

## **Outsource and innovate**

### **Two critical capacities of the private bank**

Talk to senior bankers, wealth management professionals, consultancy companies, and other industry experts about the state of private banking and wealth management, and you will find that, although the number of wealthy individuals is growing globally, they all agree that the industry faces significant challenges.

The challenges are manifold, but for the sake of devising solutions, we propose dividing these challenges into two groups. The first group includes market and environmental challenges, such as lower margins, smaller revenues, increased regulations, and a complex, high-cost operating environment. For this group, the answer is business process outsourcing (BPO). Traditional BPO is intended to lower costs and increase efficiency for simple task-based processes, such as payments. Over the past decade, though, BPO has evolved. Today, BPO providers have adopted more complex, knowledge-intensive, industry-specific processes, such as compliance and regulatory processes. While most BPO offerings still fall short of covering the entire private banking business, private banks view BPO as a viable strategy to concentrate on their core competence: client services. The key is to find a capable BPO provider. Such a provider must have banking skills, functional expertise, and operational excellence in order to understand the full context of and effectively support the bank's processes.

The second group of challenges demands a different approach. This group includes issues facing the new generation of clients, digitization, and competition from non-banking players. Coping with these challenges requires that the industry rethink its client services model and become more innovative. The new generation of clients not only prefers but simply expects to use digital channels, such as the Internet and mobile apps. This generation of clients also embodies the shift from consumer to participant, which will fundamentally change interaction between the bank and its clients.

New ideas for private banking services can attract new-generation clients and create incentives for them to engage with the bank. As a senior banker put it: Private banking does not need to be boring. Why should the industry not draw some inspiration from Facebook, Amazon, and Google? Of course, when implementing these ideas, adjustments must be made to comply with prevailing rules and regulations.

*Online Private Banking Forum:* This forum allows clients to network with their peers. Its features include question-and-answer sessions about finance and investment topics, such as stock performance, investment opportunities, industry news, and suggestions for portfolio allocations. Clients can share information, opinions, and experience. This kind of peer-to-peer exchange may well outperform the traditional bank-to-client advisory approach. In particular, it could help counteract the loss of trust plaguing the entire industry since the 2008 financial crisis.

*Crowdfunding Platform:* Clients, prospects, and the bank itself can introduce projects on the bank's crowdfunding platform. The bank manages the crowdfunding process and provides online updates about the projects' financial status and outlook. Should a

project fail to take off, clients can re-distribute the money to other projects. The crowdfunding platform and services might appeal to philanthropists among high-net worth clients, especially if the projects serve nonprofit purposes. Additionally, the bank can improve its image by supporting such projects.

*eFamily Office:* The services of the traditional wealth management family office are offered online to cater to new-generation clients' digitized demands for access and availability. These services include tax management, multigenerational wealth management, financial advice, family wealth planning, and support for philanthropy and nonprofit activities. These services are enhanced by digital features, such as customizable views of data and information, simulation of wealth development based on different scenarios, and personalized wealth management.

*Private Banking Gamification:* This service taps into the natural human tendency to participate in games and enjoy game-like situations. Features such as contests, prizes, and scorecards promote online activities and create incentives for clients to use the bank's products and services. For example, clients can be enticed to win the title of investment master for selecting the portfolio with the highest performance, to increase their score for guessing the title which sells most in a day, or to compete with peers in voting for most successful crowdfunding project.

*Online Exchange:* On this private exchange, bank clients and prospects can buy and sell valuables, such as paintings, jewelry, yachts, and mansions. The bank manages and controls the exchange, which offers additional services, such as estimating the value of an object and arranging the transfer of the goods. Clients' names and identities are known only to the bank and are not disclosed to other clients.

## **Conclusion**

BPO is a powerful strategy for the private banking and wealth management industry to deal with market volatility, lower margins, costly operations, and increased regulations. Selecting the right BPO partner is crucial to tackle these challenges.

To succeed in an environment of shrinking demand and increasing competition, banks also need to become more innovative. They must create a compelling value proposition to retain existing clients and attract clients of the new generation. Whether fully or partly compatible with the traditional private banking style, many features like those popular on Amazon, Facebook, and Google are genuinely attractive to banking clients, be they retail or high net worth.