Asian Private Banks: How to Embrace Digital Transformation

As Asian investors increasingly use social, mobile and analytics technologies for their wealth management needs, private banks must take a digital approach to more effectively deliver meaningful, high-value-adding interactions and tailored advice.
Executive Summary

Wealthy clients in Asia are actively using digital tools and are expected to rely more on them in the coming years for their wealth management needs. However, private banks in Asia continue to lag behind their clients in adopting digital technologies, especially social media and mobile. On the internal front, they face challenges from information silos, a dearth of skilled employees, fragmented operations and legacy systems. Externally, they face regulatory restrictions and threats from lean startups and non-banking firms. Banks’ revenues and margins are also being adversely affected by rising regulatory burdens, talent shortages, increasing client acquisition and servicing costs, and low advisor productivity.

To deliver meaningful, high-value advice to clients, banks need to gear up for their digital odyssey by taking the following steps:

• **Create a holistic digital banking strategy:** Banks embarking on a digital transformation should clearly define their objectives and create a holistic digital banking strategy to achieve them. Banks should evaluate their current maturity and readiness levels to build a digitally-enabled business and leverage existing systems. They also need to strike the right balance between technology and high-touch advisor services to create a model in which both of these service delivery channels symbiotically supplement each other.

• **Manage change:** To ensure the success of a digital transformation initiative, banks should manage change and address employees’ concerns about such initiatives.

• **Derive value by deploying digital.** This can happen in a number of ways.

  » **Digital-empowered targeting:** Banks should tap into the potential of social, mobility and analytics to differentiate their value proposition. By using digital technologies, they can understand and target their customers accurately with customized products and services that can be delivered anytime and anywhere.

  » **Enhanced customer experience:** A unified view of their clients can help private banks spot up-sell and cross-sell opportunities. Banks should leverage their technology platforms and use the digital information that customers generate through their online interactions and transactions (what we call a Code Halo™) to deliver unique and customized experiences to clients at every touchpoint!

  » **Improved efficiencies:** Banks should invest in a robust infrastructure, digital technologies and process automation to effectively engage with customers on digital channels and improve efficiencies.

Why Asian Private Banks Must Go Digital

**Investor Reliance on Digital Wealth Management Tools**

Asia’s wealthy are active users of digital technologies (see Figure 1). On a weekly basis, they spend an average of four hours each on instant messaging and social media channels (see Figure 2, next page). Many use digital technologies and

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**Online Activities of Wealthy Asian Customers**

<table>
<thead>
<tr>
<th>Activity</th>
<th>Hours per Week</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banking &amp; Investments</td>
<td>5.3</td>
</tr>
<tr>
<td>News</td>
<td>4.1</td>
</tr>
<tr>
<td>Social Media</td>
<td>3.7</td>
</tr>
<tr>
<td>General Research</td>
<td>3.3</td>
</tr>
<tr>
<td>Online Purchasing</td>
<td>2.3</td>
</tr>
<tr>
<td>Gaming</td>
<td>2.1</td>
</tr>
</tbody>
</table>

Source: Scorpio Partnership and Sungard

Figure 1
channels to track and educate themselves about wealth management and to select advisers based on online ratings and reviews. Over the next five years, wealthy clients in Asia are expected to increase their use of digital communications (see Figure 3). 3

According to a 2014 Futurewealth Report, 92% of the 3,025 wealthy investors surveyed worldwide were going online to learn about and support their wealth management transactions and decisions. 5 For instance, clients reviewed portfolios, checked performance analyses, read market reviews and found securities information on the online accounts provided by their banks.

### Private Banks in Asia Lag Behind Customers

There are numerous reasons why private banks in Asia are playing catch-up with customers who use digital tools to manage their wealth. These include:

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**Asian Wealthy Are More Tech Savvy**

Time spent on various methods of communication each week.

![Graph showing time spent on various methods of communication each week](chart)

Source: Scorpio Partnership

Figure 2

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**Rising Use of Digital Communications**

How long do you currently spend using the following communications each week, and do you plan to use these communications more in five years’ time?

<table>
<thead>
<tr>
<th>E-mail</th>
<th>Meeting Face-to-Face</th>
<th>Telephone Calls</th>
<th>Secure Web Portal</th>
<th>Social Networking</th>
<th>Written</th>
<th>SMS</th>
<th>Instant Messaging</th>
<th>VOIP (Skype)</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.9 hours</td>
<td>4.5 hours</td>
<td>3.9 hours</td>
<td>3.5 hours</td>
<td>3.2 hours</td>
<td>3.0 hours</td>
<td>3.0 hours</td>
<td>2.6 hours</td>
<td>1.9 hours</td>
</tr>
</tbody>
</table>

Source: Scorpio Partnership

Figure 3

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• **Slow adoption of mobile and social media:** We studied 21 top private banks operating in Asia. Of these, three-fourths do not offer a full-fledged mobile wealth management app to their clients. Of the 50 leading global private banks surveyed by Assetinum in 2012, only 22 had a smartphone-optimized Web site, while 14 banks did not have a mobile app. According to a Wealth Briefing report, in 2013 a significant percentage of institutions globally did not offer mobile apps and social media channels to help clients communicate and transact. This, however, is expected to improve in the next three years (see Figure 4).7

• **Internal challenges:**
  
  » **Skills:** With a dearth of skilled analysts, private banks are struggling to derive meaningful insights from client data. In a CEB survey, 60% of respondents said it was important to organize data for decision-making and actionable business analytics, but only 36% believed their organizations had the ability to do so.8
  
  » **Organizational structure:** The organizational structure at most banks results in information silos, with each group owning and mining its own data sets. With many firms lacking a central team with a mandate to run digital technologies across silos, they fail to leverage the true inferential and predictive powers of digital technologies.
  
  » **Fragmented operations:** Many firms’ functional systems architecture lacks standardization, proper integration and consistent firm-level semantics. Combined with a lack of a strategic vision for managing IT, this results in IT teams implementing tactical fixes without resolving the underlying issues.
  
  » **Regulatory restrictions:** In a study by DST Global Solutions,9 34% of respondents said a key concern was managing cross-border data to properly classify clients to comply with cross-border rules. Further, 42% of respondents said a major challenge for managing client data was complying with regulatory restrictions to safeguard client data when moving across regions.10
  
  » **Legacy systems:** The pervasiveness of legacy systems and low-technology channels makes it difficult for banks to meet compliance requirements and service clients efficiently. Banks also find it difficult to integrate the real-time nature of mobile and online services with their legacy, back-end core systems.

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**Digital Revolution Underway**

Institutions that enable clients to transact business or issue instructions through digital channels now and in three years’ time.

<table>
<thead>
<tr>
<th>Institutions that offer clients digital channels for communication purposes/access to portfolio information now and in three years’ time.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent of Institutions</td>
</tr>
<tr>
<td>Dedicated Web site</td>
</tr>
<tr>
<td>0</td>
</tr>
</tbody>
</table>

Note: Respondent base includes chief technology officers of firms that cover major wealth management markets and together have over $1 trillion of assets under management.

*Source: Wealth Briefing*

*Figure 4*
• **Need to overhaul existing infrastructure:** In many cases, poor investment data practices and information silos leave banks with incomplete and fragmented client and investment data. This makes it difficult for banks to decipher and understand customer portfolios. Banks will also find it difficult to meet the rising demand for an integrated and online client experience unless they overhaul their infrastructure (see Figure 5).

Use cases for industrializing the advisory process include:

» Streamlining the client onboarding process to avoid multiple data entries.

» Automating risk and suitability assessments when clients order a specific product.

» Sending targeted product information or investment ideas to clients based on their suitability and risk profile.

» Generating a unified reporting view across multiple accounts.

• **New competitors:** Lean startups and other non-banking firms have started offering automated investment advisory services. While they have not yet targeted the ultra-high-net-worth (UHNW) segment, they are likely to disrupt the industry in the future. This will put pressure on incumbent players to invest significantly in technology just to keep up with the new entrants.

• **Cost pressures from rising customer acquisition and servicing costs.** Banks face increasing costs of acquiring and retaining high-net-worth (HNW) clients in Asia who have relationships with multiple banks. Similarly, the cost of acquiring and retaining talent is

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**Business Priorities of Asian Wealth Advisors**

<table>
<thead>
<tr>
<th>Priority Level</th>
<th>Business Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Business Intelligence</td>
</tr>
<tr>
<td>2</td>
<td>CRM Systems</td>
</tr>
<tr>
<td>3</td>
<td>Risk Management Tools</td>
</tr>
<tr>
<td>4</td>
<td>Financial Planning Tools</td>
</tr>
<tr>
<td>5</td>
<td>Recruitment</td>
</tr>
<tr>
<td>6</td>
<td>Investment Research, Market Feeds</td>
</tr>
<tr>
<td>7</td>
<td>Training</td>
</tr>
<tr>
<td>8</td>
<td>Compliance Tools</td>
</tr>
<tr>
<td>9</td>
<td>Portfolio Modelling Tools</td>
</tr>
<tr>
<td>10</td>
<td>Branding &amp; Marketing</td>
</tr>
</tbody>
</table>

*Source: Scorpio Partnership*

**Figure 5**

In the absence of robust integration of the digital technology infrastructure in the front, middle and back offices, banks will find it difficult to achieve efficiency and seamless operations – a prerequisite for clients in the digital age. Industry executives cite industrializing the advisory process and automating back-end processing and compliance solutions as top priorities for their wealth management platforms (see Figure 6).

**Priorities for Wealth Management Platforms**

*Source: Hubbis audience sentiment poll, Asian Wealth Management Forum 2013, Singapore*

*Figure 6*
increasing due to a dearth of talent. According to McKinsey & Co., private banks’ cost to serve clients was higher in 2011 compared with 2008-2010 due to a rise in compensation and reduced advisor productivity, coupled with greater client servicing requirements (see Figure 7).\(^{15}\)

Stringent and complex regulatory environments across Asia are driving up compliance costs. Regulations such as Basel III, for instance, hamper banks’ abilities to generate profits using their balance sheets.\(^{16}\)

Revenues continue to be under stress. At 80%, the cost-to-income ratios of private banks in Asia are among the highest in the world.\(^{17}\) The margins for banks are decreasing as clients deleverage portfolios and opt for simpler products to reduce risk.

- **Low advisor productivity:** The average number of clients handled by Asian advisors is 86, which is higher than the global average of 50 to 60 clients.\(^{18}\) The inability to forge strong relationships with clients and the lack of access to productivity-enhancing digital technologies is making it more difficult for advisors to capture additional client assets. Advisors in Asia have, on average, 20% less assets under management than those in Europe.\(^{19}\)

**Gearing Up for the Digital Odyssey**

**Create a Holistic Digital Banking Strategy**

Digital transformation is not just about adding new technology-enabled features or applications; it is an entirely new business and service model. Banks embarking on this journey should start with well-defined objectives:

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**Profit Margins in Asia Under Pressure**

**Basis points (assets under management), 2011**

<table>
<thead>
<tr>
<th>Net Revenues</th>
<th>U.S.</th>
<th>Western Europe</th>
<th>CEE*</th>
<th>Asia**</th>
</tr>
</thead>
<tbody>
<tr>
<td>78</td>
<td>83</td>
<td>107</td>
<td>78</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Operating Costs</th>
<th>U.S.</th>
<th>Western Europe</th>
<th>CEE*</th>
<th>Asia**</th>
</tr>
</thead>
<tbody>
<tr>
<td>53</td>
<td>59</td>
<td>54</td>
<td>67</td>
<td></td>
</tr>
</tbody>
</table>

**Operating Profit**

<table>
<thead>
<tr>
<th>U.S.</th>
<th>Western Europe</th>
<th>CEE*</th>
<th>Asia**</th>
</tr>
</thead>
<tbody>
<tr>
<td>26</td>
<td>24</td>
<td>53</td>
<td>11</td>
</tr>
</tbody>
</table>

**Key**

- Decrease
- Increase
- Stable

*CEE: Central and Eastern Europe
** Excluding India

*Source: McKinsey Private Banking Survey Figure 7*
• First, banks need a long-term strategy with a tangible digital blueprint. The digital blueprint should be extensible, capable of adapting to evolving changes in regulations, markets, technology, product strategy, client interactions and engagement. It should also have a client-centric view and specific measurable goals.

• Second, banks should have a tactical plan that delivers immediate wins and addresses client and internal demands, while helping the bank establish its digital presence. Banks should also develop product, pricing and servicing strategies (utilizing digital technologies) to meet the needs of every client segment.

• Third, banks should evaluate their current maturity and readiness and focus on how best they can leverage their existing systems to build a digitally-enabled architecture and business.

Digital transformation is not about replacing the high touch that associates currently deliver with digital tools and technologies. Instead, banks need to balance technology and touch to create a model in which both approaches symbiotically supplement each other. Banks can combine personal client relationships with technology-enabled services to deliver collaborative and virtually enriched relationships. This will help banks serve clients with a tailored combination of traditional and digital banking services and offers.

The agility and ability of banks to adopt processes and technologies will be vital to building a digitally enabled architecture. Banks must redefine their value proposition to clients by using technology to manage and simplify the complexity of their wealth management offerings. They should build capabilities to efficiently segment and target key customer groups with tailored products using efficient distribution strategies.

To succeed, private banks should fundamentally shift their mindset and focus from selling products to servicing clients.

To succeed, private banks should fundamentally shift their mindset and focus from selling products to servicing clients. The strategy should include a long-term view and commitment as most digital transformation initiatives are multi-year undertakings. (For more on building a roadmap for a digital transformation initiative, read our report, “Digital Banking: Enhancing Customer Experience; Generating Long-Term Loyalty.”)

Manage Change to Ease Transformation
Managing change is essential to the success of a digital transformation initiative. To start with, top management should exhibit strong leadership to drive change across the organization. Private banks should take steps to effectively address any concerns or resistance that advisors might have about digital transformation initiatives by setting up multiple channels of communication and digital banking champions.

To allay advisor concerns of being disintermediated by digital tools and self-service digital channels, organizations should deploy digital technologies to handle non-value-adding activities such as administrative tasks, scanning documents, sharing client information with back-end systems and document management. This will save advisors time and provide unified views of customers for them to deliver tailored advice. Banks should then focus on helping advisors use the extra time and digital tools effectively and deepen their relationships with clients, which will likely result in increased revenues.

The reallocation and realignment of traditional responsibilities among departments will require a major design effort. Digital transformation initiatives usually involve significant cost and effort, as well as a potential re-engineering of systems and processes. Banks should take this into account and carefully redesign their processes and operations to support seamless omni-channel experiences.

Derive Value
Analytics, big data, mobile and social media can help banks develop a granular understanding of their customers and deliver differentiated, value-adding services to them.

• Offer personalized products and services: Banks can use the advanced information aggregation and predictive capabilities of analytics to study market trends, correlations, factor analysis and “what-if” scenarios that can forecast fund performance. They can also anticipate changes in market conditions, client preferences and cross-selling opportunities. Banks can use analytics to study clients’ investment strategies and returns and select the best of these to generate highly
personalized offers and information. They can deploy analytics to identify what customers need, such as in-depth analysis that is relevant to their investment portfolio and tailored to meet their risk appetite. Delivering this kind of service in real-time to the right clients can become a strong selling point for banks.

Consider Commonwealth Bank of Australia, which unified its data foundation by modernizing its IT systems and strategically investing in analytics, social media and mobility. This capability is allowing the bank to provide personalized offers that are relevant to a customer’s needs. For instance, it offers home loans and insurance products to clients who visit its site after searching for properties online. Similarly, the bank also collects and analyzes transaction and other data to determine appropriate products with the right pricing for its customers.

- **Serve clients quickly, anytime/anywhere:** Mobile tools can improve the quality of service and advice, streamline the sales process and save time for advisors (see Figure 8). Through improved presentation of data and insights, mobile tools can help advisors deliver a high-quality client experience. Advisor productivity can be improved by deploying front-office tools that are accessible anytime and anywhere. Query processing and data retrieval can be performed quickly using comprehensive analytics and reporting tools.

- **Target clients accurately:** Banks should combine their client data (structured and unstructured) from their core systems with social media content to get a unified and accurate picture of their clients. Approximately 70% of HNW clients in Asia look to validate their wealth management decisions with their peers using social media. Banks can leverage this behavior by deploying targeted marketing campaigns and sharing their latest insights and research with clients via social media platforms. They can also connect clients who share common interests. For instance, Jyske Bank, a Danish private bank, makes heavy use of social media to engage with, update and build online communities of customers.

As clients in Asia place more importance to peer feedback and word of mouth, banks should use social channels to build their brand and develop advocates from their client group. Private banks should identify prospective clients using their public profiles that can offer

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**Tools Begin to Matter**

Advisors find mobile tools boost their effectiveness and efficiency.

![Bar chart showing effectiveness and efficiency of mobile tools](chart.png)

- **Ineffective**
- **Effective**

Respondent base: 1,422
* More than one response allowed.
* Source: CEB Wealth Management Advisor Benchmark, 2012

Figure 8
insights into their lifestyles, major milestones in life and interests. Banks can also use such data to determine high-value clients to pursue. They should leverage their existing client base to see if they can provide introductions and recommend their contacts or acquaintances with high net worth. Jyske Bank’s online TV station, a key differentiating feature, provides advice about market trends, asset management and investments to its customers through expert interviews. In addition, the TV channel’s Web site allows customers to interact with each other and pose questions to experts. The bank also offers an iPhone app for clients to manage their accounts.

• **Enhance customer experience:** Investors seek the same kind of highly personalized, seamless and consistent experience from banks as what is provided by companies outside the financial services industry (think retail, media and entertainment, etc.). To provide such experiences, banks should learn about their clients from every interaction to understand and anticipate their needs accurately. Banks should leverage their technology platforms and make use of Code Halos to deliver unique and customized experiences to clients at every touchpoint.

Private banks must then adopt enterprise-wide approaches to manage and share client information to improve the flow of and access to information by all stakeholders to improve client servicing. Advisors need to be equipped with customer insights, tools and capabilities that can tell them accurately what their customers need. This can be achieved through the smart management of digital information, the use of advanced analytics and the integration of digital channels.

Banks can use gamification to simplify interactions and make routine tasks fun and engaging for employees. Gamification can also help banks educate clients on wealth management and encourage desired client behavior. Consider FlexScore’s online investment advisor tool that leverages gamification to engage clients and explain goal-based wealth planning to them. Consumers are awarded a numerical score between 1 and 1,000, which reflects their financial health. Users are awarded points for their actions, such as reading articles about investing. The tool visually explains how harmful financial decisions can decrease their score. (For more information on how gamification can help businesses, read our report, “Gamifying Business to Drive Employee Engagement and Performance.”)

• **Improve efficiencies:** Private banks should focus on building a robust infrastructure and automated processes to effectively engage with digital customers and improve efficiencies. This will require banks to integrate systems, processes and data in the front-, middle- and back-offices. Banks will also have to rewire their back-end systems to support the capabilities they want to deliver through digital channels. This will help them to

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### Benefits of Big Data for the Front Office

<table>
<thead>
<tr>
<th>Front Office</th>
<th>Capture</th>
<th>Analytics</th>
<th>Visualization</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>CRM</td>
<td></td>
<td></td>
<td></td>
<td>Aggregated data provides a unified view of customers/prospects (i.e., linking customer data to the CRM system).</td>
</tr>
<tr>
<td>Trading</td>
<td><img src="icon-circle.png" alt="Circle" /></td>
<td><img src="icon-circle.png" alt="Circle" /></td>
<td><img src="icon-circle.png" alt="Circle" /></td>
<td>Firms can combine data sources to help discover, develop and test trading ideas and strategies.</td>
</tr>
<tr>
<td>Portfolio Management</td>
<td><img src="icon-circle.png" alt="Circle" /></td>
<td><img src="icon-circle.png" alt="Circle" /></td>
<td><img src="icon-circle.png" alt="Circle" /></td>
<td>Data from multiple asset classes and longer time horizons can help portfolio managers improve performance.</td>
</tr>
<tr>
<td>Reporting</td>
<td><img src="icon-circle.png" alt="Circle" /></td>
<td><img src="icon-circle.png" alt="Circle" /></td>
<td><img src="icon-circle.png" alt="Circle" /></td>
<td>Access to aggregated data can provide better insights into reporting systems across the firm.</td>
</tr>
</tbody>
</table>

Key: ![Circle](icon-circle.png) Indicates significant interest in a particular feature of big data

*Source: Celent*  
*Figure 9*
accurately trace orders and fully automate and control processes. It will also enable orders to be handled consistently, reduce error rates through reduced manual intervention and boost the rate of straight-through processing (STP). Automation of processes and digitization of data will result in improved regulatory reporting and help create efficiencies that can balance high compliance costs.

Private banks can also offer clients self-service digital tools to manage their wealth. Online portals, video, e-mail and social media can help banks more efficiently build sustainable client relationships. Banks can reduce costly face-to-face advisor interactions by providing clients with interactive self-service tools. Similarly, video-based tools on mobile devices can be used to serve clients anytime and anywhere. Low-cost digital channels can reduce the cost of operations and providing advice, while continuing to provide interactive communications. Banks should focus on combining and providing the expertise of their internal departments and experts to clients using mobile technologies.

• **Improve revenues and reduce risk:** Banks should aim to restructure their systems to perform more targeted, effective and relevant data mining. By eliminating silos and focusing on centralizing data and integrating disparate systems, banks can update and unify client information across their systems for real-time retrieval and usage. Additionally, banks can create opportunities to up-sell and cross-sell their offerings by using insights gleaned from client data (see Figure 9, previous page). Access to and the ability to view client data across silos can enable advisors to generate 47% of revenue from new sales compared with 36% for advisors who do not have such access. Banks can also reduce their operational and reputation risk by using big data to understand their customers better and improve their investment research and trading capabilities.

**Footnotes**


3 Ibid.

4 Survey respondents had an average worth of $2.9 million (USD).


DST Global Solutions Ltd., a wholly owned subsidiary of DST Systems Inc., provides technology solutions and services to the world's top financial institutions, utilities and communications companies.


“Industrializing” means to streamline and automate the interactions between advisors, clients and processes.

Dragon Wealth and Wealthfront.

Baidu, Alibaba, Google, PayPal and telcos.


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