Pricing and monetisation in Asia's wealth advisory industry - a bird's eye view

Separately from the roundtable discussion, Hubbis asked Simon-Kucher for their views on how pricing and monetisation challenges can be understood and overcome and how the private banks and other wealth advisers can inculcate their organisations with an efficient, targeted culture of pricing and monetisation excellence.

Pricing is the most important revenue driver. How professionally is pricing managed across private banks in Asia today?

We see considerable differences across banks in Asia. Given the importance of pricing, it is currently poorly managed compared to Europe because growth has been consistently high and profitability less important. To give you an example, most Swiss private banks have dedicated pricing teams - even in their APAC locations - who take care of this. They understood that the organisation set-up affects results significantly and built up these dedicated teams.

Organisational aspects are crucial in pricing professionalism. We see various set-ups. Usually, if banks have dedicated pricing teams, they are found under product management, business development or in the CFO division.

Why is profitability management more important than before?

Today, we are observing slower growth in some well-developed markets in Asia coupled with increased competition. The competitive landscape has led to more pressure to redirect banks' focus on growth to profitability.

The biggest challenge in pricing is to charge for value and clients' needs. Generally, monetisation is not working well. What are major reasons?

Pricing and price setting in banking has been primarily benchmark-oriented and less focused on client value and internal costs. A clear relation between services delivered and pricing is actually the core of monetisation. Banks fail in allocating prices that are reasonable for themselves. List prices do not reflect the customer value adequately because values associated with a price are not well communicated. Banks have a big marketing issue because clients hardly understand the value of the service they pay for.

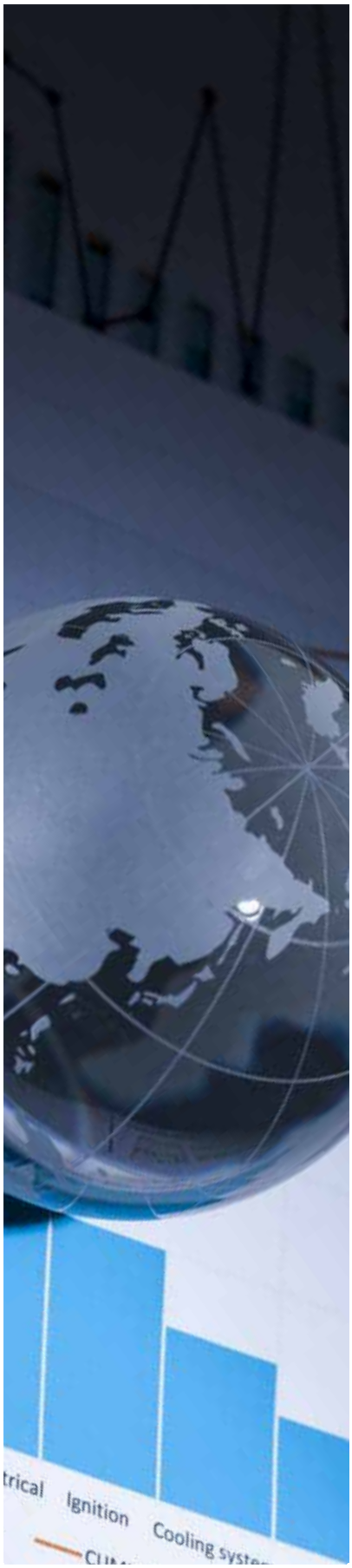
Which industry is good at value pricing?

The automobile or airline industries are much better at value pricing. Firms in these industries invest only in quality improvements when there is customer value involved, or they create a value by leveraging regulatory developments. Safety and other aspects are cost intense and therefore properly communicated and monetised.

In banking, large investments in IT, compliance and other processes are not associated with a clear perceived customer value. Costs are therefore rarely linked to a price. The first area to execute value pricing in banking are actually differentiated advisory mandates, where service delivery is segmented. Another would be restrictions if a client books globally across various booking centres or fully individualised DPM.

Monetisation competence is crucial for the future. Do banks have a lot to catch up on this?

Exactly, banks will earn less per client in the future. They have to provide more efficient and standardised service delivery, develop new services to broaden their service spectrums, and increase cross-selling. Clients expect the same degree of innovation from banks as they do from Apple and



other firms. Innovations with smart pricing strategies will be crucial to protecting margins in the future.

How about discounting proficiency and treating customers fairly?

Today, banks often grant unstructured discounts across all product categories and lack transparency in enforced margins, despite regulator's current focus on 'treating customers fairly' and understanding discount justifications. Private banks primarily care about overcharging-prevention, while disregarding the client's profitability. The discussions internally should focus on how satisfied you are with your bank's current discount management, and how current sales processes can be improved.

Discounting is indeed a huge topic in private banking in APAC. What trends do you see?

The general trend is to move away from product-based discounting to a relationship and client-based discounting based on target revenues or target RoAs.

Many RMs do this today intuitively, but often in an unstructured manner, providing inconsistent discounts based on the subjective feelings rather than planned systems. In fact, the TCF regulation is centred on this - a discount has to be justified and should be understandable. Here, pricing software would help greatly in setting discounts on a client level properly and it would also provide transparency on how discounts are issued.

How satisfied are banks at the moment with their discounting practices?

Generally, discounting lacks structure. Clients expect discounts to a certain degree which is linked to local culture as well. This is part of the business.

We see huge differences across banks and within banks, across markets and RMs. European banks have worked a lot on the discounting topic in the past. Even though their APAC subsidiaries have rolled out discount tools similar to the ones they have in Europe, simply applying those measures here does not work; they need to be adapted to the context of APAC to make standardisation possible.

The reason is the revenue mix which is more trading fees oriented while in Europe the wealth management aspect with recurring fees is more dominant.

How can you explain these big differences in discounting practices today?

When we review RM books, it is evident that certain RMs discount much less than their peers. In fact, this is linked to the RM's competence and negotiation techniques. Many RMs act like entrepreneurs and develop their books. This is as well linked to compensation of course. Frequently, due to the high importance of the TRX business and growth strategies of private banks, other fees get waived.

What should be done to improve discounting management in the future?

Banks should place more focus on total client relationship by segmenting customers by small, medium and large clients. Then, for each segment, different discount approaches should be offered. For small clients, discounts should be ideally removed. For medium-sized clients, try to enforce minimum prices to ensure minimum profitability. For large clients,

moderate discounts on client level, using primarily target revenues or target RoAs as determinants.

How should banks best react to increased discount requests by clients?

Relationship managers often grant discounts too easily to avoid pricing discussions with clients. However, negotiations are important in driving overall clients' profitability. It is important to discuss negotiation and sales support offered to front office staff, and share insights into sales process improvements from a price psychology point of view through behavioural nudges.

Why do RMs avoid discussions about pricing?

Traditionally, RMs' primary goals were AUM growth. They never had to focus on profitability to meet their targets.

With a change in objective to focus on profitability, RMs have to adapt and adopt a new way of interacting with clients. It is challenging for many of them to function differently.

Furthermore, fees today are no longer hidden due to regulatory rules for pricing transparency, making it easier for clients to compare and negotiate. With experienced clients who are mainly entrepreneurs themselves in other industries where negotiation is crucial, RMs are positioned to lose. They need support.

What can be done?

Banks need to support RMs in price negotiation. We know RMs have many responsibilities and negotiation is not their core skill and priority. As such, not every RM can be a good negotiator but might deliver excellent client service. So developing a new function which helps them to negotiate pricing would be very helpful. In procurement, banks have been engaging professional negotiators on the "buy-side" for many years, in contrast, the "RM-side" is not managed well at all. Here price psychology is important as well.

Do you have examples of how to apply price psychology?

These concepts can be applied in the sales process which is ideal since it is a relationship-driven activity. One example of how RMs can negotiate effectively is to omit to ask for a meeting, instead, propose one. People will have more difficulty opting out. Also, instead of using a subversive tone, RMs need to be confident and counter-propose to avoid power-dominance from the client. ■