

Platforming in Private Banking & Wealth Management

What is the challenge?

Nowadays it is usual for individuals to use more than one financial service provider. This is not only the case for Private Banking & Wealth Management (PBWM) clients as also retail customers have e.g., multiple securities and savings accounts, pension funds, use discretionary investment management, Robo-advisory, online payment accounts like PayPal or Apple Pay and various other relationships. From the client's perspective this leads to a fragmented financial service landscape, which in turn increases the need for harmonization.

How can this be achieved?

Platforming might be a powerful solution to meet the client needs. Doing so will bring the service providers into the pole position to become the go-to-point for all financial needs. Being – in the best case – the only provider the client wants to have direct contact with to manage all his financial needs. It is obvious that the opportunity to increase one's share of the customer's wallet and/or at least gain a share of third parties' revenue is immense.

A platform can generally be considered as a hub around which various service

providers offer individual services under one and the same roof. In the banking industry a platform will often materialize as a software or IT framework connecting one's own core service offerings with other providers.

But what are the pitfalls/chances of becoming a platform for all financial aspects of your client base?

First of all, clients are becoming more and more tech savvy. They are used to intuitive front ends. All services must be accessible in an attractive and logical way. As an analogy, have a look at your

smartphone. Most of the features are easy to use without extensive instructions. Another critical aspect is that the platform must provide at least one service which is recognized as a best-in-class solution for a given need and form a habit for the user. Staying with the smartphone analogy, the most successful smartphones in the market have in common, that they provide excellent cameras, intuitive access to the App Store and that email accounts are easy to integrate.

So why does a PBWM company need to consider platforming as an integral part of its strategy?

This can also be described with our recent example. As all major smartphone providers have excellent solutions for specific customer's needs, they all lack a holistic solution for all demands. They simply do not aim to provide the best solution for, e.g., all different kinds of news, games, social media, shopping, etc. However, they provide a perfect platform for third party providers for all of these aspects.

Getting back to the Private Banking & Wealth Management industry, it can also be observed that there is no market participant with a portfolio of best-in-class solutions for all products and services. Some might have great Asset Management products and all see great customer services at the nexus of their business strategy. However, for example, current accounts might not be focused products as they provide low margins and are recognized as common services. Moreover, what about non-client facing items such as trade settlement or investment report generation? Do Private Banks & Wealth Managers really think about harvesting large-scale effects to the maximum in these low-margin areas? Following a platform strategy can bring a Private Bank/Wealth Manager into the position of being the "App Store" for financial products and services instead of being just the provider XYZ of one or a few services. Combining the platforming approach with the key asset of a PBWM firm – the personal client contacts – technology-minded clients will not challenge the Private Bank/Wealth Manager any longer.

Especially for Private Banks & Wealth Managers without the backing of a large retail bank, a platforming strategy considering the outsourcing of non-core services and products as well as creating a platform for best-in-class solutions is worth consideration to broaden the product offering without having to develop all products and services internally.

What is platforming?

The desire to create a platform to satisfy client needs best and focusing on own strength leads directly to the question "What is platforming anyway?"

This article focuses on the questions of platforming for Wealth Managers and Private Banks. Thus, the question answered in this article is: "What has to be considered when introducing a platforming strategy in PBWM organizations?"

Platforming in PBWM consists of an open architecture with respect to technology, product offering, and the distribution channel. This means a PBWM company is well advised to foster the creation of a flexible soft- and hardware building box, which allows the provider to exchange single pieces easily while increasing the value from a client's perspective. This value is primarily determined by the individual's needs, as customers always think in needs to be fulfilled, not in products or services.

While this sentence sounds easy, it requires a state-of-the-art software architecture and hardware. As mentioned above, the best way to create a client-satisfying platform is to build on your own strength and assemble client offerings around your best-in-class service or product. Combining these best-in-class-services with additional high value products available in the market should be the target. But in contrast to typical banking infrastructure, a platform is designed in such a way that you can easily replace certain components and replace them with superior products and services.

"I skate to where the puck is going to be, not where it has been."

(Wayne Gretzky)



A platform can be compared to the Olympic Games. You can choose to watch a decathlon or you can visit all 10 disciplines as stand-alone events in one evening. You can be sure that you will see better performance in the 10 single events.

Instead of having a collection of stand-alone solutions which are collected and obviously connected in a weak and complicated way, the target is to create a fully integrated and well choreographed client-facing solution.

Thus a platform for a PBWM company is measured by the ease of exchanging components, accessibility to third party solutions, regulatory compliance as well as the ensured integrity of data, disaster recovery, and ease of use for the client.

Another aspect of platforming – especially in the fragmented world of PBWM – is the use of large scale effects. While today many Private Banks & Wealth Managers maintain a full set of applications or business units on their own behalf, a smart platform solution can provide you with the possibility of joining forces and

creating a single business unit for multiple Private Banks & Wealth Managers. Thus all benefit from a shared vendor. However the PBWM company which is able to integrate this component best to its platform obtains a competitive advantage.

Summarizing the attributes of a successful platform:

1. Address customer needs and map products and services accordingly
2. At least one component offered by the Private Bank/Wealth Manager is considered best-in-class
3. The hardware is state-of-the-art and permits high scalability
4. Open API is used to ease the connectivity to vendors and applications
5. Single components can easily be exchanged without being noticed by the user
6. The User Interface is designed in a way that the end user does not recognize the building box approach (no communication breaks)

Why now?

Platforming is nothing completely new, the question in the industry is why should we convert our system landscape to a platform at this moment in time?

1. The first aspect is the changing industry landscape. Well financed start-ups tackle the traditional products and services with more or less innovative solutions which all have in common that they meet the demand of young or tech savvy customers. Meeting those demands with innovative solutions in all aspects will lead to an ongoing development and implementation of features. If business cases become obsolete development efforts are sunk. Internalizing these while hoping to be the best-in-class provider for all aspects of client needs will also internalize and accept the risk to create huge sunk costs by stopping development efforts.

The effect of cannibalizing existing higher returns with digital solutions is not a valid argument to generally reject a platforming strategy. As many other markets have already done, the Private Banking & Wealth Management market will also be dominated by fewer providers who have in common that they follow a platform strategy.

Following a specialist strategy might result in being replaceable by others and impeding the direct access to clients too.

Platforms that permit digital players to move easily across industry and sector boundaries are destroying the traditional model with its familiar but focused business models. If you don't want to cannibalize your existing returns with digital solutions, your competitors definitely will do so. Following a platforming strategy doesn't require investing massive sums into the development of a holistic platform right from the start.

Just as Amazon® started with pure online distribution of books, it has now become the market leader for nearly all retail goods, music and video distribution, created a publishing house, and started to develop logistic services and many other business lines.

So don't be afraid to be in the driving seat of innovation. Start small, adapt often, expand over time and shorten your time to market!

2. The second aspect is technological change to which the industry is exposed. Current revenues are endangered by technical solutions for both existing but manual and not yet existing processes. Lean but powerful IT enables market participants to exploit large scale effects to a maximum and become a market leader even without a long-lasting track record.

But technical requirements do not only arise from the industry acting as a benchmark. They also originate with the PBWM's employees, primarily the relationship managers. Digital capabilities

may arise from the Relationship Managers themselves or by being introduced by the company. Both origins target a more productive way to market existing or new services. Supporting the ideation of Relationship Managers, supported by a top-down conception of services relevant for the client base, has the potential to sharpen the profile as a best-in-class provider and to be recognized as an innovator. Platforming considerations are not only about implementing new capabilities, they are first and foremost about enabling existing capabilities to be as productive as possible.

3. The third aspect is the shifting client demand towards more personal and more cost-efficient solutions. Today's and future clients have a low frustration tolerance if financial service providers don't meet their requirements.

4. The fourth aspect is shrinking profitability due to increased regulatory pressure. Being in a highly regulated market, financial service providers have to develop answers to questions arising from current and future regulatory burdens.

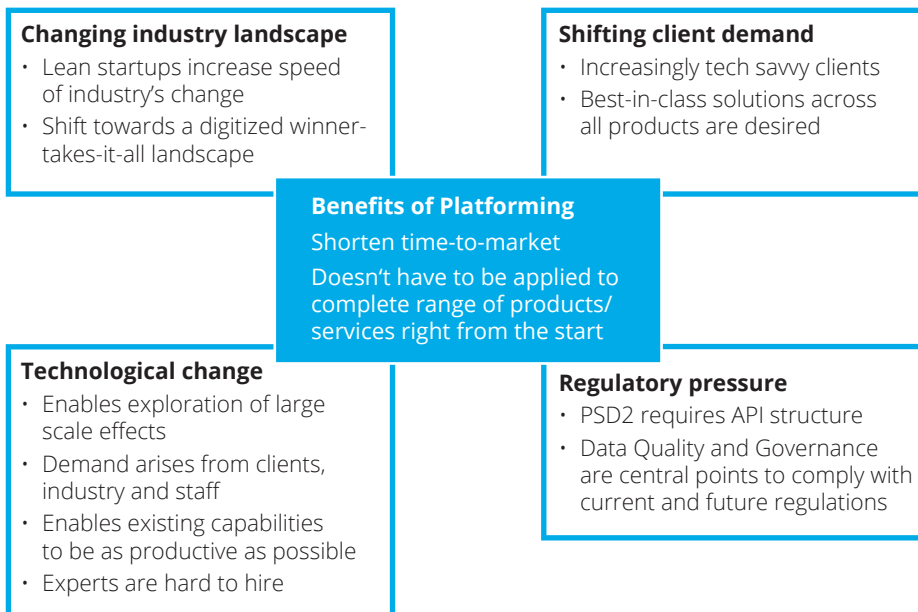
Capabilities of a winning PBWM platform

As described above, there are multiple aspects to making a platform an industry-leading one. Of course, the following aspects cannot be taken as a unified, one-approach-fits-all solution. As there are as many platform strategies as there are pit falls and critical aspects, the selection of the best fitting approach is crucial.

Many leading platform strategies have in common that the platform is accessible by three main parties. The platform provider, the (group of) vendors relying on the platform and the customers. These stakeholders have different interests and options to act in the platform environment.

The platform provider has to ensure the adaptability as well as the technical maintenance of the entire platform. The provider is also responsible for setting the guardrails for potential vendors and for creating the uniform front end in which the individual solutions operate. The vendors have to provide their solutions to the platform and need to update their service modules accordingly. To do this, the platform provider has to collaborate with the third party vendor to monitor customer feedback and continually improve the quality and functionality of the product or service.

Thus the platform has to be capable of gaining customer feedback in the form of direct and indirect measurement of client satisfaction. Direct measurement includes all actions which are obvious to the client such as, e.g., questionnaires or smiley buttons. Indirect measurement produces insights the client is not aware of providing them such as, e.g., click-through-ratios or retention periods. Thinking about a PBWM platform, this would imply that the platform provider and the vendor have to closely align the set of relevant KPIs for further improvement of the service.



The most critical success factor for leading-edge PBWM platforms is the combination of some best-in-class functionalities and the optimal integration of third party solutions. As all smartphones provide some perfect functionalities including contact and application management, photo camera, etc., their real value is the capability of ad-hoc integration of a wide array of apps serving all possible needs of their users. The major difference between these third party services and the platform itself is the interchangeability of the apps but not, without a certain effort, of the platform.

This leads to the next success factor. Overcoming the lack of integration of third party solutions can make a platform provider indispensable as the cost of change for the client increases. This is an important aspect to keep in mind when discussing the integration of a service cannibalizing revenues from self-developed products and services.

Since PSD2 took effect on January 13th, 2018 (grandfathering until July 12th) all market participants who are payment service providers have to comply with the regulation to avoid losing their existing authorization.

The nexus of this regulation is that existing payment providers must offer access to their customers' accounts for Third Party Payment Service Providers (TPP). This access has to be provided by an Application Programming Interface (API). Therefore, while market players who need to comply with this regulation must, others should employ an open API structure to avoid being outpaced by the market. Furthermore, it opens up the opportunity to harvest the potential to maintain a strong platform based on account aggregating functionalities providing customers a global view of their finances in a single place.

So why not use the momentum of PSD2 to create an open API-based platform beyond payment-only financial services?

What are the non-user-facing aspects of a platform capable of becoming the go-to-point for your prospect clients?

Scalability is one of the key words to be considered. Scalability with respect to data and document management procedures, scheduling and reporting services for users and other stakeholders, highly adaptable user access models, and personalization of user interfaces, just to name some of the most relevant.

Operational scalability

In times of big data, the winning platform is not the one which is able to collect the most data. It will be the one which can efficiently convert it into actionable information and constantly adapt the service offering. Operational scalability is vital for business models to win in the future. This means leveraging a solid backbone consisting of structured and powerful data management capabilities and strong relationships with your client base with state-of-the-art digitalized solutions will bring you into the pole position to have a sustainable and flexible business model.

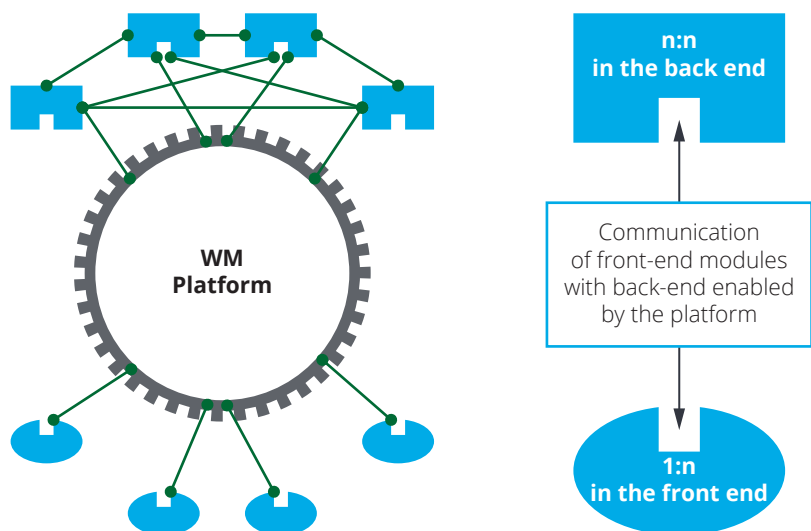
What does a platforming strategy need?

Beyond the capabilities of winning platforms mentioned above, platforming strategies have even more aspects to be taken into consideration.

One major point, which is also applicable to all strategic considerations, is maintaining true partnerships with third party providers and technical vendors.

A platform becomes exponentially stronger as more suppliers and demanders meet. Increasing demand encourages more suppliers to adapt to that platform. In turn the widened offering attracts more demanders, and so on.

But a special feature of a platforming strategy is to avoid integrating third-party solutions into your systems. That means that the solutions always have to remain interchangeable in a reasonable time at a reasonable cost. The platform should always target a 1:n solution to client facing services to avoid getting tied to certain providers.



As back-end services heavily rely on exchanging data and are characterized by being interdependent, a 1:n strategy would hinder the full potential of these services. Especially when it comes to client analytics, decisions on outsourcing these services are to be taken carefully.

The following lists provides a glimpse into the major KPIs platforming models can be measured against:

- Time to market
- Adaptability of third party solutions
- Data Management and Analytics capabilities
- Integrated and unified style guide
- Time-to-service (e.g. lean onboarding and KYC)
- Usability for both clients and relationship managers
- Real-time services and information
- Automate and eliminate low-value tasks
- Security
- Internal ability to change
- Scalability

No matter how, in detail, the individual platforming strategy looks likely to fit the Target Operating Model (TOM) best, some criteria remain constant for successful implementation. Foremost is that it is essential that the strategy be driven and backed by senior management beyond quarterly revenue figures. Investment in platforming capabilities is unlikely to pay off within a few months.

The strategy also needs to be robust against trends. This does not mean it has to be highly adaptable. The opposite is the case. If the costs of adapting new solutions are minimal and the time to market is short, a platform can afford to have a certain resistance against trends and observe the market for a while.

The client value has to be considered for each module to be implemented. Only solutions creating a value-add for your clients or which minimize your costs while offering a similar service quality are to be considered as worth implementing.

While relying on third party vendors, strong SLAs must be in place.

Summary

Clients are getting more and more tech savvy. So fulfilling their requirements would imply an increasing number of digital services and tools.

Trying to be the market leader in all aspects is likely to overstrain the capabilities and capacities of most market players.

One meaningful solution to overcoming this dilemma could be a platforming strategy. But following such a strategy requires some considerations. These consist of what to focus on yourself and what you want to let vendors offer via your platform, but also which products and services you want to focus on with the entire platform. Comprehensive SLAs have to be in place for all outsourced modules including rules for maintenance. Beyond business considerations, technical aspects need to be taken into account. The most critical factor when building a successful platform is to ensure the easy and fast integration of third-party providers.

The major advantage of following a platform strategy is the high likelihood of harvesting your current strong relationship with your clients by adapting the product and service offering to your clients' needs. Doing so will enable you to remain in the nexus of their financial lives while providing best-in-class solutions.

Incumbent PBWM firms following a platform strategy are capable of disrupting the market as they have access to both critical aspects, the customer

access and an offering matching (or even creating) client needs. Innovating often comes in line with self-cannibalizing established revenue streams from traditional offerings but will form the foundation of future earnings and increase the pressure on competitors and, last but not least, working closely together with new entrants will shorten the time-to-market dramatically, if done in a lean way.

Digitalization moves from being an incremental affair to an increasingly dynamic and critical strategy differentiator as incumbents disrupt multiple aspects of the value chain. Incumbents now have the option to ensure being part of this disruptive process. Catching up at a later stage is likely to be very hard and expensive.

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