

Operational Excellence (OE)

Take II

A Key Differentiator in Private Banking in the Context of the Financial Crisis

Over the past few years, growth and profitability in the private banking market has been very strong. However, shifting external conditions such as intensifying competition, consolidation, adoption of emerging technologies and ever changing client behaviour, in particular in the context of the current financial crisis, make the future even more challenging and complex. Key changes in behaviour result from a real sense of concern on the private client side, which manifests itself in declining number of transactions, pursuit of security as well as a tendency to invest in simple, low margin products. Against this background, what will it take to grow and sustain revenues while keeping margins at attractive levels in such an environment?

Taking on the Challenge

In order to take on these challenges, wealth management providers (WMP) are pursuing a multitude of differentiation initiatives to adjust to the current competitive landscape. As illustrated below, common strategic differentiators address specific focus areas. Our ongoing discussions with CEOs and Senior Private Bankers confirm that Operational Excellence (OE) remains the most comprehensive and balanced driver of differentiation, addressing the largest number of focus areas.

Strategic WMP focus areas in the context of the financial crisis

Focus Areas (Extract)	Strategic Differentiators			
	Operational Excellence	Customer Intimacy	Product Leadership	Brand Championship
Increase transparency and frequency in communication	●	●	○	◐
Refocus on client risk/return profile	◐	●	○	○
Focus on easy-to-access and easy-to-deal with private bankers, and simplify processes	●	◐	○	○
Enhance pro-activeness and anticipation of client needs	●	●	○	○
Simplify certain products	●	○	◐	◐
Enhance array of products (strive for optimal open architecture realization)	◐	◐	●	○
Reduce # of relationships per RM	●	◐	○	○
Enhance technical and product skill-set of private bankers	●	●	○	○
Exploit potential synergies between IB, AM and PB functions, if possible	●	◐	○	○
Produce more reliable, timely management information (MI), and comprehensive external reporting	●	○	○	◐

Source: Discussions with CEOs of various Swiss based Private Banks (2009); Deloitte Survey "Reconnecting for Profit" (2008)

Relevance ● = High ◐ = Medium ○ = Low

OE in Private Banking

Real Life Success Stories

In our consulting work for leading private banks and wealth management providers we have identified several crucial areas where an increased focus on OE into those areas would lead to skyrocketing operational performance (note: the data varies significantly between the different players, i.e., private bankers, universal banks, cantonal and regional banks). Particularly, these areas are located across the front- and back offices focusing on private client interactions.

OE Area	Rationale	Achieved Benefits
Front Office/Service Model Definition	Some private banks faced the challenge that their service model and the respective underlying processes varied across the firm and client segments. Deloitte supported them in defining a more standardized approach in relation to customer acquisition and customer service, aiming for managing clients more effectively. The more standardized processes in combination with technology support resulted in an increase of customer contacts (CC) via having more effective client facing time (CFT) and therefore enhanced Assets under Management and Administration (AMA).	<ul style="list-style-type: none"> ↑ CFT ≤ 20 % ↑ CC ≤ 10% ↑ AMA ≤ 9%
Front Office/Client Relationship Management	The RMs of this Wealth Management Provider (WMP) had to call off different systems when preparing for client meetings. Against this background we were asked to support in defining more effective availability of relevant customer, trade, and product as well as research information in order to reduce sales planning time (SPT). Hence, this saving in time could be adopted for client facing time (advisory and sales).	<ul style="list-style-type: none"> ↓ SPT ≤ 20% ↑ CFT ≤ 20%
Back Office Services	A Private Bank lacked client centricity, had low STP rate and therefore high level of manual interventions in the back office. The Deloitte team introduced clearly defined and more automated back office processes based on stronger customer orientation principles. This resulted in a significant reduction of error rates and processing time.	<ul style="list-style-type: none"> ↓ Error rate ≤ 40% ↑ STP rate ≤ 20% ↓ Processing time ≤ 40%
Early Warning Client Retention	In this specific Private Bank, over 15% of money outflow was related to client dissatisfaction and inheritance. Deloitte helped to reduce the AMA drain significantly by defining and implementing a professional client retention process covering the following four main intentions: <ul style="list-style-type: none"> • Foster client contact (CC) by accelerating contact with clients at risk • Manage by exception by helping the RM identifying clients at risks rapidly with minimal workload • Widen client prioritization basis by helping the RM prioritize not only according to AMA, last contact date, etc. but also according to clients at risk • Define best processes by providing support retention of clients at risk as well as by providing tracking system for managers 	<ul style="list-style-type: none"> ↑ CC ≤ 20% ↓ Administration time ≤ 10% ↓ Money Outflow ≤ 90%
Performance and Profitability Management	WMPs often struggled to obtain a clear picture of how profitable their business lines, RMs, clients and products were. Our Deloitte team supported them in allocating true costs and revenues according to a 5-level profit scheme (and specific allocation keys) to respective profit centres in order to manage the business more effectively from a profitability perspective. This had a strong impact on client and product selling focus in the different markets with a direct effect on profitability.	<ul style="list-style-type: none"> ↑ Client-facing time ≤ 10% ↑ Bottom line profitability ≤ 10% ↓ Product development and management costs ≤ 15%

Benefit Index ↑ = Increase ↓ = Reduce

The Deloitte Difference

Choosing the Right Combination

In today's complex business environment, it takes a team with the depth and breadth of knowledge like ours to advise clients as well as individuals with strong principles and values to do it the right way. Deloitte consultants bring the right combination of multi-disciplinary experience and core values to deliver insights that help banks unlock the potential of their business.

We combine in-depth industry knowledge and strategic, operational, and technical expertise with proven methodologies and tools to deliver high value advisory services to the financial services industry. We are also fully independent to any technology solution or supplier.

Long-Term Client Relationships

Our strength lies in the successful and hands-on execution of projects with clearly measurable results. We cultivate long-term relationships with our clients and assist them in creating sustainable values. Our client list includes universal banks, private banks, insurance companies, investment management groups and pension plans, finance and leasing companies, merchant banks, securities firms and brokers.

Financial Services/Private Banking Industry Experience

What distinguishes us from our competitors is our in-depth knowledge of the financial, respectively, private banking industry. Our qualified professionals work alongside practitioners and policy makers in the industry to offer outstanding services to our clients.

Global Access – Local Touch

We believe that we perform at our best because we have a local face. Our international network provides access to a wealth of insight, but we rely on local market understanding to ensure the suitability of our recommendations.

Interested?

Our financial services team would be pleased to advise you on how to apply Deloitte's Private Banking Operational Excellence Framework to your specific business. For further information and enquiries please do not hesitate to contact our expert.

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Designed and produced by Marketing & Communications at Deloitte, Zurich 000105_2009