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How Private Banks Face Up to Critical Technological and Digitisation Investment Decisions as they Fight to Stay Ahead of the Pack

Hubbis recently interviewed a number of leading technology and digital transformation consultants to learn their views on the evolution of private banking and wealth management in Asia in relation to the concomitant technology upgrades and digitisation needs of the incumbents. Taking a medium-term time horizon of roughly five years, they concluded that the private banks need to align their business strategies and their competitive edge to the evolution of their technology and digitisation journeys. This will mostly be through acquiring and layering on digital tools, and sometimes through outsourcing processes, the latter usually well away from any client interface. In today's world, the reality of rapid technological progress means the virtually constant quest to layer on new, smart digital solutions to the core banking systems. However, while some of those core systems are robust and agile enough to cope with these often-challenging demands, other core systems might be creaking and panting as they try to keep up. If so, open-heart surgery - the replacement or at least major upgrade to the core banking system – could be necessary, but even so, should never be taken up without deep introspection.

We first asked our experts to offer their perspectives on the key growth markets for private banks in Asia in the coming five years and whether growth will be driven more by offshore offerings through the major regional hubs of Hong Kong and Singapore or whether the banks will increasingly need to or want to also complete in the region's onshore markets, or perhaps both.

They observed that there is significant growth potential in the region's wealth markets due to economic momentum, the more rapid accumulation of private wealth amongst HNWIs and UHNWIs, as well as the swift expansion of the mass affluent market.

Building new and building better

To take advantage of this growth potential, the banks will be seeking to both retain existing clients in the face of intense competition and win a greater share of 'wallet' from those clients. They will be making every effort to reach out to the next generation family members of those existing clients. And they will be seeking to build a broader, more diverse and more multi-generational client base.

At the same time, the banks want to enhance the predictability of their revenue streams by enhancing their advisory and discretionary offerings, which of course, means curating a more personalised and holistic suite of product ideas and improving the skills and capabilities of their investment advisors and client-facing bankers.

Offshore and onshore – both offer growth

The drive amongst the global brand and boutique international private banks to boost onshore offerings – either by going it alone or allied to powerful local financial institutions in-country - was very visible in the pre-Covid environment, when travel was so easy and when meetings could be arranged and expedited at the drop of a hat.

But now, realistically, we are in somewhat of a more wait-and-see phase; we appear to be emerging from the worst of the pandemic, but it is not yet clear to what extent people will be prepared to or inclined to travel as regularly as before, especially while all sorts of filing hurdles remain, or whether they will prefer to operate more 'virtual' client and partnership relationships.

Understanding Asia's diversity

There is very evidently a drive amongst regulators and authorities in the region to retain more of their citizens' wealth and assets onshore, but the offshore wealth management markets nevertheless continue to thrive at the same time as private wealth expands and as the region's wealth hubs draw in more global money. Asia is a vast and diverse region, and there are very different costs and hurdles to overcome to compete in many, perhaps most of the onshore markets, where liberalisation is taking place at a measured pace, with local governments and regulators wanting to protect their home-grown incumbents from an onslaught from global players.

A veritable smorgasbord of different markets

China onshore is a vast and rapid growth wealth market, but it is extremely difficult and costly for new arrivals to penetrate, even for the biggest global private banks. The offshore China market tends to gravitate largely through Hong Kong for the average HNW type clients, but also for the upper-tier HNW clients and for the UHNWIs Singapore has many appeals, including incentives to entice very wealthy individuals and families to establish family offices and move residence.

India is another major onshore market that is also very difficult and costly for outsiders to penetrate effectively, and there is a lot of offshore activity for the wealthier clients through Singapore and Dubai.

The wealthiest still go offshore for privacy and choice

In ASEAN, Thailand, Indonesia, and the Philippines have seen a number of interesting JVs between strong financial groups

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onshore and with offshore boutique international private banks. Thailand onshore is a rapid growth market, competition is tough, but regulations are generally fairly receptive to foreign entrants. Indonesia onshore is more difficult to penetrate, with liberalisation only modest to date; hence the preferred route is through acquisitions and alliances. Malaysia is a long-established and fairly strong onshore market with strong local competitors, but it is relatively modest in numbers. Vietnam is a young but rapidly growing wealth market that will undoubtedly start to punch more of its weight in the coming years.

In general, the wealthiest clients in ASEAN still conduct a lot of their private banking and investment offshore, for prestige, for privacy, and as they need far more choice as to products, structures and services compared to many onshore offerings, take for example, the relatively limited choices currently available in markets such as Indonesia or the Philippines.

Incremental growth areas

Aside from advisory and DPM, ESG-driven investments, thematics, digital assets and private assets are core target areas of expansion for the private banks. All these areas, especially advisory and DPM, are seen as helping to boost revenue visibility in the onshore and offshore markets.

Amongst the regional players, the major Singapore banks and also Maybank from Malaysia are aiming to be tough or perhaps tougher competitors in ASEAN, which they consider their own backyard. DBS, in particular, also appears keen on extending its reach deeper into North Asia and China, leveraging their historical links to Chinese culture, language and heritage. Some of the region's banks will be expanding into the Middle East to ensure that they participate in two-way flows from that region and also so that they begin to build a more significant presence in the rapid growth markets of the GCC. Bank of Singapore, part of Singapore's OCBC, for example, has its three core hubs in Singapore, Hong Kong and Dubai.

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Priorities on the digital journey

We also then asked these experts for their brief insights into the key technology investment priorities for the private banks and leading wealth managers, again with a one-to-five-year time horizon.

High on the list of priorities is the whole sphere of enhanced client engagement and the drive towards deeper personalisation of the offering. This involves improved RM/advisor tools, boosted banker productivity and empowerment, simplification of connectivity and improved omnichannel delivery of information and ideas.

In the background, CLM/CRM solutions, as well as data analytics enhanced by AI tools and machine learning, will combine to help the banks and providers curate a more relevant and holistic suite of products and advice. Meanwhile, digital tools to ensure improved delivery will support a more user-friendly environment, better and genuinely real-time portfolio reporting and analysis, and a digital audit trail of activity will all hopefully lead to greater client loyalty and a larger share of wallet.

A wide array of tools and solutions

Away from the immediate eye of the clients, RegTech solutions will help reduce the compliance burden on highly paid bankers, advisors and of course the clients themselves, with an important element being the cross-border monitoring and regulatory considerations. This will all make for a more seamless and less frustrating journey for all concerned. In the back-office and mid-office, more modern processes and more sophisticated tools will help improve internal efficiencies and skills.

At the same time, there are more digital tools being applied to boost ESG-centricity, to help with the delivery and democratisation of private market assets, as well as to capture growth in the digital assets universe, not only cryptocurrencies but the digital tokens representing bite-sized and (hopefully) liquid access to a galaxy of commercial real estate and also collectable assets previously inaccessible to all but the uber-wealthy.

Outsourcing continues but is secondary to control

We also asked our consultants if the banks are likely to be increasingly outsourcing non-core activities such as IT and/or back-office support. They indicated that this was less of a priority than before the pandemic hit, as many banks had during the global travel hiatus significantly improved their internal technology and digital capabilities, and also realised that investing in these areas is even more important than they might have imagined back in the pre-pandemic days.

They also remarked that anecdotally, outsourcing of non-core activities might still need more time to prove that it does indeed result in the financial, manpower and/or efficiency gains many might have hoped for.

Selectivity and scale

Nevertheless, outsourcing remains an important topic for

consideration by the banks in non-core areas that do not generate revenues, for example, for compliance support, for post-trade activities such as redemptions, settlement, reconciliation, custody, and so forth.

They are also receptive to IT outsourcing where scale is required, for example, to global cloud-based data solutions providers to ensure that they (the banks) are not continually investing in hardware that they need to continuously update, especially with the proliferation of data going back years, decades actually, that is now required for actual or potential inspection by the regulators.

Keeping control and avoiding commoditisation

The experts indicated, at the risk of over-generalisation, that many or most of the private banks, for legacy and control reasons, prefer to build as much as they can and retain control of all operations. And indeed, if they do outsource any services or processes or capabilities, they want to retain the ability to tailor and differentiate their offerings, certainly not to become more commoditised.

Finally, we also asked our experts whether, from their bird's eye views, they are expecting private banks to extensively upgrade or replace their core banking systems to accommodate new digital and other applications. The essence of their replies was that the banks prefer to retain their core banking systems and tailor customised and individual or one-off solutions on top.

Facing up to realities and building for the opportunities ahead

The banks, they said, do realise they need to compete with digitised entrants for the increasingly digital-native clients of today and the future. They also recognise that the new entrants have no legacy systems to hold them back. And they are striving to present themselves as having all the latest digital tools and solutions.

By way of example, one consultant explained that digital tools to help boost advisory, or similar solutions to enhance CLM/CRM, or perhaps new ways of capturing data and boosting analytics, are regularly layered on top of the core banking systems.

Build on top or rebuild from the ground up?

"The net result," he proffered, "is that there really is a lot of effort, time and money spent, on a fairly constant basis, to select the best types of tailored solutions and then work how those can be carefully integrated into or layered on top of their core banking systems. However, in so doing, despite all the cost and expertise involved, it is easier than trying to re-create the core banking system."

As our other expert said, changing the core banking system for a bank is like open-heart surgery for a human and is just as popular. "The banks are trying to evolve their front ends at speed," he said, "in order to stay ahead of the nuances of demand and ahead of peer group and external competitors, and thereby to rapidly deliver clients the best possible range of capabilities, solutions and user experiences. But open-heart surgery, while often highly effective, is only a last resort, and there are major risks involved."

Tough but necessary choices

They conceded that such customisation on top of the core systems does require a lot of internal IT support. They added that the costs for that expertise are rising all the time and that the best people are increasingly tough to find and retain. "But this is the inevitability of rapid technological progress," one of the experts said. "If you want to stay in the game, you need to play this game, but you just have to do it as fast, cost-effectively and efficiently as possible."

However, they also cautioned that if the core banking systems are too slow and unstable and if they do not lend themselves to this overlay of customised digital solutions, then the private banks might consider taking the major step of 'heart' surgery.

Tackling the 'pain for gain' syndrome

"It is an economic equation that they need to analyse – the longer-term costs of continually trying to layer on new solutions, or the one-off costs - and often misery - of installing a new core banking system while trying to go about daily business and keep everyone happy, including of course the many very demanding clients with large sums at play."

"The complexity is immense, and the inconvenience is usually daunting," one consultant commented. "In short, the private banks' particular future business strategy will be core to such major decisions because, at the end of the day, this is a one-off, long-term decision and is all about longer-term capabilities. If they recognise that they are lacking those capabilities today or in the foreseeable future and, as a result, that their business generation and their credibility will likely be compromised, then they are naturally steered to such a huge decision. But whatever they decide, they must be unerringly objective and realistic."

Holistic decision-making required

The experts we canvassed work very closely and constantly with private banks ranging from the well-known global brands to the regional players and also extensively with Asia's domestic financial institutions. They are completely convinced that the pace of technological change and the dynamism of the constantly expanding array of competitors both mean that major investments will be required constantly in order to keep up with or to stay ahead of the pack. And they also know that if technological evolution is not aligned closely to business strategies, it could all go horribly wrong. ■