

Private banking 2.0



The private banking industry currently faces a multitude of challenges: changing client needs, the arrival of disruptive business models and new entrants, regulatory pressures, new technologies, a more complex and uncertain macro-economic and financial environment, etc. For incumbents, it is urgent to react and reinvent themselves.

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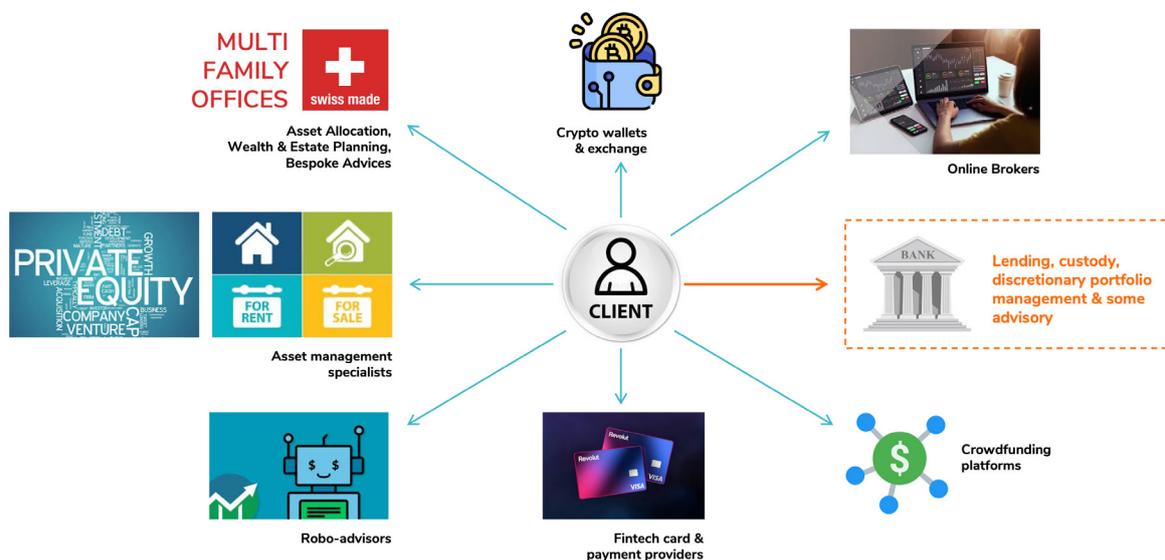
The era of the private client comfortably installed in a hushed lounge to consult his bank account statement under the benevolent eyes of the banker, seems to be well and truly over. In the space of two decades, the needs of customers have changed considerably. It is now a question of being able to access one's account 24/7, in real time and via an intuitive digital interface. The content of information and recommendations must match their preferences and risk profile. Without completely abandoning discretionary management, many clients want to have control over their investment decisions. They are becoming skeptical about the soundness of the financial advice given by their bankers. Ikea paved the way for the "do-it-yourself" and now the same concept applies to the banking world, as the customer becomes a "consumer actor" of his/her bank and wants to consciously use its services. Market data and comments do not come solely from the bank as the amount of information available on social networks is limitless. Customers tend to evaluate risk in terms of drawdown rather than the volatility. It is about accessing the most sophisticated products and strategies previously reserved for institutional clients. Finally, management performance and fees charged must be fully transparent and compete with non-traditional players.

But changing customer needs are not the only challenge facing banks. Regulatory pressure is driving operating

costs higher. Disruptive business models and new entrants (fintech, robo-advisors, etc.) increase competitive pressure. The rise of artificial intelligence, "big data" and blockchain is transforming the financial industry and leading to new ecosystems. A new generation of investors think differently about advice, and banks need to adapt.

It is also a question of banks positioning themselves to recover some of the added value lost over the years to non-bank players. Indeed, part of the products and services offering is no longer the prerogative of traditional banks. High-net-worth clients are increasingly turning to a family office for strategic asset allocation, financial planning, and specific advice. They use asset management specialists when it comes to investing in illiquid strategies such as venture capital or real estate. For traditional discretionary management, private clients no longer hesitate to use the services of a robo-advisor to lower management fees. As far as "execution only" is concerned, click-and-trade offered by online brokers is on the rise, as well as platforms and wallets hosting crypto assets. For payments and credit cards, fintechs such as Revolut are even attractive to high-net-worth clients. Crowdfunding platforms are also popular with the latter. Incumbent banks are content to offer traditional and low-margin services such as deposits, loans, or discretionary management.

Traditional banks are losing market share to new platforms



Faced with these challenges, private banks are gradually evolving their customer experience. The digitalization of processes has become essential. Customer satisfaction requires a digital interface that is as efficient as possible and available 24/7. The aim is to move towards a hybrid advisor model - half robot, half human. Standard services are delivered via a digital interface, while the most complex advice is provided by human experts.

Investment advice and products are becoming more and more targeted to the specific needs of each client. It is also

about providing access to innovative and institutional quality strategies that would otherwise be unavailable. Traditional services such as standardized discretionary management and simple recommendation lists can be offered at very competitive fees. On the other hand, more sophisticated solutions such as illiquid strategies, limited capacity hedge funds, differentiated thematic offerings, secure crypto asset custody and trading, tailored advice and so forth are among the offerings which can help a banking institution to further differentiate itself. Since a bank cannot be the

leader in all these services on its own, it needs strategic partnerships for the sourcing, research, and management of these products. While fintechs, crypto specialists, asset managers and independent asset managers were once seen as competitors, they are now part of the traditional banking ecosystem as legitimate value creators. Initiatives such as the Syz Club further strengthen the links between these different players.

In terms of research content and investment themes, differentiation and "tailoring" are the two magic words. The sources of advice are multiple: internal, external, experts and social media. The use of digital marketing strategies (blog, newsletter, emails) enables the implementation of a "freemium" model. Many prospects around the world hear about the brand and can judge the quality of the content and user experience without any obligation. When these prospects want to become customers, a banker can then convert the trial and start the relationship. In paid services, the matching of content to customer preferences can be fine-tuned through big data analysis and the use of software that enables targeted content delivery.

Finally, pricing is also evolving. Billing based on assets under management is sometimes replaced by a fixed cost

or billable hours of service - as with lawyers. For example, in our "Syz-as-a-service" offering, some "outsourced CIO" services are billed on a flat fee basis.

We remain convinced that private banking 2.0 must be nourished by the innovation brought by new entrants. The security offered by a private bank and a service offering that meets the new demands of clients is, in our view, the winning combination for the decades to come.

Pour plus d'informations

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