THE FUTURE OF DIGITISATION IN ASIAN PRIVATE BANKING

2016

FOREWORD & OBJECTIVES

Private banks find themselves at the centre of a perfect storm. Most of them are operating a business model suffering from falling revenues, higher regulatory spending and rising overall costs. This makes them prone to falling behind, not only in relevance to clients and in client service but also in terms of being able to run an efficient back-end operation. They therefore need to catch up across their entire value chain despite this being probably the worst-possible moment, when coffers are empty and competition is intense.

To date, the winners seem to be the large private banks like Credit Suisse and UBS, which have invested heavily in digital platforms, and the Singaporean financial institutions like DBS and OCBC, which are acquisitive to build scale.

This was the backdrop for proprietary research which Hubbis and Mount Rose Partnership did in October and November 2016. This was based on a number of in-depth qualitative interviews, backed up by quantitative insights,

The aim was to identify the current state of digitisation in private banking in Asia, priorities for different types of institutions, and how these trends will shape the future of the industry – or at least the key components and success factors in getting there.
This was based on some key premises as a starting point:

- In the digital age, most of a private bank's value-chain components used to deliver products and services are becoming increasingly commoditised and can be replicated at much lower costs, while delivering more bespoke and personalised outcomes
- New communication channels through web and mobile apps appeal to new customers already using technology heavily, while rules-based and centrally-formulated investment approaches start to deliver superior long-term returns
- Data collection and analysis is becoming key for achieving greater client centricity and relevance, especially linking internally generated data to external available data will provide players with new ways to approach and engage clients
- Due to these changes, the traditional reasons for using a private bank are weakening – and will to some degree disappear.
- In order to cope with these challenges, private banks could use their competitive advantage (existing client base, brand recognition and clients' trust) to reposition their business model in new digital world or they could follow a niching strategy

I hope you find these initial insights interesting and valuable. Most importantly, I greatly appreciate the time and contribution of the participants – especially their frankness – in contributing to this research.

FRANK HENZE
FOUNDER & DIRECTOR
MOUNT ROSE PARTNERSHIP

CONTENTS

Published by Hubbis in December 2016 in Hong Kong.

Michael Stanhope
Founder & Chief Executive Officer
Hubbis
T (852) 2563 8766
E michael.stanhope@hubbis.com
W www.hubbis.com

EXECUTIVE SUMMARY

The wealth management space is undergoing a series of changes that will shape the industry for years to come.

Asia presents an unprecedented opportunity for wealth managers, but at the same time is also fraught with pitfalls that need to be navigated to take advantage of the growing opportunities.

The Boston Consulting Group (BCG), for example, estimates in its 2015 Global Wealth report that assets in private financial wealth in Asia Pacific (ex-Japan) will grow from USD33 trillion in 2014 to USD55.2 trillion by 2019; which is a whopping 67% growth.

Further, a high percentage of wealth in the region comes from new sources; in 2014 this amounted to 60% of wealth growth, which is 16% above the global average. Origination of wealth is to a large degree from China and India, with Singapore and Hong Kong being top booking hubs, accounting for 48% of all Asian wealth bookings.

Despite this significant market growth, wealth managers are in a tough position at present. Cost-income ratios have remained stubbornly high and the industry is faced with a heterogeneous regulatory environment.

"We have a complex heterogeneous regulatory environment," says one senior industry executive. "And if you look at the spend across the [private banking industry] there is a huge spend still on compliance and [banks] are working with different themes with different regulators."

> "As performance is harder to deliver, there is an increasing focus on cost efficient and transparent products, which further depresses revenues."

Clients themselves are also becoming more demanding, and only hold a fraction of their assets with a single player. "Clients are also moving their assets and the key aspect of a relationship that really, really maters to clients is performance. Yet this is [currently] not a good environment for performance. That's a challenge."

As performance is harder to deliver, there is an increasing focus on cost efficient and transparent products, which further depresses revenues. "Clearly in the past the private banks (PBs) have made a lot of money from selling structured products but this isn't necessarily the best environment for that."

Competitive advantage, therefore, is increasingly reliant on a bank's ability to generate and maintain trust with its clients. "Clients are looking for trust and they have got to trust their PBs."

Relevance is becoming an increasingly important way to build and further this trust into a relationship that the competition finds difficult to replicate. "Clients are looking for a relevant engagement. Today one of the challenges is there's just too much data. [Clients] don't want to know that here's our latest research report into the automotive industry."

In line with this, clients will want to have their needs met rather than being sold the latest product offering.

The relevance of digital technology in private banking is becoming not only a driver of change, but will also increasingly be a prerequisite to compete. Nearly all aspects of a bank's value chain can be enhanced or delivered through digital means. "Digital is not just the pretty front-end; it is an end-to-end solution for a bank."

Different business models are expected to emerge, based on the investment amounts available.

- Generalist operators, which have an end-to-end digital operating model that allows a wide offering of products and services at lower running costs
- Platform operators, which focus on the client interface and use third-party providers to deliver products, services and technical solutions
- Banks, who will further niche in the UHNW segment and who will rely on the traditional approach in private banking with a more limited digital offering

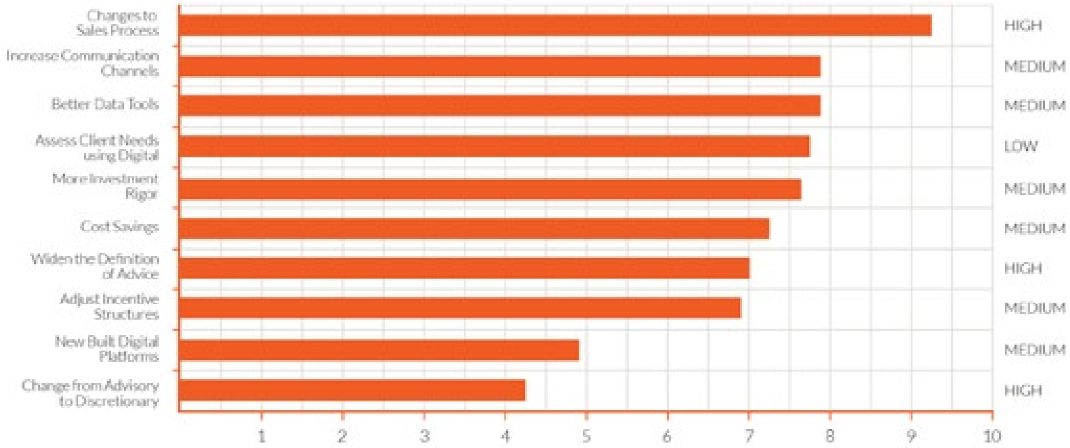
The key to the survival of the private banking industry in its current form is the ability to generate and use client trust to retain a competitive edge.

Particularly amongst younger clients, trust is increasingly digitised. These clients will have more faith in digital solutions than the previous generation, which will open the door for new players to enter the market over time.

"The relevance of digital technology in private banking is becoming not only a driver of change, but will also increasingly be a prerequisite to compete."

DIGITAL – HOW TO BUILD A COMPETITIVE ADVANTAGE

Significance of Digital – Score 1-10



Clear focus to increase relevance of client interactions through digitising sales processes, communication channels and data tools; less agreement on the path to get there.

Further, as clients start to use digital platforms and interfaces, and as they get used to the increased and more personalised interaction, they will demand a more digital offering.

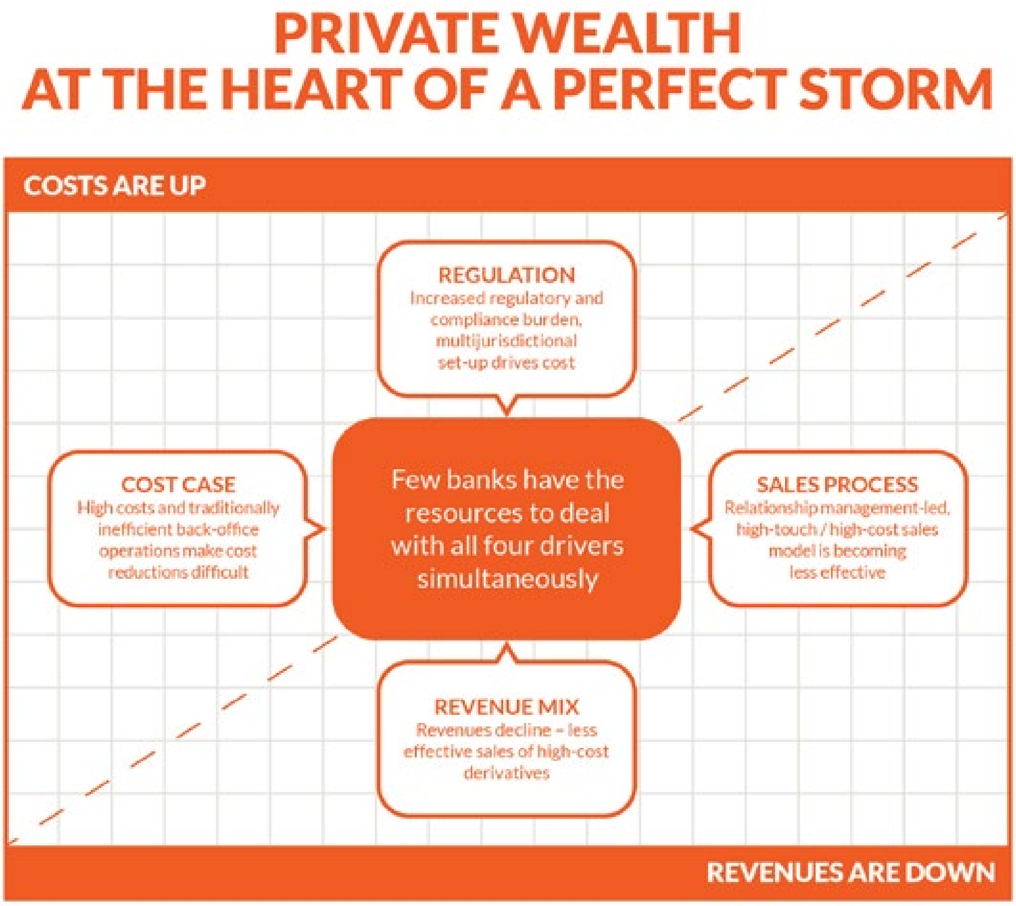
The current priorities in the industry are therefore clearly focused on the client experience and on sales efficiency, regardless if the technology is implemented based on a tactical approach to digital or with a view to deliver an end-to-end digital platform.

Multi-channel communication including web, mobile, chat and other digital means is seen as a key enabler. The same goes for better data tools which help deliver personalised content.

The client's needs assessment is still done mainly by relationship managers (RMs) but technical solutions and data use will be coming into play over time.

While robo-advice in its purest form is still seen as a challenge, we will likely see a hybrid model emerging whereby RMs will be assisted by an intelligent robo tool. Over time, the balance of advice could well shift from RM to robo.

There seem to be less clarity on future breadth of the advice offering, and more planning and 'lifestyle' offerings should be included.



"There is a widespread sense that front-end digitisation will happen in the next one to two years, greater workflow-based digitisation will happen over three years, and that end-to-end digitisation might take up to five years, due to the stubbornly-high costs of back-office systems migration."

Changes to the incentive structure to achieve the required organisational changes are seen to be less relevant, although it is important to note that successful change can only happen if incentives are aligned to change goals.

Areas where digital was seen as a more limited driver in shaping the future of the industry were the market entry of new players who operate on a purely digital platform, and a change from advisory to discretionary business models.

On the first point, new digital players are seen to emerge first in the retail and emerging wealth segment.

Regarding the latter point, business models are likely to change insofar as execution, advisory and discretionary services are increasingly combined into a holistic client proposition.

There is a widespread sense that front-end digitisation will happen in the next one to two years, greater workflow-based digitisation will happen over three years, and that end-to-end digitisation might take up to five years, due to the stubbornly-high costs of back-office systems migration.

There is agreement, that the road to greater digitisation is irreversible.

DIGITAL: EVOLUTION OR REVOLUTION?

To understand the opportunities and threats coming from greater digitisation, it is important to look at the longer-term trends, as well as at the immediate focus in the market.

Digitisation comes in stages. The first foray into the digital business models we see today started with the arrival of the Internet and e-commerce 1.0 in the mid-1990s. These resulted in the tech bubble of the early 2000s.

It became clear that the technology had a lot of promise, however it could not deliver many of the demands as bandwidth speeds and computing power were insufficient.

This changed until the arrival of (modern day) fintech in 2013. We acquired new ways of collecting, storing, sharing and manipulating data.

And with the arrival of smartphones, it could be made available on a mobile phone and taken with us everywhere we go.

New correlations between events could be identified, behaviours could be analysed and customisation could be delivered.

This is fuelling the changes we see currently, which are in themselves highly-significant and capable of re-defining products and services.

The current technology, though, relies on central data storage and hence on the need of the intermediary to use the data to deliver products and services. We are therefore not currently talking of replacing banking but of finding better business models with the help of digital technology.

"We are therefore not currently talking of replacing banking but of finding better business models with the help of digital technology."

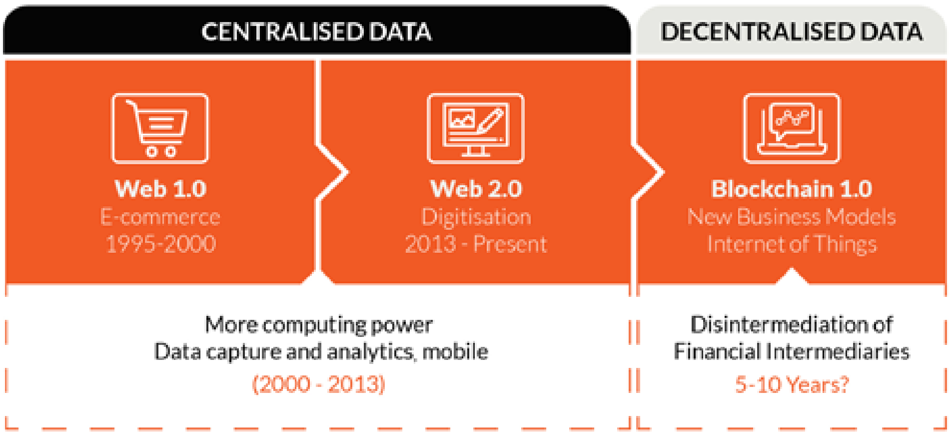
This will change fundamentally when data is held in a decentralised way through decentralised ledger technology, which makes the need for central intermediaries superfluous.

While banks can adjust in the e-commerce 2.0 environment through the adoption of technology, the decentralised nature of a decentralised ledger-driven financial system will force a much more significant rethink of the value a bank brings.

Banks will likely change from facilitating transactions and storing value to a community-driven enterprise. But it is still too early to predict what business models will emerge.

The changes from e-commerce 1.0 to 2.0 took nearly 15 years, and with innovation cycles shortening, this future scenario might be closer to becoming reality than we think. The digital agenda is evolving remorselessly and staying on top of developments requires continuous investment and adaptation.

THE DIGITAL JOURNEY



How is digital defined in the private banking context?

"Fintech is not threatening banks today but is helping to prolong their useful life."

Given the importance of the front office and the changes we see in client behaviour, many of the respondents to our research defined digitisation as a means to improving the user experience, increasing the ease in which front-office staff and clients can do business together, and enhancing the relevance of the interactions between bank and clients through digital technology.

The prevailing view is that digital technology can reduce administrative tasks and can help the relevance of the client interaction. Digital can, in particular, help in communicating with clients, and in assisting in KYC, product suitability and other regulatory processes. Plus, it can help in delivering relevant investment advice.

It is also worth noting that the majority of wealth managers we spoke with are looking to digital as an enhancement to their current web-based offering, and provide selective tools for RMs to use. This underlines the tactical approach many players are taking to digitisation.

Only a few (and generally the larger) players are looking for holistic solutions that combine front, middle and back-office processes, and also which can truly harness the power of digital which lies in the collection, manipulation and the use of data.

Fintech and financial services seem to have formed a symbiotic relationship recently, which can benefit private banks in acquiring new technology that was previously out of reach. As one responded said: "Fintech is not threatening banks today but is helping to prolong their useful life."

It is therefore likely that the degree and speed to which digital technology will be adopted will determine the market position of the bank.

What is the outlook for wealth managers?

As the stakes are high, it is therefore no wonder many private banks and wealth managers are looking for new ways to compete and to develop additional competitive advantages by adopting digital technology.

Larger organisations have the resources to invest heavily upfront and to drive down long-term running costs across their end-to-end processes.

Firms like UBS and Credit Suisse, for example, have invested heavily and will not only have a lower-cost operating infrastructure as a result, but will also be able to create new services and products for their clients.

This route might not be possible for smaller players who have to be much more creative in what technology they adopt, who they partner with and what market position they can occupy as a result.

Also, despite significant wealth being created in Asia, private banks are not the only natural home for these assets in the future. Due to technology, wealth management services are being supplied by an ever-larger variety of players.

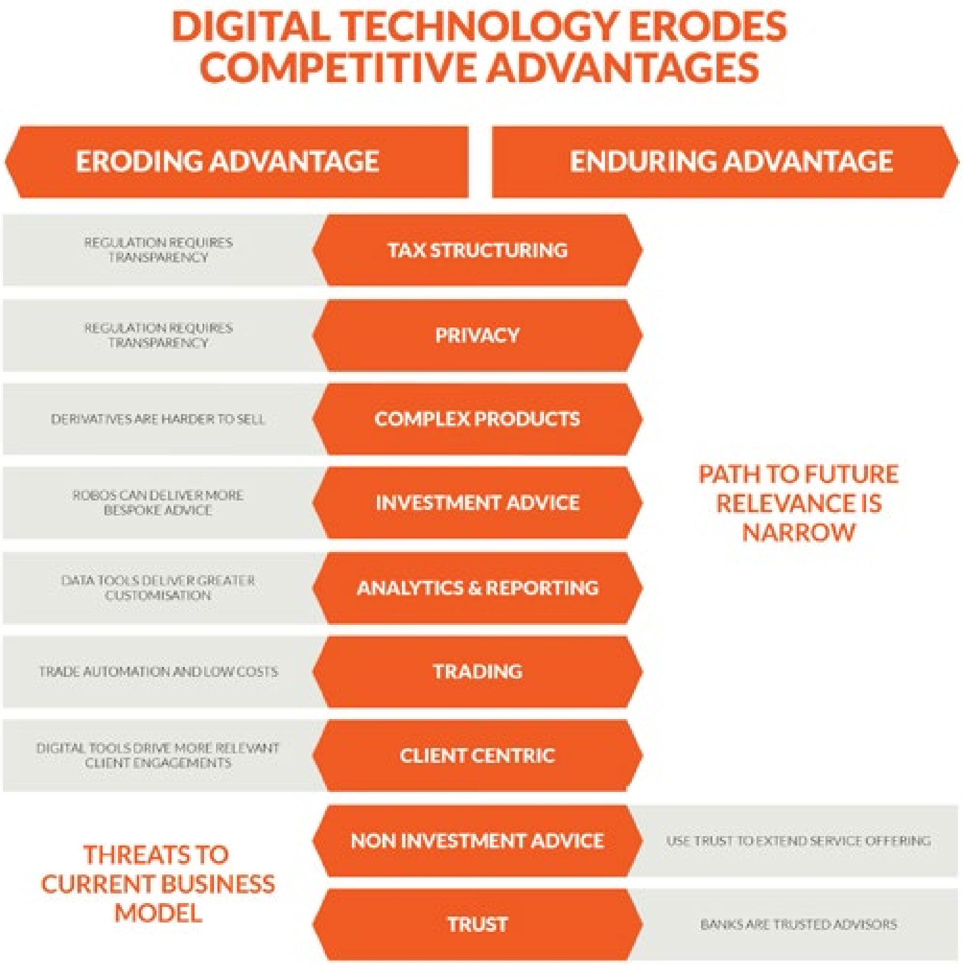
Traditional product providers like asset managers and insurance companies are moving into the space as they develop more direct distribution channels. Many respondents believe that these players will play more strongly in the retail and emerging wealth space, and that the real disruption will come from technology companies who have advantages with technology, size of client base and potentially already serve the future wealthy with other products and services. These firms are also seen as progressive and as providing entertaining or 'fun' solutions, which help their entry into this space.

This merging of business models between products, distribution and technology will enable many more players to play a part in wealth management.

"This merging of business models between products, distribution and technology will enable many more players to play a part in wealth management."

The prevailing view from within the industry is, however, that private banks will on the whole compete strongly going forward, regardless of the changes to the digital delivery of products and services.

This view is based on the assessment that trust is the key competitive advantage private banks have built up over the years, and on which they can now fall back. Yet given the recent trend of consolidation, not all players seem to have built up enough trust to survive.



What is a durable competitive advantage for private banks?

Traditionally, clients have been using private banks for a number of reasons, including more traditional aspects like privacy and tax optimisation, a wide array of investment products and advice, and reporting and trading services. Private banks are also used due their ability to link their clients' wealth to their commercial business, as many clients are also business-owning entrepreneurs.

All of these services are now experiencing some form of change. Many can be delivered digitally at lower costs and in superior quality, some are less viable due to regulation, while other advantages of private banking can only be delivered by large players given the escalating costs of doing business.

How banks use their clients' trust is therefore the key differentiator going in the future.

"How banks use their clients' trust is therefore the key differentiator going in the future."

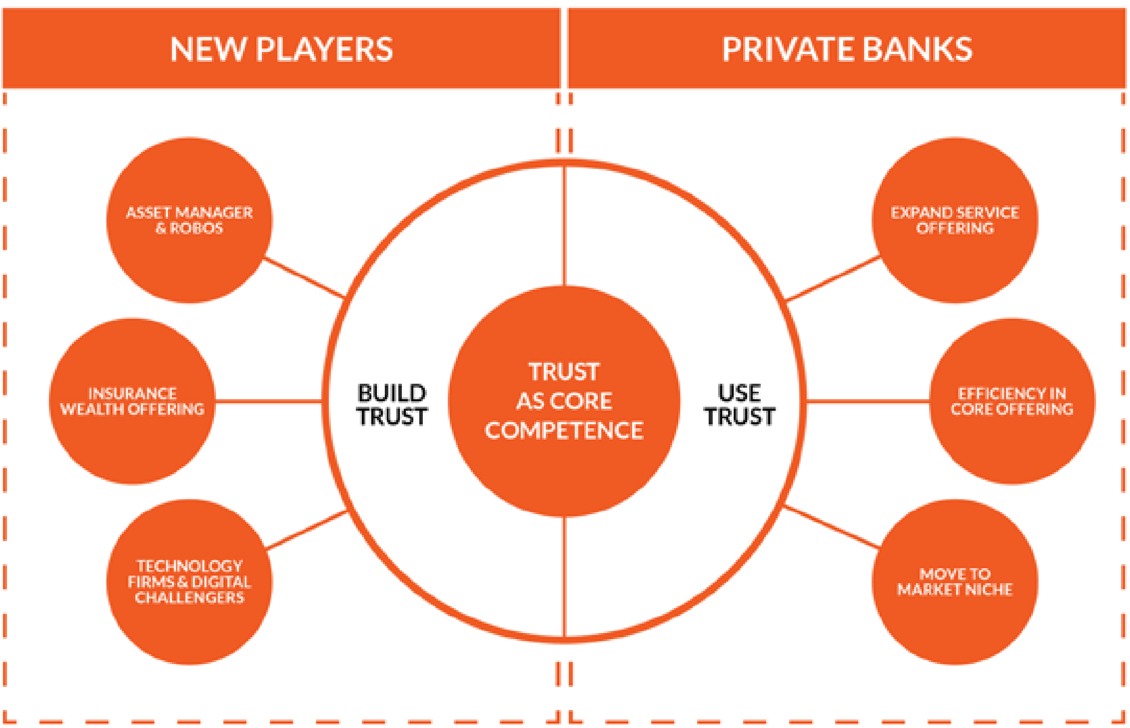
The trust equation

Trust takes time to build and RMs have been instrumental in cultivating trust with clients over time. Given the narrowness of the trust advantage, the firms that will stay in business will use digital technology to organise services around their clients' trust, which makes it difficult to replicate by the competition.

A trusted relationship can be used to generate a greater share of wallet, acquire new customers, or offer new services. Firms that squander their client trust will likely be replaced by a digital offering, or will go out of business.

In that light, can trust be digitised? It is certainly true that trust is mostly effectively delivered in person, but many other business models have also created significant trust with clients. In particular, digital businesses are based on trust, which in this case is based on data security, product reliability and fulfilling service promises (for example, Apple's refusal to release its code to the FBI increased the firm's reputation for data security). Trust has been building in the technology space and can be transferred by the right competitor to financial services, thereby mounting a credible challenge to the private banking sector.

THE TRUST EQUATION IS CHANGING



APPROACHES TOWARDS DIGITISATION

The adoption pattern of digital technology depends on a firm's attitude towards change, its resources and ultimately the market positioning it strives to achieve.

The larger players are approaching digitisation much more strategically and are looking to introduce end-to-end digital capabilities. Smaller players are more constrained in funding, so are looking to make more tactical changes.

Tactical adoption path

The clear guiding principle of digital adoption is increasing the relevance of client interactions and is improving the client experience.

The most likely path chosen is a front-office to back-office implementation of digital capabilities. Firms who chose a tactical approach are looking only to make selective back-office changes to minimise process breaks and to allow effective front-end digitisation.

A typical delivery path would look as follows:

- Improve access via web, mobile, chat etc
- Reduce administrative tasks for the relationship managers to improve RM efficiency
- Make selective operating changes to allow front-office efficiency to flow through to the back office
- Improve data capture and use, which includes the introduction of data tools
- Introduce investment analytic like robo tools to support the RM in their effort to deliver relevant investment advice
- Digitisation of the back office in key areas to extend the useful life of existing systems and to deliver longer lasting cost savings

"The most likely path chosen is a front-office to back-office implementation of digital capabilities."

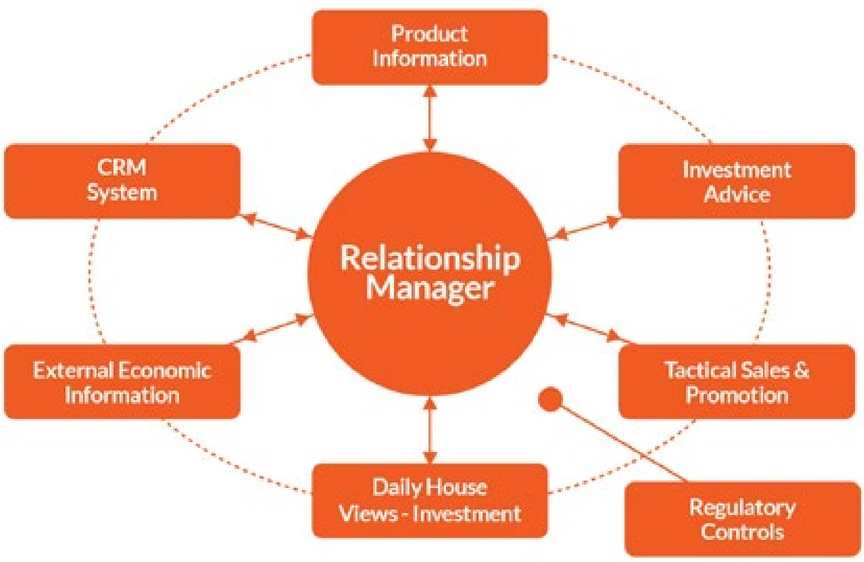
Crucially, the tactical option makes only limited use of the core opportunities digital entails: the use of data to deliver new products and services and to drive an entirely new and client-centric sales process.

Strategic adoption path

Compared with a tactical approach that is focused on selective improvements of the client experience, a more strategic approach looks at the entire client journey. It is looking to rework the front-office workflow processes and align digital delivery in the middle and back-office accordingly.

It is designed to produce a truly novel business model which is data-driven and can create bespoke and individual products and services. It will further utilise a more integrated multi-channel communication approach. This will only be possible through end-to-end digitisation of the operation.

FUTURE DIGITAL-ASSISTED WORKFLOW IN THE FRONT OFFICE



A useful yardstick for drawing up a strategic road map to digitisation is to redraw the client segmentation, not by levels of wealth but by behaviour and to answer the question: “How does the client make decisions and what does the client need as a result?”

> “Achieving relevance with the firm’s client base should be the guiding yardstick.”

Useful client categories could be opportunistic investors, validators or delegators.

Digital technology can then help to provide services that map back to decision-making patterns and provide clients with key tools and outcomes:

- Client will be able to better understand their own financial situation
- Advisers will be able to propose relevant investment or trade options
- Banks will be able to provide insights and advice to enable decision making
- Clients will have the tools that empower them to act and take control
- Banks can create a community between clients, bankers and peers
- Banks can provide better information and data security
- Clients will experience an uplifting experience, which can be fun

Both the strategic and tactical adoption paths for digital technology is driven by a changing sales process that responds to client demand to be engaged in a multi-channel way, receive greater customised content and advice, and enhance their experience when dealing with their bank.

It is also worth a mention that the introduction of digital features and services across the platform should be driven by their relevance. There is a great danger to overwhelm the client, RMs and the IT delivery by pushing for too many changes at the same time. The clients might not require many of the features and services and RMs are less likely to adopt them if they feel that change is coming too fast.

Achieving relevance with the firm’s client base should be the guiding yardstick.

How much time do we have?

Time is of the essence. Most respondents to this research are currently either evaluating options for greater digitisation or are in the early stages of introducing digital services.

The next one to two years will be crucial as players set their digital strategy and start to show results, especially regarding the more tactical areas of digitisation of the client front-end. New prototyping and minimum viable product concepts allow for rapid development of smaller features and tools.

There is a clear view that most players will have a digital offering in the next three years if they look at a more strategic view. This entails re-engineering the front-office workflow processes and making a more fundamental change to exploit the true power of data capture and manipulation to design their offering.

The slower adopters will finish this process in around five years, which brings them in a more critical competitive position, especially as many tools and services will need frequent updating and shelf-lives of many features might only be two years.

These firms will likely follow a niching strategy; slow movers therefore risk falling out of contention, especially if they also experience an erosion of client trust.

This need for continual renewal is clearly driving costs and will determine if banks will build digital solution themselves, partner or buy-in technology. Few players have the ability to tackle digitisation with significant upfront investment in order to drive down the long-term costs. Those players will likely use a partnering approach to keep investments in check.

The emergence of distributed ledger technology and its potential to reshape the role of financial intermediaries should be taken into consideration when looking at the longer-term business model over the next five to ten years. It is too early yet to determine what impact this will have on private banks business models.

"Few players have the ability to tackle digitisation with significant upfront investment in order to drive down the long-term costs. Those players will likely use a partnering approach to keep investments in check."

Can robo and other tools help RMs be more efficient?

The issue private banks are faced with when looking at robos is automation of advice versus portfolio complexity.

The question is, therefore, not whether robo-advice is useful but if a data-driven digital investment advice model will be able to deal with the complexity in client portfolios.

The limiting factors are around data availability and sophistication of the investment solution:

Private banking clients tend to have multiple bank relationships and a single bank therefore does not hold all the required data to make relevant recommendations. An RM is seen to be required to build a true picture of the client's wealth and filter the recommendations generated, either by a robo or an investment team.

Even if a client has only one banking relationship, he or she might opt not to share all their data with the bank, which invariably skews the resulting advice and might reduce its relevance.

Lastly, it is being felt that robo-advisory tools are not sophisticated enough to deal with complex portfolios, for instance the data inputs are limited, the asset classes covered might be limited and the risk analysis tools might be too generic to produce truly individual advice.

What is the path forward for robos in private banks?

Issues around client data availability and completeness, which are currently being mitigated through RM involvement, will ease over time as clients engage more heavily with the technology.

The issues around portfolio complexity will be addressed by stronger, more robust and flexible investment engines that can draw on more data sources and can produce individual investment outcomes.

The model that is emerging is therefore the introduction of robo-advice as a tool to help RMs produce more relevant, timely and client centric advice. It also helps with the adherence to house investment views and with the consistency and quality of advice offered across the client base. This in turn will help therefore drive loyalty and greater share of wallet.

Assisted advice also has a regulatory dimension in as much as firms can prove the research they undertook to ensure suitability of investment advice as well as providing an audit trail.

Robos will, therefore, most likely in the form of intelligent, digital advice tools, be introduced across the board and will become commonplace in the next few years. Over time, robo's might well become dominant as clients gain experience and become comfortable with the tool.

"The model that is emerging is therefore the introduction of robo-advice as a tool to help RMs produce more relevant, timely and client-centric advice."

What changes can we see in the front office?

With the salesforce representing a large part of a private bank's expense base and based on the need to generate more revenue, it is no wonder that sales efficiency and the sales process is coming increasingly into focus.

The traditional high-touch business model based on the RM as the central point for all client interactions and advice, is increasingly questioned as revenue streams are suffering. In addition, good quality RMs are limited in supply and good candidates can demand high compensation.

While many banks stress the importance of the RM as a sign of a trusted relationship, there is a clear trend to look at the sales organisation more holistically.

CLIENT KNOWLEDGE COMES FROM MULTIPLE SOURCES

Customer centricity

Changes in the front office start with the question: "How well do we know our customers?" Many private banks think they know their customers very well: "Having the RM as the trusted middle-man has produced insights into the client that are hard to replicate."

Players who are looking to use data much more creatively when assessing client needs, their risk tolerance, loss aversion and profit objective, are increasingly challenging this view. It is clear that this area is going to be a key battleground for private banks in future, but we are likely to see greater data-driven analytical tools around client needs and objective assessment, only after other digital tools like robo-advice have been used more widely.

The RM is for the time being still undisputed in understanding their clients but there is an opportunity for first-movers to provide differentiation through digital tools and data.

"The RM is for the time being still undisputed in understanding their clients but there is an opportunity for first-movers to provide differentiation through digital tools and data."

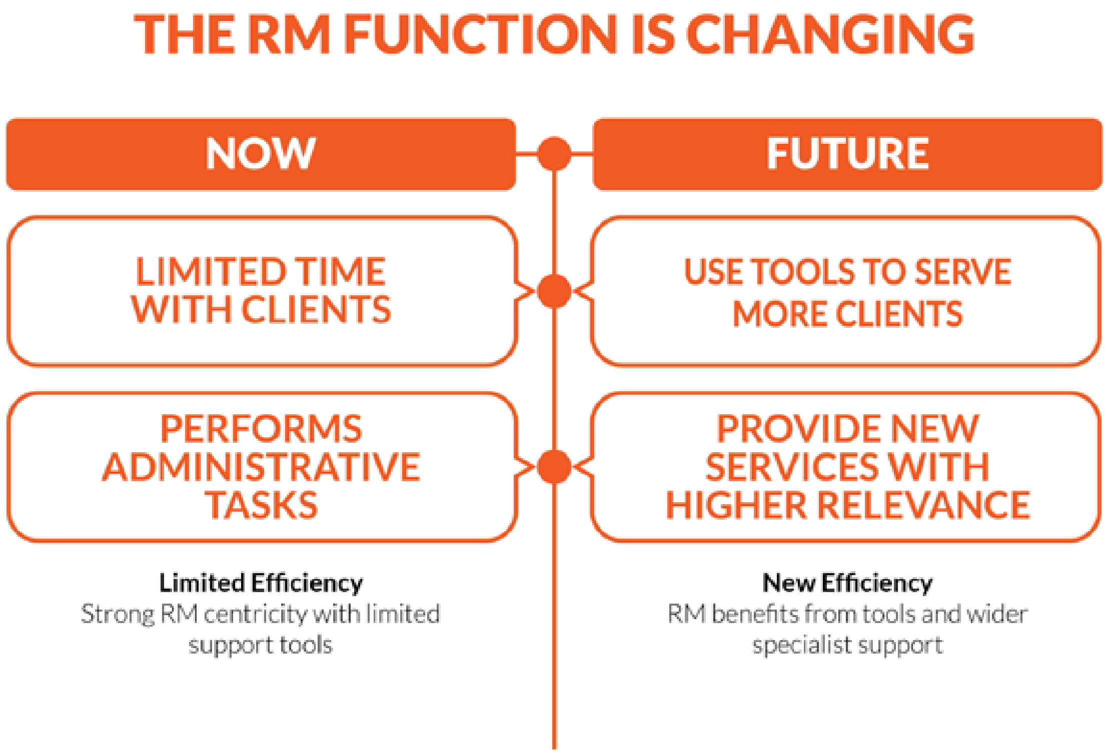
Efficiency

Technology is used to automate processes and reduce the administrative burden for RMs, straight-through processing and an encouragement of client self-service which not only frees up time but also provides data in a digital format from the start. Further, more sophisticated CRM tools will help consolidate client knowledge and drive more tailored client interactions by combining a variety of data sources to produce client-centric insights.

Channels

Multi-channel offerings are likely to be a must going forward. That is not to say that all offering has to digital but rather that a bank has to decide which touch points should be delivered digitally and which through an RM.

Web and mobile are clear must-have channels, but also chat is becoming popular.



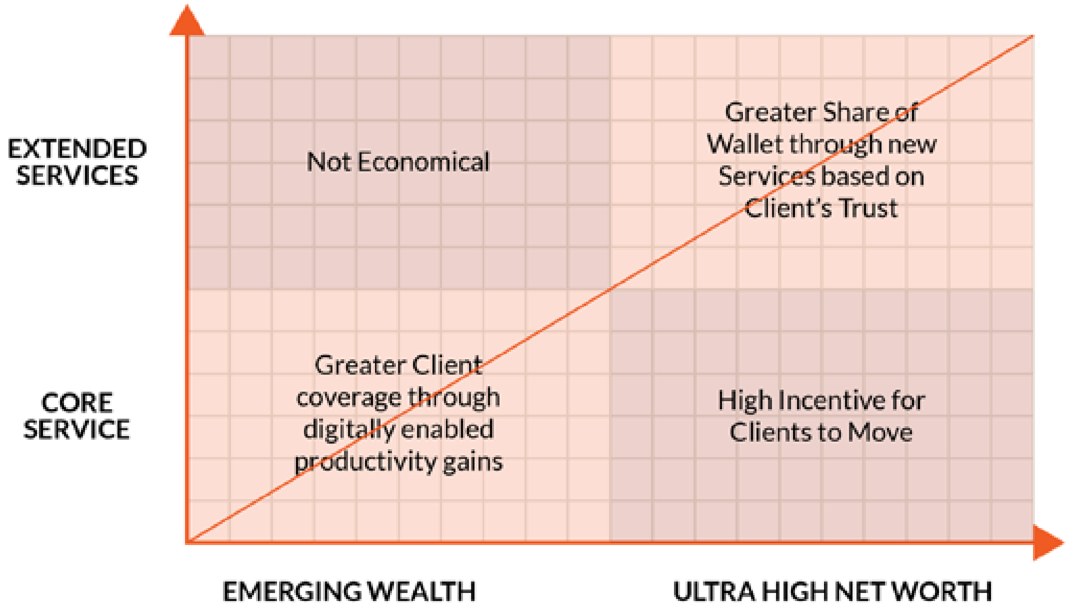
Relevance

Technology helps to deliver relevant insight and advice to clients.

In this regard, some form of robo-advice will be common in the future where it can assist the RM.

The model often mentioned is the B2B2C one, whereby a specialist provider will deliver a bespoke robo solution for a specific bank and their needs. Greater ability to collect and manipulate client data will further assist in more client centricity.

EVOLUTION OF SERVICE THROUGH DIGITAL

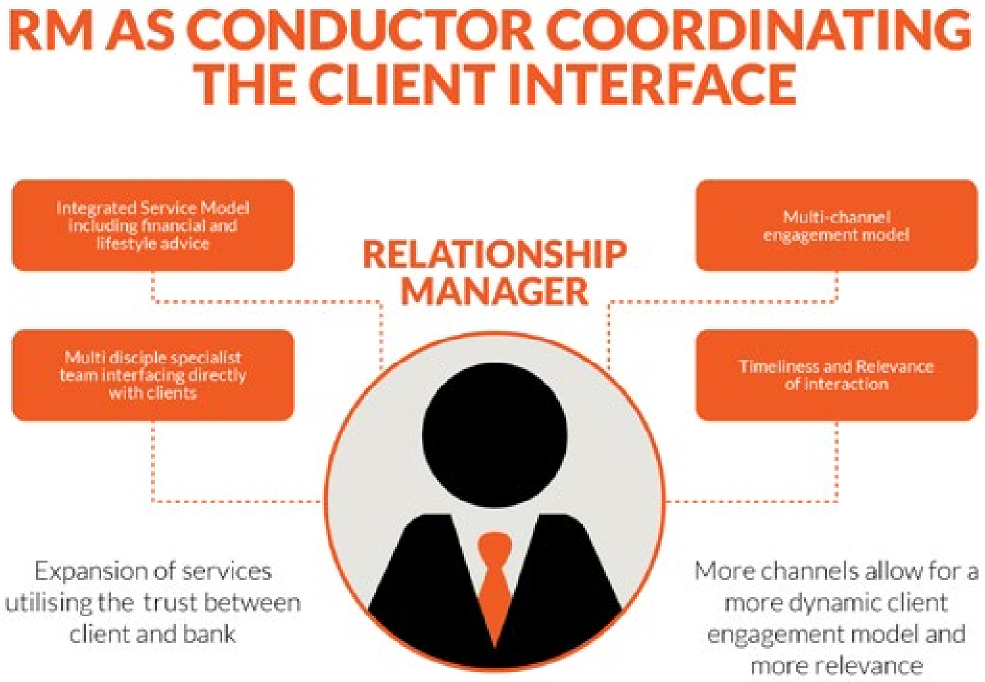


Transparency

Digital advances can also help transparency in a number of ways. They can provide an investment advice audit trail which supports regulatory requirements on product suitability assessment. They can provide a transparent pricing structure. And they can help clients drill down on the performance of investments.

As digital tools will free up RM time, the question arises about how efficiency gains can be used. For UHNW clients, the bank can use its trusted relationship to offer a wider range of services that help to manage the clients' affairs more holistically, including a number of services like estate and tax planning, real estate, educational needs, philanthropy, etc. Moving up the value chain in this way can help to capture a higher share of wallet and reduce client mobility between banks. This approach requires private banks to revamp their service offering and delivery process.

For emerging wealth and HNW segments, RMs can manage more client relationships and increase their overall productivity and profitability. These



segments requires a higher degree of tools, is more open to self-service and will likely be offered services within the current core competence of the bank. The sales and front-office staff and functions will also cluster further with the RM at the top of the relationship pyramid but working within a multi-disciplined team.

A more diverse engagement model by using digital and off-line channels will also become more common. CRM and other tools help to manage a multi-touch point and multi-channel activity that increasingly involves the client in real time, with a higher degree of relevance and through a greater number of staff.

Not all RMs are in favour of these changes and the RMs response is mixed. Some welcome a higher degree of digitisation and see it not only as a differentiator but increasingly as a right to play. On the other hand, change can create a degree of resistance and entrenchment with more traditionally-minded RMs.

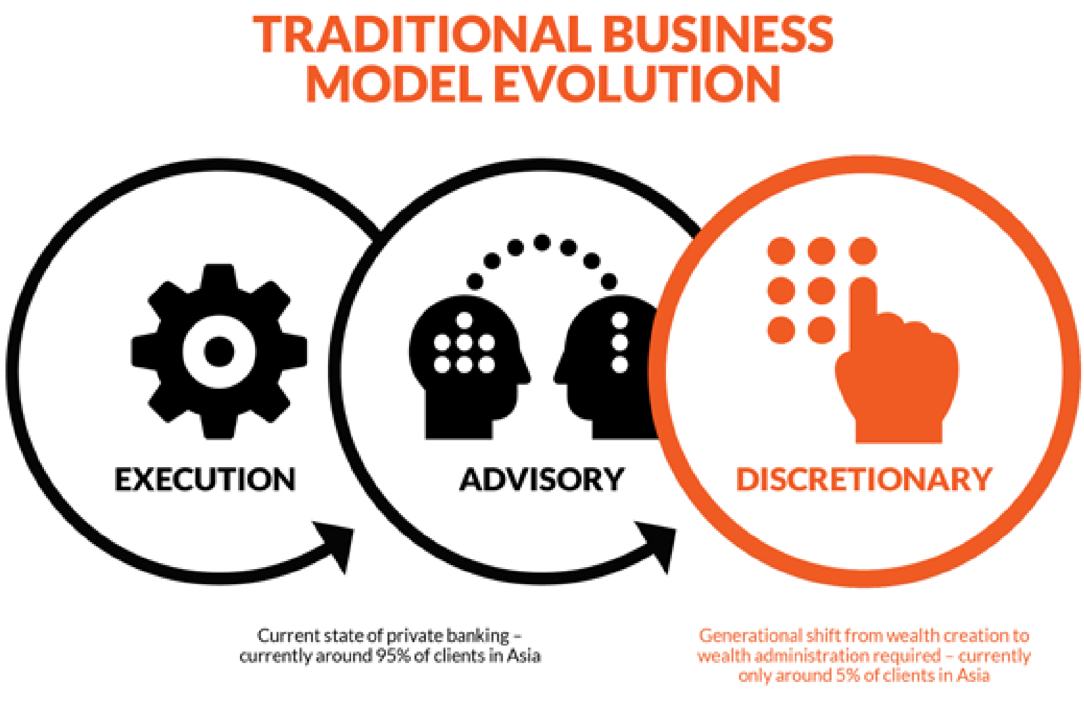
Given that front- office digitisation is irreversible, we might see a new breed of RM, who is technology savvy and able to work with clients in a way they want to be approached, and on topics which are relevant to them. Training can obviously help RMs and other front-office staff to move along the digital curve, but above all, the mind-set will need to be aligned to the changes.

WHAT BUSINESS MODELS WILL EMERGE?

Traditionally we have thought of changes to the private banking business models as a continuing development from trading and execution, to provision of investment advice, to discretionary portfolio management.

In the US and Europe, we see a clear progression of business model changes in line with the maturing wealth that private banks are administering. Asia, meanwhile, is in a very different space across the age profile of clients and across the generational axis.

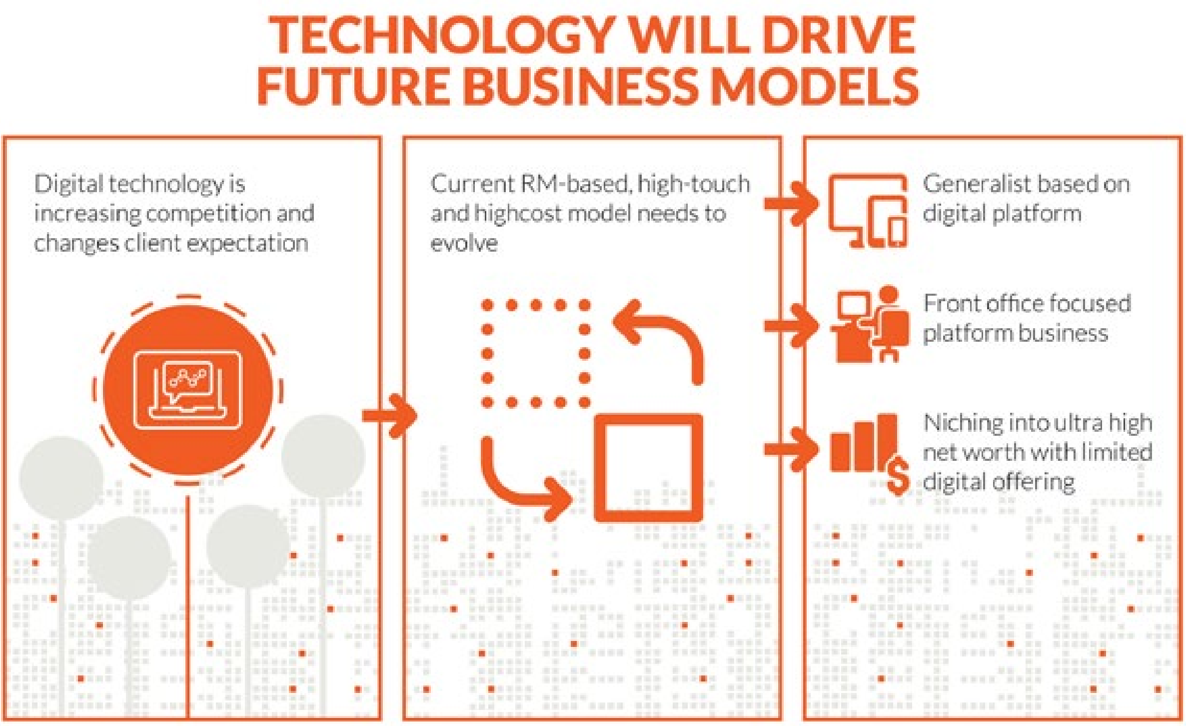
Private banks in Asia are still servicing to a large degree first-generation entrepreneurs compared with a much higher degree of subsequent generations in Europe and the US. Asian clients have a higher risk attitude, are more involved in decision-making, and are much more focused on trading and execution.



The transition from execution to advisory to discretionary is ultimately client-driven; a private bank can facilitate the changes by providing the right services to support such a strategy but clients are unlikely to be taken by the hand and moved into a different product and service model in a way that some private bankers would prefer.

While it is clearly felt, though, that digitisation will not accelerate the advent of discretionary private banking models, digital technology is a key enabler for business models to change.

We will therefore probably see a higher variety of different business models emerging, almost certainly determined by the amount a firm is able to invest in their digital platform in the long term.



There are a number of key business models emerging, as outlined below.

The generalists

The larger firms will be able to invest across all areas of the value chain.

These firms will be competitive by continuously revamping and expanding their digital offering and by driving down the long-term running costs through a high degree of digitisation. The bank will over time become a digital bank.

The platformers

Many mid-level firms won't be able to afford the amounts the generalists invest in their business.

These firms are large enough, though, to aspire to a wider client coverage and also to attract the newly-rich or lower HNW clients where significant growth is being expected.

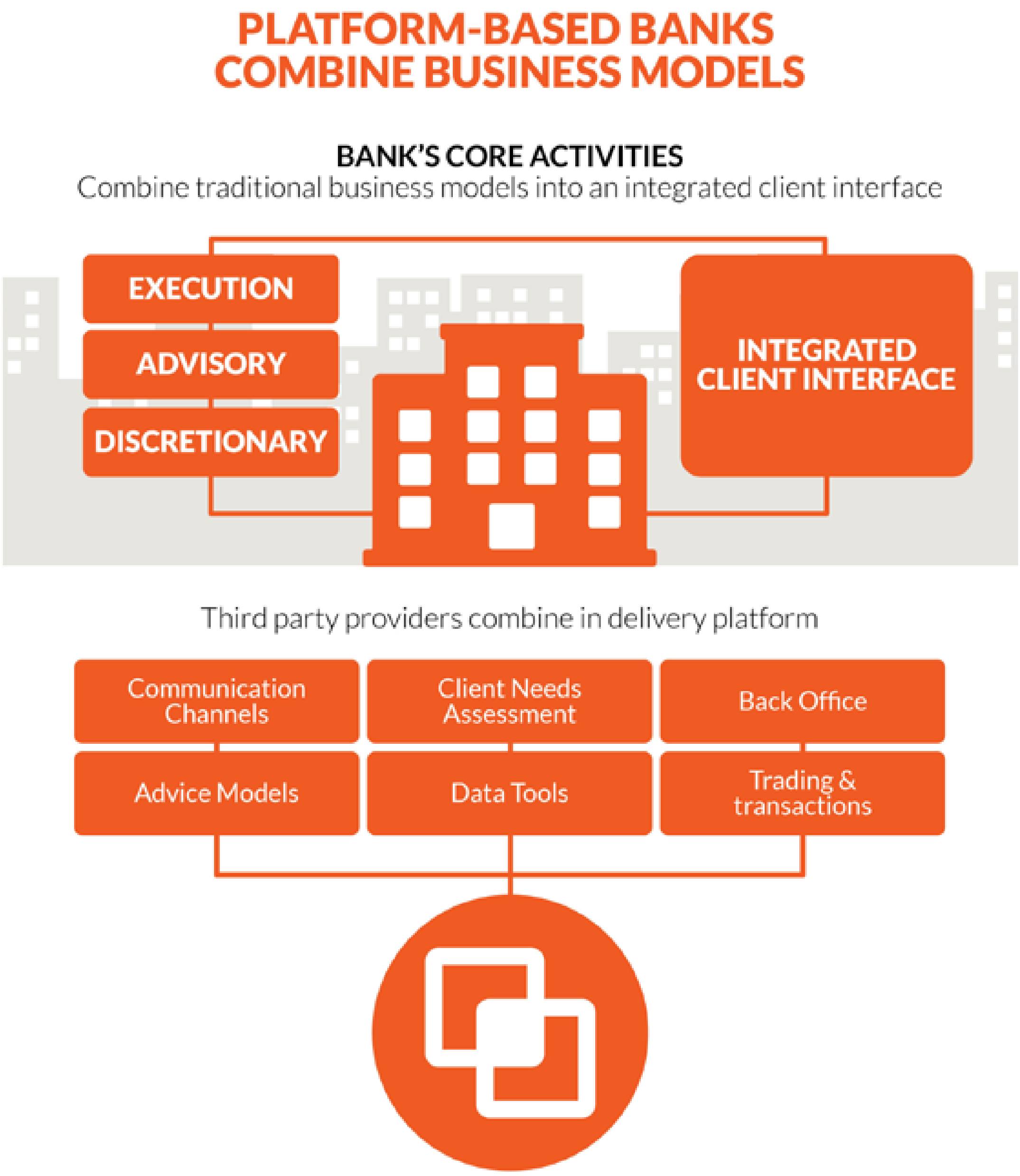
These firms will likely collaborate with fintech firms on specific products and services. They could even adopt a business model whereby the bank only provides the front office while third-party specialists provide client interface and all other services on the platform.

The specialists

Smaller players who focus on UNHW clients are looking to use technology only selectively and where applicable to their client base.

Given that clients are still willing to pay for exclusivity, and given the lower volumes, firms can thrive in a niche, but are unlikely to experience the strong growth we are seeing in other market segments.

> "[Larger] firms will be competitive by continuously revamping and expanding their digital offering and by driving down the long-term running costs through a high degree of digitisation."



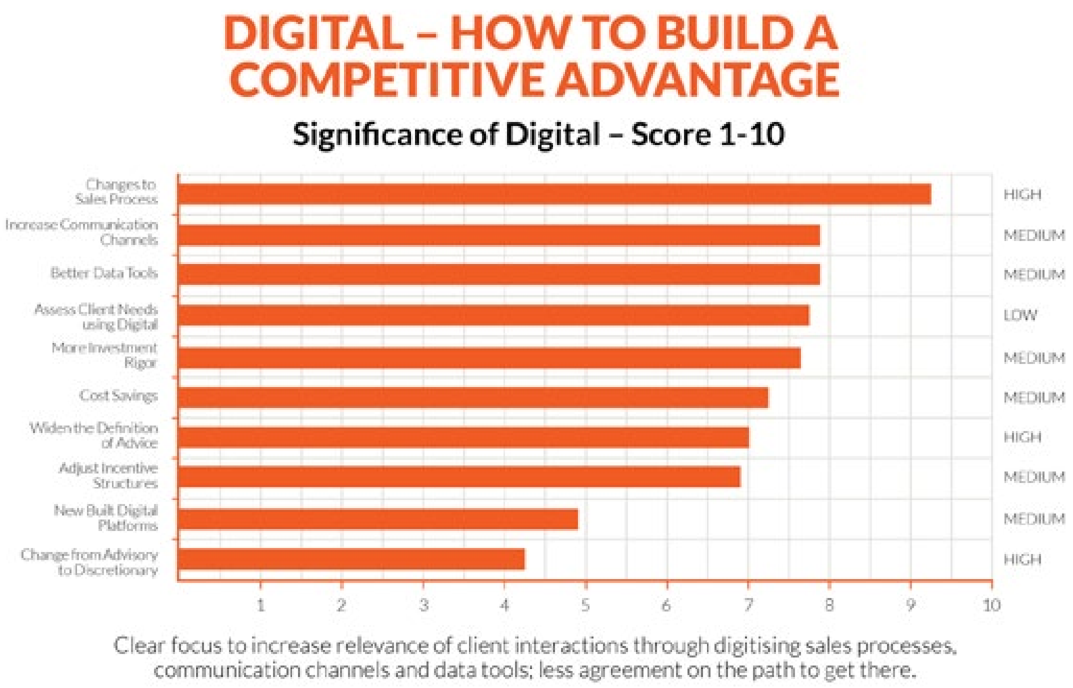
These firms need to be aware of the generational shift. While niching, they cannot build up a large digital gap that will make them unattractive for subsequent generations once the shift occurs.

Due to the higher degree of technology becoming available, we will also likely see a mix of the traditional execution services, advisory and discretionary all provided to the same clients as an integrated offering.

SUCCESS FACTORS IN THE DIGITAL AGE

When looking at the success factors of private banking in a digital world, there are some actions that can be taken immediately to prepare the organisation.

We did not specifically focus on the impact of digital technology on regulatory compliance, as the introduction of tools, which allow for more cost-effective discharge of compliance duties, are becoming a right to play rather than a competitive advantage.



"The most important actions that banks can take right now is to look at ways to digitise the sales process."

The below priorities can be taken to prepare the organisation for a digital age.

We asked participants to score actions from 1-10 where digital will play a significant role. The level of agreement is measured by the distance from the worst to best score. A lower distance means higher agreement whereas scoring both lowly and highly indicates a lower level of agreement.

Each individual action identified can be pursued in isolation; winning in the digital age will probably require a combination of actions to be taken. The high score that many of the actions received further indicate that digitisation is going to be a more comprehensive and involving tasks than many people might anticipate.

Changes to sales process

Score 8.3/10 – High Level of Agreement

The most important actions that banks can take right now is to look at ways to digitise the sales process.

This can take a number of forms but covers mainly reworking of the sales process and connecting existing systems and data to generate insights.

The role of the RM will become more like the conductor of an orchestra who conducts the delivery of products and services in a timely, suitable and relevant manner, and who is increasingly relying on a larger team of specialists.

Increased communications channels

Score 7.8/10 – Medium Level of Agreement

In line with sales process efficiency is an increased use in communication channels through digital means, in form of mobile apps, chat and, in some cases, video.

There is slightly less agreement on this point as RM-based communication is still core to private banking but a richer communication mix, including more digital forms of communication, is in generally seen as important.

This can also have implications on the staff mix and the number of people communicating directly with the client.

Better data tools

Score 7.8/10 – Medium Level of Agreement

Making client communication more meaningful and running an insight-based and client-relevant sales process requires better data tools.

This covers portfolio analytics, filtering of relevant news and tailoring messages and recommendation.

Data tools are also seen as means to better understand clients, which supports KYC processes but also as tools to deliver relevant and tailored advice to clients.

"Making client communication more meaningful and running an insight-based and client-relevant sales process requires better data tools."

Client-needs focus

Score 7.6/10 – Low Level of Agreement

Using digital tools and techniques to assess client needs and risk tolerances is seen as important, but for now, the RM remains the key person to build up a true picture of a client's needs.

Digital tools are seen to be helping the RM in that endeavour and to provide an important audit trail for regulatory compliance, but especially the use of more data about client behaviours which are not necessarily connected to investment decisions are seen as less relevant for now.

In contrast, a more progressive view is that data will be the key differentiator if banks understand their clients or not.

More investment rigor

Score 7.4/10 – Medium Level of Agreement

As discussed, there is an expectation that investment robos will be introduced in some form or another, but mostly as a tool to ease the analysis burden of the investment teams and RMs.

In its pure form, robo investment advice is seen as unlikely, and more useful for mass market or emerging wealth accounts. This assessment is likely to change over time in favour of robos.

Cost savings

Score 7.2/10 – Medium Level of Agreement

Cost savings are an evergreen, particularly in a cost-constrained environment. But the use of digital to drive costs down is not seen as building a competitive advantage in its own right. This is partly due to the high cost of back-office transformation.

Many respondents view that making selective changes to the back office in order to prolong the life of current systems is a practical way to keep back-office costs in check. Selective updates to back-office systems are also seen as essential to enable front-office automation.

Widening the definition of advice

Score 7.0/10 – High Level of Agreement

Widening the activities in which advice can be delivered is seen as important to increase share of wallet and drive client loyalty.

While there is a high degree of consensus that private banks can best utilise their clients' trust through personalised advice across both investment and non-investment related areas, there was less agreement what these services should be.

Incentive structures

Score 6.8/10 – Medium Level of Agreement

In a digital world, many of the existing processes and a bank's organisational structure is likely to change.

This can affect workflows, organisation set up, speed of implementation and agility to deal with external changes.

"Widening the activities in which advice can be delivered is seen as important to increase share of wallet and drive client loyalty."

While aligning incentives with change objectives is always a requirement for change to happen, there was less consensus that changes to the incentive structure will ultimately be possible, or be implemented.

Given the strong RM-centricity of private banks and the urgent need to generate revenues, many banks might be stuck in a Catch 22 on this point, and prefer no disruption to the current set-up for short-term profit goals which, in turn, could jeopardise long-term adoption of digital technology and the bank's future competitiveness.

New build digital competition

Score 4.9/10 – Medium Level of Agreement

Areas that were seen as less important in the digital world are the arrival of new digital competitors or the potential that new competitors have who are based on a completely digital platform.

While it was seen that new and digitally-superior offerings can make an inroad into the mass affluent and emerging wealth segments, HNW and UHNW segments are being seen to be driven and dominated by the trust between client and RM.

This contrasts to some degree with the view that the most danger from future competitors comes from technology firms.

Changes to business models from advisory to discretionary

Score 4.3/10 – High Level of Agreement

Lastly, it is not seen that digital transformation will bring about a business model change from advisory to discretionary wealth management.

These changes are likely to be driven by the generational changeover from first to second and third generation.

As discussed before, though, digital technology can create a combination business model.

"While aligning incentives with change objectives is always a requirement for change to happen, there was less consensus that changes to the incentive structure will ultimately be possible, or be implemented."

What have we learned?

Private banks' survival depends on the trust they enjoy with their clients. But it has become increasingly clear that this is a very narrow path and leaves the sector very exposed. Private banks who do not offer some form of digitised offering will therefore likely not be around in the future.

Digitisation is a never-ending process. Increasingly-short innovation cycles increase the pressure to 'keep up'.

What seems now to be a major disruption to the industry is, essentially, nothing but accelerated evolution. The coming together of a number of key drivers of change are disruptive, not each individual driver in isolation.

Many of the ideas that are now becoming reality have been around for some time. Private banks are therefore well-advised to adopt a 'what is possible' attitude when looking to identify future competitive advantages, rather than rely on 'what has made us successful in the past'.

We might look back in 10 years' time and ask what all the fintech fuss was about. Even now, it is sufficiently evident that the digital world is where we will live in the future. Getting prepared is not enough as the future has already started.