Profit increase via improved service and sales effectiveness
Increased front office efficiency

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The front office has less and less time to service customers due to the ever increasing volume of administrative and compliance tasks. How can front office efficiency be improved?

Regulatory changes in cross-border banking and customer protection and a shift in customer behaviour, combined with increased competition with other financial hubs are causing Swiss banks to face new challenges. They also have increasing implications for relationship managers' schedules. New laws and compliance policies increase the administrative costs of customer acquisition and service. According to a Deloitte study, the time allocated directly to customer interaction has decreased from around 70% to 50% over the last five years. The main reason for this decline is the rising compliance and administrative workload involved, especially when serving foreign customers. The introduction of additional customer protection laws (e.g. the MiFID II regulation) will further intensify this trend. The resulting additional effort, together with a falling customer interaction time, leads to a reduced profit margin. This means that productivity and customer orientation become the focus of attention. With respect to a clear value proposition and service offerings, wealth managers have to determine which customers they should serve actively and which to serve only passively. This is the only way they will be able to lift margins back up to a pre-crisis level. Successful customer focus management therefore consists of three components: customer orientation, customer interaction, and (customer) organisation. However, according to a recent survey of wealth management CEOs, the customer interaction component is the most important differentiation factor. The differentiation itself can be further clustered into three areas: capacity, effectiveness and efficiency.

An increase in capacity can be accomplished with the establishment of the correct IT solution. It connects customer relationship management, portfolio management and monitoring as well as reporting. In addition, the deployment of integrated technologies enables relationship managers to provide more targeted investment advice and, with regards to MiFID II, investment advice that is best suited to the customer. Together with the automation of administrative and compliance processes, it is essential to utilise relationship managers' remaining time as effectively as possible. Firstly, wealth managers should focus on the most attractive customers. In this context, attractiveness is defined according to several factors, such as total revenue, new

investment potential and price enforceability. Secondly, it is important that target customers come from geographic markets offering attractive profit and growth potential. Thirdly, each relationship manager should only focus on a few attractive target markets. Markets that are not considered a priority should be managed either passively or not at all. This geographic and customer focus increases the effectiveness of the front office significantly, and therefore contributes to an improvement in the cost-revenue ratio.

Another lever to raise productivity is an efficiency increase during customer interactions. This can be achieved with significantly lower effort when customers are consulted based on their risk profile. At the same time, relationship managers need to be supported by tailored IT solutions that allow capturing and cross-selling of potentials. When reshaping customer interaction, it is important for employees to implement the intended improvements successfully and this can be achieved through the adaptation of the compensation model. According to a Deloitte study, the compensation structure and performance measurement are the leading mechanisms.

Several Swiss banks have already adapted their compensation structures or are currently preparing to do so. Plans to update performance measurements, however, have not progressed at the same rate. Nevertheless, measurement indicators increasingly shift away from pure revenue and AUM considerations towards profitability indicators.

Initiatives from individual banks have shown that the pre-tax profit margin can be increased by up to 20% through an improvement in service and sales effectiveness. However, not all banks have accepted that challenge yet. Nevertheless, regulatory pressure and increasing competition make it difficult to exclude the front office from effectiveness improvement initiatives.

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