Back-Office Transformation

SAFEGUARDING THE FUTURE OF UK WEALTH MANAGEMENT

CASHFAC

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Introduction and Overview

The UK Wealth Management sector is consolidating and only those with scale will survive.

Consolidation and rationalisation in the UK Wealth Management sector has long been predicted. But now it is a reality. Platform consolidation, Private Equity and M&A has dramatically increased the market share of the top 25 Wealth providers to 85%[1] .

85%

increase in market share of top 25 Wealth Managers

COVID-19 has accelerated powerful megatrends which are driving sector consolidation and scale as the only way to profitably survive over the long term.

In an environment of increased regulatory requirements and low interest rates, many have concluded that the writing is on the wall for those providers who cannot scale. Successful digital transformation in banking and insurance has shown that the technology opportunities are real, and the benefits are proven.

> "Size and scale is the only way to develop"
>
> Wealth Management: Industry Consolidation, Future Trends[2]

At Cashfac we have seen a raft of SIPP providers and Pension Administrators choose our technology to bring scale, cost efficient compliance and an enhanced client self-service capability to retain and grow the customer base. Bringing automation to cash operations is the trigger for a wider back-office transformation and the start of the journey to enhanced profitability.

This Cashfac whitepaper identifies and addresses four megatrends shaping today's UK wealth management industry, and details how the most innovative UK wealth managers have reacted: from overcoming inefficiencies in the industry's typical cash management landscape, to implementing a transformed low-cost back office that meets customer demand for innovation and greater self-service.

1 Money Marketing – Why you should expect further wealth manager consolidation
2 Wealth Briefing – Wealth Management: Industry Consolidation, Future Trends

Industry Megatrends

Superficially, the climate for Wealth Management in the UK has been benign in recent decades.

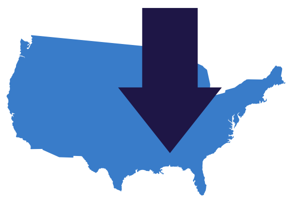
- COVID-19 aside, stock markets are on the longest bull market run in history
- Global wealth levels are rising: the annual increase in global wealth since 2008 was 40% higher than the previous 10 years[3]
- Wealth Management as a sector continues to have high barriers to entry with a sticky client base and predicable recurring revenue streams.

But despite these favourable conditions, the sector is facing four megatrends that are re-shaping the industry and forcing change to ensure survival:

1. COSTS OF COMPLIANCE

A radical increase in the cost of compliance and control has led many to question the future profitability and survivability of many in the sector:

- The surge in the compliance burden started with the 2013 RDR, followed by an increased focus by the FCA on customer suitability. MiFID II and the ongoing focus on client money and CASS compliance has led many to feel that without scale the economic model for smaller providers does not work
- Regulatory and commercial pressures to ensure firms have adequate operational resilience capabilities has further increased costs and made many firms go on the transformation journey to ensure future resilience
- In this environment, many firms have reacted with tactical rather than strategic solutions which do not provide the ability to scale and drive down costs
- The lack of ambition in response to this challenge has significantly increased costs for Wealth Managers and eaten into profitability. Whereas US banks reduced their cost to income ratios by 8% since the Financial Crisis, that of the UK wealth industry increased by 13%[4]



8%
reduction in cost to income ratios

13%
increase in cost to income ratios

3 BCG - Global Wealth 2020: The Future of Wealth Management — A CEO Agenda
4 TheGlobalEconomy.com - Bank cost to income ratio by country, around the world

> "Rather than design an integrated operating model to address these issues, most (Wealth Managers) fell back on ad hoc responses that generated isolated processes, teams, and tools. The result has been a massive spike in costs and a huge administrative burden that has slowed response times, contributed to mounting client frustration, and heightened the risk of error"

BCG - Global Wealth 2020: The Future of Wealth Management — A CEO Agenda

2. THE FINTECH REVOLUTION

The Fintech revolution has arrived and is transforming Financial Services. Open Banking is liberating the platform ecosystem and bringing more competition to Wealth Management:

- Digital Finance technologies have already brought radical benefits to the Financial Services sector. Accenture forecasts that up to 70% of Finance and Operations activities will be automated by 2025[5]. Manual processing will soon be a distant memory to those that go digital
- New market entrants have brought to market a digital client experience and taken market share by building a modern back-office infrastructure. Complex and expensive legacy platforms are not holding them back
- Technology has brought radical change and scalability, primarily in the Front Office. Data and analytics have transformed executive decision making and enhanced client service. Transition to the Cloud has reduced costs and increased agility in firm IT capabilities.
- In the UK, Open Banking is opening the services that wealth managers and banks provide and increasing competition
- There is every expectation that Big Tech in the form of Amazon, Google and Microsoft will enter the market and with their "financial muscle and scale provide wealth management services to affluent individuals and those in the lower HNW segment"[6]
- However, many Wealth Managers have been laggards in back-office transformation and inefficiencies remain. As referenced above, industry cost-to-income ratios have increased by 13% since the Financial Crisis. Back-office cash management remains manual, fragmented, and expensive

5 Accenture - Finance Reimagined - Igniting the spark to unlock value
6 BCG - Global Wealth 2020: The Future of Wealth Management — A CEO Agenda

> "One source of the pressure on the industry will be fintechs and tech platform players that beat wealth management providers' prices in core areas such as transactions and custody services, and offer tailored advice and portfolio management at much lower rates"

Citywire[7]

3. CUSTOMER EXPECTATIONS

> "For years, the wealth industry primarily functioned with back-office support and legacy platforms with a limited digital presence. Changing customer expectations are disrupting the landscape like never before"

Ernst & Young[8]

Customer expectations are going digital: they expect real time on-line services at speed.

- Customers are used to the seamless experience they have with other products and are rapidly expecting this from their Financial Services providers
- Innovative Fintech payers and challenger banks have shown that a better digital experience is possible and has raised expectations across the sector
- Demographic change means younger more tech-savvy clients whilst the older client base has rapidly become more open to digital tools
- Despite these trends, many Client Advisors and operational teams continue to be distracted by manual processes and paperwork, distracting them from their focus on the client and their needs.

7 Citywire - Largest wealth firms may double share in big mid market squeeze
8 EY - How can wealth managers transform to improve the customer experience?

> "UK-based private banking head: "The clients of tomorrow will simply not accept working with a wealth management provider that does not have top digital capabilities to let them access what they need at any time they want."

BCG - Global Wealth 2020[9]

4. SKILLS SHORTAGES

The Financial Services sector is facing a skills shortage that is driving up their cost base and threatens to act as a break on business growth:

- Recent ICAEW research[10] indicates that skills shortages are the number 1 concern of UK Financial Services leaders
- Operating costs for firms are increasing as they require the necessary skills to support their business
- As a response, market leading firms are digitising their capabilities to automate expensive manual processes and move to straight through processing
- Outsourcing via a managed service is being deployed to reduce the internal fixed cost base

9 BCG - Global Wealth 2020: The Future of Wealth Management — A CEO Agenda
10 ICAEW - Pandemic drives skills shortage in the professional sector

The Market Response

DEFINING A WAY FORWARD

The industry faces common challenges, so how should the market respond in the face of these megatrends to remain competitive and profitable?

Top 3 Business Challenges

- Increasing customer self-service
- Differentiating the business
- Increasing return on capital & reducing costs

Top 3 Operational Challenges

- Managing a remote workforce where the required skills are in short supply
- Increasing complexity of Compliance
- Increasing operational scalability

Firstly, our research indicates that industry leaders are agreed on the challenges they are facing and need to focus on. In Cashfac's 2021 Wealth Management Review[11] - a report commissioned by Cashfac to Goodacre UK, who interviewed and surveyed over 120 senior executives from the UK wealth management sector – the research findings indicate that solving the back-office problem is top of the agenda for industry leaders.

Industry leaders clearly believe that solving their back-office challenges is a priority and this view is shared by the top wealth advisory firms.

Secondly, the Big Four Advisory firms and Strategic Integrators agree with the problem statement that firms need to build scale and automation if they are to continue to be competitive. Another consistent message from the leading Advisory firms is that the industry is behind banks and insurers in digital adoption.

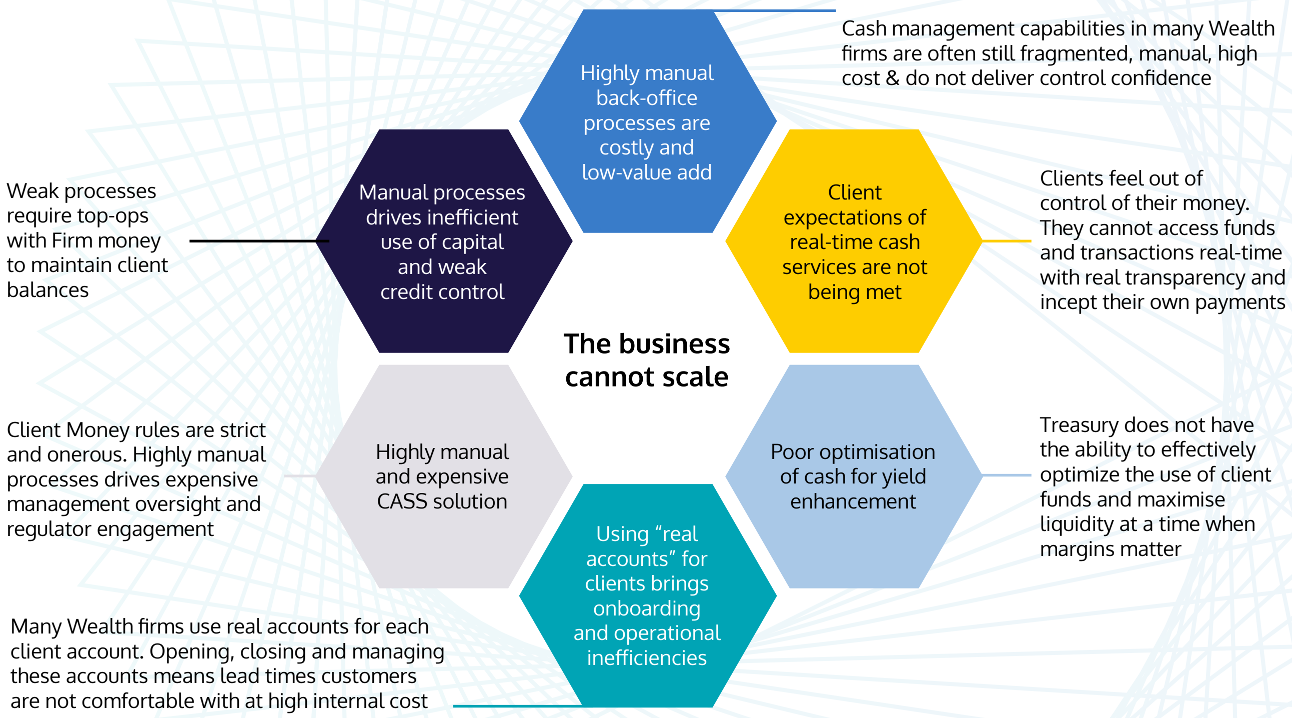
- Revenue compression given low interest rates is shifting focus to **scalability & back-office operational excellence**
- Clients now expect seamless user experience and self-service given their virtual retail experiences
- Growing wealth & increases in transaction volumes has **stressed firm operating models and margins.** COVID-19 has accelerated this shift to digital
- The success of Fintechs has led to over-lapping services competing for share of customer wallet
- Compared to other Financial Services surveyed sectors, insurance CFOs are most likely to prioritize insight into new tech
- Digital solutions are mature and market leaders have proven their value. New capabilities are enabling firms to transform their business and operating models

11 Cashfac - Wealth Management Review 2021 – Sector Transformation

IDENTIFYING COMMON BARRIERS

In responding to this challenge, many firms face the same problems in being able to frame an effective response that can be successfully executed. Whilst firms agree that building scalability in the back office is critical, they face common barriers to achieving this:

Common barriers to building scalability in the back office



Common blockers to building an effective transformation

- Many in the industry are also facing blockers to change which are difficult to overcome and frame a successful transformation strategy:
- The Fintech vendor landscape can be daunting and difficult to navigate
- Many organisations are culturally conservative and may not be aware of the technology opportunities on offer
- Existing back-office platforms are complex and fragmented with pockets of internal expertise
- Many firms face multiple challenges, so deciding where to start on the transformation journey requires prioritisation and planning
- Finally, building a credible business case for change that can be delivered with confidence and limited operational disruption is difficult

DEPLOYING SUCCESSFUL STRATEGIES

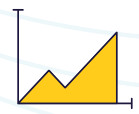
Despite these challenges and barriers to change, many ambitious firms have successfully implemented a back-office transformation to allow them to operate successfully in response to the megatrends facing the market.

The industry picture of a higher cost base and ongoing manual processes hides those firms that have acted and started their back-office transformation journey.

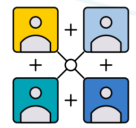
Over the last 5 years Cashfac has built up a large roster of SIPP and Pension Administrators who have recognised that action was necessary for them to remain competitive and raise profitability. **Around 20% of the SIPP and TPA sector now uses Cashfac to manage their cash operations** and lay the foundations for back-office transformation.

Successful players in the industry have responded to the challenge by following their peers in banking and insurance in deploying transformational technology to the back office. They have recognised that successful front office digital investments can only be leveraged by driving back-office optimisation.

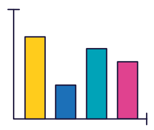
Research by Refinitiv[12] highlights the initiatives that firms are delivering to remain competitive:



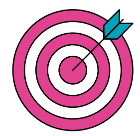
65% see driving operational scale as critical to a competitive business model



86% view the ability to service clients effectively via efficient account opening, onboarding, and cash management as critical to their competitiveness



56% ranked building straight through processing capabilities as very important



96% see the deployment of APIs and an effective technology ecosystem as critical to their competitive success

A key focus for firms looking to build scalability in their cash operations is to streamline their current highly manual cash management solutions. Typically, their existing processes are primarily manual, based on Excel and require daily and monthly processes to be performed by the Finance and Operations team to ensure payments and receipts are aligned and client money requirements are being met.

12 Refinitiv - The Transformation of Wealth Management

RESOLVING CASH MANAGEMENT INEFFICIENCIES

The typical cash management landscape for Wealth managers has multiple inefficiencies and challenges, making their cash management processes expensive and high risk. We have identified 7 of these below. Resolving these inefficiencies has been a key priority of industry leaders who are building scale into their back office.

SLOW AND EXPENSIVE	POOR CLIENT SERVICE	DIVERTS THE FRONT OFFICE	
Scenario	**Firm objective**	**Typical manual controls**	
Payments	1 Post cleared payments to the client accounts	Client account to cashbook for Internal Client Money Reconciliation	4 Reconcile client money to bank
Deposits	Post matched receipts to client account	2 Identify source of funds and match to client	
Client trading (equity / bonds / funds)	Allocate block buys and sells to correct clients	3 Cashbook to external bank reconciliation	
		Cashbook to 3rd party reconciliation eg: CREST	
	Post matched fund receipts and payments to client account	5 Match transaction to settlement counterparty eg: CREST, Fund	
Dividend receipts and allocations	Post dividends to client accounts	6 Reconcile dividends received to client positions	
Control and suspense processes	Control client vs external payments eg: fund fees	7 Match client side to external firm side	

1. Delay or inaccuracy affects the accuracy and timeliness of ICMR and shortfall funding
2. Inefficient client money identification degrades client service & delays their investment choices, leading to a poor self-service offering. ISA/pension contributions may miss the cut-off or inaccurate client tax returns; risk of over subscription
3. Slow manual reconciliation means delayed detection of missing or mis-posted items & slow fraud detection. Risk increases with multiple bank accounts & multi-banking
4. Highly manual client money controls leads to poor client service and issue resolution, slow discovery of overdrawn client positions, increased shortfall funding; slow detection of mis-postings and fraud and cross allocation errors for multiple pooled accounts. Risk increases with multi-banking
5. Challenge is greater if not using contractual settlement with client. Slow match of aggregated receipts increases shortfall funding and impacts clients' ability to reinvest sales proceeds
6. Highly manual expensive reconciliation processes prone to error
7. Manual controls over the daily reconciliation of all Control and Suspense accounts may result in delayed identification of client or 3rd party issues and require a high-cost resource heavy process

Delivering Successful Back Office Transformation

CASHFAC: TRANSFORMING THE AUTOMATED CASH MANAGEMENT LANDSCAPE

Cashfac has transformed the cash management capabilities of many firms by moving from a slow and expensive platform with poor client service to one which is fast and automated, enabling excellent client service and enhanced risk management. Automated payments and receipt matching and inbound and outbound systems integration reduces risk, delivers efficiency savings, and builds a scalable solution for future growth at low or zero incremental cost.

FAST AND AUTOMATED	EXCELLENT CLIENT SERVICE	LIBERATES THE FRONT OFFICE
Scenario	**Objective**	
Payments	Post cleared payments to the client accounts	Payment functionality for FPs, CHAPS, SWIFT & BACS. Option to link payment generation to manager or bank's existing hub
		1 Orders, trades and invoices uploaded from primary systems via API or file into Cashfac
Deposits	Post matched receipts to client account	2 Auto detection of client deposits / new money via references & payers' account numbers. Auto crediting of client accounts
Client trading (equity / bonds / funds)	Allocate block buys and sells to correct clients	3 Auto generation of double entry accounting & forward cash entries on client accounts and control accounts
	Post matched fund receipts and payments to client account	4 Communicates with bank(s), integrating transactions & balances. Start of Day external reconciliation performed, ensuring bank's channel is open. Maintains bank, ledger & forward balances
Dividend receipts and allocations	Post dividends to client accounts	5 Auto matching of bank transactions with forward cash expectations on cashbook and client accounts
Control and suspense processes	Control client vs external payments eg: fund fees	6 Use Cashfac's method to reconcile dividend distributions before they are paid and link them to client accounts

1. Integration into Cashfac of all bank account movements and all client-driven cash movements allows automated controls and matching routines to be applied to this accounting and operational data set
2. Inbound funds auto-credited to client accounts. Self service features give the client the interactive ability to credit the account. Auto-alerts to manager of new funds
3. Forward cash accounting separately maintains forward balances & establishes future payment & receipts paths, ensuring fund segregation

   Forward cash accounting allows immediate automatic credit control, alerting the manager & preventing overdrawn client accounts. Allowance for settlement timetables of each asset class

   Client self service allows client to view upcoming settlements and ensure their account is funded. Clients can see all their accounts at all banks updated on line
4. Integration of bank and client transactions allows continuous intra-day real time reconciliation of main ledgers to client ledger
5. Early identification and resolution of bank / client mismatches
6. Auto calculation of client-level dividend allocation and posting to client

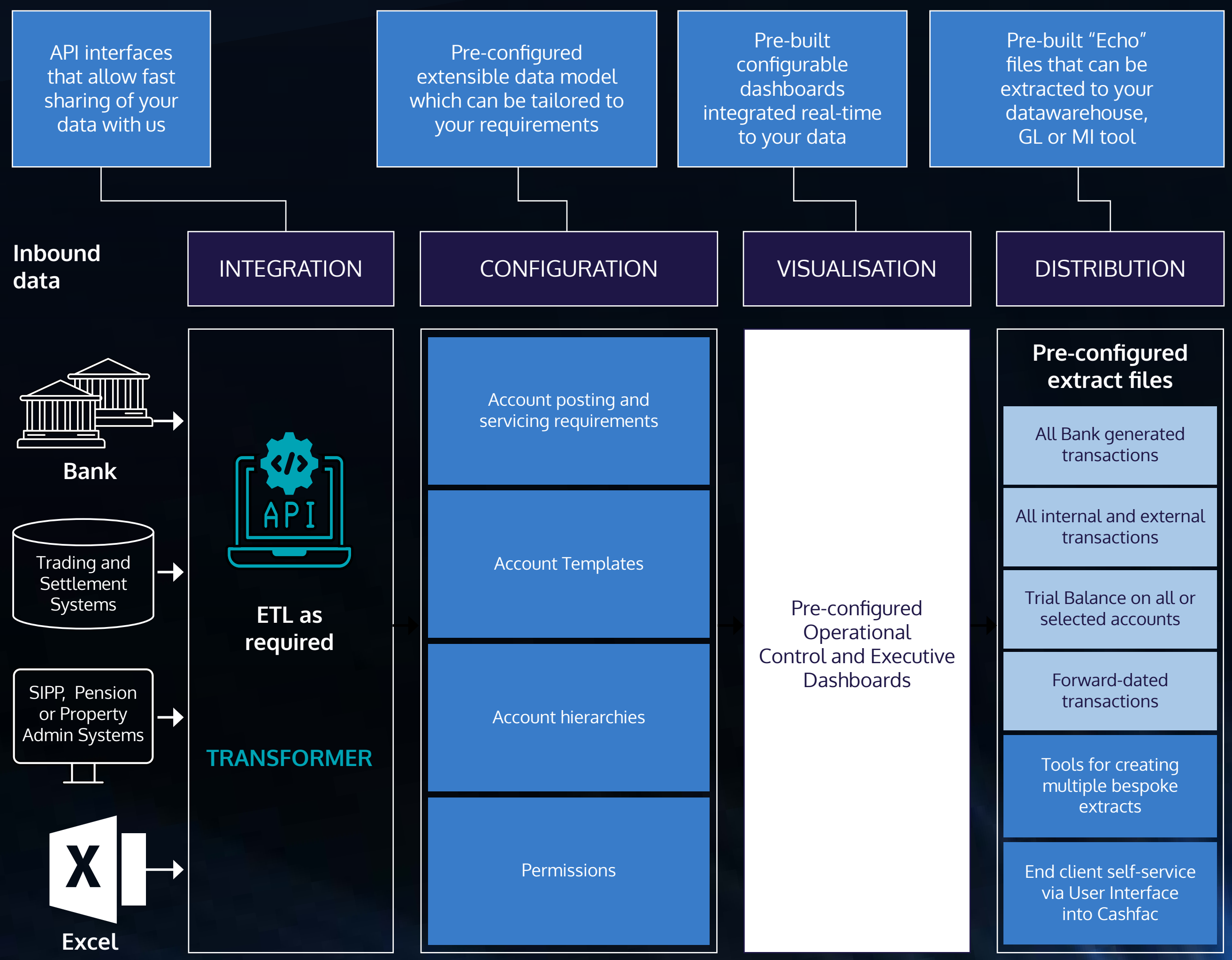
ACCELERATING RAPID CASH OPERATIONS IMPLEMENTATION

As outlined above, a key challenge the industry is facing is how to deliver back-office transformation fast without business disruption.

Cashfac's solution incorporates a wealth of pre-configured accelerators which have been developed over 25 years of client insights so that our solution can be delivered fast at low risk yet can also be tailored to specific client needs.

Our APIs allow a seamless fast integration upstream with your administration and settlement systems and downstream with your accounting and reporting systems. Our embedded dashboards allow clients to monitor cash control KPIs, exceptions and oversee Client Money compliance.

Typical end to end Cashfac solution at our clients:



DELIVERING REAL BUSINESS BENEFIT

The efficient and controlled management of cash is at the core of the wealth business model. The benefits that we deliver are strongly aligned to the challenges that the market is seeing and help them to navigate the 4 megatrends that are impacting the industry. With a scalable and controlled cash management solution the business is liberated to grow and focus on client service rather than performing manual reconciliations and controls.

Smart Compliance & controls for Client Money regulations

- CF10 dashboards provide enhanced transparency and reduce management time for compliance oversight
- Simplified architecture reduces the number of control points. Continuous reconciliations enhance control confidence
- Typical project payback period is under 12 months

Efficiency through automation

- Efficiencies generate the funding for further back-office transformation
- Decommissioning manual processes & consolidation of legacy platforms significantly reduces Total Cost of Ownership
- Typical project payback period is under 12 months

Enablement of business objectives

- Brings digital to the back-office allowing almost unlimited scalability in cash management operations
- Delivers a client self-service platform that empowers them to control their money
- 50% reduction in account opening, closing and admin time

Operational Intelligence

- Automated controls allow early remediation of expected cash breaks and automated credit control
- Dashboarding & granular availability of real-time cash transactions give insights to Client Advisors & Treasury

Treasury, liquidity and capital optimisation

- Ability to maximise yield enhancement on client and firm funds through real-time client and pooled accounts
- Optimise capital usage by eliminating the need for client account top-ups with firm funds

WHAT DO CASHFAC CUSTOMERS SAY?

"The business case for Cashfac has proved a success. The cost of acquiring Cashfac technology has already been recovered by the cost savings the solution has provided us"

Andy Young, Head of Finance at LV=[13]

"There is no way we could do what we do today if we were using our old manual processes"

Peter Robinson, Head of Client Banking at XPS Pensions Administration[14]

"Our treasury management function is a key part... and by using Cashfac we are able to use one system"

Dan Cowland, Chief Financial Officer at Curtis Banks[15]

"Cashfac's solution has managed to deliver material efficiency gains within the critical function of cash control"

Stephen Lancaster, Head of Finance at @SIPP[16]

"We've achieved better cash management, consistent cost savings and easier regulatory compliance across different business units by automating core processes"

Ian Robinson, Chief Operating Officer at Jardine Lloyd Thompson[17]

13 Cashfac - LV= moves £140m of funds from 40k real accounts
14 Cashfac - XPS Accelerates Growth using Cashfac's Virtual Accounts Platform
15 Cashfac - Cashfac strengthens relationship with Curtis Banks Group
16 Cashfac - @sipp Limited goes live with Cashfac Virtual Bank Technology (VBT) to drive process automation and increase productivity
17 Cashfac - Jardine Lloyd Thomson improves efficiency for Pensions finance teams

NEXT STEPS: CONSULT WITH OUR EXPERTS

We can offer a confidential 1:1 consultation with our experts on what we are seeing in the market and industry best practice:

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CASHFAC

ABOUT CASHFAC

Cashfac is a global fintech, specialising in real time operational cash management. Their platform is the world's most widely deployed virtual accounts solution for wealth managers operating in the UK, Europe, the US, Australia, and New Zealand. Used by fund managers, SIPP and pension administrators, trading platforms, trust and escrow services, and property managers, Cashfac helps these firms with client money management, client and market settlement, payments, intra-day credit control, and continuous automatic reconciliation for improved productivity and immediate visibility.

For more information, please visit www.cashfac.com