



Cover story

# OFF COURSE WITH LEGACY SYSTEMS?



**Bruce G. Raine**

**E**very student of navigation knows that a one-degree error will leave you just 100 feet off course after sailing a mile. But after 60 miles, the error itself is now a full mile. Just such a path-dependence is creating a growing gap between new and legacy technology in the wealth management industry.

Nowhere is this clearer than in the Caribbean and Central American markets that are our core market. And we know a thing or two about navigating, storms and getting lost in this region. It is not all paradise and plain sailing!

Larger wealth managers with expensive, complex legacy systems are finding it more and more difficult to steer a technological course that will keep them close to the route their customers are travelling. The providers of more mature solutions to the industry are very much in the same boat. A lot is at stake.

While the dot.com era produced a large number of new high net worth individuals (HNWI), such 'new business' has been more difficult to come by for the industry as a whole since the beginning of the new millennium.

Absent a growing market. One of the key revenue drivers for wealth managers has been providing better service. In the wealth management industry, switching is getting easier for the client, so better management of the customer relationship becomes crucial.

Capitalising on improvements in technology is central to exploiting opportunities in that domain. But ironically, this favours new, less mature software where vendors are providing more flexible and scalable products. To some extent too, it favours smaller financial services companies who are not hidebound by outdated technology investments.

Timing is crucial in choosing which technology standard to adopt, but it is also essential to assume that time runs out on all technologies and be ready for the switch when it comes. IPBS made the switch to Microsoft's .NET framework three years ago, which inevitably meant we had to ditch a lot of hard-earned



## Cover story



expertise with Visual Basic, that was itself not much more than five years old. We expect .NET to continue dominating for the next five years, but after that, as we know from Google's rapid rise, the landscape gets very unpredictable.

For a vendor like ourselves, .NET provides considerable benefits that we can pass immediately onto the client. Support gets easier, and upgrading is more straightforward, since the client/user machine does not need any new software installed and maintained. It also supports Web Services.

At a Latin American banking round table last year, I noted how migrating to the new was becoming a particular problem for a number of institutions. In effect, it is an issue of integration. The wealth manager's client increasingly expects a completely consolidated view of his account, and quickly.

The expansion of Web Services and the growing internet experience that broadband is driving into all our personal lives leaves the end user not very tolerant of any inability to get exactly what he wants when he wants it. This is especially true where his money is concerned. The larger banks I spoke to were all grappling with this issue of how to bring the data from different departments, whether foreign exchange or portfolio management, out of different databases into a form that the client finds satisfactory.

**“Despite the huge risk of fines and reputation damage, there is a lot of foot-dragging when it comes to complying with initiatives like KYC (Know Your Client) and Anti-Money Laundering (AML).”**

Of course, that increasingly means in a form he can manipulate himself. Whether he is in London, Tokyo or Timbuktu, he wants to be able to get into an internet session, see what he owns, what happened to it yesterday, and drill down through the data to the original transaction.

XML and the opportunities provided by Web Services have increased the pressure on older solution providers and those companies tied to them, and will continue to drive service innovation, not just in wealth management. Because of their wide adoption, they create the expectations among clients for more and more functionality.

The problems for large institutions and the larger software vendors are compounded too at the point of customer support. More complex technologies require more support, in particular as more is demanded of them than they were originally designed for. But given the expectations of their own clients, wealth managers

have every reason to expect the slickest and quickest of support of their suppliers. That means dealing with staff who can resolve problems quickly, rather than a series of people who pass service tickets on to one another across continents.

It is one of the reasons at IPBS that we route our support calls directly to product developers. Operating a stable system helps ensure our employees are not overloaded, but the client can get an immediate and much more informed response from someone local to their business, whether it is a technical problem or user/training issue.

The changing product mix and the increasing popularity of alternative assets, such as hedge funds, is also creating a need for new technological developments. Most systems, for example, cannot cope with the new interest on the part of ultra high net worth individuals (UHNWIs) of investing directly in private investment partnerships such as hedge funds. The investment is not a security, therefore it is harder to value on the fly and represent.

Similarly, the carry trade has increased interest in leverage among the UHNWIs seeking more alpha. Clients then want to see the total portfolio worth, but also the 'equity' value segregated out from the collateralised position.

Of course regulation and the external environment remain key drivers of technological change. But they too have created a level of cost-sensitive world-weariness among buyers as much as they appear to create opportunities for vendors like ourselves. We should not forget that banking has been through wave after wave of change, driven by external events from the euro, through Y2K, Sarbanes-Oxley, Eliot Spitzer and post 9/11. These changes have swallowed up a lot of technology budgets which would normally be available in most businesses for improving customer service.

Despite the huge risk of fines and reputation damage, there is a

lot of foot-dragging when it comes to complying with initiatives like KYC (Know Your Client) and Anti-Money Laundering (AML).

For example, we developed a stand-alone compliance product, which when we showed it to the regulatory authorities in the Bahamas, they said, 'go sell it to all the banks in the Bahamas.'

But the reaction from the banks was to wish that it would go away. The mentality of some players sometimes looks to me a little bit like they are playing Russian roulette with the risks. It is surprising in an environment where most of their client HNWIs are risk averse, but it confirms that cost is central to the business.

Of course when you put to sea, you know there will be storms, and that gear can break in extremis. The financial technology business and the industry it serves is subject to just such unpredictability. Survival is about measuring the risks well, working to a budget, and ensuring resilience in the face of the worst the weather can throw at you.