

## **How Crime-Fighting Can Help Improve Your Wealth Management Business**

In today's volatile economy, and with limited resources always posing a challenge, senior leaders of wealth management organizations looking to expand are facing critical, time-sensitive questions:

- Should I open new offices and, if so, where?
- How should offices be staffed and with what skill sets?
- Do I need to change my service model and if so, which elements should be changed, and how?
- Which of my existing products has the greatest potential for growth and enhanced profitability, and which new products have the greatest opportunity for success?

Curiously, we believe that the lessons learned from using Business Intelligence tools in analyzing criminal behavior can help wealth management leaders make better decisions around these types of questions.

Let's begin by reviewing the evolution of decision making and the definition of Business Intelligence. Traditionally, questions like those posed above have been answered using outside research, staff input and intuition. In previous business environments, where accurate decision making was much more important than speed, these information sources were adequate, if not completely effective. In today's technology-based environment however, speed is now a crucial factor (along with accuracy) in decision-making. Fortunately there are tools and processes that allow organizations to use data embedded within their organization to supplement or even displace reliance on outside parties or their own intuition for making decisions. These tools and processes fall under the general description of Business Intelligence (BI).

Business Intelligence comprises:

- The act of gathering data from varied sources and synthesizing that data into meaningful, timely, accurate and actionable information used to support decision making
- A broad category of applications and technologies for gathering, storing, analyzing, and providing access to data to help enterprise users make better business decisions

Bottom line, the goal of BI is to empower decision-makers to allow them to make better, faster decisions.

### ***Crime Prevention Example***

In order to understand the value of a BI program, we will discuss its benefits from a perspective totally different from wealth management: crime prevention.

In the early 1990s, New York City police chief William Bratton wanted to impress the newly elected mayor, Rudolph Giuliani. Bratton introduced Giuliani to a radical approach to policing that leveraged existing data, an approach that became known as CompStat. CompStat put an emphasis on using accurate, detailed and timely data to optimize police work. The concept was simple: leverage the data to help position limited police resources where they could do the most good. It aimed to produce 'proactive' police prevention rather than 'reactive' response-oriented policing.

The key to the effectiveness of the program was (and is) in understanding the context of criminal behavior. Research has consistently shown that a small group of criminals is

responsible for a disproportionate amount of crime. Moreover, past criminal behavior, such as domestic violence, can be a strong indicator of potential future crime.

Building on this context, CompStat integrated incident report data from local, state, and federal law enforcement agencies and merged it with location data from geographical information systems to create electronic crime maps, or “hot-spot” analysis. This analysis quickly identified those areas where certain types of crimes had been committed, and extrapolated that these same areas could experience similar crimes in the future, unless proactive policing were implemented. The data and analysis resulted in the New York City police department taking proactive -- and ultimately effective -- actions around their most critical crime-related issues.

### ***Behavioral Concepts Applied to Wealth Management***

These same behavioral concepts can serve as the foundation for wealth management leaders to identify their own hot-spot analysis. Rather than looking at criminal behaviors, they can mine existing data to analyze client behaviors and develop hot-spot views in the following areas:

- *Geography/Office Location/Service Model*
  - Identify where existing clients live and work; evaluate the newest clients (those who have become clients in the last two years) and identify where they live and work and how they compare to existing clients. Once these hot spots have been developed, management can then compare the location of its sales/relationship offices to these hot spots and make decisions about creating new offices and growing or closing existing offices
  - Analyze client behaviors; assess what services clients highly value (are willing to pay for) that should be delivered from a local perspective versus commodity-type services that should be delivered from a centralized location
- *Training and Acquisition of Resources*
  - Based on existing and new customer profiles, identify what changes should be made to staff skill sets and ‘new hire’ experience that more closely aligns with a post-financial meltdown environment
  - Review data from the last year of economic turmoil and identify trends in client behavior and the corresponding implications for the organization. For example: have clients taken on a more conservative behavior and, if so, should the organization’s focus be on capital preservation? Or, have clients identified this period as a new opportunity for substantial asset growth and, if so, should the organization be looking to acquire resources and/or investment management firms who have demonstrated strong performance in similar economic environments
  - By identifying current client hot spots, existing and new resources can be allocated appropriately
- *Existing Product Profitability/Product Development*
  - Use BI techniques to determine which existing products are most profitable, and -- perhaps more importantly in our dynamic economic environment -- which new products may have the greatest opportunity for increased revenues and profitability
  - One of the challenges in this particular area is allocating staff-related costs to the appropriate products. There are a number of techniques that can be applied to help address this challenge, including but not limited to: time reporting systems, pilot/proxy projects representing the entire organization, or organizing the sales/service delivery staff by specific products

## **Key Attributes of Successful BI Programs**

To be able to make the types of decisions just described, wealth management leaders need to focus on seven key areas that are critical to building a successful BI program:

1. **People** – A centralized BI Competency Center should be established that incorporates individuals with the following skill sets:
  - a. Business
  - b. Analytical
  - c. IT

Centralization of this function helps to break down organizational silos, which can be destructive to an effective BI program. The program needs to be actively communicated and “sold” to generate buy-in
2. **Strategy** – Leadership needs to break down its BI program into tactical projects that are clearly aligned with the organization’s overall strategy. The BI program manager must clearly define the objectives and then communicate them across the organization. Finally, BI strategy development must include both business and IT partners
3. **Process and Role Clarity** – There must be appropriate rigor in the definition of processes, organization and roles for information governance. There needs to be an advisory council to prioritize requests for tactical resources and manage the execution of the BI strategy
4. **Metrics** – A successful BI program also needs a common repository of metric definitions and calculations. Implementing dashboards/scorecards for quick, accessible information on key metrics is a Best Practice
5. **Data** – A Master Data Management tool and process needs to be implemented to manage data centrally across enterprise systems and to reduce the number of touch points across the organization. If it does not already exist, an enterprise data warehouse must also be built to support common definitions. Most importantly, there must be a concerted effort to define and guard the quality of the data, including defining the authorized sources of record, supporting data profiles, and the cleansing and enrichment of data
6. **Applications** – The BI strategy roadmap should outline the short-term tactical BI delivery platform and the longer-term application platform. A business-oriented portal should be available to provide a consistent user experience, with the presentation style tailored to user requirements
7. **Architecture** – In selecting BI hardware and software, the evaluation should focus on:
  - a. IT processes and management
  - b. Performance and scalability
  - c. Integration

User access tools need to be aligned with consumer profiles to ensure that the right tool is used for the right purpose

## **Conclusion**

The value of BI to wealth management organizations has significant strategic implications. As one major wealth manager knows, using BI tools has helped improve the benchmarking of financial advisor performance, the identification of attractive client segments, and provided better tactical information to front-line financial advisors. Over a three-year period, the organization, using BI, has exceeded its performance targets and is now using BI to set strategic, enterprise-wide goals for sales production and advisor performance.

Business Intelligence is effective in many types of organizations. There are a number of important decisions within a wealth management organization that would benefit from the insights provided by BI. As noted at earlier, these include identification of the location and number of offices, the type of skill-sets required to staff them, and product-related initiatives and changes based on the profitability of current products and the potential for new products.

The competitive wealth management playing field requires both accurate and timely decisions. When we layer on top of that today's volatile economic environment, it becomes imperative that organizations take advantage of client behavioral information that already exists in their data files to make informed decisions in a rapid manner. The effective use of Business Intelligence tools and methodology can help companies respond to this environment and provide a solid, informed foundation for future organizational success. The 66 percent reduction in felony crime in New York City during the first 10 years (1993-2003) of the BI program is a testament to the effectiveness of the program and should be an inspiration to wealth management leaders in their use of BI.

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