

Engaging the whole firm

Improving client experience in institutional and wholesale investment management

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Introduction



In the investment management industry it is often said that investment performance is the predominant factor by which clients judge investment managers.

While there is certainly some truth in this statement, in reality clients take an approach to judging investment managers that is both broader and more nuanced. Investment performance will remain key but, with competition intensifying in the market, investors tell us that client experience is increasingly important. In a recent paper by Deloitte-Casey Quirk, *Distribution 2.0*, we reported that for 76% of buyers, client experience is a contributing factor to manager terminations.¹

But what exactly does client experience mean and what is it that really matters? Despite the market's increasing focus on this area, there is a lack of publicly available research, and feedback from clients to managers can be patchy and anecdotal.

To address this gap and tell the story of what shapes the experience from the client's perspective, Deloitte interviewed fifteen investment management clients from **Institutional and Wholesale channels**, including wealth management, insurance and pensions. Our interviews were semi-structured and clients commented on past experiences.

Our aim was to move the debate forward from 'there are moments that matter' to developing a deeper understanding of the most important drivers of client experience.

In this report we address this issue in three ways. First, we examine the perspective of clients, as captured by our interviews, to understand their experience of dealing with investment managers, their concerns, and what is important to them. Second, we analyse the client feedback that we received and present a framework for thinking about client experience (CX). Lastly, we consider the implications of our research findings for investment managers.

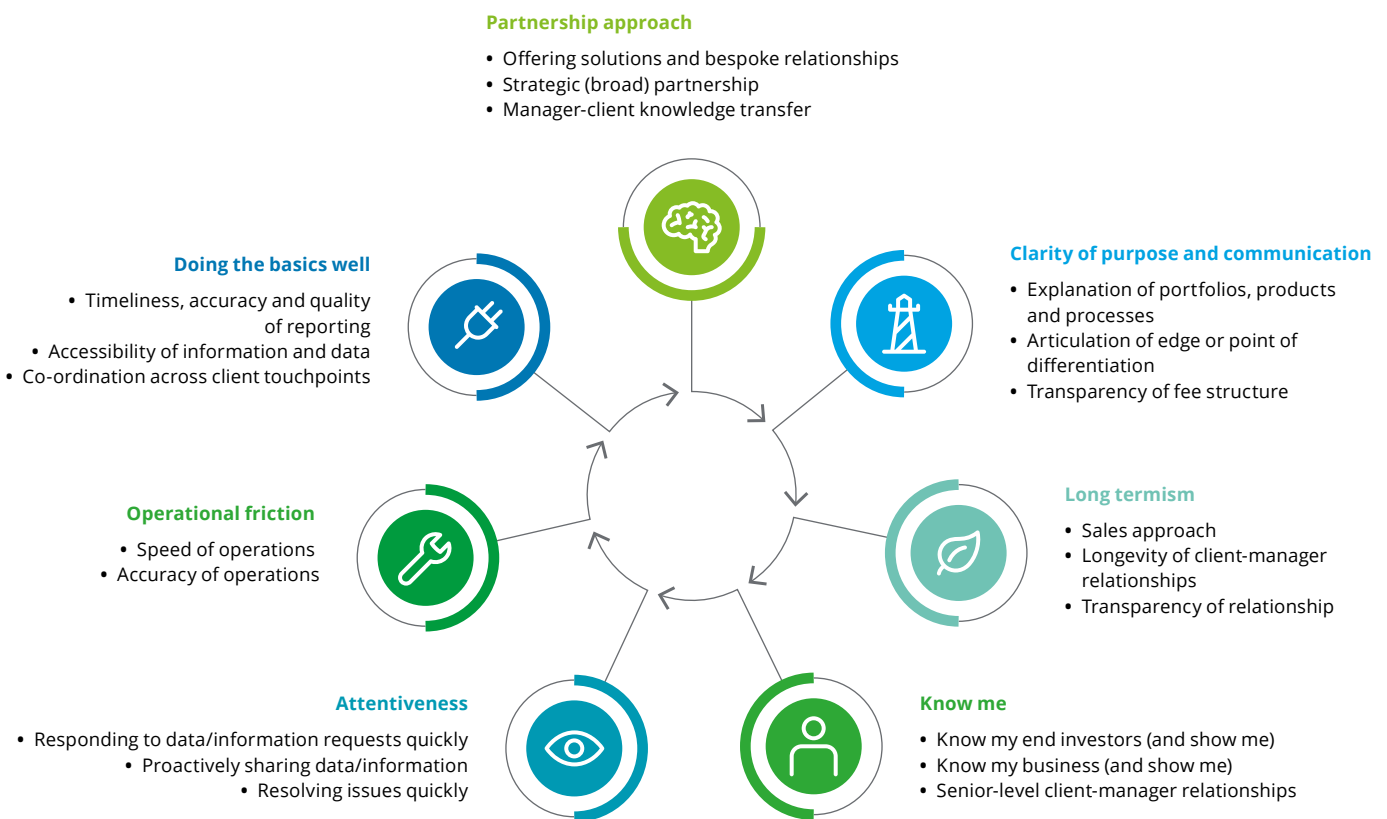
We would like to thank the individuals who took part in this study for sharing their insights and experiences. We hope that you find this report useful and thought-provoking, and welcome your feedback on its content or the broader questions that it raises.

1. *Distribution 2.0*, Casey Quirk by Deloitte, March 2019, <https://www2.deloitte.com/us/en/pages/financial-services/articles/technology-asset-management-distribution-whitepaper.html>

Investment management client experience: The client perspective

Our interviews of clients of investment managers identified a wide range of issues that they consider important in their dealings with investment managers. We have grouped these into seven 'drivers' of CX.

Figure 1. Seven drivers of investment management client experience





Doing the basics well

Clients and investment consultants commented on the **timeliness, accuracy and quality of the reporting** they receive from investment managers. Our interviewees noted that reports can be late and/or contain errors, and this erodes the credibility of reports, making it harder for the recipient to get an up-to-date view on performance and, in the case of investment consultants, can increase the workload in the run up to client meetings. Clients noted a big difference between firms in their delivery of reports on time and without errors.

“Reporting is a big factor. Reporting’s quality is determined by its regularity and clarity. Sometimes we encounter errors in the reports.”

Group Pension Manager, Pension Scheme

“It’s all about getting access to the right people and information. In the future we’ll see more automated ways of providing ongoing information.”

Consultant, Investment Consultancy

Providing access to information and data outside the reporting cycle also affects the client experience. It is frustrating for clients to expend more effort than expected on retrieving information and/or data, particularly as this compares badly with the quick and easy access to information that they enjoy as self-service retail customers in other industries.

A good experience is dealing with an investment manager that is **co-ordinated across multiple interactions**. Clients said that it is important for an investment manager’s people to talk with each other (and with the investment consultant where applicable) to agree a united front. A lack of co-ordination can reduce the quality of service. For instance, a lack of information sharing among client-facing staff at the investment manager makes it harder for the manager to really understand the client’s needs in depth.



Operational friction

Our interviewees stated that **operational friction has an important effect on their overall experience** with, and perception of, an investment manager. In particular, they cited two criteria by which they judge managers: the speed and the accuracy of operations. One wealth management client commented that transfers from one platform to another should be faster. Another told us that a good experience is simply one where operational interactions with the manager are error-free with no surprises.

“On the ops side, it’s about don’t surprise us; I just want it to work.”

Head of Funds, Global Bank-embedded Wealth Manager



Attentiveness

For our interviewees, the **speed with which investment managers respond to requests for information and data** is a driver of the overall experience. Quick responses to requests for information, data and opinions help the client to be well-informed on markets and portfolios, and this builds transparency in the client-manager relationship. In addition, some interviewees held the view that response speeds are determined by the empowerment of client-facing staff, implying that a responsive manager is also a well-organised manager.

Furthermore, quick responses allow clients to serve their internal stakeholders better. One wealth management client said that he sometimes asks for information and/or data at the last minute. In such cases, in his experience, some managers can provide this within the required time and this helps him pitch investments to his internal stakeholders, which is a core element of his role. A pension client said that when managers respond quickly to his questions on capital market developments, this in turn helps him provide more informed and faster answers to queries from trustees.

“There are times when I may need data and ask for it at the last minute, and in these cases, some can turn it around and that helps me pitch to my firm. I'd say turnaround times play a big role in client experience. In addition, there's a big dispersion in the speeds with which asset managers can respond.”

Head of Fund Research, Wealth Manager

We were told that an important component of good client experience is working with an investment manager that **shares material information and data proactively**. Proactive sharing of material information increases transparency around the factors that are relevant to investment performance, and this in turn helps the client to make better-informed decisions. Also, when a manager shares ideas proactively, the client sees the manager-client relationship as a joint endeavour.

On the other hand, withholding material information from the client is a poor experience. One wealth management client recalled a time when he was not told about two analysts leaving a fund: this was a poor experience because it was a material item of information and he felt uninformed when this news eventually did break. Allied to this, clients said that it is important for managers to use a communication channel appropriate to the gravity of the message. For the most important information, there is no substitute for a timely telephone call.

A key concern is the **speed and efficacy of an investment manager's responses to issues and challenges**. Our interviewees see this as an indication of both how well-organised the manager is, and how well it knows the client. Clients appreciate it when the people they are dealing with are empowered to solve problems quickly.

“Responsiveness matters. How the investment manager responds when something goes wrong is important. This gives you a good insight into how well organised the manager is, and how well the manager knows you. We had an issue and the manager effectively put a SWOT team on it, talking to us and reassuring us that the issue was being put right.”

Group Pension Manager, Pension Scheme



Know me

Several interviewees said that it is a good experience when an investment manager **demonstrates an understanding of the client's business**. This engenders confidence in the manager's ability to recommend and/or build the best products for the client's needs. The opposite is also true. When an investment manager shows a lack of understanding of the client's business, this undermines credibility and worsens the experience. One wealth management client illustrated this point by recalling how certain investment managers had recommended a type of fund that his firm manufactures in-house.

“Managers have been very in tune with what we’re trying to achieve. This is positive for client experience.”

**Investment Proposition Manager,
Defined Contribution Pension Provider**

In addition, understanding the client's business means that time-wasting is less likely. One investment consultant cited cold-calling and unnecessary emails as examples of poor experience stemming from not knowing the client's business well enough.

Allied to this point, clients with end investors said that they appreciate dealing with investment managers that demonstrate an **understanding of their end investors**. This is a feature of good experience because it gives clients confidence in the manager's ability to recommend and build successful products. An interviewee from a defined contribution (DC) pension provider said that his experience of managers had been partly shaped by their understanding of the costs and operational constraints in the DC market. He recalled how, in the wake of pension freedoms, investment managers and banks developed annuity-like products that were innovative yet too expensive for DC savers. Being recommended these products was a poor experience because it revealed a lack of understanding of what would work for end savers in the DC market.

Clients like having **senior-level relationships with their managers**. This demonstrates commitment on the part of managers. One wealth manager based outside London reflected that few CEOs from investment managers visit his firm despite this being expected.

“A good experience, for example, has been dealing with investment managers. They’ve provided us with access to their top people.”

**Investment Proposition Manager,
Defined Contribution Pension Provider**



Long termism

Interviewees commented that a **long-term approach to sales**, as opposed to a more short-term and sales-led approach, is a positive factor. Most obviously, a long-term approach to sales builds trust in the manager, which in turn helps to demonstrate the value the manager is delivering.

In addition, a long-term approach builds credibility in the manager because it demonstrates an understanding of the strengths, weaknesses and suitability of different funds. In contrast, according to one interviewee, a sales-led approach in which all funds are pushed equally hard can signal a degree of naivety in the salesperson.

“Sales behaviour for the long-term is key and providing the ability for investment manager and client to have a multi-year relationship matters.”

Head of Funds, Global Bank-embedded Wealth Manager

Closely linked to this point, the people we spoke with commented that a **transparent relationship** with investment managers is a good experience because it builds trust. This issue can arise when clients judge how well relationship and portfolio managers respond to questions; receiving open and direct responses to questions is a good experience.

“Once appointed, the client experience comes down to the strength of the relationship. Openness is very important.”

Head of Division – Investment Development, Wealth Manager

Clients said that maintaining **long-standing relationships between their people and their opposite numbers** at investment managers is a good experience because it fosters confidence. Clients recognise that it takes time for salespeople to develop a deep understanding of their firm’s products, and the firm more broadly. However, once this understanding has been achieved, clients become more confident that the manager’s salespeople will select and recommend the best products for their needs.



Clarity of purpose and communication

Clients and investment consultants agreed unanimously that another aspect of good experience is receiving a **description and explanation of portfolios, products and processes that is clear and easy to follow**. This helps to build the client’s understanding of the investment manager’s value proposition and to set the right level of expectations. In turn, this has a large impact on the experience once the manager has been appointed. With expectations calibrated at the right level, the client is less likely to be disappointed by performance. In addition, being unable to follow an investment manager’s explanations of key points can be frustrating for clients.

An issue linked to the simplicity and clarity of explanations of key points is **defining an edge**. Interviewees commented that many managers appear similar and struggle to define their edge or point of differentiation, which is central to picking a manager.

“Managers can struggle to define their edge – in other words their point of differentiation – and this dents the client experience. All managers say that they’re long term investors. Managers are brilliant at this, they can clearly demonstrate that they are different.”

Head of Fund Research, Wealth Manager

Finally, two interviewees raised the specific issue of **transparency of fees**. They stated a preference for market-standard (i.e. flat) fees on assets under management, rather than more complex and harder-to-understand performance-based fees.



Partnership approach

Some of our interviewees indicated that they are looking for a partner that is willing and able to **transfer knowledge and insight**, in addition to managing investments. One client said that a large part of the value proposition of an investment manager is knowledge, adding that this matters more in insurance investment management than in other client segments. Insurance investments are managed for income, which means there is less scope for investment outperformance through capital gains. Clients who seek this kind of partnership approach would like to work with investment managers who can speak on broad range of topics.

“Finding a partner is key – someone who is willing to work with us. We like investment managers with credible experts who can speak on topics of interest – things like public policy. Managers are great on this. They have a warm body in the firm who can speak on just about anything, from smart-beta to factor investing to tax to insurance regulation – and this kind of expertise is helpful.”

Vice President, External Managers, Insurer

Interviewees said that clients are interested in forming **strategic partnerships** where the manager services the client across a range of needs (e.g. multiple investment classes). This is a good experience because the client can benefit from economies of scope from multiple investments with a single provider. In addition, there is a better alignment of interests between manager and client than with a narrower relationship.

Some clients want an investment manager to work with them to build **customised solutions** and see close partnerships as the best kind of relationship for achieving this. In such cases, close partnership is a good experience because it builds trust and credibility in the investment manager’s efforts to build a client-specific solution. Conversely, dealing with a disengaged manager is a negative experience.

“Dealing with managers has felt like a dual partnership. Conversely, we had one manager offer us something off the shelf then come back with something more tailored to our requirements only when he found out other investment managers were in the hunt.”

Investment Proposition Manager, Defined Contribution Pension Provider

Interviewees gave us extensive and detailed feedback on their experiences with investment managers. This feedback demonstrates that CX is a broad topic, covering a diverse range of areas from operations to sales approach to strategic partnerships. However, across all seven drivers of CX that we discussed with clients, we observe that at its most fundamental CX is influenced not just by what managers do, but also what they don’t do, the behaviour of their people, and the timing of interactions between managers and clients.

Investment management client experience: A framework

So far we have presented client feedback as seven drivers that clients believe have a material impact on their experience of dealing with investment managers. Clearly, this feedback should be of interest to investment managers. So what should they think about this feedback, and how should they make sense of it?

To answer these questions, we provide a framework for investment managers to think about client experience. Within this framework, some of the seven drivers have an immediate and direct impact on interactions with the client. Others are more long-term and strategic, impacting relationship-building and alignment between managers and clients. Given these differing time horizons, we suggest that there is a sequence in which to address the drivers of CX.

To provide clarity on this point, we group the seven drivers into three levels, which we refer to as 'Do', 'Deliver' and 'Differentiate'. Put simply, client feedback shows that it will be hard for managers to build a high quality client experience that is differentiated, unless they can execute the day-to-day aspects of the client-manager relationship well, even if this goes unnoticed until something goes wrong.

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Do

The first level concerns doing the basics well and avoiding operational friction. Its significance is that clients consider these aspects of their interactions with managers to be fundamental but unremarkable. If a manager executes poorly at this level, the experience slips into negative territory. However, because good execution is something that is expected, when it is achieved the client experience is likely to be neutral.



Deliver

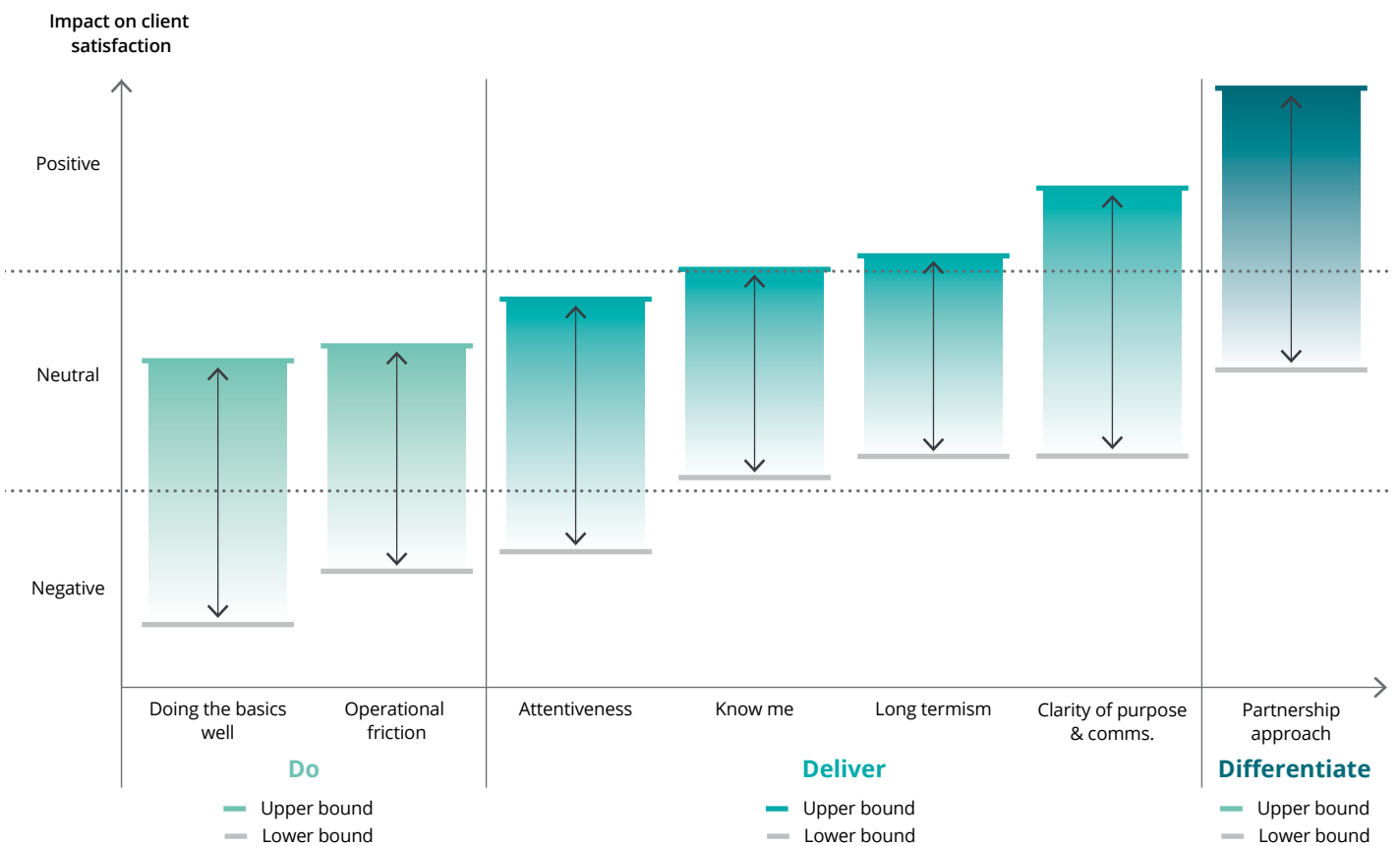
The second level is broad and covers four main drivers of client experience. These are being attentive, knowing the client, adopting a long-term approach, and being clear about purpose and communications. These are core aspects of the experience with the manager that clients expect to run smoothly. If they are executed poorly, the experience could turn negative. In contrast, if they are executed well consistently, there is scope for enhancing the client experience.



Differentiate

The third level has the greatest potential for improving the client experience, but is the hardest to execute. Virtually all the clients we interviewed became animated when discussing how managers could operate more effectively by adopting a partnership approach. They would like, but do not expect, to forge partnerships with select investment managers that are characterised by a deeper level of co-operation than is generally found in client-manager relationships. If a partnership approach is executed well, this is a strong positive for client satisfaction (Figure 2).

Figure 2. Investment management client experience hierarchy



The CX hierarchy

As a final observation, we suggest that these levels are not discrete and are in fact cumulative. Clients think that it is hard to develop a partnership with their investment managers when the relationship is at a lower level, characterised by operational difficulty and other frictional interactions, a lack of attentiveness, or when managers display an extremely short-term outlook. Therefore, investment managers need to **Do** the basics well and **Deliver** on the core of their relationship, if they wish to develop a **Differentiated** long-term partnership with their clients.

Implications for investment managers



The investment management industry is increasingly competitive, and although margins are still healthy relative to other industries, they are starting to reduce. In addition, managers are developing new capabilities such as solutions and real assets. Against this background, what are the implications of our CX research findings for investment managers?

First, investment managers should recognise that it is essential to do the basics well but this **requires investment**. Areas of potential friction with clients get in the way of building a positive relationship and, during periods of performance challenge, these frictional items create additional 'noise'. In addition, the ability to be operationally sound and reliable is a fundamental platform on which to build a strategic relationship. At a time when margins may be under pressure, and there are front office demands on investment, **managers should not neglect the investment needed to deliver a good client experience**.

Second, clients have given feedback about the seven drivers, which relate to skills and capabilities across the entire investment firm. Functionally areas such as operations, client service and sales are impacted, but other less visible areas such as the technology underpinning the client relationship are also affected. This re-confirms our view that to excel in client experience at the highest level, **a whole-firm approach** is required.

Lastly, in addition to having implications for investment and building capability, client experience is, as much as anything, a cultural issue. Firms should make it part of their DNA to deliver a positive client experience and ensure that it is not just the responsibility of sales and client service or client operations staff. **Building a culture for a positive client experience should be a continuing priority at the highest levels of the firm**, permeating everything that the firm does. Only then will it have a lasting influence on both operational and strategic choices of the firm.

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