

SEI invests \$300m in a global wealth services scheme

Chairman Al West knows it is all about goals and results, writes Mike Foster

As a billionaire, Al West, chairman and chief executive of SEI, a provider of outsourced asset management systems, has learnt to be suspicious of what he calls "silos advice syndrome".

Apart from having a 20% stake in US-based SEI, he sets out to keep his portfolio simple by restricting his other investments to real estate. "But then estate planning came in. I had to hire accountants, lawyers and insurance advisers," he said. "They all arrived with their own points of view and everything became complicated."

West, a graduate in aerospace engineering, started SEI in 1968. It began life as a consulting business but he developed ways of using computers in fund administration and never looked back.

He went on to realise that SEI could build systems to co-ordinate the affairs of wealthy individuals, who use an average of six advisers to manage their affairs.

It is investing \$300m to get a global wealth services initiative up and running. It amounts to one of SEI's boldest innovations since it started offering multi-manager investment products to institutions in 1985. It divested its consulting business nine years later.

HSBC's UK private bank is the first client to convert to the global wealth services product and SEI expects to sign more clients. The system has the capacity to administer portfolios worth trillions of dollars.

As part of the deal, SEI trains clients in the ways they can use its platform. SEI could develop a shared advisory service with third party clients in areas such as estate

planning. West said: "That amounts to a gleam in our eye. But we employ wealth advisers to look after ultra-rich clients in our own right and we can use their skills in other ways."

West reckons the biggest issue facing wealthy individuals is finding ways to energise their lives through new jobs and tasks. Time-consuming meetings with accountants and lawyers are rarely a priority. He said "Everything boils down to 'do I have enough' for my wife, my family, my retirement. From that point, it's all about lifestyle and philanthropy. Putting together goals concerning what needs to be done, now and later, and what people want to do, now and later."

He points out that professional advisers have specific skills and end up trying to achieve their objectives, whether or not they are in the interest of clients.

"Estate planners would devote themselves to saving tax. An investment manager would want to supervise portfolios. Private banks go right for the jugular – they want your money."

West reckons wealthy individuals need relationship managers to provide a balanced service: "They should be like interns at the Mayo clinic, who take clients on a tour of different specialists to find the best solution to a complaint, listening to surgeons, who like to perform operations; pharmacists who believe in drug treatments; and psychiatrists who reckon it's all in the mind."

He said relationship managers should establish goals with their clients, taking account of income and net worth to avoid irrational behaviour: "I'm not sure I should

say this but I've often found that women are exceptionally good at that."

West reckons men should discuss priorities with relationship managers and their wives: "We often get them to lay out cards depicting goals alongside their wives, and generally we discover that their goals are totally separate. The discussion that follows is pretty valuable."

Once goals have been established, client financial affairs end are entered on the global wealth services platform. Unexpected changes in lifestyle or expenditure are registered as they occur, so individuals can see the impact on wealth and lifestyle targets.

West argues that through a computer-driven approach the co-ordination of decisions with accountants, lawyers and other advisers becomes more effective and less expensive. Irrational behaviour is avoided.

West said: "You may suddenly need to spend \$50,000, for example. Our systems can, through various accounts, show which asset sale is tax effective. We can show how this affects asset allocation and currency exposures. We can even use quantitative tools to show whether this is a good moment to sell a particular asset, although we have found that most wealthy individuals like to take third-party investment advice on that."

The system can also show when the expenditure of a large sum might make the creation of a new tax domicile desirable. Alternatively, it can show when taking out a loan makes sense.

The best choices are thrown up at the flick of a button, "which is

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much quicker than the traditional way of going about things, where advisers work through lists of assets to see which changes need to be made.”

At the outset, it takes time to log forward-looking data onto global wealth services but West said the exercise helps private bankers to realise how important a client can become. “You can end up with an expectation of \$30m instead of the \$5m you are looking at right now”.

He said that once data has been compiled, wealth advisers end up with more time to serve clients effectively: “They become more fulfilled.”

It is too early to assess the effectiveness of SEI’s new system. But, according to a recent survey by ComPeer and WealthBriefing, improvements in private bank administration platforms are overdue.

The survey shows that 33% of advisers say existing platforms are less than satisfactory. About 41% rate them as no better than “quite satisfactory”.

West said that private banks that

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use his system have a better chance of retaining business when advisers decide to leave. This could at least ease the war for talent that has broken out in the wealth management sector.

SEI has introduced its system in Europe with a view to rolling it out globally eventually. It covers 19 currencies and 12 countries and is compliant with local tax and regulatory regimes.

Joe Ujobai, private banking exec-

utive vice-president, said: “If you look particularly in the UK and Europe, most private banks are being run on legacy platforms that are generally fairly old.”

“I think what has happened is that as these private banks have grown over the last several years, the way they have solved a lot of their infrastructure problems is by hiring more people. That’s not a very scaleable model.”

Global wealth services is built on a discretionary, rather than an advisory, model. For its service, SEI aims to charge fees based on assets under management. “Our interests need to be aligned with our clients,” said Ujobai. SEI believes it will be able to convert private banks which use its multi-manager investment products and other systems.

Turnover from its wealth management offering rose 10% to \$100m in the quarter ended June 30, although profits fell 13% to \$19.2m, reflecting the cost of putting together the new platform. Group pre-tax profits rose 32% to \$112m in the period.