

Revenues at Risk

Why wealth managers have to rethink their revenue models

February 26, 2019

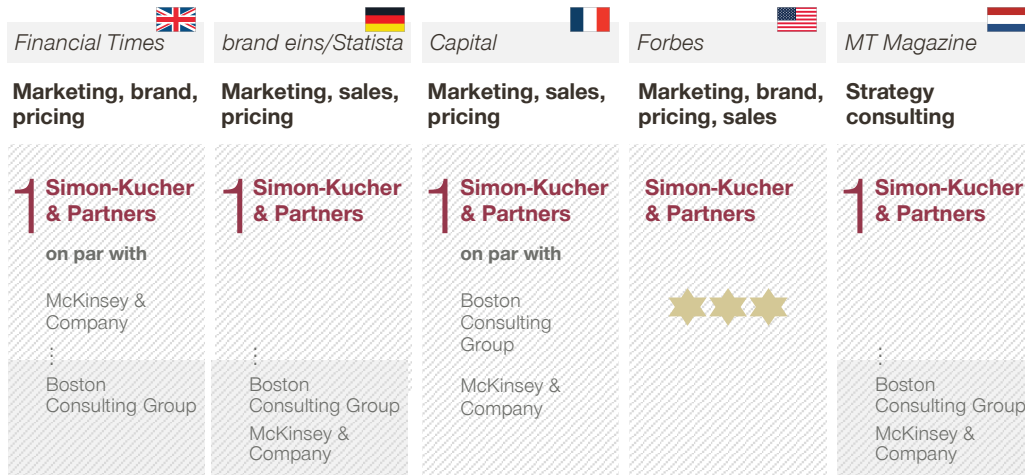
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Simon-Kucher & Partners at a glance

Best consultancy at topline improvement



Source: *Financial Times*, list of the UK's Leading Management Consultants, January 2018
 Source: *brand eins* Thema special edition: Consulting - industry report from *brand eins* Wissen and *Statista*, online survey, 2014, 2015, 2016, 2017, 2018
 Source: *Capital*, survey of the best consultancies in France, 2016, 2018 (conducted every two years)
 Source: *Forbes*, survey of the best management consulting firms in the US, October 2016, 2018 (conducted every two years)
 Source: *MT Magazine/Erasmus University*, *MT1000 2018*, survey of the best strategy consultancies in the Netherlands, December 2018

World leader in pricing



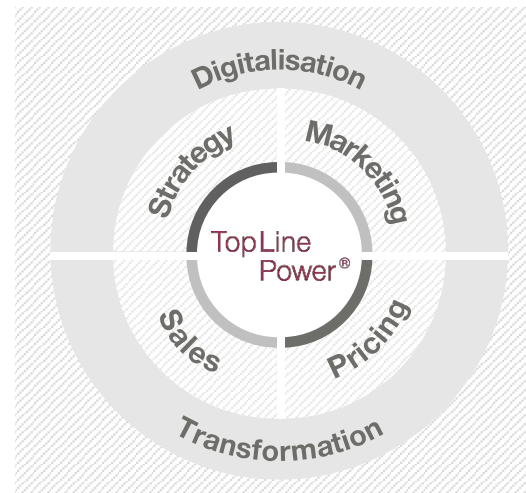
Global presence

38 offices worldwide, > 1,300 employees, \$360m revenue in 2018



Source: Simon-Kucher & Partners

> 3,500 projects in the last 3 years



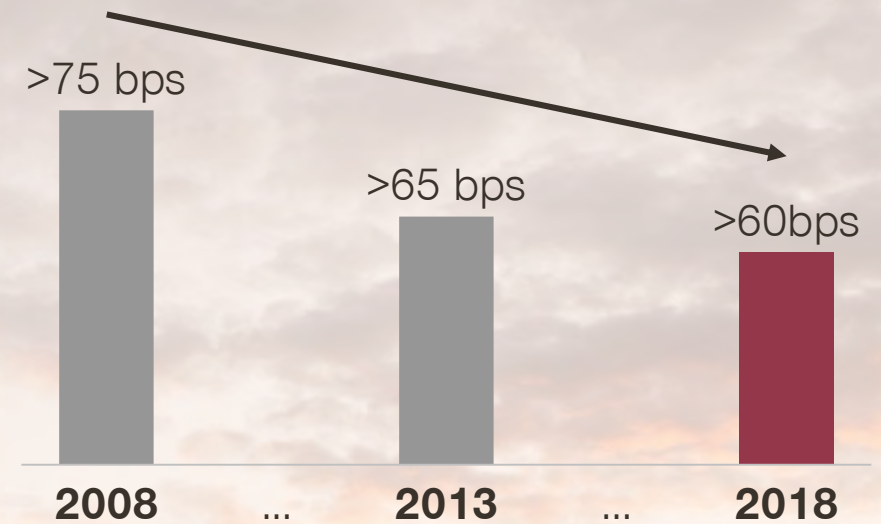
- Growth and competitive strategies
- Product portfolio (re-)design
- Pricing excellence
- Sales strategies and sales channel optimisation
- Customer-centric digital approaches
- End-to-end transformation towards commercial excellence
- ...

Revenue margin in APAC has gradually declined



Average revenue margin of PBs in APAC

Ø RoA: total revenues/total assets (in bps)



Costs are on the rise

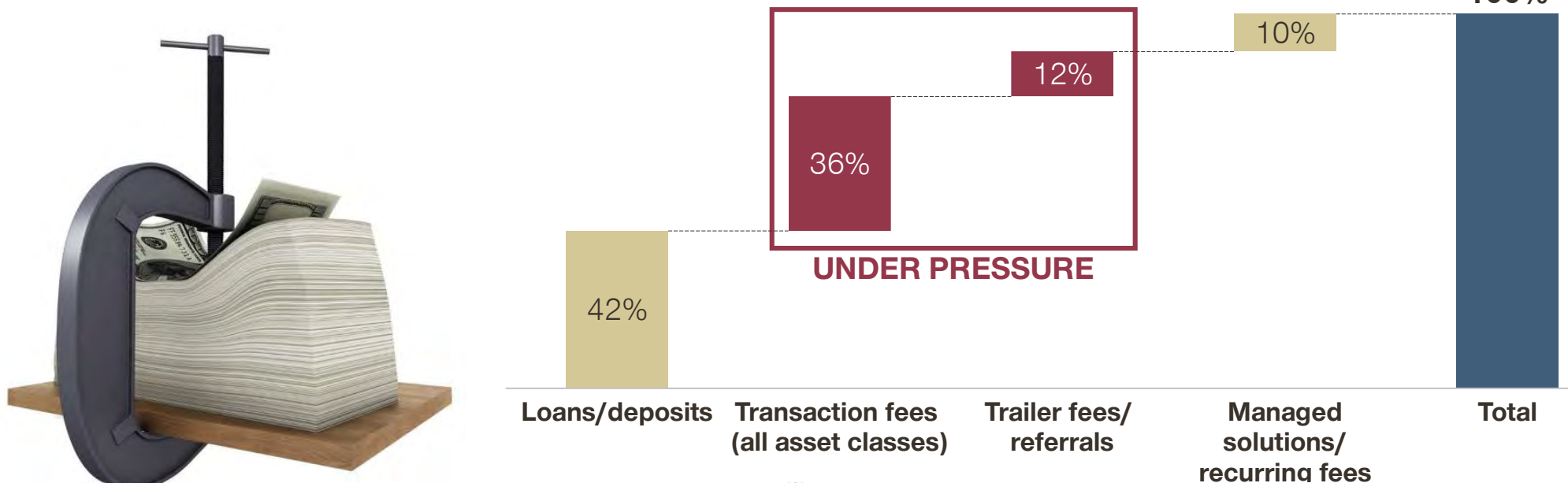
and **Market Conditions**

are challenging

How private banks are currently making money

Ø revenue composition of the PB industry (2016–18)

Average revenue mix of sample banks (%)



TRX fees will be further pushed down

Growing price transparency in the market

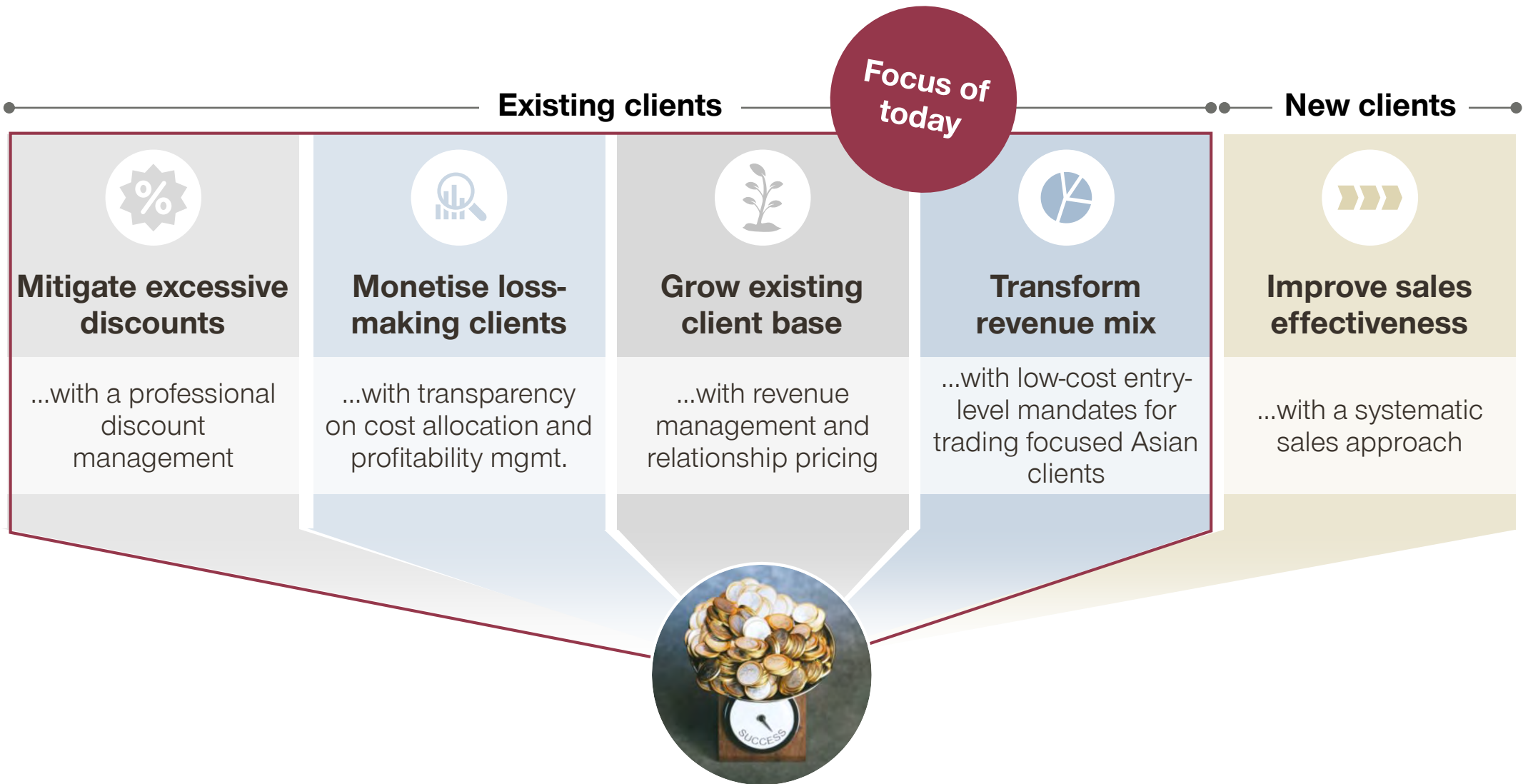
Regulatory pressure on fees and commissions
(complex products)

Growing share of intermediaries/family offices

Changing client behaviour
(online, Millennials)

New entrants
(Fintechs, Robo-advisors)

Measures that will help in slowing down margin erosion in the near future

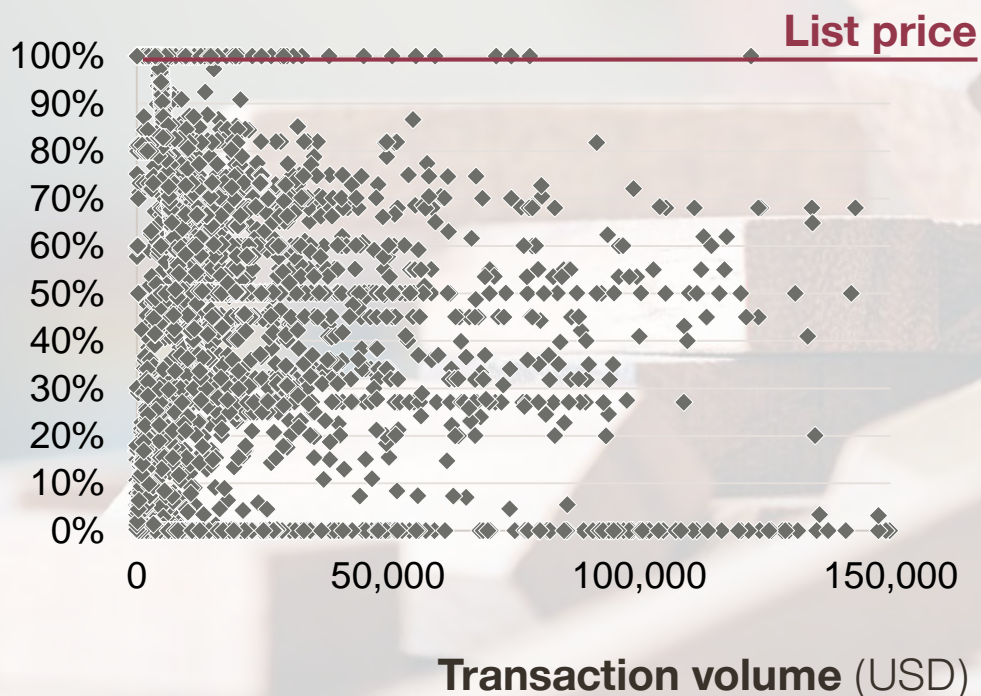




Discount practices lack structure and consistency across most banks

Equities

Price enforcement ratio (% of list price)



Similar result across other asset classes



No clear price differentiation by client size



Measures to improve discounting:

- A segmented pricing strategy based on total relationship value
- Pricing governance and monitoring
- Front office support for price negotiations

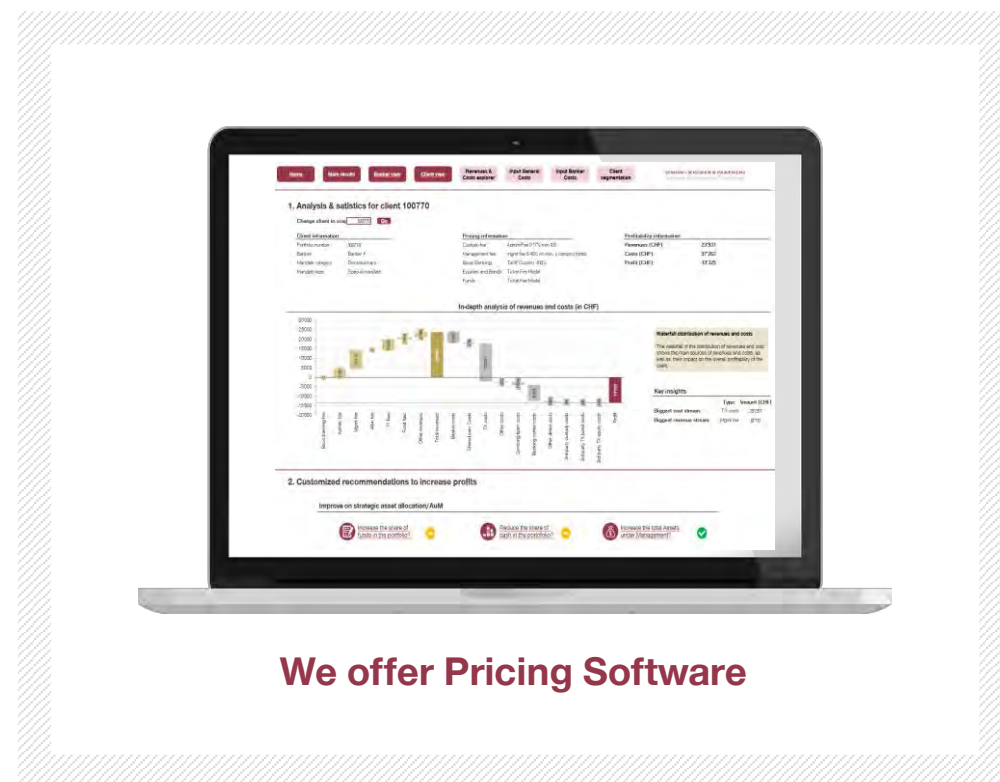
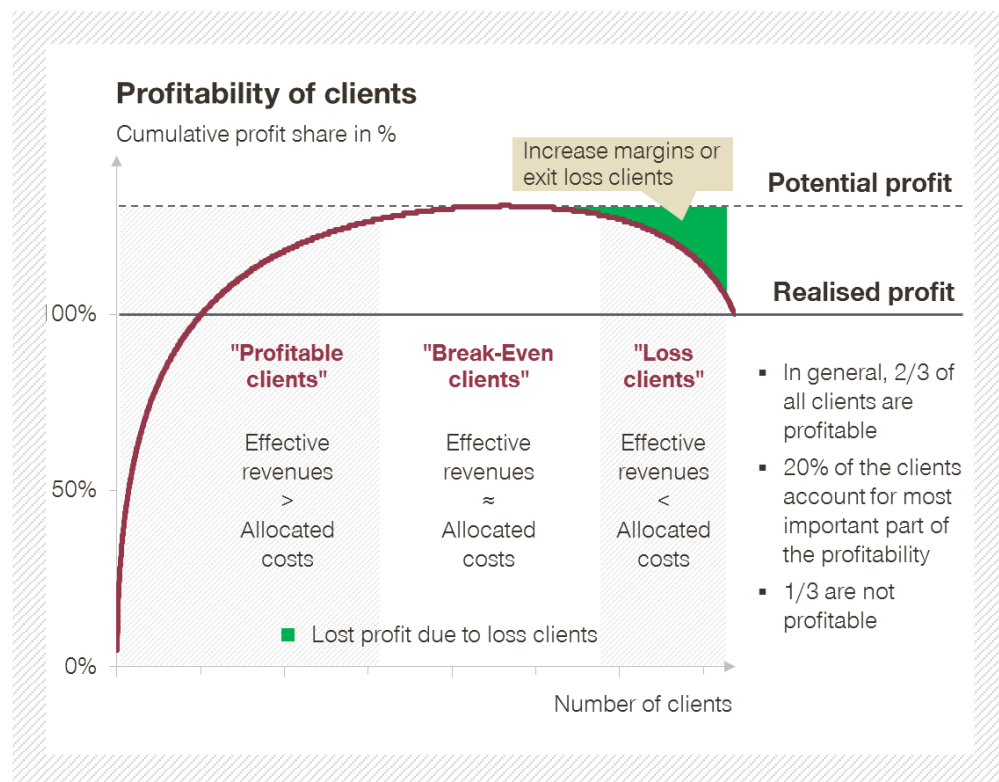


Transparency on cost allocation can help to identify loss-making clients

Roughly 20-30% of the clients are unprofitable. Only 20% of the clients account for the majority of revenues.

Problem – lack of transparency on “costs-to-serve” on client level

Solution – profitability management software



We offer Pricing Software

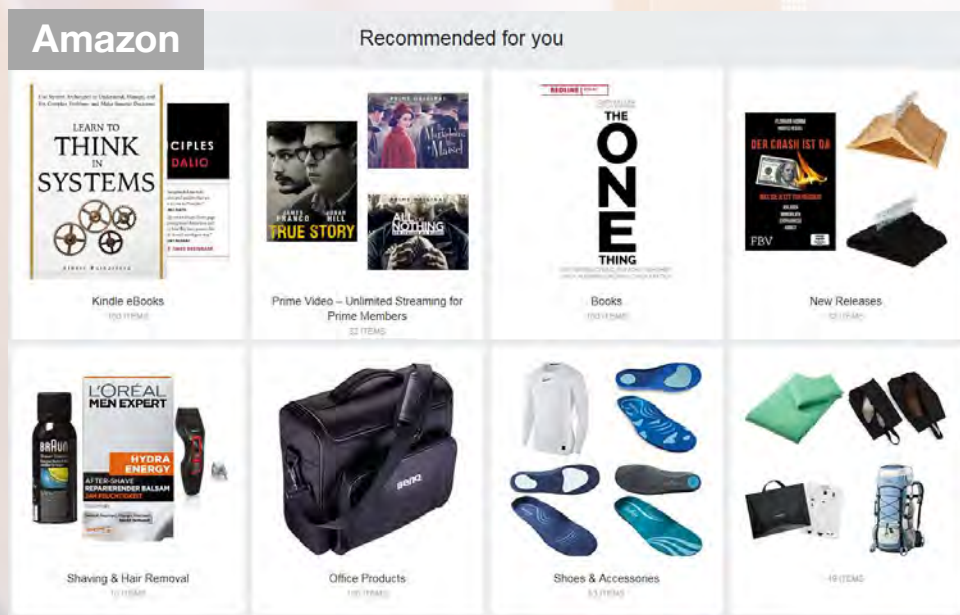
- **Allocating costs** to products/clients help to **identify loss clients** for monetisation initiatives
- **Enrich** sales force’s KPIs with profitability measures on client level

- Cost transparency helps to **take informed decisions** and to **focus on the “right” clients**
- **Standard practice** in other industries (e.g. automotive)

Source: Simon-Kucher & Partners



Empower frontline with a recommendation engine to facilitate faster and better sales decisions



Analytics will be crucial in the future.

A lot can be learned from online stores and airlines when building **smart recommendation engines** for bankers and PB clients.



Key components of revenue management in Private Banking:

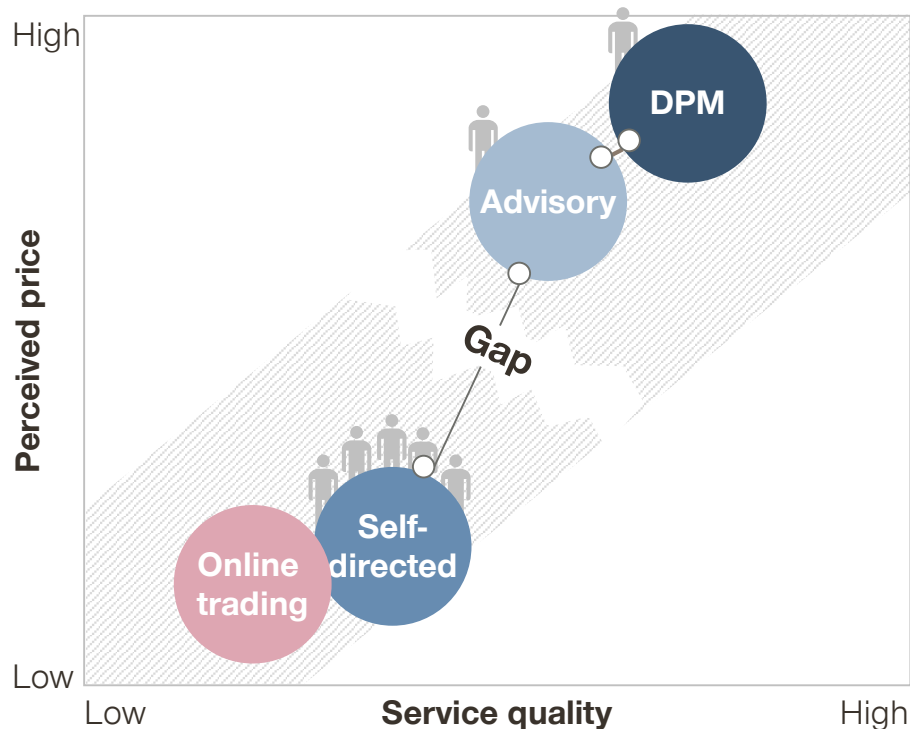
- Transparency on clients' purchasing patterns
- Target revenues or margins per client segment (behaviour based)
- Relationship pricing/rewards

Source: Simon-Kucher & Partners, Amazon webpage

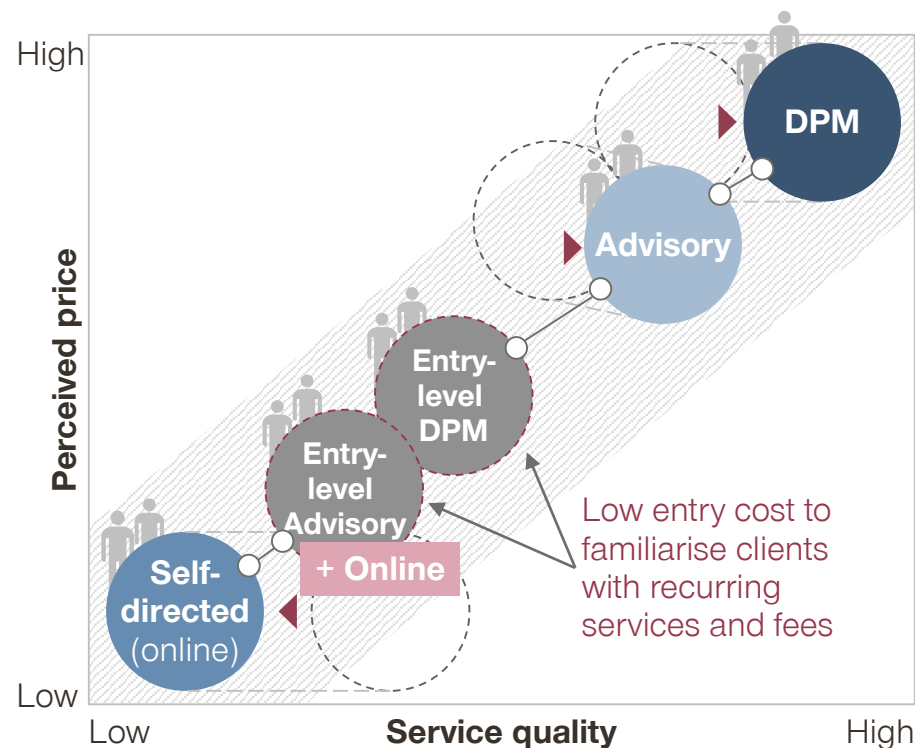


Introduce entry-level mandates to change clients' perception of value delivered vs. fees charged

Today – mandates are relatively expensive and penetration is low (10-15% of AuM)



Vision – hybrid mandates with a lower price tag (tech vs. human)



Upselling is discouraged due to:

High visible price gaps and minimal service gaps – “Advice is free of charge”

Upselling is incentivised due to:

Entry-level mandates to bridge the gap, mix of recurring and brokerage fees



We need to offer WOW Factors like Apple to successfully upsell and retain clients' loyalty



We need to WOW clients in order to hook them with our products!

Case in point: iPhone X

- **"Face ID leads a revolution"** - Sina
- **"The size is a real game changing feature"** - BuzzFeed
- **"The front camera is reborn"** – CNET



- ✓ US\$1,000 phone
- ✓ ~20% of industry volume
- ✓ 87% of industry profit



Your contact at Simon-Kucher in Hong Kong



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- Silvio Struebi is Partner in the Hong Kong office and heads the company's banking operations in APAC
- He has over 12 years of consulting experience in providing strategy and pricing consulting to various national and international wealth managers in APAC, Switzerland and the UK
- Silvio advises clients on topics such as international private banking, monetisation and product management, and assists in the market-specific implementation of growth strategies
- Prior to joining Simon-Kucher & Partners, he worked for an international private bank in Zurich and a consulting start-up
- He received his PhD in Marketing & Consumer Psychology at the University of St. Gallen in Switzerland
- Silvio is a regular speaker at conferences, roundtable discussions and talk shows. He has authored innumerable publications in leading business magazines

Your first port of call



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