# BCG areas for action – part 1: the spirit, not the letter

*Do you allow yourself to be restricted by the letter of regulations, or do you allow yourself to be inspired by the spirit of them? How you answer this question will ultimately determine the difference between failure and success. By Kees Stoute*

This month, The Boston Consulting Group (BCG) issued its annual report on the wealth management industry – Global Wealth 2016, Navigating The New Client Landscape.

Based on the firm's extensive research, it defines three areas for action by today's wealth managers:

1. Tightening regulation
2. Accelerating digital innovation
3. Shifting needs on traditional wealth-based client segments

In this article – and for two subsequent ones – I will comment on these three action areas.

## REGULATORY-LED CHOICE

The BCG report clearly points out that regulators, in general, aim to increase transparency in products, prices and processes with the ultimate goal to strengthen investor protection.

A good and interesting illustration of this development is the US Department of Labor's fiduciary rule, which will take effect over the next 12 to 18 months.

It will require financial advisers to handle retirement accounts in the best interests of their clients and not according to the advisers' own profit goals.

Regulatory intervention since the financial crisis has led, among other things, to:

- Suppressed revenues (eg. as a result of the ever-tightening transparency and suitability requirements)
- Increase in expenses (eg. as a result of additional investments in compliance, risk management and IT)

In other words, the regulator has made our lives very difficult. That is, if you intend to stick to the usual way of working.

Why does the regulator make it more difficult to continue to make money with low value-adding transactions that are focused on the short and medium term?

The answer is surprisingly simple: they make it so difficult because they don't like it.

Every practitioner has two choices when it comes to regulations:

1. Continue what you have always done, whilst ensuring that you won't breach the new regulations
2. Understand the trend and re-align your business going forward with where the future opportunities are

The advocates of the first choice (the majority, it seems) end up frustrated and perceive regulation as an obstacle to happiness. Those who take the second option are the ones who realise that the relationship manager-centric model is no longer viable (and is increasingly commoditised).

They will include broader advice, encompassing lifestyle choices and long-term financial objectives. They will add value to their clients, which means that they contribute to improving the quality of the life of their clients.

Where do you stand in this discussion?

Are you trying to stick as much – and as long – as possible to your old ways of working, whilst grudgingly abiding by the letter of the rules and regulations?

Or are you acting in alignment with this irreversible trend by (gradually) developing yourself into a truly value-adding, lifestyle-focused adviser?

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