WHAT'S NEXT FOR PRIVATE BANKING?

AN INDUSTRY CAUGHT BETWEEN TRADITION AND NEW TECHNOLOGY

partners for change
Competition is fierce in the private banking industry, and not just at the level of individual banks. Whole groups of players, such as the ones below, are trying to muscle in on what was traditionally their neighboring segment’s territory. We explore the dynamics at play.

LIFESTYLE PLATFORMS
Lifestyle platforms—the Amazons, Googles and WeChats of this world—are threatening to eat into the retail banking segment.

Besides offering an unconditional customer focus and the very latest technology, some of these mega-platforms engage with customers on an emotional level. This makes for a winning combination of reach and customer loyalty—something that private banks should also aspire to.

RETAIL BANKS
Retail banks have long been eyeing up affluent and private banking clients, with some first movers in Asia already edging themselves into these markets on the back of superior technology. This is a real threat for private banks.

But retail players are themselves at risk of losing their share of the pie to lifestyle platforms bent on expansion.

PRIVATE BANKS
Private banks risk being squeezed by retail banks and lifestyle platforms. Fortunately, they have two key things in their favor.

First, their clients’ needs differ from those of retail banking clients. And second, the wealthier the client, the more concerned they are generally about privacy, which makes them less likely to be tempted by banking offers from mass lifestyle platforms. Could the answer lie in private banks creating their own platforms—ecosystems that integrate analog and digital elements?
In an ever-changing world, your best bet is often to expect the unexpected.

This conclusion from our 2018 Core study on private banking applies more than ever today. The wealth management and private banking market remains marked by fierce competition between individual players. This competition could become even stronger as digitally-savvy retail banks enter the wealth management market with compelling digital value propositions, courting affluent and private banking clients—a trend already visible in Asia. At the same time, digital lifestyle platforms are threatening to steal market share from retail banks, including in the wealthy client segment, with the result that private banks could soon see themselves under pressure from both sides. This is a market where things change at breakneck speed and the road ahead is full of hidden potholes and unexpected turns.

To get a better hold on what is going on, we spoke to more than 20 industry insiders in Singapore in preparation for this study. Why Singapore? Because the wealthy island city-state is home to a market that many working in private banking in Europe see as an indication of the way forward. The picture that emerges—presented on pages 4-7—is one of an industry that is waking up. The initial digital euphoria led to great investment and numerous technology-based initiatives. Some were successful, but many failed. The excitement has now died down and players no longer believe that the sky is the limit. Lessons have been learned, integrated technological solutions have become a must, and a new focus on digital convenience, effectiveness and empathy is emerging.

The problem that many private banks face is that they have no reliable way of telling which technology-based initiatives will deliver real value and which will fail to take off. In response to this perceived need, zeb has developed a tool that can help with this crucial task—see pages 8-9 for a description of the tool and some examples of how to use it in practice. For a first-hand perspective of the industry, we also interviewed Nick Hungerford, visionary founder of Nutmeg, the leading online wealth manager based in the United Kingdom—see pages 10-11. He tells us about how he views the wealth management market, the role of next-generation roboadvisors and digital wealth management platforms, and whether he believes the days of human interaction are over.

Intrigued? Read on for our view of where private banking is headed and to find out how you can best navigate the winding road ahead.
WHAT’S NEXT FOR PRIVATE BANKING?

In last year’s Core study entitled Private banking in a digital world, we looked at how digitalization was set to change the industry. The many innovations and new technologies, from Big Data to machine-learning and artificial intelligence, were forcing industry professionals to reassess what clients really wanted. We advised those professionals to take stock of what was going on around the world, especially in technology-forward Asia, and try to understand the implications. Digitalization, we argued, was about to turn the world of private banking on its head and players needed to take action.

It seems they were listening. The industry has been gripped by digital euphoria, with wealth managers around the globe spending hand over fist on digitalization. Initiatives have centered on using digital technology to increase transaction speed (better processes) and provide greater convenience for clients (tools and services)—from digital onboarding and chatbots to entire digital wealth management platforms. The graphic below shows just a small sample of such initiatives.

To find out what the current state of play in private banking is, zeb interviewed more than 20 industry insiders in Singapore for this study. Our conclusion? The euphoria in the industry has passed. Many of our interviewees stated that they had tried out a multitude of initiatives and developed a range of tools and applications. Some of them were successful, others were disappointing. But the most worrying problem was that they were unable to identify any specific patterns or drivers that caused their initiatives to be successful. With this realization came a more sober approach and a more realistic view of the situation.

A time for reflection

TRANSACTION SPEED

Onboarding PB Clients
Digital Advisory Platform
Al-Based Fraud Detection
White-Label Roboadvisor

CLIENT CONVENIENCE

Video Statements for Reporting
Client Communication via Online Messengers
Digital PB Platform
Client Data Aggregation and Reporting

Innovation Labs/Digital Factories
What have private banking players learned from this experience? Above all, that doing something digital for the sake of it was the wrong approach. Often, the steps that they took failed to add value; in other instances, they were poorly implemented. The result was the same in both cases: mediocre results, with only a few exceptions.

Furthermore, global wealth managers have been reminded once again of the truth of the age-old mantra: the customer always comes first. This must be at the heart of every digitalization initiative, especially in the demanding private banking segment, where misjudging client needs dramatically reduces the chances of long-term success. As illustrated by the graphic above, most of the new solutions introduced by private banks were at a functional level, mainly aimed at improving transaction speed. In other words, the technology helped the bank become more efficient but did not necessarily give the client any added value. Meeting clients' personal and emotional needs, which is what they really value, requires a greater degree of empathy than banks have shown in the past, as we discuss further below.

Players have also found it challenging to ensure internal alignment on actions. Getting everyone on board within the organization, from management and IT to relationship managers, is critical to implementing a successful digitalization strategy. Indeed, these parties should ideally be involved from the very beginning, defining and detailing the digitalization strategy long before implementation begins, and be constantly in communication with each other the process.
EVALUATING INITIATIVES
The problem with any new initiative, especially one that differs from anything that has come before, is how to evaluate its potential. zeb has therefore developed a tool that can help do exactly that (see pages 8-9). The tool provides a framework for assessing solutions according to criteria such as whether it provides a USP (unique selling proposition) for the bank, whether the bank’s relationship managers consider it helpful and, critically, whether clients find it useful. Using the tool, players can score the solution on each of these criteria and then calculate the total, building a solid basis for deciding whether to pursue implementation or not.

WHAT LIES AHEAD?
What does the future hold for the industry? For some time already, we have seen retail banks pushing into the traditional territory of private banks. In Asia, banks are becoming digital powerhouses in the retail space and then using their technological advantage to attack the digital wealth management space. Singapore-based DBS Bank, for example, is winning over digitally inclined wealth management clients with iWealth, an app-based platform with features ranging from traditional online banking and trading to customized research and portfolio management. And where Asia leads the way, Europe may follow.

Other trends are also making themselves felt. Large lifestyle platforms such as Amazon, Google and WeChat are threatening to steal significant shares of the market from under retail banks’ noses. Chinese mega-app WeChat offers messaging, social media, food delivery and bill management, with banking being just one of the many features of the ecosystem. These giant platforms have enormous scale and reach, offering relentless client orientation, low prices and state-of-the-art technology—all areas where many retail banks will find it increasingly hard to compete.

This could be good news for private banks. It looks more and more likely that the mega-platforms will eventually steal much of the retail banking market, removing some of the threat for private banks described above. The lifestyle platforms themselves are less of a direct threat for private banking as clients in Europe generally place considerable weight on maintaining their privacy. They also have different needs to the typical customers of retail banks, who are more focused on transactions and more interested in entertainment; instead, they are primarily driven by the desire to save time—as confirmed in the more than 130 client interviews that we carried out across Europe in 2017, 2018 and 2019.

PRIVATE BANKING PLATFORMS/ECOSYSTEMS
But private banks would be wrong to rest on their laurels. Truth being told, being digital will be little more than a hygiene factor in a few years’ time—whether that means relationship managers using digital tools and data analytics or banks offering digital client solutions and improved transaction speeds. The need for digital prowess will be outweighed by the need for empathy. This goes beyond just understanding your clients’ needs: it means understanding their emotions, too. Private banks and wealth managers must develop the ability to evoke an emotional rather than just a rational response from their clients.

To ensure that they remain competitive, we recommend that private banks follow the example of the lifestyle platforms and start turning themselves into platforms, too. Private banking platforms hardly exist at present, yet many analysts are convinced that “platformization” in general is set to transform the economy over the coming decade.

What might a private banking platform look like? Besides traditional banking and insurance services, such as income statements and transfers, it would offer investment and trading services, such as overviews of clients’ share portfolios and their performance. But it must go much further than this. Working with a network of partners, it should offer services ranging from access to health checkups and fast-track appointments with specialist physicians to online marketplaces for premium products and online blogs on high-end lifestyles. The overriding goal should be to create an emotional bond with clients, based on a combination of access to exclusive banking services or products and
options for networking with like-minded clients. Anything that makes the client’s life more comfortable is a potential service area, helping position the bank as the go-to option for exclusive and unique experiences.

**Banking & insurance**
- Traditional banking and insurance services: income statements, transfers
- Investment/trading services: portfolio overview and performance

**Health & leisure**
- Health checkups: fast-track appointments with specialists
- Leisure activities: premium wellness weekends, beauty treatments

**Events**
- High-end group activities: theater tickets, sailing trips, golf tournaments
- Regular networking events: guest lectures, panels, dinner and drinks

**Exchange**
- Exclusive blog: high-end lifestyle options, banking news
- Quarterly magazine: features on events, special offers, travel

**Marketplace**
- Platform for buying/selling valuable items: yachts, classic vehicles, art
- Partnerships with luxury brands: special offers on luxury watches, etc.

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To help banks evaluate their solutions, zeb has developed a comprehensive but simple-to-use framework. The bank scores the initiative from 1 (unsatisfactory) to 6 (very good) for five different criteria: Does it provide a unique selling proposition? Does it serve the client’s needs? Do relationship managers welcome it? Does it improve transaction efficiency? And is it cost efficient? The bank plots the scores for each criterion on a dartboard and calculates the average. The higher the final score, the more promising the solution.

Wealth managers and private banks can use the tool to evaluate products and initiatives, both those that are already up and running and those that have yet to be implemented. In the latter case, the final score forms a solid basis for deciding whether or not to pursue implementation. Firms can also use the scores as a basis for prioritizing initiatives, implementing those that will be most effective before they turn their attention to others with less impact.
Let’s look at some examples from our experience working with private banks. Use Case 1 is digital client onboarding via tablet. While initially this sounded like a good idea, it turned out that prospective clients actually had to sit down physically with the relationship manager to fill out forms on a specially configured iPad belonging to the bank. This contrasted with the previous, paper-based process, which could be handled by the client without the relationship manager being present. The digital solution led to a dramatic increase in the amount of time that both the client and the relationship manager needed for onboarding, and it scored accordingly low on the evaluation tool.

To take a more successful example, Use Case 4 was client communication via online messenger. The bank had formed partnerships with various mobile chat applications, such as iMessage, WhatsApp and WeChat—apps that clients were using anyway—enabling them to exchange data securely with users. The solution greatly simplified communication between clients and relationship managers and was welcomed by both parties. It was also cost-effective. This is reflected in the initiative’s score of 5.6 out of 6.

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Interview with Nick Hungerford

How is digitalization progressing in wealth management, a traditionally people-centric business?

NICK HUNGERFORD Wealth management lags behind other industries when it comes to digitalization. There are a lot of established players with a lot of legacy technology. For them, digitalization is about improving what they've got and introducing some new functions and features. But there are new players who can build their businesses from scratch on new technology and new systems. The traditional players have the client assets and revenues, the new ones have low costs and fast-moving systems. I really do wonder who has the better of it—as comfortable as the traditionally players appear, doing nothing is not an option for them. The drive for innovation will come—and it will be inspired and driven by customers.

So too many established wealth managers are finding too many excuses to do nothing?

NICK HUNGERFORD One of the big challenges in wealth management is to make sure you're on the right side of history when it comes to digitalization. The beautiful thing about the wealth management market is that it's absolutely huge and has plenty of room for lots of players. Currently, wealth management is essentially a non-competitive landscape. A small number of players hold most of this large market and for them there is little motivation to innovate other than the threat that something (regulator, client, etc.) in the future might change. We know that different people have different needs when it comes to wealth. So, there is plenty of room for new approaches to serve these niches (e.g. robo advice serves the cost conscious). The challenge to innovate is long term, but it is absolutely crucial to understand that innovation is flowing in one direction only. There will be more not less digitalization.

Are robo advisors tapping into new parts of the market, or serving old ones with new means?

NICK HUNGERFORD Robo advice was not created primarily to extend the market to the less wealthy. It was created to serve clients who see value in simple, cost effective solutions. People equate wealth with complexity. But that is not the case all the time. Plenty of young people earn well and yet lead simple lives. They do not need sophisticated private banking services, they want efficiency. Robo advice can also be used by larger wealth managers for specific sub-segments of their business. For example, they could have robo advisors serving children of an established clients, getting them integrated with their brand cheaply and quickly. Digitalization will not be about private banks moving up to the scale to ever-wealthier clients on the premise that that is where the human added value is, digitalization is about providing a more effective, personal and appropriate service to the client at whatever life stage they are in.

What role will robo advisors play in wealth management and private banking in the future?

NICK HUNGERFORD Let's not forget that banks have been selling investment products to different types of clients for a very long time. Take simple funds sold by a bank—when a less wealthy client that is not part of the bank's segment of managed clients wants to invest their money, they have to choose the product themselves, whereas wealthier customers get an advisor to help them with the decision. Banks will increasingly give advice in automated form—anything from "here is what you can buy off the shelf" to "here is what we recommend for you".
So we’ll even see automation in much-touted people business of private banking?

**NICK HUNGERFORD** Digitalization will make the day-to-day tasks of a private banker much simpler. As asset classes become more “data-ized” he or she will see that machines can manage some elements of investing better than humans—shares, bonds, at some point private equity, and real estate. But that will free up the private banker to focus on other matters like financial organization, inheritance or tax and pension issues. Or on things more in line with the client’s preferences—and investing what he or she really cares about. They will be keeping in touch with clients, rather than keeping an eye on standard investments.

**What kind of products and services will be on offer in wealth management?**

**NICK HUNGERFORD** Over the next five and at the latest in 10 years, we’ll have systems that alert wealth managers to next-best actions they can or should take. For example, the machine will know that the client is getting a bonus and will alert the wealth manager accordingly. The banker can then get in touch with the client to talk about ways of allocating that money. There will be more fulfilling conversations about goals and objectives, especially at times of big change for the client, like retirement.

**So communication will remain critical—but will that be face-to-face or by machine?**

**NICK HUNGERFORD** There will still be a real role for human interaction in this new world of data and AI-assisted wealth management and private banking. Benefiting both banker and client, human conversations will be so perfectly timed as to complement a client’s changing situation dynamically. Concerns, wishes and needs will get addressed immediately. As soon as something happens—a market event, a relative passing away—the wealth manager will be there for the client, alerted by their technology and armed with the optimal response, advice or content. Wealth management will be able to cover the wealth curve more comprehensively, serving clients young and old, rich and super rich. The industry needs to take advantage of the opportunities that technology provides to grown business and expand revenues—whilst efficiencies are important, we should not get lost in thinking that technology is all about cost savings. More wealth managers managing larger pools of assets is not a threat to incumbents, it’s a reflection that the industry is growing and becoming more useful to more people—and that is a positive development.
"No one cares how much you know, until they know how much you care."

Theodore Roosevelt, 26th President of the United States