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Standard Life Wealth: BITA star

Transformational times: How Standard Life Wealth and BITA risk have grown together

case study

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Transformational (and testing) times – How Standard Life Wealth and BITA risk have grown together

BITA star with monitor deployed across 5 offices (as at 31.12.13) serving approximately 3,500 clients with 8,500 actual accounts, totaling some £5.8bn assets under management (as at 31.12.2013).

Amid the financial crisis, 2008 may not have seemed a particularly auspicious time to launch a new wealth management firm. Yet in just six years Standard Life Wealth has acquired £6bn in assets, another business and a clutch of awards for discretionary investment management. Clearly, chief executive Richard Charnock has hardly stopped for breath since taking on the task of launching a wealth management subsidiary for Standard Life Investments neither, however, has BITA risk, which has been supporting the firm's suitability monitoring since the very start and growing in lock-step with the rapidly expanding wealth manager.

This mutual growth has been key to the success of the partnership, according to Charnock. Referring to the acquisition of Newton Private Clients towards the end of 2013, he explained how the deal "tripled the assets of Standard Life Wealth overnight" and as a result "BITA risk has had to really step up and grow with us." But supporting Standard Life Wealth with suitability assessment and portfolio monitoring through its expansion drive has been about far more than scale alone.

Like several of BITA risk's clients, Standard Life Wealth's investment proposition is somewhat unusual. Along with a relative return offering described by Charnock as the "Conventional" approach, there is "the original Standard Life Wealth proposition"; a Target Return strategy which is based on a reconfigured version of Standard Life Investment's Global Absolute Return Strategies Fund. This, Charnock says, is "unique in the marketplace" and currently accounts for around a third of the firm's client portfolios.

Reconfiguration

ITA Risk was therefore asked to extensively reconfigure BITA star for risk profiling purposes) and BITA monitor (for portfolio monitoring against mandate) to accommodate two very different investment propositions. And, as Charnock is quick to point out, BITA risk has been very accommodating indeed.

One suspects it's not very often that a C-suite executive expresses a degree of sympathy for a technology vendor, but Charnock is candid about having "pushed BITA risk really hard" over the years. Getting the two investment propositions to run alongside each other has been a development challenge – and that's before the Newton Private Client portfolios (which invest in traditional asset classes using a global thematic approach to security selection) were added into the mix.

Charnock explained that a lot of the challenge stemmed from the fact that when you plot the Conventional and Target Return investment strategies on the risk map the former tends to display higher returns, but with commensurately higher volatility. BITA risk's software therefore had to be reconfigured so it could select the right blend for each client – no mean feat, as Charnock pointed out. "The system had to be configured according to how clients are grouped. It had to be able to be able to give an aggregated risk position across portfolios and that wasn't

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actually what it was originally built to do," he continued.

Another big task has been reviewing the clients acquired from Newton Private Clients, applying the BITA risk process. This "put quite a lot of strain on the system", but was necessary so that Standard Life Wealth could be satisfied that everything was up to the appropriate standard, said Charnock. He stressed, however, that the BITA risk portfolio assessments have mostly had the same outcome as Newton Private Clients', as the due diligence performed before the deal indicated would be the case.

Standard Life Wealth's original Target Return portfolios are currently running at around 98% suitability adherence and the firm is not expecting a significant drop on this for the combined business (other than what can be accounted for by the fact that - by their nature - Target Return portfolios tend to be a close match to risk profile). Interestingly, Charnock believes there might be a time when BITA risk-style portfolio assessment could form part of pre-acquisition due diligence (if issues like contacting clients could be ironed out). Indeed, if another acquisition were on the cards, he said he would "try to find a way to do it".

Being able to check portfolios really are in good shape before buying them is perhaps a development acquirers can look forward to in future. For his part, Charnock is focusing on the benefits independent suitability assessment and risk monitoring are delivering today.

The comfort factor

For Charnock, it is hard to underestimate the comfort an organisation like BITA risk provides. As he points out, the regulator's 2012 thematic review of suitability was a real shot over the bows of the wealth management industry, since 90% of the institutions in the sample were found to be posing a medium to high risk of causing client detriment. With the threat of regulatory censure looming so large, management teams have to be ready to be challenged on suitability. "We know that we can simply display the BITA risk record," said Charnock. "That means I can sleep at night."

Amid the ever-increasing scrutiny of wealth managers, Charnock sees BITA risk-style oversight as something firms simply have to put in place. "If you're going to come out of a visit from the FCA well, this is really what you need," he said. "It's hard to imagine how a business like this could have a deep and consistent risk assessment process without a proprietary application to do it for them."

Charnock concedes that there are more providers like BITA risk around today than when Standard Life Wealth was launched. But he believes he would still make the same choice today because of BITA risk's tools and capabilities across the client lifecycle, and the fact that it is designed specifically for private clients. He also highlighted that BITA risk's founder, Daryl Roxburgh, was formerly an investment manager. "With the big vendors you're probably talking to a software person, but with BITA risk you're talking to a practitioner who used to manage clients and who has all the technical knowledge," Charnock said, adding that this is a "big difference" which has made configuring the software to suit his firm's model considerably easier (if not easy).
Heightened regulatory scrutiny is driving massive technology investment across the industry. Today, there are probably very few firms which are not embroiled in some kind of technology upgrade and it is safe to assume that management teams are living through what we might call "interesting times". But amid this technology turmoil, Charnock wants to strike a more positive note: he believes that the industry needs to remind itself that the spotlight on suitability is not about regulation for its own sake. Rather, it is positive client outcomes and professionalism which are at stake.

"Clients are entrusting their wealth to you and they are telling you they want it to perform in a particular way," he said. "You might be Warren Buffett, but unless there's an empirical framework in which you're going to operate - which you've agreed with the client and which determines risk appetite - then I don't think you're doing your job properly. For me BITA risk is a tool to help professionals do their job expertly."

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