Digital Transformation of U.S. Private Banking

The unrelenting digitization of business, amid continuous regulatory change and soaring operational costs, is materially impacting U.S. private banks, requiring them to rethink their business models and accelerate their push to meet the ever-rising expectations of digitally savvy high-net-worth clients.
Executive Summary
Even as they struggle to generate new wealth in a mature market amid ever-growing regulations, U.S. wealth managers face a wave of digitization that will completely transform the way they interact with the wealthy, and especially the young wealthy. Across age groups, wealthy Americans are tech-savvy, digitally connected and accustomed to unprecedented levels of personalized engagement with Web commerce leaders. Digital technologies have enabled consumers to access information, interact and collaborate with peers and conduct transactions on an anytime/anywhere basis through mobile smart devices. As these experiences become embedded in their daily lives, wealthy investors expect a similar experience in the wealth management area. Specifically, they want more tools that help them make investment decisions and provide flexible ways to interact with their financial services advisors.

For private banks, however, the implications of digitization go beyond meeting customer demands. The SMAC Stack™ (social, mobile, analytics and cloud) can transform private banking business models by enabling an integrated and cohesive enterprise architecture that powers new business capabilities beyond what is delivered by the existing assortment of disconnected digital technologies. A successful transition to process digitization will create efficiencies by automating back- and middle-office tasks. It will also provide an analytical boost that helps banks better understand their customers’ changing needs and proactively create offerings and services. For advisors, a robust enterprise architecture will provide them with easier access to client data, allowing them to deliver high-value advice.

Customer centricity has always been the essence of private banking. Now, banks need to extend customer centricity with the power of digital technologies. Banks can better understand their clients’ digital journeys by collecting and analyzing the data generated by their digital behaviors and online activities, which we call a Code Halo™ (the digital information that accumulates around people, organizations and devices). By getting to know customers by analyzing their Code Halos, banks can begin offering more personalized products and services that meet and anticipate customer needs. Doing so will mitigate the risk of losing mindshare and market share, create operational efficiencies, drive product innovation, improve customer acquisition and retention, and enhance regulatory compliance.

We believe the key imperatives for private banks to succeed in the digital age are:

- Create a holistic “digital-first” banking strategy.
- In addition to a long-term strategy that defines the digital blueprint, develop tactical plans that deliver quick wins.
- Understand their digital maturity and readiness before embarking on transformational change.
- Create tools to empower both clients and advisors.
- Build a business model that enables flexible and adaptable pricing and product strategies.
- Drive change in a way that addresses the concerns of everyone impacted by digitization.

Forces Driving the Need for Digitization in Private Banking
Customer Adoption of Digital
Wealthy U.S. investors have always been ahead of private banks on the technology adoption curve. With digital technologies, however, the gap is huge – and growing. The reason: Consumer-facing technologies – mobiles, tablets and related services – have evolved so rapidly and gone mainstream so quickly that private banks have had to scurry to catch up.

The importance of digital technologies to wealthy U.S. investors is set to accelerate (see Figure 1, next page). In a recent study, over 80% of Gen X and Y millionaires and 25% of baby boomers said they like trying new technologies. The former want apps that reduce reliance on face-to-face meetings with advisors. They are self-driven and feel knowledgeable about investing; unlike boomers, they look for validation, not delegation, of their investment decisions to advisors. For the mass affluent in the U.S., social media is a driver of action (see Figure 2, next page).

For wealth managers, the larger trend is clear: Investors want private banks to use technology that empowers them with wealth management tools and provides advice anytime, anywhere.
Confidence. They want to see their advisors focus on generating wealth, accompanied by strong risk management and wealth protection frameworks.

Pressure to Boost Revenue and Contain Costs
U.S. private banks are increasingly under pressure to generate higher returns, even as costs continue to increase (see Figure 3, next page). Over the past few years, rising costs have only been marginally lower than revenue growth. High advisor compensation and growing compliance and risk management costs are major factors that are likely to increase unless they are proactively addressed. Private banks, therefore, must build capabilities that will allow them to do more with less. The steps to get there include greater process automation, cost-cutting, better use of enterprise data to improve advisor productivity, and the ability to provide differentiated advice that boosts client retention (see Figure 4, next page).

The need to go digital is accentuated by client demand for transparency on pricing and product bundling/unbundling. For investors, past performance is just one factor used to assess advisor confidence. They want to see their advisors focus on generating wealth, accompanied by strong risk management and wealth protection frameworks.

**Social Media Usage Leads to Action**
Among the mass affluent who use social for both discovery and consideration, nearly two in three are driven to action as a result of what they learn.

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Note: Percent of respondents indicating high contribution of digital engagement to success.
Source: "The Digital World of the Super-Wealthy," Scorpio Partnership

Figure 1

**Advisors Need Digital to Build Trust**
Empowered customers need equally empowered advisors. When advisors are equipped with smart devices loaded with useful apps that provide real-time access to client information, they can be more productive and provide the most relevant offers and advice based on the client’s risk profile. Social media is an effective tool for improving client communications and understanding their sentiment and behavior patterns.

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Many private banks had added some level of automation to customer-facing processes, but systems are still vulnerable to errors caused by manual intervention. Along with ever-present demand for transparency, client data security and compliance reporting requires banks to access data on both a regular and ad hoc basis, private banks also need real-time access to data and the ability to capture, analyze and visualize this data for business purposes, such as CRM, trading and portfolio management. Real-time access to data is also necessary for monitoring various metrics related to internal processes. This data needs to be high-quality and highly relevant. Banks, therefore, must create advanced analytical capabilities that can help them glean insights from continuously growing data. Banks operating
in multiple geographies will need systems that can manage cross-border data related to clients and regulations.

Banks need to aim for seamless digital processes with minimal manual intervention in their back offices. In the front office, where human interaction matters more, “high touch” should be augmented with digital offerings that can enhance advice quality and advisor productivity, leading to reduced costs and an improved customer experience.

Regulations
Private banks are besieged by regulations all over the globe, and the resulting data requirements are overwhelming their existing systems. Banks also need to create a holistic and real-time view of their risk management efforts. In such a scenario, automated regulatory reporting processes can ease the pressure on bank resources.

Private Banks’ Technology Gap
For most private banks, the job of catching up with digital technology advancements seems to have just begun. Figure 5 (next page) offers a perspective of where private banks stand relative to digital technology adoption to improve the customer experience. Recent surveys add additional insights into the current state of affairs:

- MyPrivateBanking analyzed 30 global wealth managers and found that only seven manage a Facebook page, while 14 provide wealth management Twitter streams.
- MyPrivateBanking also found that wealth management Web sites fall short on social media

Costs, Regulations and Clients Are Influencing IT Spend

Please rank the following business drivers based on their importance in setting IT priorities for 2013 in the full-service wealth management organization or the private bank.

| Leading business driver of 2013 technology budgets | Reducing costs |
| Second most important driver of technology budgets | Meeting regulatory requirements |
| | Attracting new clients |
| | Retaining/attracting advisors |
| | Retaining clients |

Base: Nine private banks; respondents were allowed to select more than one response.
Source: Aite Group, 2013
Figure 4
integration and transparency in areas such as communicating portfolio performance, assets under management and advisor remuneration.\(^5\)

- According to the Boston Consultancy Group,\(^7\) 40% to 60% of high net worth (HNW) investors want to video-chat with their advisors, but only 20% of advisors offer that capability.

- Whereas 60% of clients want investment recommendations and portfolio analysis delivered online on both Web and mobile applications, only half of wealth management firms offer such a service.\(^8\)

**Legacy Systems and Mindsets**

One crucial factor that hampers private banks’ ability to meet clients’ digital expectations is legacy systems. Wealth management firms have taken a stop-gap approach, adopting new technologies rather than undertaking a complete replacement. This has led to the creation of complex, fragmented and hard-to-manage systems that come with long-term implications in the form of high operational costs and inefficiency. Only 9% of wealth managers even consider digital channels as a top corporate priority, a clear indication of how much digital technology is underestimated.\(^9\)

Such low interest has a direct impact on advisor productivity. At a time when organizations across industries are looking for ways to use big data and analytics to glean insights about customers, products and processes, private banks lag behind when it comes to harnessing data for actionable business analytics and decision-making. According to the CEB,\(^10\) only 36% of advisors trust their firm’s ability to do this.

In direct contrast, digital natives (technology-driven, non-bank wealth management firms) are striking the right chords with their tech-savvy customers by interacting through digital channels. In doing so, they are able to operate at lower costs and pass on the benefits to their clients. At one such startup, the New York-based financial advisory firm Betterment, almost 60% of the 40,000 customers reportedly use its app while accessing the Web site almost exclusively on their mobile phones.\(^11\)

It is not surprising, then, that wealth management firms are scrambling to meet the digital needs of their tech-savvy clients.\(^12\)

**The Promise of Digital**

**What Private Banks Can Expect from Digital Transformation**

It may have been inconceivable just a few years ago, but the SMAC Stack is making it possible to perform investment transactions entirely through digital channels. For example, clients at more progressive firms will soon receive daily updates on portfolio performance through a mobile app. They will be able to track the bank’s social media posts for further updates and ultimately video-conference with their advisors for making a buy-sell decision.

Citi Private Bank, for example, recently began providing data-driven research features, such as what-if scenarios, portfolio views and performance analysis tools in its iPad app. Citi and Merrill Lynch are also testing video chat features in their apps.\(^13\) Such services would be supported by an enterprise architecture that integrates various digital and personal touchpoints, such as smartphones and tablets, to enable seamless sharing of data and analytics. This will provide necessary insights into client needs and desires to the advisor on a real-time basis.

Cloud computing and big data will be at the heart of this enterprise architecture. Tracking customer
interactions across touchpoints will enable banks to create a unique profile for each client, based on the client's Code Halo, which will enable further personalization.

Key benefits that private banks can target through digitization are manifold.

**Improved Operational Efficiencies and Productivity**
Advisor productivity and revenue generation can be vastly improved if advisors have access to a data management system that provides a consolidated view of client data across silos. In this scenario, the front office would have access to a visual depiction of the client's relationship with the firm, allowing it to provide higher quality, more informed service. Big data analytics also help process analyst queries faster and allow advisors to deliver a high-quality client experience and high-value advice while minimizing the loss of productive hours in data retrieval and presentation. Greater automation in the front- and back-offices can also reduce manual error, thus enabling a higher rate of straight-through processing (STP).

**Higher Quality Advice**
To provide anytime/anywhere advice that is also top-notch, banks need to be aware of client preferences and behavior patterns in order to predict their requirements and tailor advice accordingly. They need to be able to:

» Gather and analyze more types of client information.

» Enable easy access to front- and back-office data.

» Share data with clients seamlessly across various channels.

By analyzing large data sets about customer profiles and their investment choices, banks can create a pool for high-quality advice that can be made readily available to new clients with matching preferences. Morgan Stanley, for example, moved from traditional grid computing to big data analytics, which allows the company to match clients' financial objectives with investment insights that can improve investment decisions.14

**Customer Experience and Loyalty**
Digital channels allow banks to provide self-service applications and planning tools that can empower clients and improve client satisfaction. The mobile channel can be used to provide timely portfolio performance alerts and introduce clients to new features and services through short online tours. Private banks can also use social networks to connect clients with advisors. Ameriprise Financial, for example, allows clients to choose an advisor they may know through their social network connections.15

**Reduced Risk**
Big data tools enable analysis of large data sets from information systems and processes, and monitoring of client activity. Such tools can identify suspicious patterns and proactively reduce operational risk. Similarly, getting to know customers and counterparties better through analysis of data sets relating to their activities will improve management of reputational risk. A real-time view of risk management metrics allows banks to monitor and remain compliant with regulatory requirements.

**Improved Compliance and Monitoring**
The sheer magnitude of global regulatory requirements is forcing banks to improve their understanding of cross-border transactions, tax transparency and sales practices. The right digital systems can provide a real-time view of risk exposure, which will ensure compliance and enable banks to use the data for business purposes. Banks can provide advisors and clients with access to this information based on their desired transaction. This also allows firms to actively monitor and prevent regulatory violations that may occur during daily trading, portfolio construction and monitoring.

**Winning in the Digital Era**

**Business Models and Strategic Considerations**
The journey to end-to-end digitization will be long, both in time and scope. Digitization is all about creating more integrated business processes that enable collaboration between employees and allow faster and more efficient servicing of client requirements. Private banks will need to refine their operating infrastructure to become scalable and responsive to changing profit margins over time.
Creating a holistic digital transformation roadmap that can adapt to changing customer demands is the first step in this direction. Key considerations include:

- **Digital banking requires a new business and service model, not just a combination of features or applications.** This mindset is critical to adopting the right strategy and roadmap.

- **Private banks can embark on the digital journey along two paths,** both with well-defined objectives:
  
  » A long-term strategy that aims to define the digital blueprint.
  
  » Tactical plans that deliver short-term wins, address client and internal demands, and help the firm establish its digital presence.

- **Clearly define the digital blueprint that will enable future business models, client interactions and engagement, product strategy and operating model.**

- **Take a client-centric view and link the digital blueprint to specific measurable goals.** Given the rapid change in business, the blueprint needs to be flexible and adaptable.

- **Develop a product strategy and pricing** that best meets the needs of each client segment.

- **Understand the current maturity of the organization and evaluate its readiness prior to embarking on a digital transformation.**

**Create a Distinctive Advisory Service**

To create a differentiated advisory service in the emerging digital age, private banks will have to revamp their existing operating models to incorporate relevant self-service tools that also provide the bank’s view of a particular asset. These digital interactions with clients can supplement face-to-face interactions between advisors and clients.

Private banks have access to a treasure trove of personal information about their clients that is unique to the firm. By deploying advanced analytics, banks can leverage this information to create tailored solutions and derive client insights that enable a truly differentiated experience.

Moreover, the data related to a client’s digital interactions can help the bank create a unique profile for each client, based on their Code Halos, and differentiate its service to compete on code. Banking and financial services firms are uniquely positioned to profit from such information and deepen customer relationships.

**Manage Organizational Change to Embrace Digitization**

As banks transition to a digital future, they must reassess key roles and responsibilities across departments and employees. It is critical that leaders share their vision with functional heads and their team from the outset and offer a vision on how various roles will play out over time. As such, they need to open channels of communication to address the concerns of the various departments and teams.

This step needs to be followed up with initiatives to train users on the technology they will be using. Advisors, for example, will need to learn not only about how digital technologies work on the back-end but also how they can use the additional time they will get as a result of automation.

**Integrated Infrastructure**

Private banks will need an integrated IT infrastructure supported by cloud technologies to enable seamless retrieval, storage and distribution of data. The cloud can also serve as a flexible integration layer, accommodating off- and on-premises applications that need to be integrated into the digital architecture, as well as digital app delivery. Precise information is crucial for creating tailored interactions. Analytics can be deployed to enable multi-dimensional analysis by geography, customer type, product, traffic source, channel and campaign.
Learn from Digital Leaders in Other Industries

Private banks can learn a lot about personalization from industry leaders in the retail e-commerce segment. Amazon, for example, introduced the “One Click Buy” feature that allows it to provide anticipatory shipping of a product that it predicts a customer might buy in the future. Private banks can benefit from this level of understanding, which can only be achieved by deploying big data analytics that enable “markets of one” that meet and anticipate individual HNW clients’ needs, wants and desires.

Footnotes


8 Ibid


