

# Automation and the human touch

WRITTEN BY ELISA TROVATO

## COVER STORY

*Private bankers are gradually coming to realise the benefits that new technologies can bring, be it freeing up advisors from menial tasks to identifying possible clients*

Private banks have traditionally been reluctant to embrace new technology, but in today's digital era they no longer have any choice. Modern integrated systems are increasingly a key differentiating factor, as they enhance customer service, boost advisers' productivity and enable them to generate higher revenue streams. Moreover, regulation demands much higher transparency from wealth managers when they liaise with private investors, which obsolete technology or Excel spreadsheets certainly cannot provide.

"Private banks increasingly spend on integrated advisory workstations, where in a single space advisers have customer relationship management and trade order management capabilities, client on-boarding technology and social media," says Brendan Clarke, head of the wealth management practice at consultancy CapGemini in the US.

New technology also frees up advisers' time from repetitive, administrative tasks so they can focus on advising clients. Within bigger organisations, technology is vital to boost cross-selling. "One of the big challenges for the wealth management industry is that institutions are very siloed, there is not visibility or

sharing of information across different business units," says Mr Clarke. Wealth managers must capitalise on their ability to cross-sell from equities to fixed income to commodities to multi-currencies.

"Modern systems ensure a single version of the truth, as all data is stored in one place and every user will address the same data," explains Peter Dingomal, head of UK business development at Swiss banking software company Avaloq. "Moreover, they provide full system auditability, reinforcing compliance capabilities of banks, who can monitor who did what and when. Workflow processes are benchmarked and performance statistics allow banks to optimise internal processes."

Increased regulatory pressure is a big driver to investments in technology, in particular in the front office space, notes Gary Linieres, founding director at Third Financial Software in the UK. Private banks are asked to show transparency in how they manage client assets, they must know their customers and treat them fairly. Some institutions unable to comply are getting fined a significant amount of money from regulators, he states.

Operational efficiency and cost reduction is clearly an important driver, as new systems enable private banks to rebalance portfolios across a large number of clients, while maintaining compliance and without taking on additional staff. Cost savings should then be passed down to customers.

Customer relationship management (CRM) systems also enable private banks to properly segment clients. Although every private bank is looking to move further up the wealth pyra-

**HAVING AN INTEGRATED SYSTEM MAKES IT MUCH EASIER FOR A BANK TO EXPAND ITS OUTREACH TO DIFFERENT CLIENT SEGMENTS**

*Peter Dingomal, Avaloq*

mid, the pool of ultra rich people is fairly limited. Institutions are starting to dip down into the bigger pool of less wealthy clients with the idea of trying to get hold of them before they potentially become high or ultra high net worth (UHNW) customers.

### CLIENT SPOTTING

Large banking groups that have retail platforms can use CRM systems to spot the affluent clients and sell them their private banking products and services.

"Having an integrated system makes it much easier for a bank to expand its outreach to different client segments," says Avaloq's Mr Dingomal. "The additional effort for on-boarding target affluent customers is much smaller than the old legacy spaghetti scenario. Today's affluent clients could be tomorrow's UHNW, so it makes sense to use the tools available to offer a better service via the system to the affluent segment."

Manual errors are also reduced significantly. "A fully-integrated, front-to-back office system allows for complete tractability of any order, full automation and control of the process," he says. This enables a very high STP rate, consistent handling of orders and a reduced





error rate, as it reduces manual intervention.

Clients themselves are demanding higher levels of service, such as consolidated reporting. "Most private banks dealing with ultra high net worth clients are realising that in order to compete, they need to be able to provide aggregated portfolio reporting," explains Norman Jones, CEO, at WealthTouch in the US.

"This means providing a dashboard on their entire wealth, whether their assets are sitting at that bank or other banks or managers."

Ultra wealthy individuals and family offices have very complex portfolios. Having all their wealth information aggregated on one single platform allow them to know immediately for example their exposure to a certain security or how much they are worth today, he explains.

Family offices have become aware that just using Excel spreadsheets to pull out all the information related to their investments at the end of the month takes a long time, it is often an inaccurate process, being very manual and prone to error, and also extremely expensive, says Mr Jones.

"Private banks have got a huge incentive to provide this service to this segment, as it is a very sticky proposition," he explains. It offers them the opportunity to have an additional conversation with the client and, more importantly, to increase their share of wallet.

In a competitive environment, family offices tend to have three to five different banking relationships, and the bank that controls the information has a greater advantage, if they use it well. They can see the weakness in the portfolio structure, overlaps and over exposure of different positions and they can end up being the main strategists for the family.

"We track share of wallet and we see typically that in the first year there is about ten per cent shift of manageable assets in the portfolio in favour of the bank that is introducing this aggregated reporting," says Mr Jones.

The firm, which has seen assets on its platform grow to \$23bn (€18bn) over the past three years on the back of the relationships with large private banks in the US, such as JP Morgan and Credit Suisse, is currently in the process of rolling out its services in Europe. But



Through mobile banking, around 2,500 new customers have joined Danske Bank in Denmark



A total of 400,000 people have downloaded Danske's mobile application across Nordic markets

the old continent will present a few new challenges.

"In the US people are much more open with their wealth than Europeans are," explains Mr Jones. "Because of tax shelters, I think wealthy individuals in Europe are a lot more sceptical about what they share and with whom. They don't want to aggregate too much if they have got a very aggressive tax avoidance strategy, but the need is huge, because families are very multi-banked, invest across different asset classes and have multi-currency accounts," he adds.

Mr Jones is expecting to get between \$20bn to \$50bn in assets on the platform within a couple of years, from between 20 and 30 families. "It is a very discreet but very important niche for private banks, because these are the largest clients and the largest fee payers for them and keeping and deepening relationships with them is obviously critical."

**MOBILE TECHNOLOGY**

Client demand for mobile financial applications is also on the rise. Rich people want increasingly to access information quickly to make their own decisions on investments, to talk to their wealth manager almost at will and to be very mobile.

Trade order management, research and networking are the three most important mobile application categories, observes Capgemini's Mr Clarke.

*Client demand for mobile financial applications is on the rise*

**WE ARE SEEING A BIG DRIVE FROM OUR CLIENT BASE TOWARDS PROVIDING INTERNET AND IPAD REPORTING TO CUSTOMERS**

*Brendan Clarke, Capgemini*

"Social networking heralds a brand new era but it is perceived as offering several advantages, one being that it facilitates cross selling," he says. Based on shared information on the client's investment history, advisers in different business units can communicate and help each other in liaising with the client.

Social networking is also useful for prospecting, researching client preferences and collecting data.

"Data mining or the ability to do research on clients' investment patterns involves a very holistic approach to enterprise data, which requires a significant investment, but the gains are not immediate and shareholders may not be tolerant of that sort of long-term investment," points out Mr Clarke.

"We are seeing a big drive from our client base towards providing internet and iPad reporting to customers, which allow them to give accurate high quality, very granular data, quickly, almost on demand," observes Third Financial's Mr Linieres. This service is particularly relevant in current volatile markets, ➡

**CASE STUDY - COUTTS & CO**

At the end of 2009, as part of a thorough review of the group's portfolio of businesses, RBS management, headed by CEO Stephen Hester, took the strategic decision to make big investments in the company's wealth management units to boost service standards.

"It became obvious there had been an underinvestment in technology in the wealth management space for long time and the platform we had was not consistent with our aspirations for Coutts to be a leading franchise in the UK," says Juergen Pulm, chief operating officer at Coutts & Co.

The bank took the decision to replace its obsolete technology infrastructure with Avaloq integrating banking software in the UK. The implementation of the new technology was first completed in January 2011 at Scottish private banking unit Adam & Company, part of the RBS Group. The second step is to implement the new system at Coutts in the first quarter of 2012.

Thanks to the new platform, which costs in the range of £100m (€121m) over three years, the bank will eliminate 50 per cent of the 70 systems it uses in the country.

"Our systems were scattered and geared against single products. But in wealth management, you need to have a holistic view of the client's assets, rather than having a view from a product perspective," he explains.

Moreover, this fragmentation makes it challenging to maintain consistency of clients' data across all the systems. The new integrated system, which offers a "state of the art" online banking platform, will cover all banking products and

ensure all clients' data is stored in one place. The higher operational efficiency will result in cutting up to 500 jobs at the bank over the three-year programme.

In international markets, Coutts has been using Avaloq integrated banking software since 2008. "We are one of the few players in the marketplace which has a consistent platform across several businesses and underpinning that is a consistent service platform for all our wealth management businesses around the world," says Mr Pulm.

For advisers, it has become more critical to have the right tools to serve their clients, and superior IT technology helps retain both advisers and clients, he notes.

"Traditionally, the human touch has been at the core of the private banking business, but more and more clients demand good technology capabilities too."

But private bankers often see their client relationships as proprietary and they are not keen to share this information.

"Some of the old school guys are often very reluctant to embrace new technologies, particularly relationship based technologies," explains Third Financial's Mr Linieres. "They are reluctant to digitise their relationship, because it disintermediates them, it takes away that personal relationship that that adviser may have had with a family for 20 years."

But the regulatory environment is becoming more rigid in terms of processes and transparency requirements. This will drive a certain "institutionalisation" of the client information, reducing the risk of private bankers taking clients with them when they leave, states Coutts' Mr Pulm.

"Those days when the private banker owned the client and the client information are over."



CERTAINLY THE MAJORITY OF THE ADVISORY ASPECT OF THE RELATIONSHIP WILL BE STILL TAKEN CARE OF BY THE BANKER

Alison Szmulewicz, Citi Private Bank



**NORMAN JONES, WEALTHTOUCH**

"In the US people are much more open with their wealth than Europeans are. Because of tax shelters, I think wealthy individuals in Europe are a lot more sceptical about what they share and with whom"

when private investors get very nervous about their investments.

"Large private banks unable to offer this service have been losing a huge amount of assets under management to more boutique players, which being more agile and nimble are able to make quick decisions, invest in technology and roll it out quickly to their clients," he says. One of the latest clients who bought Third Financial's *tercero* application is boutique private bank Arbuthnot in the UK.

New technology also helps private banks to acquire the next generation of clients. "Private banks are adopting iPad technology to attract the high-end of the mass affluent investor base. This sector will be tomorrow's high net worth client," says Avaloq's Mr Dingomal.

**A COMPLEMENTARY SERVICE**

Citi Private Bank rolled out a dedicated private banking app both on the iPad and iPhone at the end of 2010, as it recognised that many private investors are moving towards mobile devices to manage their financial life, explains Alison Szmulewicz, director, global internet strategy at Citi Private Bank in New York. Mobile services are a complement to the online service offering on the web. Clients can gain access to their account balances and to the thought leadership of the bank, through publications or videos of key investment people, in a much more timely fashion through a device they carry around with them.

But the approach a private bank has to mobile services is very different from what a retail bank has, says Ms Szmulewicz. On the retail side, mobile applications will most likely have to enable transactions because retail clients cannot rely on a trusted adviser, she explains, adding that Citi consumer bank has been very active in this space.

In Citi Private Bank, at the moment the ser-

vices are more informational. "For 2012 we are looking to move online on the app some very basic type of activities, such as transferring funds, perhaps purchasing securities, but certainly the majority of the advisory aspect of the relationship will be still taken care of by the banker.

"Initially, it was a bit of an education process for our bankers, to understand what the capability was and get them to be comfortable discussing this service with their clients," she acknowledges. "But then, many bankers and front office people got excited to use these types of capabilities for themselves, which will really help push adoption with the client."

This year the bank plans to look at bringing social networking and peer comparison services on online and mobile applications and extend some of the capabilities currently available for the next generation clients to ultra high net worth and mega customers.

"Today customers want to be served everywhere and at all times, and from a multi-channel banking perspective, mobile banking is a must have," emphasises Esben Torpe Jørgesen, senior consultant at Danske Bank's group business development. "Whether customers want to use ebanking, mobile banking or go to the branch, is not for us to decide, but we have to make that service available."

Danske Bank launched its iPhone and Android mobile banking services in 2010 and last November added a dedicated iPad application. Clients use mobile banking primarily to get an overview of their accounts, transfer money, check their deposits and latest transactions and, to a less extent, trading securities, he says.

Mobile banking and ebanking services are similar but some are peculiar to mobile devices. These include, for example, bill payment functionality, where the camera on the mobile device is used to scan the bar code. Ebanking services have offered for some time alerts set up on selected securities, both on email or sms, but through mobile banking the client can immediately trade the security as soon as it hits a certain price, which is really empowering, says Mr Jørgesen. ●

FROM A MULTI-CHANNEL BANKING PERSPECTIVE, MOBILE BANKING IS A MUST HAVE

Esben Torpe Jørgesen, Danske Bank