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Wealth Management: A Turf War to Win the Rich

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Over the next three years, the number of affluent individuals in North America is expected to bulge from 30 million to 37 million, fueled mostly by Baby Boomers whose retirement assets mature.

In that same timeframe, the amount lining the pockets and offshore tax havens of the ultra-rich, those with assets over \$2 million, is going to reach a staggering \$12.1 trillion-compared to "only" \$6.6 trillion in 2006, according to Celent.

The field of the rich is getting wider and higher. It's little wonder that bankers, financial planners, private bankers and brokers that traditionally serve niche and highly segmented markets are investing heavily in new wealth management platforms to let them stretch the prosperity spectrum. Celent reports financial firms will spend \$1.5 billion in new platforms and modules in 2007, almost double from what was spent in 2004.

"Brokers are looking to go upstream. Bankers very much are looking to defend that territory, as well as look at opportunities to go downstream," says Robert Stewart, president & CEO InvestEdge, a seven-year-old wealth management platform provider out of Philadelphia.

"The expansion of wealth management technology into the mass market/mass affluent sector has been happening for some time," says Isabella



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Fonseca, analyst with Celent's international group. "What has happened is that financial institutions are not only focusing on one segment, but rather applying different strategies to win those clients. The idea is to cover the broad spectrum of the market, rather than just picking a specific segment."

Besides new segments, wealth firms are also redefining their target markets. For instance, net worth is gaining in importance against simple total assets, when considering borrowing capacity. A person with a \$3 million house and a \$2.95 million mortgage probably has extensive insurance, college finance planning and retirement needs compared to somebody who owns the mansion free and clear, according to Celent.

Although bankers and brokers are broadening their turf—brokers are moving feverishly into fee-based asset management—many of the platform vendors are responding by burrowing further into their's, and looking for partners to complete best-of-breed functionality thanks to the open architecture these systems run atop. InvestorEdge, which serves high-net-worth players like Wilmington Trust, partners with a specialist to add risk monitoring and tax optimization modules to its system.

Niche platforms still make sense since higher-end services with trade automation, knowledge management, and reporting features for capital accumulation and wealth transfer services aren't needed for the lower-end financial planning sector, where the focus is on preserving middle-class capital against long-term expenses like healthcare and college costs.

But mass affluent specialists still require better tools to make advisor services more effective and attractive to more educated investors, says Purna Pareek, chairman and CEO of financial planning platform vendor AdviceAmerica. "Advisors don't work in a vacuum, anymore," says Pareek, whose clients includes Citibank and Net Bank. "They need to collaborate with a client, and whatever work they do...the client-facing component has to be there."

Providing a Web-based feature is now common on most platforms, in order to provide more portfolio performance reporting to clients of all asset ranges. Openness is critical for the high and ultra-high-net-worth crowds, who expect to see "a growth value tilt on the portfolio," says Stewart. "Make it look like you spent four to six hours putting this together for me."

As any advisor would attest, time isn't the real barrier. It's the aggregation and integration of data-accumulated form assets that can be tied across all levels of private investments, hedge funds, stocks, etc.—required for complex reporting and compliance features. Many institutions are running on older legacy systems designed more to track positions and clear transactions to post, not reformulate data to accurately fit within, for instance, GIPS-compliant performance calculations that make apples-to-apples portfolio comparisons. "Most of

these systems have a legacy going back to the '70s," says Stewart. "At that point, the depositories still weren't created at that point. The DTCC [Depository Trust & Clearing Corp.] wasn't even active."

Building with those seamless add-ons is also driven by the need to provide holistic strategy across business units at an institution, says Fonseca. "Platforms are providing a link between the broker/bank business," says Fonseca. "Financial institutions are aiming to include multiple business segments under one roof. This is forcing vendors to include trading capabilities...or to at least be able to integrate with trade order management systems."

One dichotomy, still, is the challenge to differentiate in a market where mass affluent clients can get everything under one roof, and technology is excising the person-to-person flavor [to which] high-net customers are accustomed. Institutions "may be using the same vendor as another firm," Fonseca says. "[But] the offering will be different, based on their own model portfolios, risk tolerance questionnaires, portfolio construction functionalities, and workflows."

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