Wealth management and private banking
Connecting with clients and reinventing the value proposition

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The wealth management and private banking industries have changed significantly over the past few years.

Increased regulation and tax transparency requirements in the aftermath of the financial crisis have caused a significant shift from offshore to onshore wealth management. Moreover, emerging market players are targeting developed markets while developed market players are seeking growth outside of their home markets.

In this context, many wealth managers and private banks have optimized their operating models. Nonetheless, we believe that the industry has yet to address the challenge of redefining the complete spectrum of value propositions made to clients, and how value is delivered to clients through a combination of products and services, channels and pricing. To explore this avenue, we have conducted a survey to assess how industry players in Europe and internationally are reinventing their value propositions.

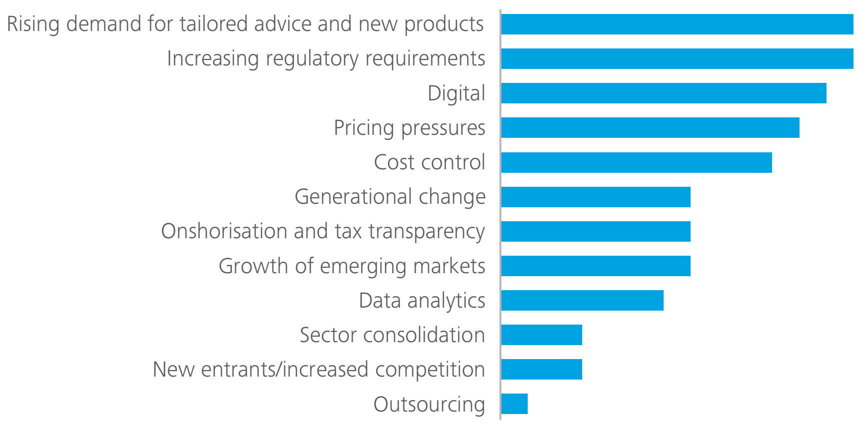
Overall, known challenges persist but the need to reinvent value propositions is high up on the strategic agenda

This survey confirms that the wealth management and private banking industries continue to experience profound economic, regulatory and technological changes and there is continued pressure on industry players to revisit their business models and client value propositions. These "usual suspects" coupled with the increasing attention on cost control and rising demand for tailored advice are still at the top of the agenda for the industry.

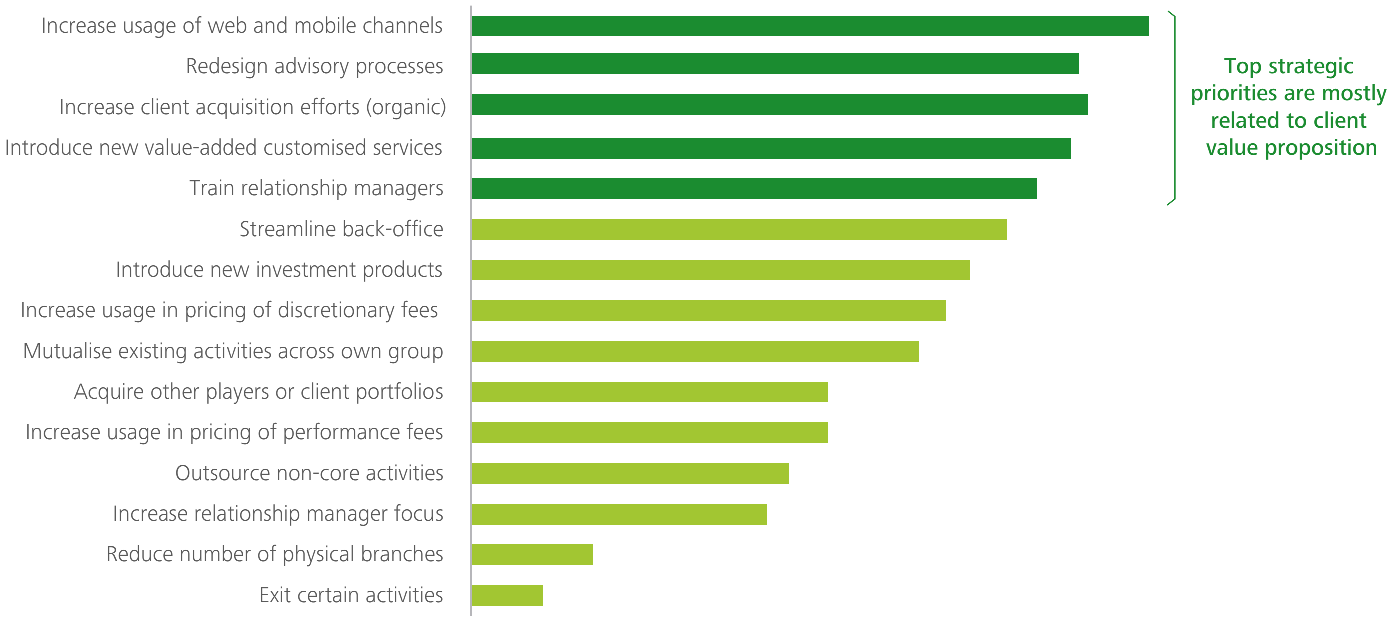
In Europe, we have observed two different models emerging in the last few years since the financial crisis. Some firms, in particular the large international banks (e.g. U.S., UK, French and Swiss banks) but also regional champions, are focusing on achieving scale and the development of a strong integrated banking offering, which combines traditional wealth management with loans, banking and other services enabled by a bank infrastructure. In parallel, other players are focusing on pure-play wealth management, placing increased emphasis on the relationship aspects of their business, focusing on providing client-centric solutions and high quality advice through the selection and use of multiple third party solutions. In parallel, defining how to expand or refocus the geographic footprint is an important consideration to balance against soft volume trends in home markets.

The survey also confirms that improving the value proposition offered to clients is among the top strategic issues for the next few years. In fact, several stated priorities by respondents relate to front activities impacting the core value proposition offered to clients, as opposed to just cutting costs or seeking external growth. In particular, the digital transition and the redesign of the advisory function and the introduction of tailor-made services are key considerations. As this next wave of change comes about, industry players should position themselves around those dimensions, for example, using digital channels beyond transaction execution and consultation to deliver advice.

Top trends affecting your institution



The priorities for your institution's strategy in the next five years



Advisory models need to evolve to reflect increasingly sophisticated client needs and bring more added value to clients

Client needs are evolving and the need for more tailored advice is increasing. Our survey confirms that the core services of providing wealth management advice and managing client portfolios need to be reinvented. The traditional model where the wealth manager makes most decisions related to the client's account is changing.

We see an increasing evolution toward advisory models where the wealth manager and the client work together, which in turn brings implications in terms of transparency, reporting and accountability. In other words, enabling self-management and allowing clients to play an active role in managing their wealth is becoming increasingly important. As investors are becoming more financially knowledgeable and tend to actively manage at least part of their assets, wealth managers are expected to provide advice and the necessary infrastructure to carry out their investments. For this model, ensuring clear and full accountability and communication with the client is key.

Next to this, we note that client expectations across segments tend to become more sophisticated and that fully standardized offerings and product-centric approaches are no longer sufficient to compete effectively. In other words, the traditional investment product and portfolio management offering itself is not the primary source of differentiation with clients. Instead, understanding clients and their needs at various lifecycle stages, and being able to provide wealth solutions beyond the investment portfolio, is critical. Important solutions in this respect include the ability to offer tax-optimized solutions across geographies and the support to clients in structuring their wealth optimally considering their preferences and lifecycle needs. Other specific services such as tax reclaim can also help deliver immediate value to clients at often limited cost.

Within managed portfolios, we are observing a shift from traditional investment vehicles to customized investment portfolios. While this service used to be accessible mainly for higher-end clients, we now see examples of firms providing tailored services with minimal investment requirements (typically around €100,000 or less).

In the aftermath of the financial crisis, clients are also demanding more transparent products and services. As they become increasingly financially literate and sensitive to financial risk, many clients expect

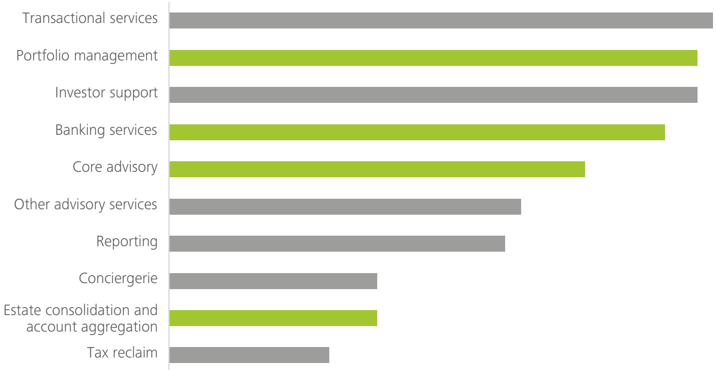
Industry players need to find new ways to add value through services such as tax optimization, wealth structuring and investor support

transparency to understand the mechanics, risk and reward trade-offs and fee structure of their investments and services. Clients often spread their holdings between providers and have gained access, or at least visibility, on investments which they can access directly with potentially lower fees. As a result, clearly disclosing fees associated with the relationship and the services offered has become a given. In other words, more than ever before, clarity on investment risks and transparency on fees and potential returns is expected from wealth managers. Current regulatory evolutions are also reinforcing this trend toward more transparency, with MiFID II bringing the need to clarify and redesign the distribution fees charged to investors.

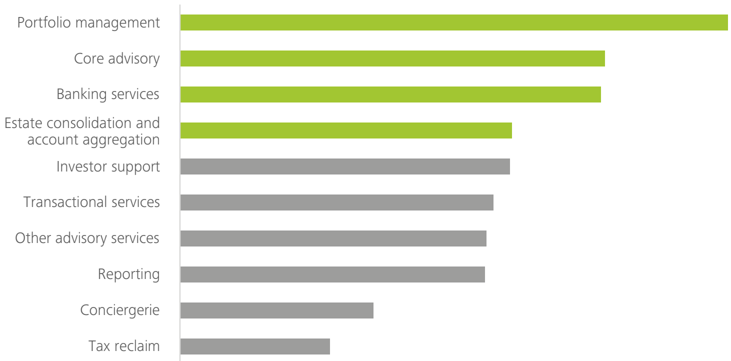
Providing differentiated alternatives for clients to generate investment returns is also important, especially in the current low-yield environment. For example, enabling clients to access broker research and exclusive market insights, or to use the bank's own trading platform directly or to gain exposure to more exclusive investment products (e.g. alternative structures traditionally reserved to UHNWI or institutional investors).

One challenge is to manage the cost of delivering more tailored advice, although typically this can be justified for clients with larger portfolios and with the highest expectations in terms of investment advice. Faced with this challenge, some established players are considering significant business model changes, either going upmarket into pure play, high quality advice, or consolidating their operations across countries to standardize offerings and cut costs. In parallel with this, we see distribution platforms gaining ground in certain markets and expect them to continue developing in the coming years.

Current product and service offering



Top contributions to your current product and service offering to further develop your business in the next 5 years



Key challenges for digital include integration with existing processes, improvement of the client experience and digital security

The digital revolution continues, bringing its own challenges

This survey confirms that digital is at the top of the wealth manager's agenda. While wealth management has historically been an industry anchored around traditions and face-to-face relationships, clients today are exposed to significant innovation in multiple aspects of their lives outside of the wealth management relationship. Clients see the benefits of this innovation, for example in terms of access to information, convenience to shop and connectivity with other people. From our various discussions, it is clear that the industry is at a stage where the importance of these external trends has been understood, and the call to go digital has been heard. However, the level of players' maturity in the markets surveyed reflects the fact that the path to digital business is not always clear, nor is the implementation and integration with existing infrastructures.

A key challenge we see associated with the digital transition is the need to improve client experience. Today, switching costs are falling due to increased transparency and comparability of wealth management offerings. As a result, client experience is becoming a key differentiator in the market. Addressing this requires players to evaluate all contact points with clients, but also to have a better understanding of clients in order to deliver advice and products tailored to their needs. There is an opportunity for players to shift from a product-centric approach to a more consultative, need-based assessment of relevant client offerings.

A corollary from the digital revolution is cybersecurity and digital archiving. To interact with clients in digital form, it is important to ensure complete immunity against any cyber-attacks or against client data leakage. This becomes even more critical at the high end of the market where an institution's reputation may be impacted significantly by any incident affecting high net worth clients. In light of this, it is our view that ensuring world-class digital infrastructure and security protocols is a fundamental pre-requisite to maintaining a strong reputation and achieving a successful digital transition.

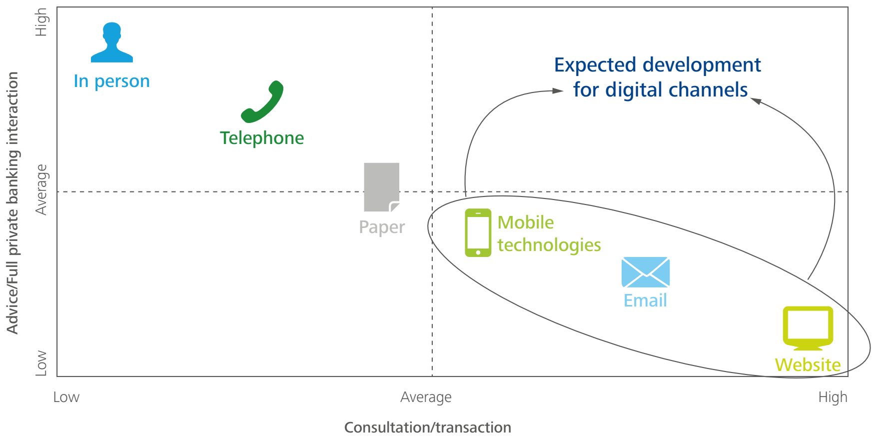
Relationships remain central to the model, but now demand multi-channel interactions and advice

In spite of changing behaviors and evolving technological requirements, and the fact that we see an increasing number of clients preferring direct/online interaction, our survey highlights the fact that maintaining strong interpersonal client relationships remains crucial.

The importance of both relationship and digital aspects highlights the need for multi-channel communications with clients (e.g. telephone, email, mobile, internet, video-conference, Skype, etc.) as a means to provide new services to clients and optimize the mix of "in person" interactions to deliver advice. Digital solutions are perceived and used today to drive convenience and cost-efficiency for execution-only services.

However, we believe combining multi-channel, digital communications with in-person interactions is critical to delivering wealth management advice. Certain players are innovating on these aspects, offering investment ideas and simulation solutions or online access to relationship managers or investment advisers. As digital channels become increasingly important to deliver advice more efficiently, evolving from a consultation and transaction medium to an interactive advisory model with the relationship manager is the key in our view. Nevertheless, the survey confirms that face-to-face meetings remain at the heart of the relationship building and critical when dealing with complex problems or important family events.

Usage by clients of each interaction channels

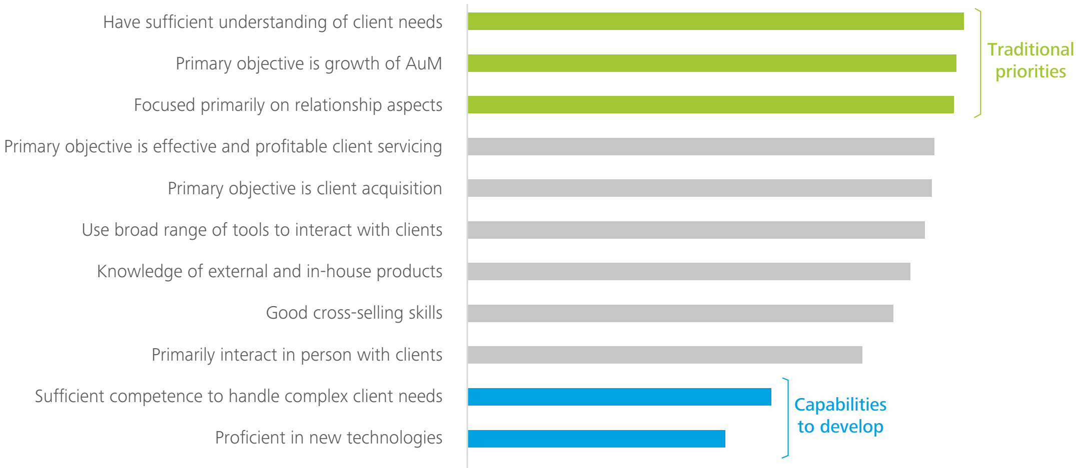


Relationship managers will need to adapt their expertise and embrace their new role as assemblers of competencies

Achieving this transition will continue to demand strong client-facing capabilities from the relationship manager, but also improvements in the current talent model. The relationship manager needs to be not only "service-oriented" but also have the ability to understand a complex problem and to call upon the right expert or specialist in various disciplines to best serve the client. As the need for more sophisticated advice increases, relationship managers will need more technical wealth engineering expertise to effectively deliver the services proposed by the institution. Relationships will be more service-oriented and less investment product-oriented. Consequently, relationship managers will need to adapt their expertise and embrace their new role as assemblers of competencies.

In other words, the emerging model is one in which relationship managers act as a single point of contact to deliver the various services and offerings of the wealth manager. In this role, the relationship manager acts as an interface between the client and the most relevant services of the wealth manager, whether these are sourced internally or externally. In order to do this effectively, relationship managers need to remain generalists but be sufficiently well-versed in technical aspects to understand client needs which may be diverse, for example in terms of tax, investment products, risk and lifecycle. Organizational and potentially remuneration models also need to be adapted to ensure that all experts and departments are incentivized to work well together to provide clients with a single view and response.

The current assessment of your relationship managers



Pricing models should evolve and take into account value perception and behaviors of different clients segments

To ensure these transitions remain economically feasible, industry players will also need to adapt their pricing models. Currently, pricing is still mostly event or transaction-based, and it needs to evolve toward value-based pricing, including advisory fees, integrated models and performance fees. In other words, the quality, value and usage of services delivered need to be translated into pricing, taking into account the needs, value perception and behaviors of different client segments.

While this trend is recognized across the industry, certain players see commercial challenges for the introduction of new advice-based or performance-based fee models. In other markets like the UK and the Netherlands, regulation already encourages specific service-based fees and this trend is already well underway.

We see other challenges in terms of pricing, namely the fact that common market practice continues to put pricing largely at the discretion of relationship managers, albeit with central guidelines. In our view, this tends to reduce transparency and pricing coherence and makes business monitoring, performance management and decision-making more difficult. In fact, we see relatively few banks that have effective tools to monitor clients' profitability or access historical fees charged to their clients. At a time when transparency is gaining more and more importance for clients, standardizing or systematizing these pricing practices is essential.

Expected pricing usage in the next 5 years:

	Increase	Stay the same	Decrease
Advisory fees (e.g., per hour spent, per structure designed)	92%	0%	8%
All in one model (one fee combining all of the above)	82%	0%	18%
Performance fees (e.g., on annual portfolio performance)	75%	17%	8%
Management fees (e.g., on assets under discretionary mandate)	60%	35%	5%
Custody fees (e.g., on assets held in custody)	35%	29%	35%
Transaction fees (e.g., by order executed)	17%	33%	50%