Swiss Private Banking – Accenture Point of View

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Foreword

The Accenture Swiss Private Banking Point of View 2009

The Private Banking sector is currently facing a paradigm shift. As part of its ongoing market intelligence programme "Research & Insights", Accenture commissioned the Swiss Private Banking Survey 2009 in order to:

- present trends that are reshaping the Swiss Private Banking landscape
- provide insights into the implications of these trends
- offer focused initiatives and solutions to navigate through the changing landscape in order to become a high-performing Private Bank

The insights presented in this point of view were gained through interviews with senior executives of Swiss and foreign Private Banks in Switzerland, round-table discussions and a dedicated questionnaire survey. In addition, current client project work and findings from our global Private Banking practice were taken into account to gain the most comprehensive data and insight.

It is our aim to provide valuable information about the future development of the Swiss Private Banking industry, offering insights that will enable well-founded business decisions as well as guidelines for bold initiatives for future success.

We firmly believe that Switzerland will remain a significant financial centre and a global Private Banking hub for clients, banks and investors alike. Thanks to the unrivalled experience gained from working in trusted relationships globally and locally, as well as the excellence and world-class talent prevalent within its work-forces, Switzerland's service offerings in the financial sector will maintain its leading position in Private Banking.

However, Swiss Private Banks need to take immediate, decisive and focused action to navigate through today's challenging economic landscape. It is not enough to see the signs along the way. Banks need to move forward boldly and rebuild confidence in a turbulent financial market environment in order to benefit from the next upswing.

Zurich, October 2009

George H. Schmidt,
Partner Financial Services

Frederic Brunier,
Head Corporate Strategy

1. Executive Summary

Critical Areas	Strategic Imperatives
Positioning & Strategy	Positioning: Establish clear positioning as trusted partner. Make and communicate strategic changes. Strategy: Decide where and how to compete today in order to benefit from the upswing tomorrow.
Top-line Revenue Growth	Client Segmentation: Aim for the right client segmentation granularity to improve profitability. Advisory Model: It is not enough to design new advisory models. Make them everyday business practice. Products & Pricing: Understand all the products you sell in detail and make them transparent and simple enough for the client to understand. Adapt product conversion strategies to address changing client and regulatory compliance needs. Change Management: Transform workforce capabilities from relationship management to client advisory.
Bottom-line Profitability	Operational Set-up: Short-term right-sizing and sustainable realignment of the organisation is the winning combination. Processes: Establish business processes that facilitate client-centric service delivery. Technology: See technology not only as a cost lever, but also as a value-creating investment.
Governance & Risk Management	Governance: Make Corporate Governance a part of everyday practice and engrain it in the organisational structure. Risk Management: Risk management goes beyond compliance. Leverage it to improve top-line growth.

Fig. 1: Critical areas and resulting strategic imperatives for Private Banking players

Recent developments and trends are re-shaping and are having a lasting impact on the Private Banking industry. Poor market, investment and advisory performance have led to an alarming decrease in client trust, a permanent shift in client needs, a significant asset drain, increasing onshore competition from domestic and foreign banks, additional regulation and the need to better manage the banks' and clients' risk.

It is our point of view that:

- Revenues will not recover in the near future
- Shifting client needs are here to stay
- Players in the Private Banking sector of the future will require new capabilities and skills
- Client-relevant service will set banks apart from their competitors
- Client orientation must lie at the heart of corporate missions in the Private Banking industry
- Client segmentation should be based on client needs and not on size
- Future growth will come from onshore and compliant cross-border business
- Players urgently need to support clients to transition from undeclared to declared assets by developing appropriate product conversion strategies
- Cost efficiency and scalability need to be achieved through changes in the operational footprint
- Investment – not only cost reduction – is required in order to enable recovery
- Despite changes to the banking secrecy procedures, Switzerland will maintain its global role as leading Private Banking hub

There are still abundant opportunities for Private Banking players to be successful. Changes are being observed – and action is required – in four critical areas (Fig. 1):

- Positioning and Strategy
- Top-line revenue growth
- Bottom-line profitability
- Governance and Risk management.

2. Swiss Private Banking Trends

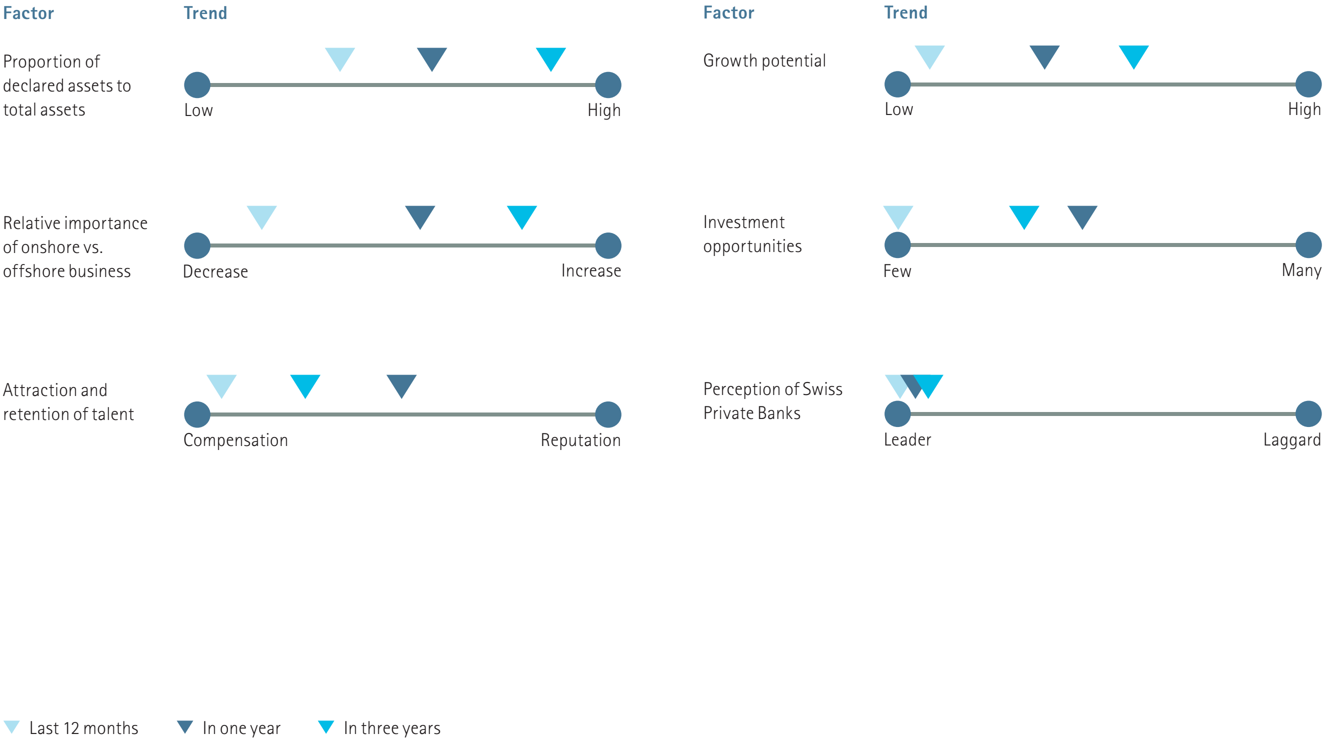

Fig. 2: Swiss Private Banking market trends

The Market – Switzerland is set to maintain its role as leading Private Banking hub

Accenture's research confirms that a series of market factors and trends are radically reshaping the Swiss Private Banking landscape (Fig. 2).

The proportion of declared assets to total assets is increasing due to compliance pressures and the relaxation (or perceived relaxation) of the Swiss banking secrecy law. This is coupled with the internationalisation of the Private Banking business model and the increased significance of cross-border onshore business. Finally, tax amnesties can continue to accelerate the shift towards declared assets.

Despite this shift, it is unlikely that substantial amounts of offshore money will be pulled out of Switzerland. Clients seem to be reluctant to move non-declared assets to less regulated offshore locations. Nevertheless, the relative importance of onshore vs. offshore business will also increase due to tough pressure from the fiscal authorities. As a consequence, competition for onshore business will intensify.

We believe that onshore business in Switzerland and other countries offers good opportunities to grow. Still, Switzerland, the US and Europe are expected to grow less strongly than South America and Asia. It will be an essential part of future strategies to adjust the market focus, deciding which markets to compete in and withdrawing from those that do not contribute to strong performance or show any promise of profitability.

Talent is another significant driver of growth. Leading Private Banks with a strong brand and clear positioning will clearly have a better chance of attracting top talent. Compensation will thus become (temporarily) less significant, as the employer's reputation issues become increasingly important in the talented employee's choice.

An additional crisis-related trend is the increasing number of opportunities for inorganic growth. Government-supported organisations are being forced to downsize their business portfolio and to partially focus on domestic markets. Some of the recent acquisitions of Private Banking subsidiaries of foreign banks in Switzerland clearly illustrate this trend. Consolidation may be further driven by healthy players looking out for opportunities to grow and small-scale players facing dramatically increasing cost pressures, e.g. due to additional regulatory requirements.

Although the above market trends are transforming the Swiss Private Banking landscape, there are clear signs that Switzerland is still attractive as a Private Banking hub and that it will not lose its appeal in the future. Superior service quality compared to other locations, abundant talent, a strong Private Banking culture and the necessary infrastructure still enable the Swiss financial centre to lead the way in Private Banking. Nevertheless, action is required to anticipate future developments and respond to the rapid market changes.

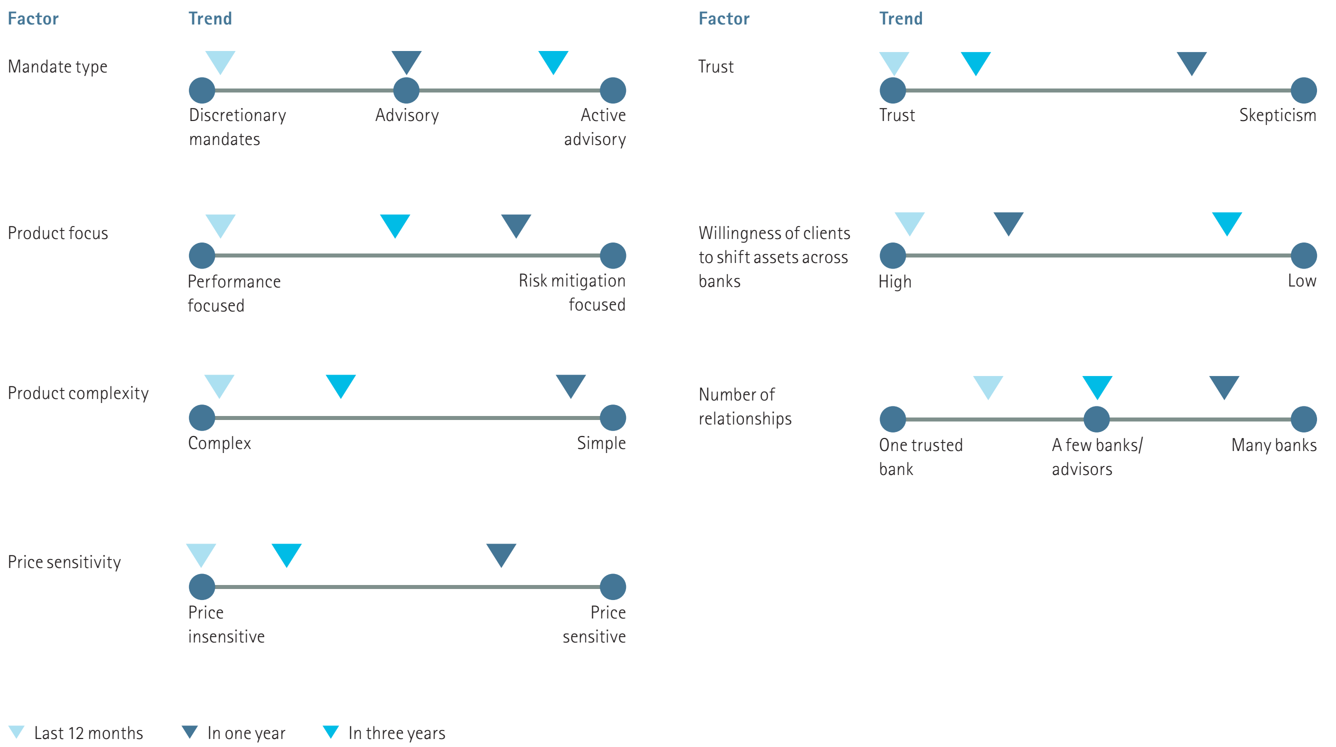

Fig. 3: Impact of client behaviour trends on Private Banking

Client Behaviour – Increased demand for transparency and investment advice

Clients have developed an increasingly critical attitude towards specific asset classes in recent months. This can be attributed to the poor performance of the capital markets and the inability of Private Banks and their advisors to offer client-relevant advice and regain client trust. This trend is accompanied by an increasing demand for active advisory services as opposed to the traditional discretionary mandates (Fig. 3).

At the same time, clients are looking for simple, understandable products in an effort to reduce investment risk. Nevertheless, this shift in demand for simple and risk mitigation focused products does not show signs of persistence in future. What is persistent, however, is the demand for greater transparency and the call for Private Banks to offer better advisory services, as client advisors had previously not always been able to either manage or explain the complexity of the products they offered.

While risk-return transparency and client-relevant performance have become (and will remain) the top priorities for clients, this does not seem to be the case with pricing. There is a momentary increase in pricing sensitivity, but banking executives believe that this is only a temporary side effect of the recent devaluation of client assets. Our experience shows that clients are not very price sensitive as long as the absolute performance is positive. This is especially true for the offshore business.

The negative absolute returns of recent months may have had only a temporary impact on price sensitivity but most certainly they have caused – along with other factors such as poor communication and advice – a sustainable damage to client trust in the Private Banking value proposition. As a result, clients increasingly demand bespoke advice and investment solutions.

This loss of client trust has shown itself most visibly in the willingness of clients to shift assets from one bank to another. While clients in the affluent segments are currently willing to shift cash assets to other banks, UHNWIs re-evaluate their bank relations and not only move their assets but also move their advisory teams with them. These recent shifts of assets present an attractive opportunity for revenue growth, especially in the mass affluent segment. Still, it is most likely that this movement of client assets will not continue with the same intensity. Private Banks will need to make extra efforts in order to win back clients and thus create a "reverse wave". Regional and cantonal banks will need to deploy client retention strategies to sustain in the long term the recently gained assets.

A development that seems here to stay is that clients are working with a larger number of banks. Clients have reassessed their banking relationships and chosen to diversify their assets across several banks, thus splitting their portfolio amongst many players in the market. This trend is set to increase the competition.

Fig. 4: Swiss Private Banking competition trends

Competition – A challenging Private Banking landscape between players that are revising their business focus and new market entrants

Regional and cantonal banks may expand their business with complementary services to cater for the needs of Private Banking clients and to become more focused on core wealth management activities. Other players may separate their asset management from their Private Banking operations to improve their positioning and value proposition (Fig. 4).

The sharpening of the Private Banking value proposition and the associated differentiation efforts will intensify competition. Universal banks that have lost many client assets will increase their efforts to regain market share in the onshore business. Competition in the Swiss onshore business will consequently increase as foreign banks enter and expand into the Swiss Private Banking market, e.g. banks from the UK. It is expected that there will be new market entries with innovative and differentiated offerings. Furthermore, regional and cantonal banks are likely to play a more significant role as they attempt to service the asset inflows of the past quarters more profitably. External and independent advisors and portfolio managers alike will cluster around Private Banks offering an independent value proposition to dissatisfied clients.

Profitability is expected to recover after a low in 2009 and 2010. While costs remain at comparatively high levels, revenues have decreased due to the devaluation of assets (20–25%), the deleveraging, the shift from high-margin products to cash and from discretionary mandates to lower-margin advisory services. While profitability will recover, historical highs are not likely to be achieved.

In this rapidly changing and increasingly competitive market, we believe that universal banks will regain strength, while cantonal and regional banks will be challenged to retain their recent asset inflows. Swiss Private Banks should prove to be stable market players while foreign banks might profit from developments in the domestic markets, e.g. the new UK tax regime. Nevertheless, the latter will face increasing challenges due to the regulatory climate and the need for parent banks to streamline their business portfolio, e.g. through divestments of specific business units or the withdrawal from certain markets.


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Fig. 5: Impact of regulatory trends on Private Banking

Regulation – Emerging competitive advantages for some players

One side effect of the recent financial market disruption will be the increasing level of regulation. The most relevant item on the regulation agenda for Private Banks with on-balance-sheet business is the increased requirements for tier one capital and the leverage ratio restrictions. It is, however, also expected that additional reporting requirements and regulation in key aspects such as compensation will become relevant in such a way as to directly impact banking business and operating models (Fig. 5).

Furthermore, the level of banking product regulation increases. These will be striving for greater transparency concerning the product's issuer, fees and associated risks. It naturally follows that costs for compliance will increase in the coming years, reaching a peak in the near future. These costs will decrease again when efficient platforms and solutions have been put in place to offer flexibility to adapt to additional regulatory requirements. Small Private Banks may find it increasingly challenging to comply with additional regulation; for some of them the process may not be affordable.

Where this additional regulation comes into play in regional markets or cross-border business, this may pose serious barriers to successful market entry or even cause a reshuffle among the domestic market players. Members of the Private Banking sector will need to revise their geographic presence, as declared offshore business may become too costly to comply and onshore servicing of these markets may turn unprofitable for banks without sufficient scale in the domestic market.

Area	Summary of Trends
Market	Proportion of declared to total assets is increasing. Domestic and foreign onshore business drive growth; cross-border business remains a strong revenue contributor in selected markets. Selected consolidation in Swiss Private Banking market as marginal players may be forced to exit or consolidate.
Clients	Changing client needs for security. Clients shift away from discretionary mandates and towards active advisory models. Current risk-averse focus on simple products is not persistent – clients will look for more complex and performance-focused products and solutions and bespoke advisory services. Increase in the number of relationships to Private Banking players per client.
Competition	Private Banking business models more focused on core wealth management services. Increase in competition in Swiss onshore business from regional and foreign banks – recovery of large players. Profitability may recover but will not reach historical highs.
Regulation	Moderate increase in banking institute regulation. Significant increase in banking product regulation. Increased effort and cost of complying with additional domestic and cross-border regulations. Regulation creates additional market entry barriers.

Fig. 6: Summary of trends that are reshaping the Private Banking industry

Summary of Trends

The trends highlighted in the previous sections have a major impact on the everyday business of Private Banks in Switzerland (Fig. 6). In fact, these trends have triggered a downward spiral in a chain of events (Fig. 7). In the course of our research, we have identified four critical areas, where Private Banking players in Switzerland are facing challenges:

- Positioning and Strategy
- Top-line revenue growth
- Bottom-line profitability
- Governance and Risk management.

In conclusion, Private Banks need to take immediate, decisive and focused action in order to address the challenges outlined in these four critical areas and need to understand the implications of recent developments in these critical areas. In the following chapter, we will discuss the implications and the resulting strategic imperatives and propose a variety of possible solutions.

Trend Areas	Downward Spiral	Stairway to Success	Critical Areas
Market	**Poor market and investment performance** have led to …	Revise your positioning and decide on **where and how you want to compete** in the future.	**Positioning & Strategy**
Clients	… **decreasing client trust,** a **permanent shift in client needs** and significant **asset drain** …	Offer **client-relevant performance** to your target client segments through a truly **client-centric advisory model.**	**Top-line Revenue Growth**
Competition	… **increasing onshore competition** by regional and foreign banks …	Establish **scalable cost structures** and improve **operational efficiency.**	**Bottom-line Profitability**
Regulation	… **additional regulation** and the **need to better manage the bank's and client's risks,** which leads to …	Leverage **risk management as a value creator** for the bank and the client.	**Governance & Risk Management**

… the **need to take immediate, decisive and focused action.**

Fig. 7: The downward spiral and the stairway to success

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3. Implications and Strategic Imperatives for Private Banking Players in Switzerland

Based on our interviews with senior executives of Private Banking players in Switzerland, numerous round-table discussions and workshops as well as a dedicated questionnaire survey, we have summarised the most common and significant challenges for Private Banking players in Switzerland in the four critical areas within which some of the banks have already taken action (Fig. 8).

The following sections are dedicated to a presentation of our analysis of the challenges in the four critical areas identified and the resulting strategic imperatives and possible solutions.

Critical Areas	Challenges	Strategic Imperatives
Positioning & Strategy	Current positioning does not reflect recent market and competition developments. Current strategy is not aligned to recent changes in client needs.	Positioning Strategy
Top-line Revenue Growth	Traditional client segmentation does not allow banks to address client needs. Educated clients increasingly seek value-added advice and service excellence. Product offerings not aligned to client needs – Pricing alone is not a key differentiator. Skills and capabilities do not meet business needs. Performance management not aligned to business objectives.	Segmentation Advisory model Products & Pricing Talent & Performance management
Bottom-line Profitability	Complexity of operational set-up leads to cost-inefficiencies. Inconsistent process architecture hinders service delivery and increases complexity. Fragmented technology landscape impedes scalability and effectiveness.	Operational Set-up Processes Technology
Governance & Risk Management	Compliance and control procedures not effectively enforced. Rudimentary risk management functions for the bank – Poor or non-existent risk management functions for clients.	Governance Risk Management

Fig. 8: Challenges and resulting strategic imperatives for Private Banking players

Positioning and Strategy – Establish position as trusted partner and decide where and how to compete

Pursue clear positioning as a trusted partner. Make and communicate strategic changes

Rapid changes in the market and competitive environment within the Swiss Private Banking landscape have dramatically altered the status quo among banks. Large universal banks, regional domestic and local niche players alike are struggling with the positioning they took many years to build, but which no longer reflects the recent developments in the market. More importantly, we are convinced that this positioning may prevent them from seizing the valuable opportunities presented by the current fluid financial landscape.

It has never been more critical for Private Banking players in Switzerland to define a clear positioning to differentiate themselves from both the established and the emerging competition. Banks need to decide whether to focus on specific markets and segments to become a specialised niche player or whether to scale up and profit from the cross-border market opportunities to position themselves as an international Private Banking player. The decision on which market to compete in with which strategy needs to be taken by each private banking player individually given the current client, product and market competencies in place. Banks with mixed business lines should also clarify their relative positioning to universal banks and investment banking boutiques.

Regardless of their positioning, it is more important than ever for Private Banking players to enhance their brand identity to be recognised as a trusted partner who delivers performance and superior quality Private Banking services. It is only through offering client-relevant performance and value-added services – such as advisory, wealth planning or risk management services – that Private Banking players will be able to truly differentiate themselves from their competition and regain lost client trust.

Decide today where and how to compete in order to benefit from the upswing tomorrow

Due to the multitude of trends impacting the banking industry today, many players are now facing increasing challenges to prepare for the future because their strategic plans are not aligned to recent market changes. Moreover, these strategies no longer correspond with the major transformation within the banking industry, such as the new international banking secrecy legal framework and additional domestic and cross-border regulation.

One of the key decisions Private Banks will need to make will be to revise their current client base and to redefine target client segments. Banks not only need to identify new promising client areas but also to change their current client portfolio and withdraw from segments that no longer fit the revised positioning and branding. Based on their new positioning and target client segments, Private Banking players need to adjust their client value proposition to match the needs of existing clients and to appeal to the new target client segments.

Equally important to deciding on target client segments is the decision on where and how to compete. This decision is partly driven by regulatory compliance issues that have an impact on profitability. Private Banking players in Switzerland need to re-evaluate their target markets and define the appropriate go-to-market strategies. It will be crucial to decide whether to follow an on – vs. an offshore vs. a cross-border onshore strategy. In the light of recent criticism and increasing business barriers to traditional offshore business, cross-border onshore strategies seem appropriate for niche Private Banking players. On the other hand, multi-location onshore business strategies appear quite appealing to large international players with enough scale to profitably serve existing and new markets onshore.

The third crucial decision concerns product strategy, which will be dictated by the revised positioning and client value proposition. Small- and medium-sized Private Banking players need to decide whether to focus on products, i.e. whether to maintain or develop an in-house product factory, or to focus on services or act as a product aggregator and follow an open architecture approach. The alternative option of focusing both on products and services is still a valid one for players with enough scale and international market presence.

Top–line Revenue Growth – Catering for client needs by delivering client–relevant performance with the right mix of products and services

Aim for the right client segmentation granularity to improve profitability

Client segmentation based solely on client assets or revenue poses two main problems. Firstly, it is not possible to develop an appropriate client value proposition because the available client data do not provide sufficient information about the client's needs and behaviour. This impedes a tailored service approach and stands in the way of achieving higher-quality advisory services to fulfil the changed client needs. Secondly, the bank cannot optimise individual client profitability.

In order to improve client advice and client profitability, leading industry players adopt a segmentation based on client value, demographic and client's attitude and behaviour criteria.

Client value aspects and criteria, such as profitability, client lifetime value and assets managed, support banks in the differentiation among clients and allow advisors to offer client-specific services. However, these criteria are not always predictive and cannot provide many insights into the needs, motivations and preferences of clients.

Demographic criteria, on the other hand, such as age, gender and income are easy to survey and provide first clues about client needs. When combined with information about the life phase of the client, demographic data can be used to predict financial needs and probability of buying a product.

Attitudinal variables such as bank loyalty and level of financial self-direction have high predictive power over a longer time-frame (>2 years). Behavioural factors such as the use of certain channels, preferred transaction types and frequency of transactions allow banks to predict future revenues for a short period of time (<2 years).

Using multiple analytical dimensions to assess a client's needs and preferences allows the establishment of clear business rules for each segment. This offers valuable insights to the client advisor as to which investment strategy and services would be appropriate to which client keeping the focus on delivering client-relevant performance and advice. This valuable information can be furthermore leveraged to deploy specific retention and win-back strategies for clients that are about to leave the bank or have done so. A shift from "product push" to "value-added, needs-based client advice" is achieved.

Client Case – Client Centricity

Client Situation

The client is the Private Banking division of a major global bank. Changing market conditions had increased the pressure to evaluate new levers for improving client centricity and client profitability. In order to establish a truly client-centric organisation, a shift from managing revenues to growing client profitability was needed.

Accenture Solution

In order to enable a holistic approach to steering client profitability, Accenture recommended the evaluation of profitability per client on a service level and carried out an analysis of the front office support functions. The analysis of these results and subsequent benchmarking provided the necessary transparency for a series of actions on different levels and client segments.

At the client advisory level, it allowed for the optimisation of products and services, the identification of profitability potential and the management of special conditions.

At the desk head level, the bank created client segment specific offers and initiated and managed relevant campaigns. For example, one of these campaigns focused on transforming unprofitable clients to profitable ones, another campaign sought to support client retention.

At the CFO level, Accenture set up a new pricing strategy for profitability as well as a framework for special conditions.

Client Benefits

The client benefited from this project with a series of customised new products and services that are tailored to its needs.

The client was also able to reduce costs by introducing an optimised resource allocation programme for its relationship management and support functions as well as lower special conditions. Changes in product-pricing strategy, with a shift towards a more profitable product mix – modularised product shelves per client segment across silos – and attention focus on clients with highest profitability potential, all contributed to increased revenue. As a result, overall client profitability has improved.

It is not enough to design new advisory models. Make them everyday business practice

Ideally a bank's advisory model and the practice of client segmentation should be inextricably linked. In the past, most banks focused primarily on pushing out products to clients instead of tailoring offers to client needs. Detailed client segmentation provides advisors with additional client information, enabling the bank to adopt a truly client-centric advisory approach. As the "advisory model" topic has been an issue for Private Banks for many years, several banks have already defined detailed advisory processes. We believe that designing a new process model is a very good start, but in many cases, this is already where it ends. Research shows that many of the "best advisory" models are never properly implemented. Besides the challenge of defining a client-centric advisory model, its proper implementation in everyday business practice should be top of the agenda for most Private Banks in Switzerland today.

Client-centric advice can be a key differentiator in the current financial climate. It involves offering tailored investment ideas and solutions that are based on client needs and expectations (risk, relative performance, transparency). We believe that solutions such as these can best be developed by leveraging interdisciplinary teams. These teams may consist of a client advisor, a portfolio manager and an investment product expert. It is of paramount importance that the people involved in this process understand the products they are selling to the client. Therefore, in order to truly differentiate themselves from the competition in terms of advisory quality, it is critical to align skills and processes.

Facilitating the implementation of a new advisory model requires a dedicated change management approach and changes in the performance management process, e.g. revision of the key performance indicators. Due to the fact that a new advisory model strongly changes the way client advisors deal with their clients, the bank must go through a cultural transition as part of the process. As with any significant change, communication channels, incentive systems and training programmes need to be put in place in order to facilitate the journey.

Understand all the products you sell in detail and make them transparent and simple enough for the client to understand. Adapt product conversion strategies to address changing client and regulatory compliance needs.

The product universe has become increasingly complex in recent years. This has made it difficult for client advisors to correctly match products to client needs. In addition to that, the current service and product offerings do not fully address client needs, e.g. they do not match the client-relevant performance needs. Client segment-specific adjustments and standardisation of product shelves allow the block construction of bespoke client portfolios. Besides the rearrangement of client portfolios, unremunerated process complexity, such as

the use of multiple benchmarks, needs to be abolished and replaced. Keeping in mind the changing client needs, new or adjusted investment solutions and services need to be developed, such as wealth structuring, tax planning, family office services and sustainable products. In this regard, Private Banks need to reconsider whether they want to be positioned as a product factory or product aggregator and develop capabilities accordingly.

Despite the fact that pricing is not one of the top issues for Private Banks, product complexity has increased in recent years and this has a direct influence on profitability. Therefore, we believe that pricing mechanisms should be carefully adjusted, besides developing new offerings to suit the needs of the market. Moreover, future product and service pricing should be based on the value delivered to the client. Hence, a portion of the fees should be linked to performance. Pricing methods should be standardised to reduce complexity and improve profitability. The latter should include the reduction of special conditions, which increase complexity and adversely affect margins.

Transform workforce capabilities from relationship management to client advisory

As a result of the unprecedented shift in client behaviour and the urgent need to offer superior advisory services, the need for top-level client service personnel has never been so high. Our discussions with senior executives have revealed great concern about the capabilities and skills of relationship managers and support personnel. Moreover, executives believe that the control and steering mechanisms currently in place are not aligned to the business strategy, focusing more on short-term revenue generation than long-term client and bank profitability. We believe that there is an additional challenge which has been largely underestimated but is equally significant: how to manage the shift from a client relationship management skill set towards a client advisory and servicing skill set.

It is extremely important to adjust the skills of the workforce in order to cater for shifting client needs. We believe that the correct balance of relationship management and client advisory skills is the winning combination in order to serve both traditional Private Banking client segments and to address emerging ones. In order to right-skill the organisation, the training of the current workforce is a common solution. The attraction of new talent – not only of new money – should be another one. In order to realise their business ambitions, Private Banks need to tap into the diverse skills and capabilities of the new talent currently abundantly available in the marketplace. Moreover, they need to adopt a long-term approach towards the attraction, retention and development of relationship managers and client advisors. One of the most crucial skills of client advisors in future will be the ability to identify client needs even (or especially) when the client cannot define them. We believe that the above can only be achieved by a workforce with the right skills, with a common business culture and a high degree of identification with the positioning and the branding of the bank.

In view of the recent mismatch between performance and compensation and the resulting loss of client trust, Private Banks also need to align their compensation structures and performance indicators to balance short-term profitability with long-term client value. Our survey has revealed that the overwhelming majority of the banks assess the performance of their client advisors based on the assets they manage, the new money they acquire and the overall revenue they generate. These metrics do not incorporate any client-relevant dimensions in the performance assessment and the advisor's compensation. A combination of metrics reflecting sustainable client value creation, client satisfaction, unit or bank profitability, and advisor engagement to deliver value to the client and the bank would be a more appropriate way of assessing the ability to serve clients profitably while focusing on their needs. Banks that can match this assessment of ability with appropriate compensation incentives will come closer to aligning their steering and compensation mechanisms to the imperative of balancing short-term profitability with long-term client value.

Bottom-line Profitability – Winning combinations for a flexible structure

Short-term right-sizing and sustainable realignment of the organisation is the winning combination

The requirements for the operational set-up of Private Banks have changed not only because of the need to adjust the strategic positioning or to improve client servicing. Our research indicates that scalability, flexibility and cost-efficiency have also become increasingly important. Right-sizing the organisation is an absolute necessity in view of dwindling revenues. However, we believe that it is the long-term and sustainable re-alignment of the organisation that will bring real benefits in terms of flexibility and efficiency.

Industrialised middle- and back-office operations, such as a banking hub approach, may be key to achieve scalability and cost-efficiency. In addition to that, shared service structures for corporate functions are a valid option for big international banks in their effort to become more cost-efficient. Flexible cost structures can be achieved through the use of temporary workforces, sourcing improvements and the establishment of communities and alliances with third-party service providers. Finally, streamlining processes across business entities is another opportunity to create cost-efficiencies in specific bank functions such as portfolio management, risk management and trading.

Client Case – Target Operating Model of a Global Wealth Manager

Client Situation

The client is the Private Banking arm of a global universal bank, that wanted to adjust its operating model in order to improve its client offering, increase control and lower costs. The business was operating with a wide range of product and location silos on different platforms and with varying operating models. Implementing change within the organisation was very costly due to a wide variety of functional models, ill-defined functional boundaries and a highly siloed and diverse legacy infrastructure.

Accenture Solution

Accenture supported the client in defining a change programme and setting up the corresponding infrastructure and IT strategy to enable sustainable business change. This was extended to working with the business functions to refine the operating model supported by a new global target operating platform (front-to-back architecture). In addition, a full front-to-back process model was developed and global shared service centres were established across business units. In order to optimise the hub structure, small- and mid-size locations were consolidated into one single European hub while larger locations were locally optimised. Onshore location strategy and footprint were revisited to capture wealth pools while improving profitability. This included licensing considerations (i.e. bank vs. asset manager) to improve the client value proposition and to broaden the offering.

Accenture also supported the testing and implementation of key infrastructure components. Based on the new process model, optimisation initiatives combined with deployment targets (40% of back-office and support staff in low-cost locations by 2010) were set off and rolled out in other global client locations.

Client Benefits

Accenture clearly demonstrated to the client the various options for optimisation in order to enable the decision-making process. The client was then able to understand and manage the implications of moving to the new operating model. The actual business processes were baselined and refined using a Lean Six Sigma approach. The client was able to drastically reduce manual effort and to achieve migration to the new global front office, portfolio accounting and reporting platform. Further initiatives to leverage the global operating model are underway to transform the client to a global leader in terms of operations and cost-efficiency.

Establish business processes that facilitate client-centric service delivery

Due to years of constant revenue growth, Private Banks have not been pressed to react on operational complexity that does not allow for short-term flexibility and that operational costs are too high. Furthermore, current processes have not yet reflected changing business objectives and additional regulatory requirements. Hence, Private Banking business processes need to be aligned to the new status quo.

As a first measure, and in line with other recommendations in this survey, processes need to be standardised to reduce complexity and to increase operational efficiency and transparency. In addition, Lean Six Sigma approaches – widely used in other industries – have started to get the attention of Private Banking executives. In view of more client-centric approaches of doing business, it is even more important to build end-to-end processes and workflows that allow for excellence in client service delivery and the construction of bespoke client portfolios.

See technology not only as cost lever, but also as a value creating investment

Both technology and business objectives often change at such a high speed that we frequently come across a mismatch between the technology deployed and the technology required to fulfil the business needs. Our survey indicates that the ability of technology to act as a business enabler is often underestimated. Apart from offering a means to reduce costs, technology should also be leveraged as a growth enabler and a revenue generator.

In order to align technology to new business requirements, Private Banks need to consider targeted investments for three reasons. Firstly, a revision of the technology landscape helps to achieve scalability and cost reduction. Secondly, it enables the fulfilment of regulatory requirements, and thirdly it can provide value-adding client advisory services through advanced functionality. The latter requires that the value is perceived by the workforce and that technological change is also accepted by the user community. Examples of advanced functionality technologies include analytic tools used for client segmentation, portfolio management solutions, client reporting but also front-end technology such as surface computing.

Client Case – Portfolio Management Tool Implementation

Client Situation

The client is the Private Banking and Asset Management division of a global financial services company. Accenture was asked to help the advisory and discretionary management to streamline investment processes, reduce operational risks and improve the quality of client servicing through implementing a portfolio management system. The key aim was to provide a consistent and efficient backbone for portfolio valuation, return analysis, rules-based monitoring and control strategy, operation history, order entry, etc.

Accenture Solution

Accenture's solution included the assessment of scope, timeline, cost and implementation phases, an approach for integrating a front-office package into the existing infrastructure, the functional design of transaction-based client reporting, order management and portfolio modelling as well as the testing of client reporting and front-office functionalities. Accenture supported the client with a dedicated change management approach.

Client Benefits

Accenture delivered a custom-built front-office solution that is fully in line with all clients' requirements, covers GAPS and offers a comprehensive portfolio management solution with a more global and analytical approach that also allows for a state-of-the-art client reporting. Improvements in efficiency, quality of information and process harmonisation were achieved. Accenture enabled the rollout of over 20'000 portfolios for 200 portfolio managers and client advisors.

Governance and Risk Management – From damage control towards responsible banking

Make Corporate Governance a part of everyday practice and engrain it in the organisational structure

Governance does not end with the design of company structures and the creation of internal regulation documents – it needs to be engrained in everyday business practice and organisational culture. Ensuring compliance with internal and external regulations is a top priority among Private Banking executives. But what are the practical implications in everyday business?

We believe that it is not only the harmonisation of internal structures and processes across functions, units and geographies that make the difference. It is the everyday compliance with the internal and external regulations and processes that allows the sustainable development of a superior governance culture.

The management of the private banking business is often complicated by the fact that different approaches are used in different countries, e.g. for portfolio management and internal reporting. Controlling and steering, e.g. with management dashboards, is a first step towards the transparency required to run the business and towards optimising profitability. Efficient compliance with regulations, as through enhanced risk monitoring and control functions, allows for the flexibility needed in times of rapid change. Finally, banks need to put a special focus on monitoring and enforcing the compliance of the advice provided within a client investment mandate as well as the compliance of advisor business practices with bank internal policies and processes.

Risk management goes beyond compliance. Leverage it to improve top-line growth

Risk management should move beyond its traditional narrow role of complying with internal and external regulations and be extended to provide a function that creates value for the bank. Risk managers should become strategic partners, enabling banks to assess revenues and profits on a risk-adjusted basis, providing valuable input for decision-making and supporting the changing business. Risk management functions should include the provision of quantitative and qualitative information across business units and geographies, mechanisms put in place to monitor different types of risk, proactive control as well as appropriate processes and systems.

It is equally critical to leverage integrated risk management as a value creator for the client. In view of the change in client investment behaviour and the increasing demand for new products and services, we believe that risk management should be leveraged as a new client investment dimension and advisory service.

Conclusion

The comprehensive analysis of the implications of recent developments provides a good understanding of the current situation. The anticipation of future trends for Private Banking forms the basis for the formulation and the implementation of appropriate responses to the identified strategic imperatives. We believe that it is crucial for Private Banking players to take immediate, decisive and focused action in order to successfully address the challenges and navigate through the changing Private Banking landscape.

About Accenture

Accenture is a global management consulting, technology services and outsourcing company.

Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world's most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments.

With approximately 177,000 people serving clients in more than 120 countries, the company generated net revenues of US$21.58 billion for the fiscal year ended Aug. 31, 2009.

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