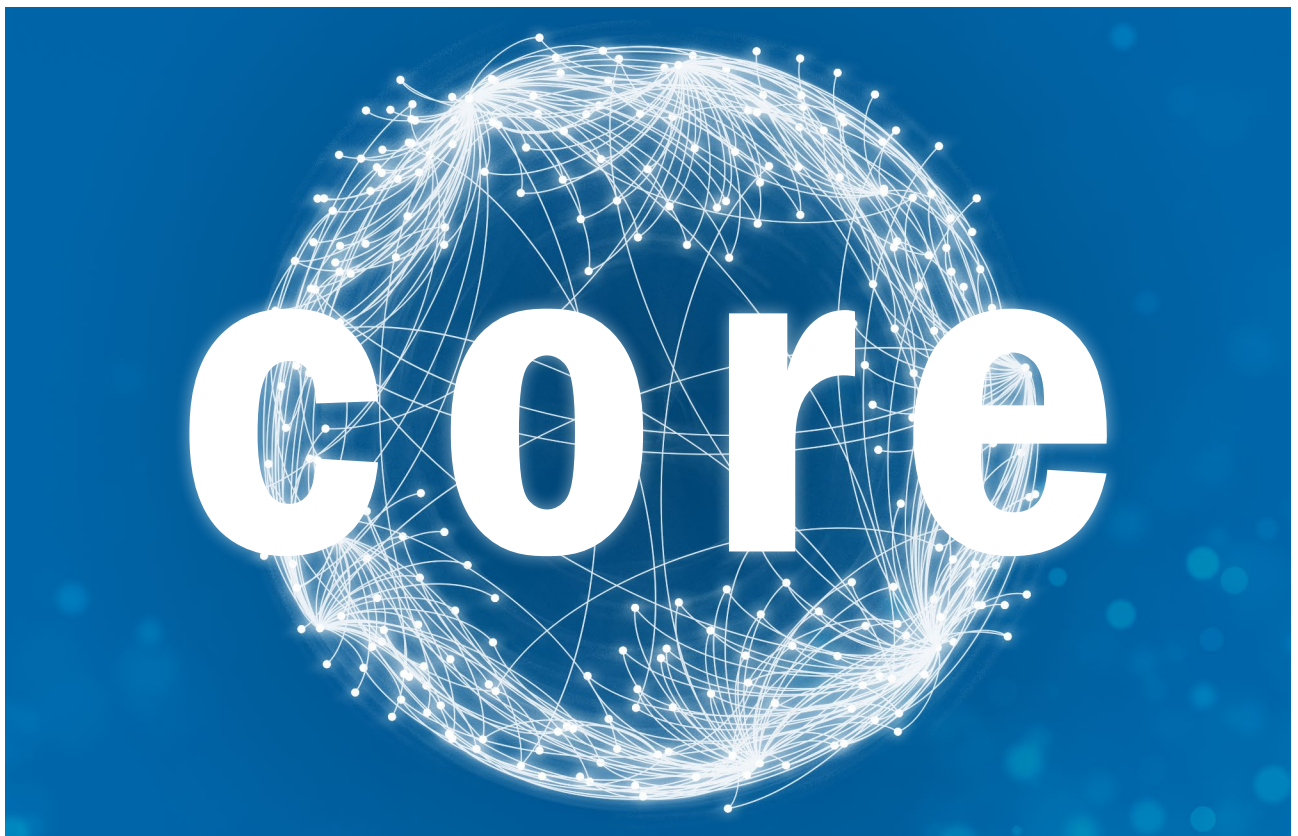


↓  
BANKING



# PRIVATE BANKING IN A DIGITAL WORLD



↓  
CASES & FACES

**RELATIONSHIPS**  
Increasingly digitally driven

**EXPECTATIONS**  
High and rising

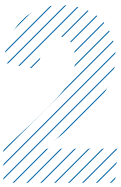
# Three perspectives



## THE CLIENT PERSPECTIVE

As we move from an analog to a digital world, relationship management is becoming more important than ever. It's time for Relationship Management 4.0.

**Private banking clients are demanding that the data they provide is used in a smart fashion for their own benefit. In the near term, client relationship managers should use digitalization and analytics to structure client interactions and anticipate clients' needs.**



## THE REGIONAL PERSPECTIVE

The economy of Greater China has jumped straight from cash payments to mobile-driven payments. Asian clients are digitally savvy and have high expectations regarding technology—for private as well as retail banking.

**Innovations include digital onboarding, data aggregation and analytics, virtual communities, social media, relationship management using AI-driven avatars, video account statements and comprehensive e-platforms.**



## THE FUTURE PERSPECTIVE

Banks should start preparing as early as possible for long-term digital transformation. The private banking world in 2030 will be fundamentally different from what we know today.

**Beyond 2030, private banking will be part of a larger ecosystem. The owner of the ecosystem will control the client relationship. Private banks should already start building a safe, protected platform that goes beyond the needs of traditional banking.**

# Welcome to core

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Yet another study of digitalization?

You bet! Digital transformation is about to shake the world of private banking to its very core. This is a level of disturbance that it would be foolish to ignore.

The multitude of innovations and new technologies appearing on the scene have many private bankers and wealth managers scratching their heads. Where should they start and what is really relevant for private banking? How should they deal with facial recognition, mobile payments or roboadvisors? And what about digital transformation, big data/data analytics or machine learning/AI? Or PSD2, blockchain or cryptocurrencies?

To help industry professionals navigate the road ahead, we examine the world of private banking and wealth management from three different perspectives. The first is a client perspective. What do clients really want? What are existing clients looking for, and what will make potential clients choose you rather than your competitors? Our answers are based on an extensive survey of more than 100 private banking clients in Germany, Austria and Switzerland.

Next, we take a regional perspective. What's going on in private banking and wealth management in technology-forward Asia? To answer this question, we carried out more than 20 extensive interviews with industry insiders in Singapore and Greater China.

Finally, we take a future perspective. Where do we go from here? What are the implications for the immediate period after 2019, and for the long-term for the period after 2030? Here, we draw on our in-house knowledge and our understanding of the industry based on in-depth analysis and our work supporting clients. We also provide our recommendations for how private banks can prepare themselves for the future.


The following pages contain a series of bite-sized morsels, designed to whet your appetite for more. Along the way, we take a brief glance at the topic of “roboadvisors”: could these digital investment machines solve the cost issues associated with providing clients with face-to-face advice, or is their true role elsewhere in the investment ecosystem?

We also include highlights from an interview with Thomas Allemann, Head of Digitalization, International Wealth Management at Credit Suisse, for some first-hand industry insights.


Welcome to the digital world, a world full of hidden potholes and unexpected turns in the road. Join us in our search to get to the core of the issue.



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# Perspective 1: What do clients want?



Meeting clients' needs is the key rationale behind any business model. That's as true for private banking as it is for the automotive or insurance industries. But to meet clients' needs, you first need to know what those needs are. What is it that existing clients and new client types are looking for? And what motivates potential clients to choose you over your competitors?

In the second half of 2017, zeb carried out an extensive survey of private banking clients. We spoke to more than 100 clients in Germany, Austria, Switzerland and Greece. Interview participants included both high net worth individuals (HNWIs) and ultra high net worth individuals (UHNWIs).

We discovered that these clients have three different types of needs. First, they have functional needs, such as the need for specialist knowledge of real estate, appropriate products, good value for money and accessibility. Second, they have emotional needs, such as the need for a sparring partner, a strong reputation on the part of the bank, and services such as lifestyle consulting and wealth preservation. Third, they have personal needs, such as the requirement for a trustworthy contact person at the bank, inheritance services or the ability of the bank to save them time.

Which of these needs are most significant for clients? We found that needs of the emotional and personal type were consistently ranked above functional needs. In other words, the quality of services offered and the image of the bank are

more important than the actual investment returns and the bank's range of products.

Top of the pyramid of needs, however, comes time relief—the ability of the bank to save clients time. Time is the most precious asset for HNWIs and UHNWIs. In the words of American entrepreneur Jim Rohn: “Time is more valuable than money. You can get more money, but unfortunately you can't get more time.”

## KEEP IT SAFE

So, wealthy clients don't care if they get lousy returns on their money? They do—but their priority is to see that their wealth is preserved. Performance is not as important as preservation. Keep their money safe, save them time, provide them with “comprehensive services” and a trustworthy personal contact and be always available and reliable, and the chances are that the client will be yours for life.

The problem? Such a business model is costly for banks. That has led private banks to search for solutions such as digital transformation, standardization of offerings or the provision of

# PYRAMID OF NEEDS: TIME RELIEF ON TOP OF IT ALL

Personal and emotional

Functional



● Low importance    ● High importance

more automated advise for the affluent client segment through roboadvisors—automated platforms that provide investment advice based on algorithms. But most private banking clients, as we see in the box on roboadvisors on page 6, are not really sold on this impersonal touch.

## CAPTURING THE NEW GENERATION

And there’s more. The current business model in private banking and wealth management relies on existing clients. Today’s private banking clients in Germany, Austria and Switzerland are on average 65 years old or over and are fairly digitally literate, with 70 percent of them enjoying daily access to the Internet. They represent EUR 17 trillion in inheritance through 2050. And there will be 40 million inheritors in that same period, 40 percent of whom will belong to Generations X and Y, that is, born between the mid-1960s and the mid-1990s. This future generation of private banking clients has greater digital affinity, and banks will need to make a concerted effort to acquire them. Failure to do so could result in an outflow of more than 80 percent of assets.

As we move into the digital age, private banking providers must look at what clients need—not just today’s wealthy clients

but tomorrow’s digitally-minded inheritors. Acquiring these inheritors later on will be very challenging, especially if one of your competitors has built a more convenient or more secure digital platform. Action is needed today to secure the business of tomorrow.

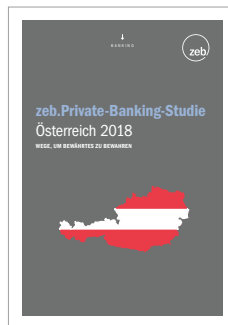


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## PRIVATE BANKING IN GERMANY AND AUSTRIA

In November 2018 we published a major study with a focus on private banking in Austria and Germany. Germany is the second-largest private banking market in Europe measured by liquid funds. For the purposes of the study, we not only spoke with relationship managers from various institutions and looked at their income figures, we also interviewed the kind of wealthy clients that private banking deals with. It gave us in-depth insights into client wishes and demands, while clients were pleased to provide help and happy about the interest taken. That gave us one of the core statements of the study: speak to your clients, get to know them, sound them out and find out what they expect from your bank. This will greatly improve advisory quality and accordingly client satisfaction.



**zeb.Private Banking Study: Germany 2018**  
**zeb.Private Banking Study: Austria 2018**  
 are available on [www.bankinghub.de](http://www.bankinghub.de)

**zeb.Private Banking Study: Switzerland 2019**  
 (coming soon)

## ROBO OR NO-GO?

Providing private banking clients with personal, face-to-face advice is an expensive business. To reduce these costs, and to better serve digitally focused clients, some private banks have introduced (for their affluent segment) “roboadvisors”—digital offerings providing automated investment management on the basis of mathematical rules or algorithms, with little or no human involvement. But although surfing the fintech wave in this way is certainly an attractive proposition for banks, it has proved less appealing to typical wealth management clients. These clients value personal contact with a trusted private banking advisor who can offer them tailored advice.

One possible role for roboadvisors would be as an additional offering in the discretionary mandate space sold via relationship managers. They may also be suitable as a mechanism for acquiring younger clients who have smaller amounts to invest. These clients are not yet wealthy enough to fall into the typical target group for private banking but they may inherit in the future. As the cost base of roboadvisors is much lower than traditional face-to-face advisors, private banks can use them to address these clients—in the hope that when they inherit, they will remain loyal to the bank and move on to more sophisticated services.

## Perspective 2: What's going on in Asia?



Asia is known for being technology-forward and innovation-rich. What trends are currently shaping private banking and wealth management in Singapore and Greater China? Can these countries show us the way forward in Europe?

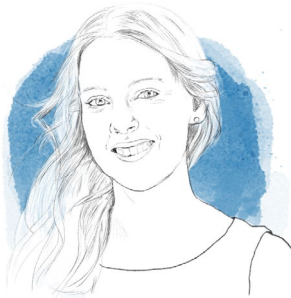
Asian clients have high expectations when it comes to technology. In particular, China has jumped straight from cash payments to mobile-driven payments, leapfrogging card-driven payments entirely. Innovation is common here in both retail and private banking, and players who want to know what lies ahead in the private banking industry would do well to look to the East.

To find out more, we interviewed around 20 wealth management professionals in Singapore and Greater China. We found that leading private banks are busy using artificial intelligence and building their own platforms and networks. Digital innovations include data aggregation and analytics, virtual communities, social media, relationship management using avatars and comprehensive e-platforms.



But things are far from straightforward for private banks. High net-worth individuals (HNWIs) in Asia typically have relationships with between three and six different banks, entrusting around 15–30 percent of their assets to each. For banks, this means that 70 to 85 percent of a client's assets are held with another bank or outside of the banking system altogether. Individual banks lack an overview of their clients' total wealth situation and so have little traction when it comes to offering them private banking services.

One company using innovative digital technology to master these challenges we had the chance to talk to was a large in-

ternational bank. It has a strong presence on social media such as Instagram. This attracts attention and allows the company to communicate with current and potential clients, particularly social media native millennials. Also, the bank was present on WeChat, the Chinese messaging, social media and mobile payment app, which offers open APIs that companies can use to build custom features and interact with clients. In the area of transactions and services, reporting statements were additionally provided in the form of short 2-minute video files, focusing on very few KPIs that are key for the client. In terms of relationship management, another player employs artificial intelligence-driven avatars of special topic experts that interact with the bank's clients via video chat.



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## Perspective 3: Where do we go from here?



Private bankers and wealth managers want to know what's going on right now, but they also need to know what lies around the corner—and beyond. We use our knowledge of the industry to shed some light on the near and long-term future.

### 2019+

What are the short-term implications for the digital transformation of private banking? We believe that, as we move from an analog to a digital world, relationship management will still play a central role in wealth management and private banking. In the early years after 2018, we will find ourselves in a combination of analog and digital worlds. The analog world, with its traditional face-to-face meetings and telephone calls, will increasingly give way to the digital world of e-mails, websites, mobile applications and social media. But client management will remain at the heart of both.

In response to these developments, private banks and relationship managers need to start using digitalization and data analytics to structure their client interactions and anticipate the needs of current and future clients. Digitalization is a means to get closer to your clients, not to keep them at a distance. Banks can achieve this by collecting and analyzing personal data and data from client transactions, social media, the press, face-to-face meetings and so on, and using it to anticipate client life events. They can then recommend products, actions and services on this basis.

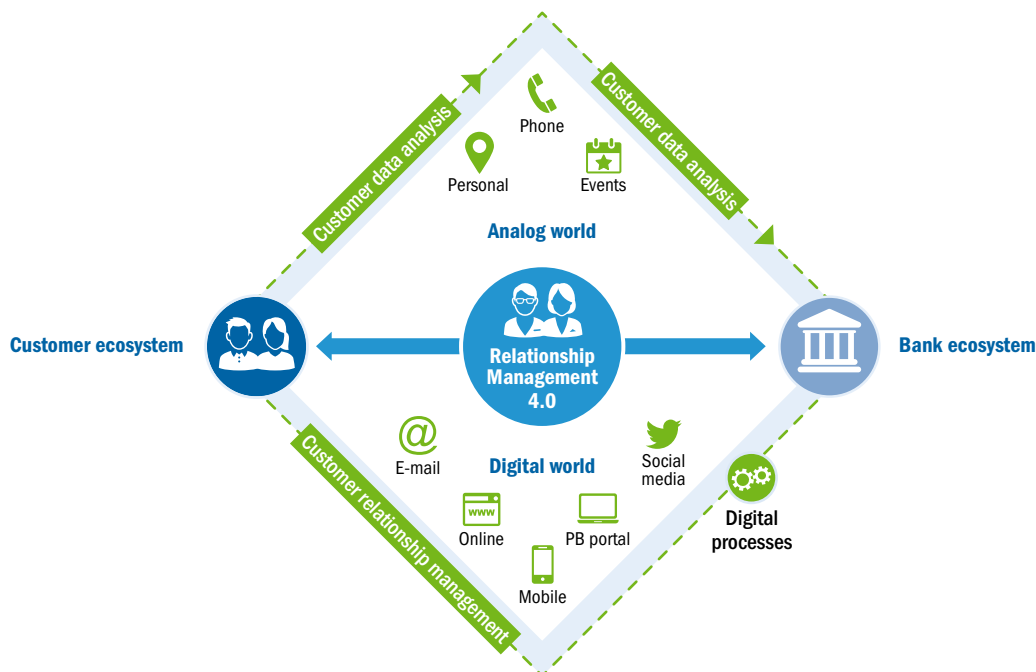
Two examples: the relationship manager receives a notification from their AI-supported CRM tool that Client X is expecting

a child. The relationship manager sends a congratulatory message via the bank-internal chat system, along with some information about tax schemes and relevant investment products, such as a securities account for the newborn, that can be purchased right in the chat system. Client Y is due to retire in the coming year, according to information in the press, which the relationship manager was informed about by the tool. This is confirmed in a personal meeting between the relationship manager and the client. The relationship manager then presents the client with personalized visual information about future liquidity development as well as financial management options in retirement. In both cases, the bank has ascertained in advance the client's preferred communication channel and investor profile by collecting and analyzing their data.

### RELATIONSHIP MANAGEMENT 4.0

A catchy name, but what does it entail? On the one hand, we have the banking ecosystem: products and services such as wealth management, asset management and investment banking. On the other, we have the client ecosystem: clients' life stages and needs, from inheriting assets and purchasing real estate to wealth preservation and lifestyle consulting. The future relationship between these two ecosystems will make use of traditional analog connections such as personal meetings and phone calls, but also—and increasingly—digital





connections such as social media, private banking websites and apps. Technological advances open the door for broader digital innovation, from AI-driven avatars to video account statements. This transformation will be driven by client data analysis, and accompanied by the digitalization of bank processes.

### 2030 AND BEYOND—ONE VERSION OF THE FUTURE

Of course, nobody has a crystal ball to see far into the future. Nevertheless, we try to define a possible scenario based on our understanding and insights into the market.



Beyond 2030, private banking will form part of a larger ecosystem. The owner of the ecosystem will control the client relationship. Personal advisors will only be used for special cases and large volumes, while minor questions will be handled by virtual advisors. The daily management of liquidity and simple investments will be done to a large extent by algorithms.

We expect to see today's retail and affluent segments merging into a fully-digital, lower-priced offering, with personal advisory available as high-priced private banking and wealth management. Clients will be able to choose themselves which model suits them best. Today's private banking business model will vanish along with today's older-generation clients.

How can private banks prepare themselves for this new world? Players should start now building safe, protected platforms and also ecosystems that go beyond the needs of classical banking. Once they have established a platform, they can then gradually broaden it by adding useful value-added services for clients. The possibilities for expansion are almost unlimited, ranging from insurance and education to communities, health, employment and beyond.



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## The view from the inside



Thomas Allemann heads Digitalization at Credit Suisse's International Wealth Management (IWM) division. Based in Zurich, he is responsible for driving the design and development of a unified, digital front-to-back client and client advisors eco-system.

### What is your assessment of digitalization in the private banking industry?

**THOMAS ALLEMANN:** The Financial Services industry, including Wealth Management, was and is—to a large extent—already digitized. In our industry we do not produce and deliver physical goods with costly logistics. In our case it is all about processing numbers and trust. Our industry, therefore, has not yet experienced the vast disruption caused by digitalization as witnessed in other industries, such as in retail shopping, media & entertainment or in travel or transportation. In these industries disruption has impacted the whole value chain and even forced big names out of business (or relegated them to niche markets). The digital innovation we have seen so far in our industry is simply to do things better, faster and at a lower cost. But this is not really disruptive. This is not where we will see fundamental change. We are however learning a lot from other industries, such as from Silicon Valley companies, in terms of how they deal with and learn about clients. “Uber” is a good example of a company with a sharp focus on how to make life easier for their clients. The service they offer is very specific but at the same time they make sure the client receives the service it needs and wants with the desired quality and an opportunity to provide immediate feedback. Not that customers should rate every interaction they have with their bank immediately, but we could take a page out of their book. And finally, not only is pure digitalization having an impact, but these pure-digital business models are now adding non-digital business to their portfolios. For example, to name just a few, Amazon buying thousands of e-scooters (later drones) to take over delivery services and also choosing to open brick and mortar retail branches; Facebook, paying over a billion US dollars to produce/acquire television/broadcast content and Airbnb constructing their own apartment blocks and hotels. We are witnessing a merger of the non-digital with the digital world as the digital world opts to hold real assets. This means they start having similar operational risks and need to adhere to similar regulatory frameworks as the non-digital world.

### What is your view on the key priorities a private bank needs to have now? In the near future?

**THOMAS ALLEMANN:** The key priority for a business should always be the client. This is especially of importance to Wealth Management since the foundation of our business is based on our client relationships. However, this is not a fixed relationship; clients and their needs change, they disrupt. In fact the core disruptive and transformative force is the (prospective) client. As a consequence, we have to be truly client centric and adapt or proactively adapt accordingly. This means we, more so than in other industries, need to continuously develop our services and solutions and pursue a transformational culture that satisfies the needs and desires of our clients. A good example of this is the transfer of wealth to the next generation.

Millennials, the largest generation since the baby boomers, will start to inherit wealth. We have to make sure our offering and our services cater to the needs and desires of this new generation. As a bank, we focus on helping this generation to understand how to approach investment decisions; facilitating conversations around it and enabling them to be more comfortable in their role as heirs, investors and business drivers. Moving forward, we continue to focus on embedding client facing technology within our client centricity, using digital innovation to deliver even more personalized and insightful services to clients when, where and how they want it.

#### **What does private banking 2019+ at CS look like regarding digitalization (innovative offerings)?**

**THOMAS ALLEMANN:** We are focusing on the extension of the most relevant digital capabilities and work on solutions to achieve a competitive edge at the core of our value proposition. Let me outline the most important examples: a) automated portfolio rebalancing, investment opportunity spotting and trade/investment proposal generation in advisory; b) fully automated E2E workflows in core processes of the Wealth Management value chain, i.e. in client onboarding; c) digital client collaboration and communication tools across all digital channels; d) big data and AI driving client analytics, content management and investment research to fully satisfy customized client needs.

#### **What is CS's opinion of RoboAdvice?**

**THOMAS ALLEMANN:** The highest segment of the wealth pyramid is a key part of our client base. The financial demands and needs of our clients in this segment are quite complex. For example, they look at wealth planning across generations and often require integrated solutions across private banking and investment banking that cover their professional as well as personal wealth needs. These demands cannot be serviced solely by an automated platform proposing and executing investment decisions. “Robo-advisors” today have two key limitations in servicing such private banking clients. Firstly, they apply algorithms to create mostly ETF-based portfolios. This is highly efficient but cannot accommodate the complex financial needs of a sophisticated private banking client. Secondly, their reach and offering is primarily local, whereas many of our private banking clients have global needs. We believe a core part of our value proposition to our clients, of all wealth segments, is that we understand them as individuals. We have relationships built on shared experiences and trust, and while digital can enhance this relationship, it will not replace it anytime soon. Furthermore, relationship managers today also take on the role of a network and capabilities orchestrator. They need to find and deliver highly complex solutions, provide holistic advice via different networks and specialists whether in investment banking, asset management or trading solutions; managing assets and liability needs of our mostly entrepreneurial clients. We have been investing in technology and training to ensure that our relationship managers are equipped with the right tools and networks to help them guide their clients in making their investment decisions.

#### **What do you think will be the key changes ahead?**

**THOMAS ALLEMANN:** I expect our organization will continue to change at an increasing pace. For example, businesses and technology are coming even closer together. There is “no business here and IT there” anymore. We are also transforming more and more into a “project”-centric organization. And we are also changing the “modus operandi”: moving away from a static, goal setting, planning and execution process (“waterfall”) to a more dynamic environment where business requirements and solutions evolve through the collaborative effort of self-organizing and cross-functional teams alongside their clients or end user(s). This new environment advocates adaptive planning, evolutionary development, early delivery, and continual improvement, and it encourages rapid and flexible response to change. This is called “agility”.



**“Time is more valuable than money. You can get more money, but unfortunately you can’t get more time.”**

Jim Rohn, American entrepreneur



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