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Regulatory Change Spurs Need for Investment Finds World Wealth Report 2013

Volume, pace, and cost of regulatory change is largest challenge facing wealth management firms

Toronto, Paris, - June 18, 2013 – The volume and pace of regulatory change is the single largest challenge facing wealth management firms due to complexity, lack of regulatory uniformity, the increasing costs of both compliance and non-compliance, and disruptions imposed on client experience, finds the World Wealth Report 2013 (WWR) from Capgemini and RBC Wealth Management. While many firms are making tactical investments to meet regulatory requirements, more strategic decisions[1] will be key to enabling business transformation and future growth, while minimizing negative impact on clients.

"The financial crisis spurred regulators to take additional steps to ensure clients are well-served and that wealth management firms comply with regulations and enhance market integrity," says M. George Lewis, Group Head, RBC Wealth Management & RBC Insurance. *"At the same time, the volume of regulatory change challenges firms to keep pace and limit disruption to clients who have come to prefer and expect a seamless and integrated approach to managing their wealth. Looking ahead, firms should aim to minimize regulatory impact on service levels through hiring and retaining top talent, investing strategically in areas including training and technology, and through embedding a culture of compliance within all levels of the organization."*

[1] Key opportunity areas for strategic transformation decisions include Technology & Process (including client relationship management, reporting, process automation, and risk management); People & Culture (including wealth manager training and enhancement of legal and compliance expertise) and Client Communications (through establishing clear and transparent product and marketing materials as well as guidance in articulating regulatory requirements and impacts to clients).

Compliance and the Bottom Line

Regional variation in regulation presents a challenge for global firms, impacting their ability to provide a consistent experience and standard of client service across jurisdictions. Some firms may choose to exit certain markets due to the cost or complexity of compliance, while small and mid-size firms will struggle due to lack of scale. The report notes that large firms, especially market leaders with strong reputations, will be able to better minimize regulatory impacts on clients and derive greater value from regulatory investments, while continuing to invest in other strategic areas[2].

The long-term impact of new regulation will require wealth management firms to invest in compliance for years to come resulting in continued impact on already high cost-to-income (C/I) ratios[3] and constrained profitability. Compliance costs are driven by investments in legal/regulatory expertise and technology infrastructure, while firms also feel the cost of lost revenues due to lower advisor productivity. In addition, failure to meet regulatory requirements creates a range of costs for firms through fines, legal fees and reputational costs. The WWR proposes that wealth management firms use technology as a lever to help reduce cost of service, particularly as clients are increasingly seeking access to digital channels and self management tools.

Regulation Presents Risk and Opportunity for Serving Wealth Management Clients

Regulation is impacting the overall client experience, requiring firms to ask for an increasing amount of client information and documentation, particularly in the on-boarding process, while also imposing significant pressures on the time wealth managers have available to serve their clients. The WWR notes that it will be particularly important for firms to minimize client burdens in the areas of on-boarding and advisory services in the evolving regulatory environment.

Many regulatory changes impact long-held operating and revenue models, leading firms to re-evaluate elements of their value proposition including the target client segments they serve and the markets in which they choose to operate. This could drive some firms to move up-market in search of better returns or leave the industry entirely, resulting in possible industry consolidation and/or narrower service choices for some HNWIs.

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[2] See Footnote 1.

[3] Cost-to-income (C/I) ratio equals a company's or industry's operating costs divided by its operating income. The C/I ratio shows the efficiency of an industry or firm in minimizing costs while increasing profits. An increasing ratio for wealth management industry indicates that the costs are increasing at a faster pace than the income.

"One alternative to counter the high costs of compliance, while driving value for clients, is for firms to analyze and segment portfolios and customer preferences and re-align offerings based on complexity and level of HNWI servicing needs," said Jean Lassignardie, Chief Sales and Marketing Officer, Capgemini Global Financial Services. *"For instance, clients in some wealth bands and geographies may be well served by more standardized services, while face-to-face advice may be predominantly limited for clients with larger, more complex portfolios."*

Regulatory Compliance is an Opportunity for Firm-Level Transformation

Many firms are making tactical investments to overcome regulatory challenges, while a more strategic and transformative approach could enable firms to derive greater value from regulatory-driven investments and differentiate against competitors. Key opportunity areas include Technology & Process (including client relationship management, reporting, process automation, and risk management); People & Culture (including wealth manager training and enhancement of legal and compliance expertise) and Client Communications (through establishing clear and transparent product and marketing materials as well as guidance in articulating regulatory requirements and impacts to clients).

"Firms that realign their operations to incorporate regulatory change on a strategic level, stand to gain the most both in efficiencies and improving their ability to meet or exceed client needs," says Lassignardie. *"In particular, strategic technology-related investments offer opportunities to separate best in class players from others in the industry and have the potential to drive additional value for both firms and clients."*

The World Wealth Report 2013

The World Wealth Report from Capgemini and RBC Wealth Management is the industry-leading benchmark for tracking high net worth individuals (HNWIs), their wealth, and the global and economic conditions that drive change in the Wealth Management industry. New to this year's 17th annual edition, we introduce one of the most in-depth primary research works available on global HNWI perspectives and behavior. Based on responses from over 4,400 High Net Worth Individuals across 21 countries, we explore HNWI confidence levels, asset allocation decisions, as well as their wealth management advice and service preferences.
Download the report at www.worldwealthreport.com

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About RBC Wealth Management
RBC Wealth Management is one of the world's top 10 largest wealth managers*. RBC Wealth Management directly serves affluent, high-net-worth and ultra-high-net-worth clients in Canada, the United States, Latin America, Europe, the Middle East, Africa and Asia with a full suite of banking, investment, trust and other wealth management solutions. The business also provides asset management products and services directly and through RBC and third-party distributors to institutional and individual clients, through its RBC Global Asset Management business (which includes BlueBay Asset Management). RBC Wealth Management has more than C$604 billion of assets under administration, more than C$369 billion of assets under management and over 4,400 financial consultants, advisors, private bankers and trust officers.

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*Scorpio Partnership Global Private Banking KPI Benchmark 2012. This measurement includes all global RBC Wealth Management affiliates including the U.S. division. In the United States, securities are offered through RBC Wealth Management, a division of RBC Capital Markets, LLC, a wholly owned subsidiary of Royal Bank of Canada. Member NYSE/FINRA/SIPC.