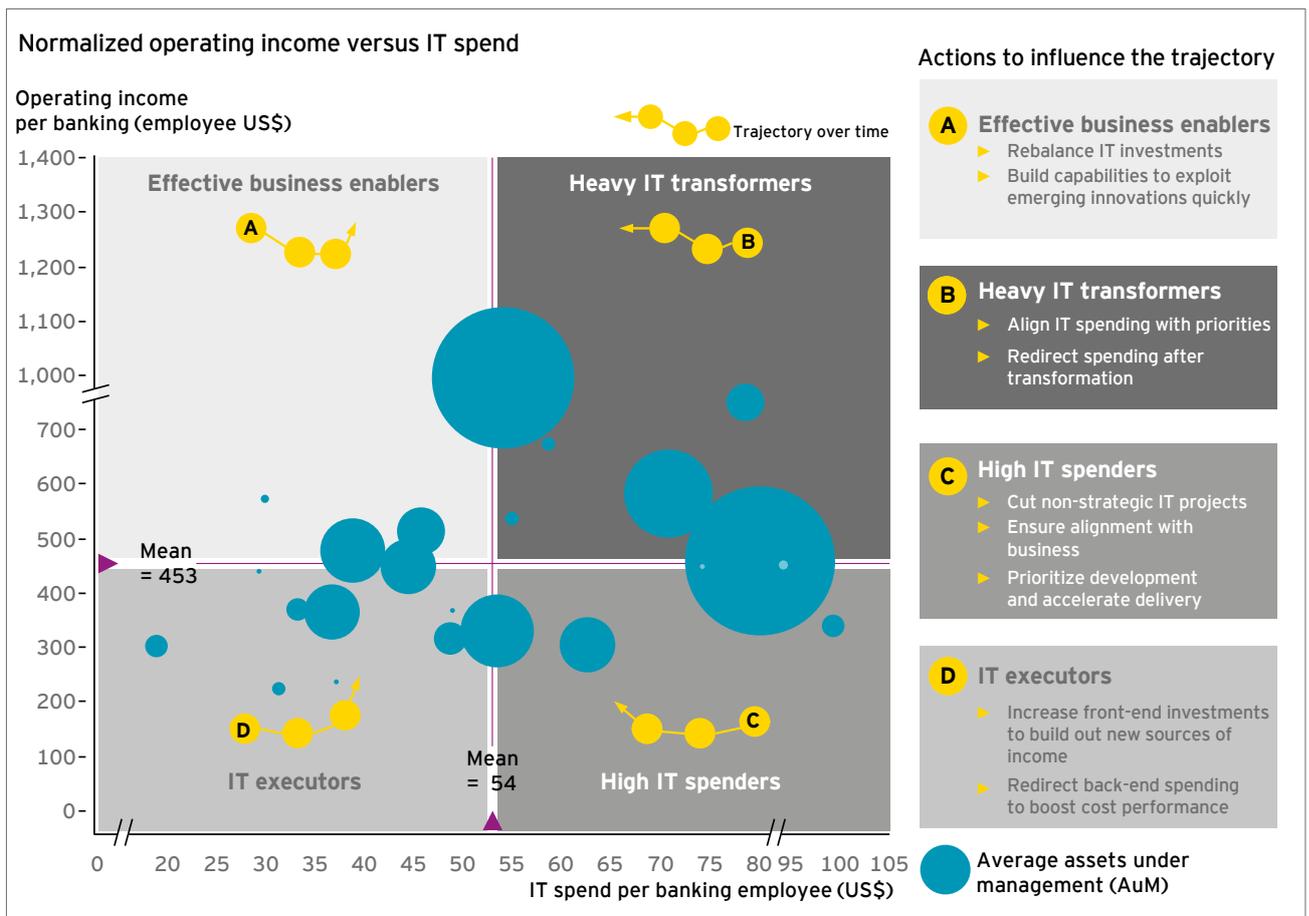
Three skills to master

Our experience shows that players who are best at ensuring their everyday IT spending are efficient, and their IT investments target the highest-impact projects and master three skills: strategic alignment, controlled demand management and forceful complexity management.

Strategic alignment

Wealth managers who achieve superior returns for lower IT expenditures are much better at aligning IT spending with the organization’s strategic priorities. They develop their IT strategies in close cooperation with the business by using formal governance processes and engaging their broader stakeholders and influencers

Figure 3. Leading wealth managers spend less on IT than their peers but are able to generate above-average operating income

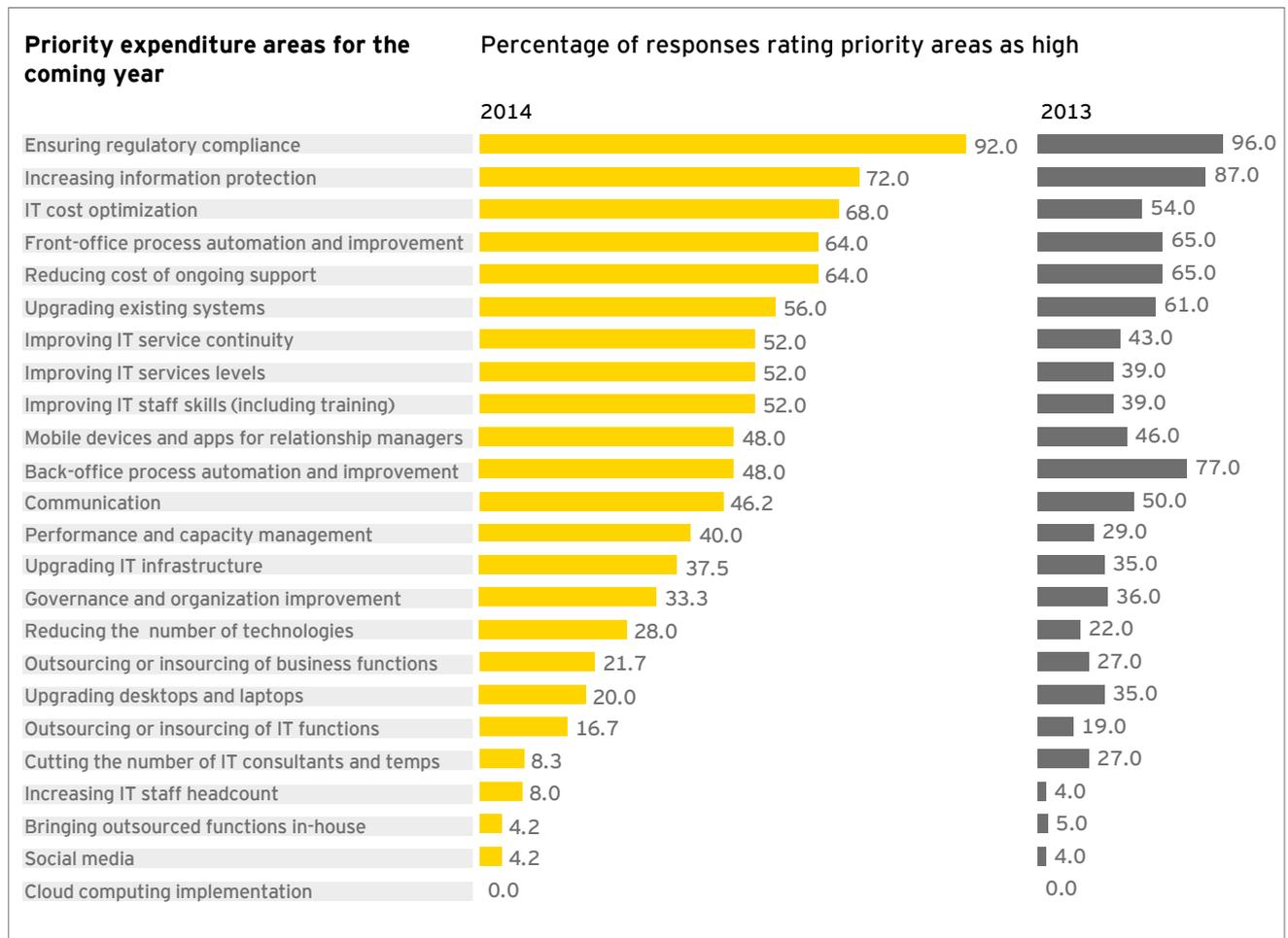


Note: all figures relate to 2013 (full year) and all US\$ figures are calculated based on fixed 2013 exchange rates.
Source: *Digital disruption and the game-changing role of technology in global wealth management*, EY, 2015.

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By shoring up discipline and governance around key IT-complexity drivers, wealth managers can reduce operational costs and improve quality and the time to market of solution delivery.

Figure 4. Regulatory compliance still at the very top of the CIO agenda, with information protection a close second



Source: *Digital disruption and the game-changing role of technology in global wealth management*, EY, 2015.

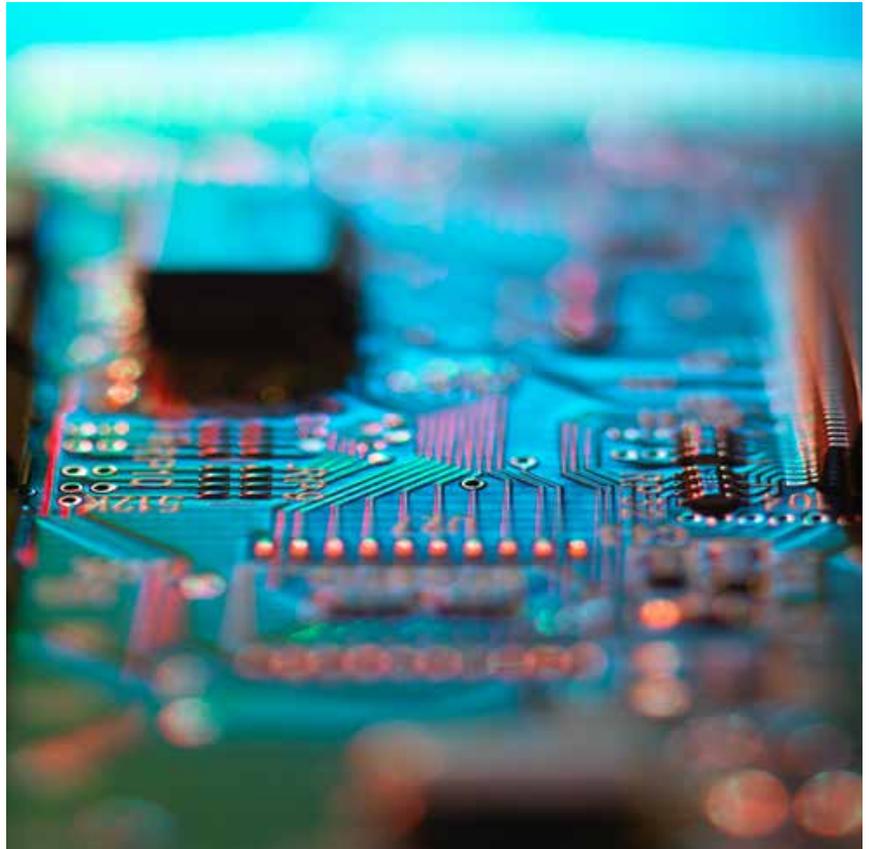
to focus on the value creation levers that IT can shape and change.

Controlled demand management

Leading wealth managers endorse highly controlled demand-management processes to govern project selection and funding. Their goal is to realize the value of IT investments by establishing controls on incoming demand, thereby effectively coordinating resources and providing transparency on performance over time. To reduce the number of non-critical projects entering the pipeline, leading players require that each incoming change initiative (e.g., for application development) articulates the expected return on investment as part of the approval application. This ensures that resource consumption and returns are made transparent, and that management has visibility over IT spending.

Forceful complexity management

Leading wealth managers are very disciplined when it comes to cutting complexity across multiple layers. They do this by applying strong governance frameworks, implementing authority boards for the review and design of architecture, and streamlining the application and infrastructure environments. By shoring up discipline and governance around key IT-complexity drivers, wealth managers can reduce operational costs and improve quality and the time to market of solution delivery.



Looking ahead

Technology has always been at the heart of how wealth managers do business. In the past, they have targeted investments at the back office, driving efficiencies and cost reductions. Going forward, the emergence of digital technologies for delivering services requires wealth managers to invest in their front-office digital capabilities. The multiplication of channels for doing business will require larger outlays on IT than previously.

As wealth managers position themselves within their specialist areas, more and more business executives are acknowledging the strategic value that technology and IT can provide to their business beyond just cutting costs.

But as business executives look to invest in new capabilities to capture emerging growth opportunities, many CIOs are still concentrating on ensuring regulatory compliance, client data confidentiality and optimizing costs. This is one of the findings from our survey, which asked IT executives within wealth management to state their

spend priorities for the coming year. Figure 4 shows how they responded. Over the next 12 months, their top three IT spend priorities are regulatory compliance (rated by 92% of respondents as a top priority), information protection (72%) and IT cost optimization (68%).

Compare this with front-office process automation and improvement (rated by 64% as a top priority) and back-office process automation (48%). Although the data suggests that many wealth managers have now addressed the back office and are looking toward other areas to achieve additional improvement and efficiency.

The smart application of technology is proving to be a source for competitive advantage, providing ample opportunity to engage customers, achieve efficiencies, and promote better and more consistent alignment within an organization. But only for those who are prepared. We expect technology to take on an increasingly lead role in driving business change toward digitization. ■