Innovation in Private Banking & Wealth Management
Embracing the Business Model Change
Glossary

Wealth Management
For reasons of simplification, Wealth Management in this document refers to European Private Banking & Wealth Management. Wealth Management is the holistic financial management of wealthy clients (typically with assets in excess of EUR 1 million) and is characterised by personal relationships built on mutual trust and individual advice at the highest level. Wealth Management covers the full process of planning, realising and controlling the wealth of clients, and can go beyond purely financial matters to include social and personal arrangements.

Wealth Managers
Wealth Managers are institutional Private Banking & Wealth Management service providers in Europe, with a focus on business with private clients. They include pure-play private banks as well as Private Banking & Wealth Management units of universal or regional banks.

FinTechs
FinTechs are defined as companies that use financial technologies to support or enable financial services. Typically, they are internet companies that streamline financial systems and make financial services more efficient. Today, there are more than 500 FinTechs active in Europe focusing on business areas such as crowdfunding, crypto currencies, data analytics, insurance, investment and asset management, market information or payments. Given the focus of this document, references to FinTechs exclusively relate to European companies that provide Private Banking & Wealth Management services to private clients or that provide technological solutions to Wealth Managers as defined on the left hand side.
Executive Summary
Executive Summary

It’s about time for innovation in Wealth Management...

Wealth Management has now reached a point where a mind shift has become essential. The profitability of European Wealth Managers has been in constant decline in recent years, with profit margins falling by 40% between 2000 and 2015. During the same period, the market size for Private Banking measured by the bankable assets of European millionaire households has grown by more than 60%. This increasing gap between profitability and market size shows that Wealth Managers are failing more and more to serve clients successfully with their existing business models of an integrated value chain (average industry integration level of above 80%). This suggests that the industry is facing an innovation gap, since industrialisation and M&A – the other two main strategic growth levers – have already been employed for years.

...and the time is about right...

Typically, innovations result from a conscious, purposeful search for innovation opportunities, which are found only in few situations, such as changes in the industry structure, demographics or in the perception of an industry, economic incongruities or the appearance of new knowledge. All these can be found today in the Wealth Management industry. An increasing number of FinTechs active in Wealth Management (+300% in the past three years) is disrupting traditional industry structures; millennials will form 50% of the global workforce by 2020, creating demographic change; and the global regulatory agenda has triggered thereshoring of assets, adversely affecting the prospects for cross-border Wealth Management.

...but ambition is lacking

Innovation ambitions for both Wealth Managers and FinTechs revolve around the existing core Wealth Management business. However, most innovations are a response to existing business challenges, and far fewer exploit opportunities to create value in a new way. Wealth Managers are mainly digitising their traditional business model to reduce their cost base; and FinTechs are either offering digital solutions to support Wealth Managers or are providing digital offerings to compete for digitally-aware private clients. The innovation efforts of Wealth Managers are therefore concerned mainly with industrialisation efforts, and those of FinTechs with disruption: neither are focusing on innovation to embrace a change of the Wealth Management business model.
Enabling innovations that can change the business model...

While eliciting a change of business model typically requires to employ multiple types of innovation with a focus on shifts in the profit model and client engagement, efforts in Wealth Management concentrate mainly on digitising processes and structures in the existing business model. Instead, Wealth Managers could exploit innovation opportunities in a more transformational way by re-designing instead of reorganising their infrastructure (e.g., through Cloud Computing, Open APIs, Orchestrating), deepening their understanding of client needs (e.g., through Social Listening, Instant Client Feedback), identifying new sources of revenue (e.g., supplementary Client Care Services, Digital Security Services) and refreshing their brand (e.g., through Sub-branding, Ingredient Branding).

...requires a shift in the leadership’s mental model...

Innovations come to a halt, or fail, for many different reasons, but most often it is because superficial changes to improve performance are not sufficient to affect a fundamental transformation. Innovation requires change at a deeper level, a change of the leadership’s key beliefs as these typically affect attitudes and culture throughout the organisation. Wealth Management is built around traditional assumptions, behaviours and beliefs about how to create value that drive the strategies leaders deploy and guide their decision-making. These assumptions and key beliefs need to be exposed to the new realities of today’s world and the future, by monitoring trends and their implications, and recognising the urgency and importance of innovation.

...and an effective innovation system

Once the leadership is on board, innovation needs to be formally embedded as a management discipline and the corporate culture needs to be opened up towards divergent thinking. This calls for a systematic change that, based on an analysis of successful leaders in innovation, requires four building blocks to be in place: approach, organisation, resources and competencies, and metrics and incentives. A tailored approach should be built around clear definitions and methodologies for the work to be done in generating innovations, and innovations should be managed as a portfolio. Accordingly, the appropriate talent and capabilities need to be acquired and nurtured. In this context, and as a starting point, Wealth Manager should clarify the role of partnerships.
What we mean by innovation

Often equated with related disciplines such as digitisation, industrialisation and disruption, innovation is a much broader term depending on the creation of value.

Distinct features of innovation

- In the context of a transforming banking ecosystem, **innovation** is often associated with other concepts and disciplines related to change, but their definitions clearly distinguish them:
  1. **Innovation** (as separate from invention) is the creation of a new (to the market or the world), viable (creating value for clients, stakeholders and the organisation itself) business offering (ideally going beyond products to platforms, business models and client experience).
  2. **Digitisation** is the transformation of business activities by the introduction and use of information technology.
  3. **Industrialisation** is the concept of reducing the cost base and re-thinking the value creation process through the elimination of redundancies, smart sourcing, automation and standardisation.
  4. **Disruption** is a process whereby a smaller company with fewer resources is able to successfully challenge incumbent businesses; disruption typically originates in low-end or new-market niches.

- As opposed to digitisation and disruption, innovation is depending on the creation of economic value*; while industrialisation and innovation have this in common, innovation is much broader in its application.

- Disruption can be considered contradictory to industrialisation: while industrialisation is a process for players with mature business models to defend their market shares, disruption is a process for players with new business models to gain shares of the market.

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*Based on the Economic Value Estimation (EVE) model, the economic value of a potential innovation is assessed by (1) its reference value, i.e., the actual price of the next best alternative (e.g., the current state), and (2) the net differentiation value, i.e., the monetary value that a potential innovation creates, either in cost savings or increased income, minus any additional cost that incurs with it (e.g., switching costs).
Wealth Management in decline: an innovation gap?

Despite profitability being on the downturn for years, the Wealth Management business model remained unchanged suggesting today a substantial innovation gap.

Index: Profitability of Wealth Managers vs. market volume, 2000-2020

- Since 2000, the **profitability** of European Wealth Managers has **declined** by nearly **40%** (CAGR of -3.2%) despite market volume **growth** of more than **60%** (CAGR of +3.3%)
- While the **steep decline in profitability** between 2005 and 2010 – accelerated by the financial crisis, changing client behaviour and regulation – has **lessened** in the recent past, the **downtrend** is still **ongoing** substantially irrespective of the **accelerated increase** in market volume since 2010 (CAGR of +6.0% between 2010 and 2015)
- In 2015, the indices for market volume and Wealth Managers’ profitability have **diverged** by more than **100 percentage points** from their individual levels of 2000 indicating that a **low point** for Wealth Management had been reached
- The growing gap between profitability and market volume shows that Wealth Managers are **failing** more and more to serve clients **successfully** with their existing business models – either from a **revenue** or **cost** side, or, even worse, from **both**
- The forward-looking **trend line** (dotted line; based on CAGR 2000-2015) indicates that, should Wealth Managers not **adjust** their **current set-up**, questions whether Wealth Management will still be a **profitable business** in the future will arise

Key:
- Market volume index (2000 = 100) represented by wealth of European millionaire households, 2000-2020
- Average profit margin index (2000 = 100) of European Wealth Managers, 2000-2020
Wealth Management in decline: the end of the core business model?

With the current core business model for Wealth Management approaching the end of its life cycle, there is an urgent and growing need to develop innovation.

Illustration of a business model life cycle

- **Introduction** (entrepreneurial mode): Typically, during the introductory phase, management is in an entrepreneurial mode and willing to take risks, and losses are incurred to grow the business before reaching breakeven.
- **Growth** (adaptive mode): Once growth is established, management is in an adaptive mode, making short-term decisions and being reactive by making adjustments to the business model with the objective of increasing growth and profitability.
- **Maturity** (planning mode): In the maturity phase, management is changing to a planning mode, driving analysis to increase efficiencies and developing strategies to maintain levels of profitability. Ideally, management starts questioning whether the core business model can be successful in the future and develops ideas for a new business model (green dashed line).
- **Decline** (adaptive mode): Once decline has started, only transformational innovations can enable new business models, and adjustments to the core business model will only delay the end of the life cycle (grey dashed line).

As shown on the previous page, the current core business model in Wealth Management (see call-out box on the bottom left for characteristics) has been in decline since 2000. Accordingly, adjustments will only slow down the ongoing decline, while the urgency to develop new business models is increasing and forcing Wealth Managers to intensify transformational innovation efforts.

- **Core business model**
  - Focus on domestic on-/offshore business to affluent and high net worth clients with an international footprint
  - Offering of custody, advisory and brokerage services, as well as standardised and individual discretionary mandates
  - Relationship Manager-driven coverage and service model (as opposed to specialist or desk/team driven model)
  - Limited own-product manufacturing capabilities
  - Highly integrated value chain (average industry integration of above 80%) with complex IT infrastructures
  - Profit model based on client asset volumes

- **New business model**
  - Profit model innovation
    - Once in the decline phase, adjustments to the core business model can only slow down its extinction; this is why there is a growing urgency to develop a new business model on the back of innovations.
Insufficient strategic importance of innovation

The question for an innovation gap can be affirmed when comparing the strategic importance of innovation in Wealth Management with that of other industries...

Relevance of innovation in Private Banking and Wealth Management

• In comparison to other industries, Banking in general is lagging behind when it comes to innovation as both the level of R&D investments and the ranking of banks among the most innovative companies indicate

• This is specifically paradox given the fact that Banking is the second most impacted industry by digital disruptions and thus banks should presumably attempt to overcome this challenge by investing in digital innovations

• For Wealth Management, a business that is traditional-ly based on trust and personal relationships, the back-log in terms of digitisation is even higher than for other banking sectors such as Retail or Investment Banking

• This is specifically alarming as 75% of Millennials – a specifically tech-savvy and growing client segment – would switch their private bank if they found a better alternative

• Considering the fact that the number of FinTechs – firms that on the back of technology-based business models offer digital banking services – has tripled in Europe in the past three years while the number of private banks has steadily declined, which might hint that the creation of alternatives is already underway
Situations favouring innovation opportunities...  In the past 3 years, more than 50 FinTechs have been disrupting the European Wealth Management market with new technology-based business models, while incumbent players held on to their traditional business model relying on personal interaction and legacy systems.

...and their relevance in Wealth Management

- **Industry changes**
  - When changes in an industry structure occur, incumbent players tend to focus on defending what they already have while neglecting smaller, fast-growing market segments and leaving innovators the chance to evolve.
  - In the past 3 years, more than 50 FinTechs have been disrupting the European Wealth Management market with new technology-based business models, while incumbent players held on to their traditional business model relying on personal interaction and legacy systems.

- **Demographic changes**
  - Innovation opportunities created by changes in age distribution, education, number of people, occupations or geographic locations have proven to be among the most rewarding as they represent a shift of needs on the demand side.
  - The generational change over to the millennials is becoming increasingly noticeable; by 2020, they will form 50% of the global workforce and their wealth is expected to double between 2015 and 2020 making them the upcoming key client segment.

- **Economic incongruities**
  - Innovation may arise from incongruities between economic realities, for instance, when the supply side’s assumptions of an industry and its dynamics diverge from the expectations of the demand side.
  - While the wealth of millionaire households (demand side) in Europe has increased by more than 60% between 2000 and 2015, Wealth Managers’ profitability (supply side) has been on the downturn with profit margins falling by 40% over the same period (see p.8).

- **Changes in perception**
  - Changing an industry’s perception from “the glass is half full” to “half empty” can drive significant innovation opportunities; this changed perception drives market participants to reinvent themselves and the way they are doing business.
  - Against the backdrop of a global regulatory agenda the perception of the traditionally offshore-reliant Wealth Management business has taken a turn for the worse; accordingly, Wealth Management Centres such as Switzerland (-7%), the UK (-21%) or Luxembourg (-11%) have experienced a slowdown of new international client assets since 2009.

- **New knowledge**
  - Knowledge-based innovations – whether scientific, technical or social – are what people commonly think of as innovation; however, as ground-breaking as they are, their success depends on the creation of economic value with long lead times.
  - Digital investment solutions such as robo advisers are being picked up by private clients only slowly in Europe with EUR 3bn in assets under management in 2015 reflecting only a fraction of the EUR 18tn held in financial assets by European households in 2015 – a textbook example.

*S Financial assets include onshore and offshore currency and deposits, debt securities, equity, investment funds shares, life insurance and annuity entitlements, pension entitlements and entitlements to non-pension benefits.
Market Intelligence on Innovation in Private Banking & Wealth Management

Approach
Innovation in Private Banking & Wealth Management | Embracing the Business Model Change

Market intelligence approach
Based on a comprehensive view of the Wealth Management industry, we identified 28 unique innovations from Wealth Managers and 11 from FinTechs...

Scope of and approach to market intelligence

- In order to gain a comprehensive view of innovations in the Private Wealth Management industry, we analysed current innovations and innovation trends for both Wealth Managers and FinTech companies.
- For Wealth Managers, we reviewed more than 100 recent reports and surveys looking for implemented, planned or intended innovations in the Private Banking and Wealth Management industry; we found 116 innovations in Wealth Management and of these, 28 were unique innovations; the 10 most prevalent were then described in detail.
- For FinTech, we analysed more than 500 European companies and identified 65 companies that specialise in Wealth Management of which we could identify 11 unique innovations already implemented.
- Innovations of both groups were then compared with each other and commonalities, differences and white spots were interpreted.
- Finally, based on our view of the market and innovations observed in other industries, 13 innovation ideas in Wealth Management were described in an innovation corner.

1) Wealth Management professionals have been surveyed as part of the study “Innovation in Wealth Management” conducted by Deloitte in collaboration with WealthBriefing.
2) Identified innovations were clustered as unique innovations; for example, robo advisers were counted only once as a unique innovation for Wealth Managers and FinTechs despite plenty of research focusing on this topic and a number of organisations offering robo advisory services.
3) Based on the unique innovations, the most prevalent innovations per innovation type (see p. 14) were assessed based on a frequency analysis following the number of mentions (Wealth Managers) and the number of companies (FinTechs) respectively.
Market intelligence approach
...and mapped them according to their Type of Innovation and Innovation Ambition

to create a clear picture of where and how innovation takes place in Wealth Management

Ten Types of Innovation and Innovation Ambition

<table>
<thead>
<tr>
<th>Transformational</th>
<th>Leveraging breakthrough capabilities, offerings, processes and technology new to the industry to enable innovation intended for brand new client segments addressing completely new client needs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjacent</td>
<td>Leveraging emerging capabilities, offerings and processes different from those in use today, more advanced technology being used only in other sub-sectors of the industry to enable innovations that address clients in adjacent markets as well as current clients</td>
</tr>
<tr>
<td>Core</td>
<td>Leveraging existing capabilities, offerings, processes and technology already being used in the industry to enable innovation with respect to existing clients as well as known and current client needs</td>
</tr>
</tbody>
</table>

Innovation matrix
While the innovation ambition represents the overall potential to change the way business is done today ("where to play"), the type of innovation indicates the areas of the business it affects ("how to win")

<table>
<thead>
<tr>
<th>Innovation Ambition</th>
<th>Transformational</th>
<th>Adjacent</th>
<th>Core</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of Innovation</td>
<td>Profit model</td>
<td>Network</td>
<td>Structure</td>
</tr>
<tr>
<td></td>
<td>Process</td>
<td>Product performance</td>
<td>Product system</td>
</tr>
<tr>
<td></td>
<td>Channel</td>
<td>Service</td>
<td>Brand</td>
</tr>
<tr>
<td></td>
<td>Experience</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- **Profit model**: Finding fresh ways to convert offerings into revenues by understanding what clients actually cherish
- **Network**: Identifying how to benefit from other firms’ processes, channels, technologies, offerings or brands
- **Structure**: Organising and aligning talent and assets to create value more productively and effectively
- **Process**: Using unique, superior capabilities and methods to produce offerings more flexibly and efficiently
- **Product performance**: Improving value, features, and quality of offerings incl. new products and product updates
- **Product system**: Connecting and bundling individual offering to create complementary products and services
- **Service**: Amplify the utility, performance and apparent value of offerings to create compelling client experiences
- **Channel**: Rejuvenating how to connect with clients and deliver products and services to them
- **Brand**: Distilling a brand promise that attracts clients and ensures they recognise, remember and prefer the offering
- **Client engagement**: Creating meaningful connections with clients by understanding their deep-seated aspirations
Market Intelligence on Innovation in Private Banking & Wealth Management

Wealth Manager Lens
Focus areas of innovation today: Wealth Managers

Innovations addressed today are mainly configuration and experience driven, and revolve around the core business with only outliers touching transformational ideas.

Today, Wealth Management providers mainly focus their intended innovations around areas that are core (86%) and to a limited degree adjacent (9%) to the traditional business model suggesting the industry is still holding on to its “past days of plenty”.

However, this might be deceiving as Wealth Management is a slow and intangible business characterised by personal interaction and trust, which requires time to be receptive to transformational innovations.

While banks have understood that the digital transformation is inevitable, there is no uniformity with regards to the degree of digitisation of the business, i.e., the right mix of digital and personal interactions.

Accordingly, they have focused on more obvious innovations aiming to increase efficiencies (structure and process) and catching up with digital backlog in client communications (service and channel).

Other areas, however, such as brand eminence or advancement of profit models have remained mainly untouched, while transformational innovations such as the robo adviser are perceived with scepticism.

Detailed descriptions of the most prevalent unique innovations from Wealth Managers are presented in the following.
Most prevalent unique innovations: Configuration

Driven by the continuous decline of profitability, Wealth Managers shift towards value-based pricing models and consider collaborations with FinTechs.

**Value-based pricing models**

- Adjustments of the pricing model are a highly effective profitability lever often used to grow revenues without a requirement for risky acquisitions or large upfront investments.
- Pressured by the steady decline in profitability, banks are planning to make greater use of value-based pricing models aiming for a shift from event-based fees to more performance and advisory fees, and similar to retail banking all-in price models.
- Considered core, performance-related profit models can trigger higher service quality and a revived client engagement in order to meet internally agreed targets.

**Collaboration with FinTechs**

- Collaboration with FinTechs refers to the mutual benefits banks and FinTechs can gain from working together and, thus, combining experience and new technologies.
- B2C-focused FinTech companies stand to gain from access to the valuable client bases of Wealth Managers; Wealth Managers can leverage new technologies of FinTechs to develop innovative products, rejuvenate their image and gain fresh perspectives.
- As a network innovation, collaboration with FinTechs is considered core, but it can trigger adjacent and even transformational innovations across all other innovation types.

**Industry evidence**

**Expected trends in the usage of fee types by 2020 (in %)**

<table>
<thead>
<tr>
<th>Advisory fees</th>
<th>All-in fees</th>
<th>Performance fees</th>
</tr>
</thead>
<tbody>
<tr>
<td>92%</td>
<td>82%</td>
<td>75%</td>
</tr>
</tbody>
</table>

A large majority of Wealth Managers expect advisory fees and performance fees to rise significantly by 2020, and all-in models will play a major role.

Willingness of Wealth Managers to collaborate with FinTechs

- 60% of the Wealth Managers think they should collaborate with FinTechs in order to gain new ideas on how to create value.

Key:  
- Increase  
- Stable  
- Decrease
Most prevalent unique innovations: Configuration

Both Outsourcing and capability sharing and Relationship Manager workplace focus on the effective organisation of assets and optimise their use in internal processes.

### Type and ambition of innovation

<table>
<thead>
<tr>
<th>Type of innovation</th>
<th>Outsourcing and capability sharing</th>
<th>Relationship Manager workplace</th>
</tr>
</thead>
<tbody>
<tr>
<td>Core</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Adjacent</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Primary innovation</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Innovation ambition</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

#### Description

- Outsourcing and capability sharing is today mainly done for standardised, non-client facing operations such as tax reporting, transaction execution and client settlements.
- However, the continuous margin pressure forces Wealth Managers to expand their outsourcing scope to further non-value-creating activities; specifically for smaller banks, which so far preferred the one-stop-shop model, this procedure is truly innovative.
- Outsourcing and capability sharing primarily touches upon the efficiency-oriented innovation types such as structure, process and network.

#### Industry evidence

<table>
<thead>
<tr>
<th>Outsourcing and capability sharing (%)</th>
<th>Relationship Manager workplace (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Considering outsourcing</td>
<td>Unsatisfied</td>
</tr>
<tr>
<td>Not considering outsourcing</td>
<td>Satisfied</td>
</tr>
<tr>
<td>64%</td>
<td>60%</td>
</tr>
</tbody>
</table>

Key:
- Unsatisfied
- Satisfied

64% of Wealth Managers are considering the outsourcing of non-value creating technology solutions, while advice and relationship related activities are least likely to be outsourced.

60% of Wealth Managers are unsatisfied with their RM technology in use, and even 65% think that further investments in adviser applications are required.

- The RM workplace is a digital platform integrating all capabilities and applications required for an RM to serve clients while creating a complete, real-time 360° client view.
- In doing so, the platform simplifies the RM’s daily work by freeing up time from administrational tasks and collecting information from different systems enabling the RMs to serve clients more efficiently and effectively.
- Despite being classified as core, the RM workplace constitutes a fundamental change from ‘business as usual’, which ultimately impacts all innovation types.

#### Current level of satisfaction in RM workplace

<table>
<thead>
<tr>
<th>Level of satisfaction (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Considering outsourcing</td>
</tr>
<tr>
<td>Unsatisfied</td>
</tr>
<tr>
<td>Satisfied</td>
</tr>
<tr>
<td>64%</td>
</tr>
<tr>
<td>89%</td>
</tr>
<tr>
<td>56%</td>
</tr>
<tr>
<td>83%</td>
</tr>
<tr>
<td>78%</td>
</tr>
<tr>
<td>78%</td>
</tr>
</tbody>
</table>

Key:
- Unsatisfied
- Satisfied

60% of Wealth Managers are unsatisfied with their RM technology in use, and even 65% think that further investments in adviser applications are required.

- Require further investments
- No further investments required
- No plans to invest
Most prevalent unique innovations: Offering

Wealth Management innovations around product performance and product systems have the highest degree of ambition while impacting numerous other innovation types.
Most prevalent unique innovations: Experience

Innovations around service and channel are mainly driven by meeting clients’ desire for self direction and enhancing interactions and the connectivity with clients.

**Digital research platform**

- **Type and ambition of innovation**
  - Core
  - Adjacent
  - Secondary
- **Innovation ambition**
  - Core
  - Adjacent
- **Primary innovation type**
  - Service
  - Channel

- **Description**
  - Digital research platforms allow self-directed clients to directly access advanced financial information (e.g., market data, learning tools) and build their own financial expertise.
  - In response to clients using technologies more and becoming more self-directed, and to keep up with digital communities and FinTech offerings, these platforms allow Wealth Managers to create a compelling client experience and grant access to professional data.
  - Originating from a core service innovation, digital research platforms cover innovation types related to client engagement and product performance.

**Omni-channel communications**

- **Primary innovation type**
  - Service
  - Channel

- **Description**
  - Omni-channel communication enables clients to interact with their advisers anytime and anywhere using the full variety of digital, physical and personal interaction channels.
  - Today, digital channels are primarily used to gather information while their potential related to complex transactions and remote advisory is not yet fully exploited; in particular with a focus on cross-border banking this is expected to increase continuously.
  - Omni-channel communication is a core level channel innovation that can increase value in the overall service quality and foster client engagement.

**Industry evidence**

**Growth rates of self-directed vs. non-self-directed investor segments**

- **CAGR: 1.4%**
- **CAGR: 4.9%**

**Client preferred interaction channels by complexity**

- **Email**
- **Mobile technologies**
- **Website**
- **Telephone**
- **Paper**
- **Branch**
- **In person**

**Key:**
- Simple transactions
- Complex transactions

The majority of Wealth Management clients prefers digital channels for communications on simple transactions, but personal contact for complex transactions.
Innovation in Private Banking & Wealth Management  | Embracing the Business Model Change

Most prevalent unique innovations: Experience

While Wealth Managers appear to be uncertain as to how they can enhance their brand, they are trying to create more meaningful personal interactions in branches.

### Type and ambition of innovation

<table>
<thead>
<tr>
<th>Innovation type</th>
<th>Core</th>
<th>Adjacent</th>
<th>Transformational</th>
</tr>
</thead>
<tbody>
<tr>
<td>Description</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The brand of a private bank represents its offering and everything associated with it – brand innovations can attract and retain clients, and ensure recognition.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Despite its undisputed relevance as key decision factor, brand innovation appears to be of subordinate priority for Wealth Managers and is instilled only indirectly through social media activity (channel) or FinTech collaboration (network).</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brand innovations in Wealth Management are likely not transformational, yet considering their impact outside of banking they are able to set new directions for whole industries.</td>
<td></td>
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</tr>
</tbody>
</table>

### Description

- Brand innovation
- Branch optimisation

#### Expected top client decision criteria for selecting their Wealth Manager in 2020

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Today</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality of relationship</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Reputation/premium brand</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Financial stability/Low risk</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Investment performance</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Full WM proposition</td>
<td>✔</td>
<td>✔</td>
</tr>
</tbody>
</table>

By 2020, having a premium brand is expected to become the most important decision criterion for clients to choose their private bank.

#### Industry evidence

- Most prevalent unique innovations: Experience

- While Wealth Managers appear to be uncertain as to how they can enhance their brand, they are trying to create more meaningful personal interactions in branches.

#### Bank executive views on branch banking by 2020

- While almost half of surveyed Wealth Manager executives expect branch concepts to change significantly by 2020, only 16% feel well-prepared for this change.

- Branch optimisation concepts aim to bridge the physical and digital delivery of services by extending the prevalent human element by technology-enabled components.

- Wealth Managers are moving away from today's branch model of serving clients of all kinds equally, optimising their branch concepts to create a more compelling and personalised client experience.

- As a core innovation, future state branch concepts exploit existing technologies to foster personalised client engagement, affecting structure, service and branding types.

Key:  
- Yes  
- No
Market Intelligence on Innovation in Private Banking & Wealth Management

FinTech Lens
Focus areas of innovation today: FinTechs
FinTechs accelerate the change of the traditional business model in Wealth Management although they are not as transformational as commonly presumed.

Contrary to their commonly-presumed transformational characteristics, the innovation ambitions of FinTechs focus mainly on areas that are core (74%) to the existing Wealth Management business, yet with a higher emphasis on adjacent (18%) and transformational (8%) innovations.

FinTech’s innovation activities mainly revolve around the innovation types process (20%) as well as product performance (20%) and service (17%), which reflects the fact that FinTech companies are split into two camps:

- **B2B companies**, which specifically focus on the innovation types network, structure and process by offering flexible and innovative software, analytical tools and other digital solutions; they are service providers to Wealth Managers or partner with them

- **B2C companies**, which specifically focus on the types product performance, product system and service by offering robo advisers, peer-2-peer platforms and investment strategy solutions; they compete with incumbent Wealth Managers for private clients.

Overall, it can be said that FinTechs accelerate the change of the traditional business model in Wealth Management, but they have yet not fundamentally transformed the business.
Most prevalent unique innovations: FinTechs

Our analysis shows that FinTech innovations are either digitised Wealth Management services offered to private clients or digital solutions for incumbent Wealth Managers.

Mapping of FinTech’s key types of innovations in Wealth Management

1) Based on the analysis described on p.13, 65 European FinTech companies focusing on Wealth Management have been analysed; the number of FinTechs in the mapping is smaller due to the fact that some of the companies have innovations in areas we have not identified as being “most prevalent”.

2) Collaboration with Wealth Managers refers to FinTechs active in B2B across different types of innovation.
Digital Wealth Management
FinTechs focusing on business to private clients (B2C) most frequently offer robo advisory services and thus challenge the shift towards Digital Wealth Management.

Components of Digital Wealth Management

<table>
<thead>
<tr>
<th>Digital Wealth Management</th>
<th>Connect</th>
<th>Advise</th>
<th>Invest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portfolio Management 2.0</td>
<td>![Checkmark]</td>
<td>![Checkmark]</td>
<td>![Checkmark]</td>
</tr>
<tr>
<td>Social trading platform</td>
<td>![Checkmark]</td>
<td></td>
<td>![Checkmark]</td>
</tr>
<tr>
<td>Trading applications</td>
<td>![Checkmark]</td>
<td></td>
<td>![Checkmark]</td>
</tr>
<tr>
<td>Provider of information</td>
<td>![Checkmark]</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Crowdsourcing tools</td>
<td>![Checkmark]</td>
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<td>![Checkmark]</td>
</tr>
<tr>
<td>Mirroring provider</td>
<td>![Checkmark]</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Investment Management 2.0</th>
<th>Connect</th>
<th>Advise</th>
<th>Invest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Digital asset manager</td>
<td>![Checkmark]</td>
<td></td>
<td>![Checkmark]</td>
</tr>
<tr>
<td>Robo adviser</td>
<td>![Checkmark]</td>
<td>![Checkmark]</td>
<td>![Checkmark]</td>
</tr>
<tr>
<td>Digital adviser</td>
<td>![Checkmark]</td>
<td></td>
<td>![Checkmark]</td>
</tr>
<tr>
<td>Hybrid advisory*</td>
<td>![Checkmark]</td>
<td>![Checkmark]</td>
<td>![Checkmark]</td>
</tr>
</tbody>
</table>

Key: ![Checkmark] Applies  ○ Applies to a certain degree

- **FinTechs** focusing on business with **private clients** offer **portfolio** and **investment management** services on a **digital-only** basis, which – from a client perspective – has changed **three** core areas: **connecting, advising** and **investing**
  - **Connecting** has changed as FinTechs enable private clients to **access** investment information directly; client can also **exchange** ideas digitally or **mutually invest** funds with peers
  - **Advising** has changed as user-generated investment strategies (**social trading**) and **robo advisers** provide **automated advice** at a manageable cost and thus enable clients with **low asset volumes** to be served efficiently
  - **Investing** has changed as private clients are much **less dependent** on their advisers and can execute their investments much more **easily**, more **flexibly** and **significantly faster**

- While **Digital Wealth Management** is growing, **face-to-face advice** is not expected to **become obsolete**: for example, skilled **financial advisers** can create **value** for their clients and offer them tailored recommendations particularly where decisions are more **complex** or involve **higher value transactions**

- In this regard, **hybrid advisory models** appear to be the most promising **compromise**, as they **combine personal** and **digital components** to reduce advisers' administrative tasks, and thus allow them to **concentrate** on their advisory role and increase **client proximity**

* Combination of Robo advisers with personal advice
Market Intelligence on Innovation in Private Banking & Wealth Management

Summary Results
Summary: Focus areas of innovation

Innovation activities from Wealth Managers and FinTechs can be mainly categorised as industrialisation and disruption driven primarily by means of digitisation.

Categorisation of innovations in Wealth Management

- The innovation ambitions in Wealth Management combined from Wealth Managers and FinTechs revolve mainly around the existing core business (82%) with only limited adjacent (12%) and transformational (6%) innovation efforts; the main innovation types addressed today are clustered around process (18%), structure (14%) and client engagement (15%).
- The focus on process and structure can be attributed to the Wealth Managers’ industry-wide strategic priority of reducing costs through standardisation and digitisation triggered by increasing economic pressure and technological advancement.
- Innovations in the area of client engagement are mainly driven by FinTechs and concentrate on enhancing the existing, still mainly on personal interaction dependent client experience; having realised that Wealth Managers might be a more attractive client segment than private clients, which is in great need of digital solutions, FinTechs increasingly specialise in offering flexible, innovative B2B solutions to Wealth Managers to help them close their digital transformation gap and thus have a strong focus on the innovation type process.
- In conclusion, it seems that innovation in Wealth Management still plays a subordinate role with most innovations being responses to existing business challenges rather than innovations based on the identification of opportunities to create value in a new way.
- Instead, it can be said that the innovation efforts of Wealth Managers are much closer related to industrialisation and those of Fintechs to disruption – both by means of digitisation.

Key: Focus areas of innovation based on identified innovations (n=181):

- >10%
- >5-10%
- >1-5%
- >0-1%
- 0

* The Current relevance of innovation in European Wealth Management has been derived by the weighted average of the innovations in Wealth Management from Wealth Managers and FinTech companies.
Summary: Innovation ambition
Relative to other industries, innovation ambitions in Wealth Management are significantly lower with a strong focus on the core business.

Innovation portfolio of Wealth Management and selected other industries

<table>
<thead>
<tr>
<th>Innovation ambition</th>
<th>Wealth Management</th>
<th>Consumer packaged goods</th>
<th>Industrials</th>
<th>Technology</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transformational</td>
<td>6%</td>
<td>2%</td>
<td>10%</td>
<td>15%</td>
</tr>
<tr>
<td>Adjacent</td>
<td>12%</td>
<td>18%</td>
<td>20%</td>
<td></td>
</tr>
<tr>
<td>Core</td>
<td>82%</td>
<td>80%</td>
<td>70%</td>
<td>45%</td>
</tr>
</tbody>
</table>

- The main innovation ambition in Wealth Management can be identified around the core business (82%) with only little ambition in the areas adjacent (12%) and transformational (6%) to the existing business model.
- Generally, the innovation ambition of an industry varies according to a number of factors with the most important ones being its rate of change and level of maturity.
- For example, the technology industry is characterised by a strong demand for continual new releases (i.e., a high rate of change) and accordingly exhibits a high ambition for transformational innovations (15%).
- When comparing Wealth Management to industries of similar maturity and rate of change (e.g., industrials, consumer packaged goods), the innovation ambition seems to be much weaker and is focused excessively on the core.
- While this underlines the subordinate role of innovation as a management discipline in Wealth Management, it also shows that innovation cannot be forced or applied according to desire – it takes a systematic approach to foster innovation.

Innovation portfolio: An ideal allocation?
While there is no golden ratio for an innovation portfolio, analysis reveals that a 70:20:10 (C:A:T) allocation of resources outperforms peers; Wealth Management’s significantly lower ambition of transformational (82%) and adjacent (12%) innovations in combination with their descending business model suggests that players should adjust how other industries adjusted their business models to a more fast paced environment and more frequently changing client needs.

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1) The innovation portfolio has been derived by the weighted average of the unique types of innovations in Wealth Management from Wealth Managers and FinTech companies.
2) The level of maturity indicates the stage of an industry within its life cycle; the rate of change is fostered by the threat to the industry’s core activities that attract its stakeholders, and the threat to its core assets which shape its efficiency.
3) Monitor Deloitte’s innovation unit Doblin examined more than 5,000 innovations — successful and not — over the past 15 years.
Market Intelligence on Innovation in Private Banking & Wealth Management

Innovation Corner
Innovation in Private Banking & Wealth Management | Embracing the Business Model Change

Innovation corner

Innovations to gain a clear understanding of client needs that allow Wealth Managers to enhance the customisation of offerings and the client experience

<table>
<thead>
<tr>
<th>Social Media Listening</th>
<th>Intelligent Personal Assistants</th>
<th>Gamification</th>
<th>Instant Client Feedback</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>What?</strong></td>
<td><strong>What?</strong></td>
<td><strong>What?</strong></td>
<td><strong>What?</strong></td>
</tr>
<tr>
<td>Social Media Listening refers to the process of monitoring digital conversations on social media and other websites (e.g., blogs, forums) to gain insights into a brand or industry, to identify trends and client pain points, and to provide responses to complaints or questions</td>
<td>Intelligent Personal Assistants (e.g., chatbots) refer to computer programmes that were designed to simulate an intelligent conversation with users via auditory or textual channels and that can initiate and perform tasks or services for an individual</td>
<td>Gamification refers to the concept of bringing together the elements of design and the principles of a game into non-gaming applications in order to generate a better client experience and increase customer utilization rates</td>
<td>Instant Client Feedback refers to event triggered online or mobile requests for clients to review their experience sent at specific points (e.g., immediately after an interaction) when clients are likely to give feedback</td>
</tr>
<tr>
<td><strong>Why?</strong></td>
<td><strong>Why?</strong></td>
<td><strong>Why?</strong></td>
<td><strong>Why?</strong></td>
</tr>
<tr>
<td>Wealth Managers can use Social Media Listening to help align their offering more closely with client needs, improve their way of initiating contact with current as well as potential clients, differentiate their brand message or even enhance their product scope</td>
<td>Wealth Managers can use Intelligent Personal Assistants for answering individual non-standardised client requests, for obtaining information or, when combined with safe identification procedures, for placing investment orders</td>
<td>Wealth Managers can use gamification to enhance client experience, test new products or provide financial education; they can leverage gamification in order to increase the ‘stickiness’ of their offerings, and can also be used to generate insights for the provider based on an analysis of the client behaviour and feedback</td>
<td>Wealth Managers can leverage Instant Client Feedback technology to use an automated and measurable method of obtaining client feedback and tracking client satisfaction, and to address client issues directly as they arise; they can take control of their reputation, capitalise on opportunities and deepen client relationships</td>
</tr>
<tr>
<td><strong>How?</strong></td>
<td><strong>How?</strong></td>
<td><strong>How?</strong></td>
<td><strong>How?</strong></td>
</tr>
<tr>
<td>Taking into account the prominent role of social media in everyone’s life and the increasing number of millennials joining the work force, Wealth Managers cannot afford to ignore the social media as a source of information for better understanding their clients</td>
<td>While Intelligent Personal Assistants are today not much more than toys and their application in Wealth Management may only be a vision, it is inevitable that their functionalities will grow; in a world where clients expect service at any place and any time, Wealth Managers should keep an eye on the development of these programmes</td>
<td>The increasing number of millennials becoming clients of Wealth Managers creates a need to provide offerings that are engaging and more attractive to younger generations; while gamification offers a relatively simple approach, Wealth Managers need to make sure that their overall product line-up can permanently bind their clients</td>
<td>Wealth Management traditionally is a personal business where clients tend to avoid providing direct feedback, depriving Wealth Managers of opportunities to enhance their service quality; Instant Client Feedback through digital channels can resolve this problem</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Category</th>
<th>Innovation types*</th>
<th>Innovation ambition</th>
<th>Innovation types*</th>
<th>Innovation ambition</th>
<th>Innovation types*</th>
<th>Innovation ambition</th>
<th>Innovation types*</th>
<th>Innovation ambition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social Media Listening</td>
<td>3</td>
<td>1</td>
<td>Transformation/Adjacent</td>
<td>3</td>
<td>5</td>
<td>6</td>
<td>T</td>
<td>Transformation/Adjacent</td>
</tr>
</tbody>
</table>

Innovation in Private Banking & Wealth Management | Embracing the Business Model Change

**Innovation corner**

Innovations to improve the brand message and address new client segments as well as to identify new sources of revenue and profit models

<table>
<thead>
<tr>
<th>Digital Security Services</th>
<th>Client Care Concept 2.0</th>
<th>Sub-branding</th>
<th>Ingredient Branding</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>What?</strong></td>
<td><strong>Why?</strong></td>
<td><strong>How?</strong></td>
<td><strong>What?</strong></td>
</tr>
<tr>
<td>Digital Security Services refer to the protection of information and data from unauthorised access, use, disclosure, destruction, modification, or disruption to ensure confidentiality, integrity and availability (e.g., by using biometrics and other means of cyber security)</td>
<td>Building a specialisation in securing clients’ digital assets and information can allow Wealth Managers to build client satisfaction in an area that faces a lot of scepticism and uncertainty, and will in the long run not only increase client confidence but can create new sources of revenue</td>
<td>With client loyalty and profitability in Wealth Management being in constant decline and differentiation criteria being limited, supplementary services to enhance the client satisfaction have great potential for new business opportunities and could be sources of novel profit models</td>
<td>Ingredient Branding is the selection of a specific component, ability, product or brand originating from a specific organisation, which will be included in another offering; this offering is then separately branded and advertised with the “ingredient” projecting the positive brand associations and properties on the offering</td>
</tr>
<tr>
<td><strong>Innovation ambition</strong></td>
<td><strong>Innovation ambition</strong></td>
<td><strong>Innovation ambition</strong></td>
<td><strong>Innovation ambition</strong></td>
</tr>
<tr>
<td>Transformational/Adjoining</td>
<td>Core/Adjoining</td>
<td>Core/Adjoining</td>
<td>Core/Adjoining</td>
</tr>
</tbody>
</table>

Innovation in Private Banking & Wealth Management | Embracing the Business Model Change

Innovation corner

Innovations to accelerate the transfer of traditional Wealth Management into the digital world while enabling the evolution of a new business model

<table>
<thead>
<tr>
<th>Category</th>
<th>Innovation types*</th>
<th>Innovation ambition</th>
<th>Category</th>
<th>Innovation types*</th>
<th>Innovation ambition</th>
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</thead>
<tbody>
<tr>
<td>Orchestrating</td>
<td>2 4 7 10</td>
<td>Adjacent/Transformational</td>
<td>Open APIs</td>
<td>3 4 5 6 8 9 10</td>
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</tr>
<tr>
<td>Digital Identity</td>
<td>4 7 8</td>
<td>Adjacent</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cloud Service Models</td>
<td>3 2 4 6 8</td>
<td>Adjacent</td>
<td></td>
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</tbody>
</table>


**What?**

- Orchestrating refers to the focus of a company on its core business by separating it from other value chain segments. In Wealth Management, it could mean the separation of transaction, product, and client-related functions into independent units.

- Wealth Managers can achieve higher levels of specialisation, collaboration, and client focus in each unit by separating their functions, and creating individual cultures per unit. It allows them to benchmark the costs and service levels of each unit against external providers, and provides flexibility for future challenges to the business model.

- Open APIs in Banking are still in their infancy stage, but rapid development should be expected; they can possibly affect all existing processes and will require Wealth Managers to make strategic choices and explore new business models.

- Digital Identity is the digital representation of a unique combination of characteristics of an individual; Digital identities can be accessed in an automated way, facilitate computer-enabled services, and make it possible for computers to mediate relationships.

**Why?**

- Wealth Managers can open their APIs to enable third parties to build new applications on top of their own platform, for social sharing for marketing purposes, or to syndicate products and services across different platforms (e.g., co-create an offering with a FinTech company).

- The lack of Digital Identity inhibits the development and delivery of efficient, secure, digital-based Wealth Management offerings. Digital Identity allows to perform critical activities with increased accuracy over its physical counterpart, and to streamline or automate many processes.

- Cloud computing has the capacity to change the Wealth Management landscape; while already standard in other industries, cloud-based core banking systems can significantly reduce operating costs, improve the flexibility of collaboration and bypass the difficulty of forecasting necessary server capacities.

**How?**

- Wealth Managers can open their APIs to enable third parties to build new applications on top of their own platform, for social sharing for marketing purposes, or to syndicate products and services across different platforms (e.g., co-create an offering with a FinTech company).

- While the separation of functions in Wealth Management is not revolutionary, the disintegration into separate entities will help with the preparation of their organisation for the expected disaggregation of the value chain in the digital era.

- Open APIs in Banking are still in their infancy stage, but rapid development should be expected; they can possibly affect all existing processes and will require Wealth Managers to make strategic choices and explore new business models.

- Digital Identity allows Wealth Managers to reduce efforts around the compliance with increasingly strict regulations on client identification by the enabling of legally-binding, digital contracts, while delivering better client experiences through reduced client administration efforts.

- Transferring to a cloud-based system allows Wealth Managers to move to a more flexible business model; they can operate in a significantly more independent manner and reduce burdens from the traditional IT business model.

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Innovation corner
And what about Blockchain? Blockchain is the most discussed topic when it comes to innovation in banking – but does it have relevance for Wealth Management, too?

Proposition and implications of Blockchain to Wealth Management

- **Real-time settlement**
  Real-time settlement models for most types of financial transactions, which can significantly reduce settlement time, eliminate counterparty risk, free up capital and radically reduce transaction cost; this will affect Wealth Managers as today’s income from security transactions is a major source of income

- **Digital investment wallets**
  New autonomous financial instruments and automated investment vehicles based on smart contracts could replace traditional existing Wealth Management functions such as portfolio management and client advisory and thus threaten important sources of income

- **Smart contracts**
  Smart contracts are unique, non-forgeable, cryptographically sealed pseudonyms that can help protecting the privacy, as data security becomes increasingly relevant in an ever more digital world

- **Digital investment portfolio**
  As a next generation service offering in Wealth Management, digital investment portfolios based on baskets of crypto currencies will address the importance of asset allocation and the need for diversification while offering alternative investment opportunities

- **Single point of truth (“SPOT”)**
  A personal information vault that cover risk and financial history including KYC and investment profile propositions will radically simplify and reduce costs for large parts of the financial system, while also making it more secure and reliable

- **Unlike the development of existing technologies like the internet, the development of Blockchain takes place at a much faster pace and will shape the financial services infrastructure once becoming mainstream**

- **Syndicates of big universal banks are heavily driving the development because the Blockchain technology offers enormous opportunities to their business model with relevance for Wealth Management**

- **Real-time settlement models** will transform the execution of financial transactions with positive impacts on the transactions costs, counterparty risk and capital availability, however will also threaten transaction fees as one of the main sources of income in Wealth Management

- **The protection of privacy** including risk and financial history will become less costly and much simpler with smart contracts and single point of truth (“SPOT”) and allow for more reliable client interactions

- **Therefore, it is crucial also for Wealth Management to understand the benefits and impacts of Blockchain to their business models and decision makers should start looking at use cases and carefully follow the development over the next years**
Characteristics of Successful Innovations
Characteristics of successful innovations

Innovation often fails but it does not need to – insights from an analysis of over 5’000 innovations can help overcome the most common innovation pitfalls.

Innovation success factors along the Ten Types of Innovation*

- Typically, the most successful innovations share two traits:
  1) They focus on shifts in the profit model and means of client engagement as these are the strongest drivers when it comes to value creation; these innovations are “anchored at the ends” of the Ten Types of Innovation spectrum and thus have the potential to affect other types of innovation as well.
  2) They employ multiple (at least four) types of innovation which makes them genuinely new and can lead to a change of the business model (ideally when six or more types of innovations are addressed).

- Most unsuccessful innovations, in turn, have been centred around product performance and product system, as new product ideas are easy to devise but in reality are often quickly shut down being too vulnerable to competition.

- The innovation focus in European Wealth Management mainly revolves around structure and process (see p. 27), reflecting the need to reduce the cost base of the existing business model; this, however, might be short-sighted as the call for a new business model is becoming increasingly louder with the progressing decline in profitability and the transformation of the banking ecosystem.

* Monitor Deloitte’s innovation unit Doblin examined more than 5,000 innovations — successful and not — over the past 15 years and identified specific success factors related to the Ten Types of Innovation.
Mind-shift
As a first step to instil innovation, the prevalent key beliefs of leaders need to be exposed to new realities and an environment for divergent thinking needs to be created.

Achieving an effective mind-shift among the leadership

If they are to drive innovation effectively, leaders should have a mind-set that favours collaboration and is not functionally-focused; this mind-set rarely occurs without encouragement: innovation leaders need to be developed alongside innovation capabilities starting with a structured approach to effect a mind-shift:

1) Expose
   • Uncover prevalent key beliefs and guiding principles regarding the traditional business model and established client behaviours – in Wealth Management, these are deep seated due to the industry’s maturity, which is associated with a strong resistance to change
   • Challenge prevalent key beliefs and expose the leadership to facts and new insights into how others in the industry operate under adopted key beliefs; consider what implications this could have for strategy, and generate interest in innovation

2) Understand
   • Provide a future-oriented perspective and develop scenarios supported by extensive research to create an understanding of trends
   • Engage leadership around the urgency and importance of transformational innovation in Wealth Management given the industry-wide decline in profitability and the stage of the industry’s life cycle (see p. 8/9), and create an environment for divergent thinking

3) Identify
   • Identify opportunities and disruptive threats, and how trends could change the existing business model, ideally looking at the innovation types profit model and client engagement
   • Ensure pragmatic focus on developing conclusions, and discuss how innovations could be supported given the circumstances of the organisation and the characteristics of the industry
Innovation building blocks

Leading innovators have in common that they use four specific innovation building blocks with twelve critical capability levers.

Innovation building blocks and critical capability levers*

- **Leading** innovative companies use their **building blocks** and **capability levers** in distinctive ways:
  - They employ a tailored **approach** built around clear **definitions** and **methodologies** for the work to be done in **generating innovations**; moreover, they manage their innovation efforts as a **portfolio** across core, adjacent, and transformational innovations following clear **processes** and **business cases**.
  - They structure the **organisation** to **house** the innovation **competency** (i.e., teams, divisions, and leadership) and establish **interfaces** for connecting it to the broader enterprise and the world.
  - They **acquire** and **nurture** the appropriate **resources** and **competencies**, i.e., the **people** who perform the work of innovation; they develop and provide the **skills**, **tools** and **training** needed and ensure the necessary **funding**.
  - They develop the right **metrics** and **incentives** to **guide performance**, i.e., **measures** to evaluate progress and **incentives** (monetary and non-monetary) to drive the supporting behaviours.

- For Wealth Management, this means that innovation should be formally **embedded** into the organisation; innovation needs to be considered as a **management discipline** and opportunities need to be systematically **screened** and regularly discussed across the leadership.

- While today more than **40%** of **Wealth Managers** believe that the **responsibility** for **innovation** should be with the **COO**, it generally does not matter whether innovation is a **dedicated function**, a **person** or a **team** – what is **not acceptable** is having nobody at all **driving innovation**.

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*Monitor Deloitte's innovation unit Doblin examined more than 5,000 innovations — successful and not— over the past 15 years and identified that 92% of innovation leaders that outperform peers in share price have innovation systems with all four building blocks*
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## Sources

<table>
<thead>
<tr>
<th>Page No</th>
<th>Sources</th>
</tr>
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<tbody>
<tr>
<td>8</td>
<td>Deloitte Private Banking &amp; Wealth Management Database; Deloitte (2016): Industrialisation</td>
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<td>14</td>
<td>Keeley et al. (2013): Ten Types of Innovation; HBR (2012): Managing Your Innovation Portfolio</td>
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