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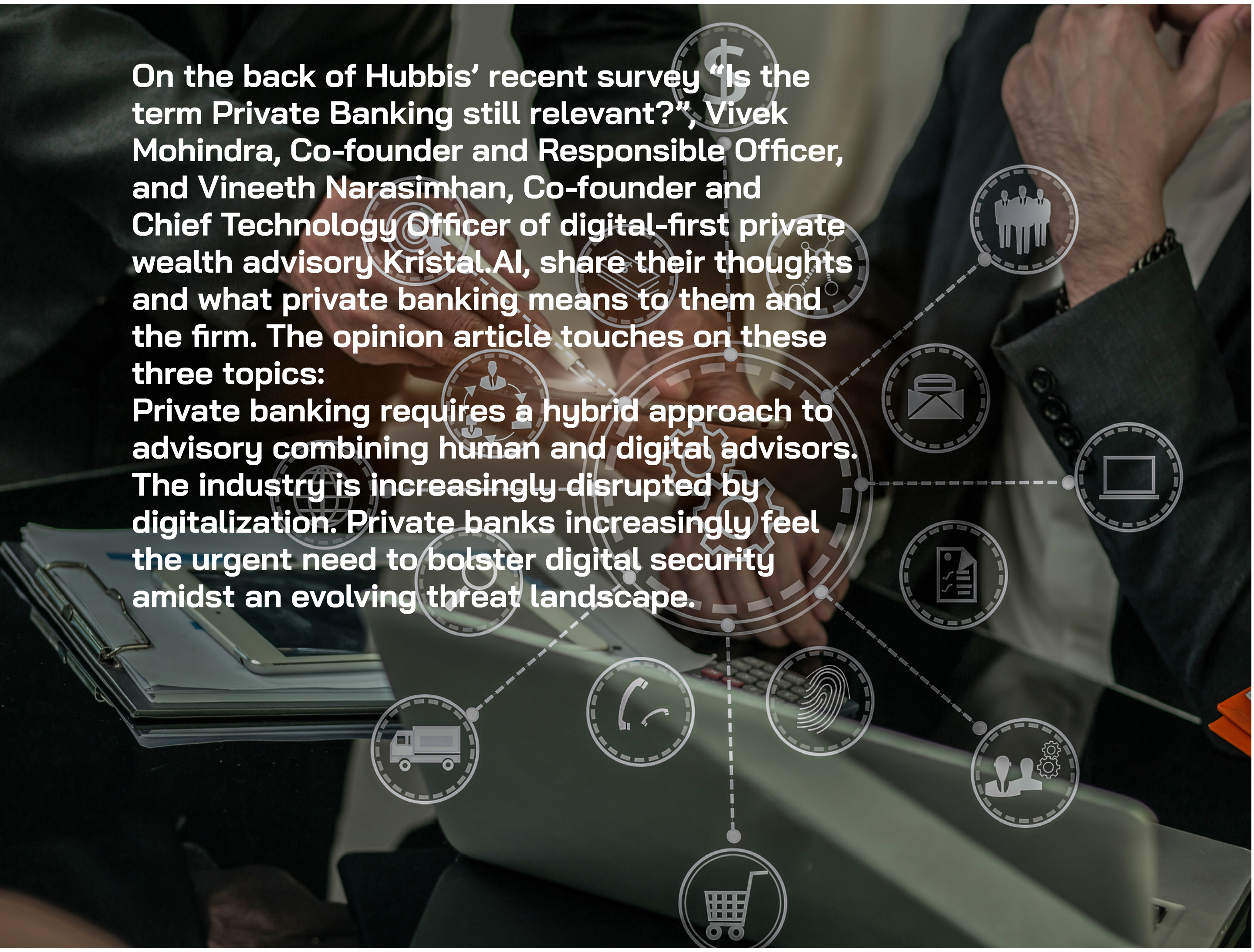
Is the term Private Banking still relevant?
Yes, but with a twist



On the back of Hubbis' recent survey "Is the term Private Banking still relevant?", Vivek Mohindra, Co-founder and Responsible Officer, and Vineeth Narasimhan, Co-founder and Chief Technology Officer of digital-first private wealth advisory Kristal.AI, share their thoughts and what private banking means to them and the firm. The opinion article touches on these three topics:

Private banking requires a hybrid approach to advisory combining human and digital advisors. The industry is increasingly disrupted by digitalization. Private banks increasingly feel the urgent need to bolster digital security amidst an evolving threat landscape.

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Hubbis' recent survey explored the relevance of the term 'Private Banking' amidst today's changing landscape and customer expectations. We do believe the term is relevant as private banking is still "tailored financial solutions to meet specific client needs", as the article described. The service is meant primarily for HNWIs who have already met retirement needs but aspire to higher goals.

If you buy things online, it's still shopping; If you use digital banking, it's still paying the bills. By the same token, digital wealth management is still private banking.

Digital transformation has brought many benefits and promises to revolutionize the industry. As highlighted in the survey, HNWIs increasingly demand greater transparency in fees, and technology has delivered on this promise. Other benefits include improved personalization, constant access, diversity of tools, and contact-free relationships development.

Clients can be made to feel special not just by a person calling them, but through better efficiency where the Relationship Manager (RM) has all the information immediately and always available. How can the industry achieve greater heights, especially as clients are becoming increasingly global and digitalization disrupts the market?

Personalized portfolio advisory with a human and digital driven approach

PBs traditionally pride themselves on "high touch". Today, high tech is highly integrated in our everyday lives, the proposition to simply offer relationship-based advice no longer stands.

The expectation for digitalization is high. It needs to augment the skills of a RM to deliver optimum solutions, help navigate the variety of investment options and alternatives available through data analytics, reduce delivery costs to broaden the clientele and include even the underserved mass affluent and help maintain quality standards and compliance requirements. Technology also mitigates risks of a purely RM-led model which can be swayed by RMs' motivation, turnover, experience levels and even moods.

VIVEK MOHINDRA
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While these advantages of technology are clear, does this mean that clients no longer demand the 'human touch'? This was also a question raised by the survey. Can technology replicate the financial recommendations and planning by RMs?

Human advisors excel in navigating sensitive issues like love and hate. They feel empathy for the client. This becomes paramount in legacy planning scenarios where only the "human touch" can gauge how to allocate a tycoon's business empire amongst their next of kin. Family Office advisors offer holistic, life cycle, and even cross-generational advisory. These are highly personalized advisory services which require communication and an understanding of clients' priorities. To this end, robo-advisors can augment the human touch, but not fully replace it.

This echoes the survey's findings that HNWIs feel a full-service private bank must cater to all needs, including family office, estate planning and tax advice. Digitally enhanced PBs should therefore be able to combine the capabilities of human and robo-advisors to deliver professional and personalized advice.

Fintech & bank, not fintech vs. bank

It was 30 years ago when Bill Gates said, "Banking is necessary, banks are not." Is this the new reality?

Hubbis' survey predicts a continual outflow from PBs to independent non-banks who will not need to use PBs as the custody and execution platforms.

As the century-old PB industry welcomes new-age fintech challengers, it is inevitable that there will be symbiosis. In fact, many fintechs are founded by veteran bankers who see opportunities to revolutionize their previous industry. Technology has brought the power of democratization to an industry historically reserved for the privileged few. Wealth tech enables PBs to offer personalization at scale. Exclusive products and advice that used to be reserved for the top 5% are now within the reach of many. But such democracy does not mean making cheap products for the mass market - it means using technology to adapt sophisticated products for lower tiers.

UBS, for example, is increasingly catering to the segment "that may not be completely digitally engaged, but also doesn't want to have 100% client-advisor coverage, but something in the middle." Their CEO calls this segment a 'sweet spot'. Other incumbents like Citi are following in the same direction. On the other hand, fintechs are moving away from mass retail investors. Today, exclusive products such as private market deals are being offered on fintech platforms to attract the mass affluent. The minimum ticket of US $5mil is drastically reduced to US$20k through fractionalization.

As digitalization accelerates and offerings become more tailored, we expect to see more convergence in the industry led by tech innovations and platforms within the next five years.

Digital security amidst an evolving threat landscape

As clients demand for more digitization and better user experience, newer product structures and larger investment sizes, PBs are also increasingly encountering more security vulnerabilities especially as attackers become more sophisticated. Alongside this, they are facing regulatory pressure to ensure customer privacy and data security, while having to replace legacy infrastructure with new technologies.

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How do PBs address these security challenges? They can take a comprehensive approach encompassing security-first application architecture, stringent security practices in coding and development life-cycle which includes thorough security audits. Blockchain is arising as a key security approach as it is secured by cryptography and requires verification and authentication. We will see widespread adoption of blockchain in recording transactions which are immutable, hence instilling stronger confidence in customers and other stakeholders.

As the survey rightfully concludes, HNWI clients will increasingly turn to wealth management firms that are nimbler and more flexible. Banks and fintechs alike must innovate and adapt their value proposition constantly. Advisors - human and robo, who wish to be worthy of the name 'private banker', need to rediscover their purpose and adapt to changing expectations, or abandon the term. ■