



CLIENT CORNER AND NORTHSTAR NEWS

HOW FINANCIAL SERVICES FIRMS DEPERSONALISE CLIENTS RATHER THAN CREATING A CULTURE OF CARE

By Lian Lubbe (Client Servicing Manager)

We have spent time studying how the financial services industry is grappling with the needs of clients and where this requires change to services rendered. This article shares what we gleaned from this exercise and how Northstar is working to improve our client offering.

In the world of financial services, most companies compete by selling an intangible product. Banks sell the safety of a client's deposit whilst asset managers offer the prospect of investment performance. Companies in financial services cannot compete with the likes of Apple where cell phones and laptops provide the user with an identity and an instant "feel great factor". BMW's latest sports car usually delivers instant pleasure, enjoyment and status. Not so for a unit trust or share purchase!

The nature of dealing with clients in financial services, more specifically asset management, is far more relational than transactional, the offering also has many parts that are not visible and unfortunately, instant happiness is simply not on offer.

With this in mind, investment firms need to work that much harder at building trust, part of this is driving investment competency that delivers long-term returns, part of which is acting morally and honestly in a client's best interests. When acting as the custodian of an investor's hard-earned savings, client centricity is the alpha and omega, and the overall client experience must be exceptional.

An evolving environment with challenges

This is of course easier said than done! Asset managers globally and in South Africa face margin pressure across the value chain: the industry is characterised by a challenging operating environment, numerous regulatory changes, evolving demographics of investors and rapid technological change.

Over time, as companies have faced these challenges, an inward focus has taken hold in the form of operational efficiency and product, rather than client experience. Client perception studies reveal the deficit in client experience between financial services and other industries – other services have long ago realised the importance of placing the client at the centre of the relationship! Most asset managers, when asked "what experience do you want to create for your clients?" are not able to articulate the more emotive aspects of the experience. Client experience includes all the rational, emotional and sensory aspects of interactions that a client has with a company and its brand. It is often not about how a client feels about the brand but

much more about how they feel about themselves in an interaction with the brand – does the brand represent and understand what the client holds dear?

In a recent article by Deloitte (Wealth Management Digitisation) evaluating the impact and importance of technological change impacting financial services, Deloitte highlight that clients simply do not care about regulatory issues or outdated "legacy" systems that firms have to deal with. Ultimately, it is up to each business to keep the client's experience front-of-mind in all its endeavours: quality of service, availability of tools, suitability of products and overall support to any of their financial needs.

Companies tend to underappreciate the value of consistent, reliable and thus an excellent customer experience. This is more than evident from scanning "Hello Peter" – the website provides clear and damning evidence of the dire state of client service in the financial services industry in our country.

Deloitte's research highlighted that what matters most to customers is efficiency and speed of service coupled with friendly and knowledgeable employees. Most importantly, customers stated that they would go elsewhere when they lost trust in their investment firm of choice.

Getting to the crux of client experience

So what do we need to do at Northstar Asset Management to engender your trust? In our view, we see the following as critical in this regard:

- In our strategic thinking, ensure that our business goals are consistent with your interests - our aim is to be the "best and not the biggest firm", we believe, this aligns your interests with ours. The comings and goings of clients in a behemoth firm has little impact on the future of that firm. We never want to get to a size where a client's decision to join us or a client's decision to leave us, means little to Northstar!
- Act honestly – Northstar does not own any other business other than an asset management company. This focus does two things, it makes us experts in one area in the interests of our clients and it ensures that we are not conflicted by earning "other commissions and fees" such as stock-broking fees that are earned by many of our competitors. We see conflicts around multiple fees as an issue in our industry in which we refuse to participate.
- Invest in research – maintaining our own research

team makes Northstar significantly less profitable than firms that have chosen a different approach. However, our clients expect us to be deeply knowledgeable on the investments we make on their behalf – this is only possible with detailed, clear, proprietary research. After 6 years of hard work, we have built competency in terms of both our South African and offshore research – this has helped us avoid Steinhoff and the Resilient Group of companies. Research competency will drive our ability to produce sound returns in the years ahead and in so doing, will create trust with our clients.

- Invest in client service – we have employed numerous high quality staff, their only function is to support the needs of our clients.
- Invest in technology – our team has been working for three years to introduce technology that we believe will improve all interactions that you have with our firm. This will be launched in 2018.
- Choose the right clients – Seth Klarman from Baupost superbly articulates his view on clients: “We have great clients. Having great clients is the real key to investment success. It is probably more important than any other factor in enabling a manager to take a long-term time frame when the world is putting so much pressure on short-term results”. Although not often spoken about, good managers of money need to be careful when taking-on clients. Like Seth Klarman and his Baupost Group, at Northstar we also have great clients! Consequently, we owe it to our Northstar clients to avoid new clients that sap our energy, that do not understand long-term investing and thus prevent us from working hard on research to generate market-beating returns.

In conclusion, we appreciate the gravity of the role we play in your investment journey. Yes, it involves managing money properly, but equally important is offering you a quality service to build and sustain a relationship of trust. Our action plans are very clear in terms of delivering in this regard, they emphasise investing in relationships, personalising every interaction and ensuring that our own efficiency and performance become hygiene factors in a highly competitive landscape.



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