

Will Private Banks survive?

New players on the private banking turf

The fact that more and more multi-millionaires are using digital channels for banking activities does not herald the end of traditional private banking. But as new players enter the financial industry in the wake of gradual digitization, private banks are increasingly facing competition from technology-savvy competitors.

One group of potential competitors are online financial advisors and web-based wealth management firms that have been founded in the last 3 to 5 year. These startups, also called robo-advisors, include companies such as Wealthfront, Betterment, Personal Capital, FutureAdvisor, and Nutmeg. They typically offer investment advice and portfolio management at low cost, thereby demonstrating the commodization potential in this area.

The novelty of their approach is not the automation of the investment or portfolio management processes - this is already reality in most banks. Their unique selling proposition is the fact that clients have direct access to these processes. Robo-advisors may well represent how portfolio management services will be provided in the future, namely client-driven, efficiently, and most of all, at low cost. Compared to the total Assets under Management (AuM) of the industry, the amount of assets managed by the robo-advisors is small. But the ability to attract investors as well as clients, particularly the younger generation, indicates that the demand for these services is real.

A second group of potential competitors are internet giants like Google, Amazon, and Facebook. Opinions diverge as to whether they would ever want to enter a highly regulated domain such as private banking. Yet, some of them have already made inroads into retail banking areas such as payments, savings and prepaid credit cards. One of the dangerous features of the giants, from a private banking perspective, is brand recognition. Be they search engines, retailers, or social networks, it is the brand that clients, including potential private banking clients, already know.

But even more worrying for wealth management and private banking firms is the fact that the internet giants have raised clients' expectations regarding mobile services: the giants are able to customize and personalize their services based on large amounts of user data and powerful data analytics. Imagine the appeal of highly personalized investment advice in private banking. Moreover, their services are convenient and easy to use, reflecting the fact that digital channels are the arteries of online companies. Imagine a regular news update on all the companies you are invested in available at your fingertips. Low service fees are a further trademark of the giants, made possible by efficient online operations and the lack of maintenance-intensive legacy systems.

Internet giants may not take over the private banking business anytime soon, but they could draw the clients away from the banks by offering them their own 'front office' services.

In view of such a scenario, private banks are well advised to learn from robo-advisors

and internet giants what made them successful in the digital world

- *Role of Technology*: digitalization has turned IT into a key factor for delivering client experience. But private banks have been slow to appoint executive officers with a background in information technology (IT). Unlike the robo-advisors and internet giants, there is nobody at the top of private banks who understands today's disruptive technologies.
- *Organization and Culture*: high degree of automation, transparency and efficiency are commonplace for robo-advisors and internet giants. Private banks should consider how these companies cultivate talents, foster motivation, reward innovation and drive agile development. They should also note how they team up world class business experts with some of the best technology talents.
- *Communication*: like the internet giants, private banks should explore the capabilities of digital channels for personalized and frequent communication between client advisor and clients, client self-servicing, as well as client to client communication.
- *Innovation*: internet giants are not only quick in creating new trends, they are also fast to respond to external stimuli and copy what others do. Private banks may lack the business and IT agility to react quickly, but they should get ideas from what competitors do and what the industry does.
- *Empower the Client*: the success of robo-advisors suggests that clients want to have greater control over their assets and are willing to do more of the background research and investigation on their own. Private banks should empower their clients by providing them tools for financial self-management and access to relevant information.

Conclusion

Are wealth management and private banking firms going to lose against technology-savvy companies? Client experience plays a crucial role for both robo-advisors and internet giants, and both are attracting and building relationships with potential private banking clients.

If private banks want to survive, they have to embrace technology and improve client experience. They should do client data analytics to anticipate needs and to deliver to their clients what they want, and how and when they want it.