

Who should Design the Private Banking Front Office?

Pros and cons of different options

The question is not *whether* private banks will outsource their back office but *when*. The back office carries no differentiating potential but puts a constant pressure on the bank to reduce IT and operations costs. Back office services such as payments, securities administration, and reference data management are well suited for automation, consistent processes, and the industrialization approach of business process outsourcing providers.

The situation for the private banking front office is quite different, however. Unlike the back office, the front office enables a bank to differentiate itself from the competition. Therefore, the front office benefits most from customization and bank-specific solutions. But front office solutions are challenging to develop because technology and client expectations have changed dramatically in recent years. More and more of the world's high net worth individuals manage their wealth digitally. Private banks and wealth management companies must place their front office on the digital map to stay competitive, but many banks struggle to do so. Except perhaps for the wealth management arms of large banks, their IT capabilities are not sufficiently equipped for an in-house development. This leaves banks with basically three options.

The first option is to hire a small, local—but very experienced and effective—“Google”-type team of senior software engineers who not only understand the private banking business but also can take the bank's requirements and transform them into a powerful and smart solution. Obviously, this is a high-quality—and high-price—option.

The second option involves contracting an offshore software developer. In comparison to the first option, the teams are larger, but the people are typically more junior. As many CIO and project managers can attest, these projects typically face many problems. Communication and interaction between the bank and the developer are often insufficient or inadequate. Also, the developer's workforce may lack the special and diversified skill set required to accomplish a complex and multifaceted assignment such as the design and development of a digital front office.

The third option is to use crowdsourcing. Crowdsourcing as a concept has been around for centuries but has now largely moved to the Internet. Today, the spectrum of crowdwork ranges from simple mass-production to large, complex, and custom-built production. Banks, mostly from the retail sector, are usually looking for the latter, asking the crowd to design bank branches, develop mobile banking apps, or submit ideas for new banking products and services. Banks can use crowdsourcing to connect with a widespread network of different skills and expertise, as well as tap into a global pool of ideas and knowledge. They may also benefit from involving people who are not already confined to traditional private banking methods.

To render the crowdsourcing option feasible, private banks must safeguard data security and regulatory compliance regardless of the crowdsourcing arrangement. In addition, they need to foster efficient and effective collaboration and interaction with the crowdworkers by fulfilling these prerequisites:

Pick the right people or community

- Because the task of designing a front office solution is complex and requires specific knowhow, banks need to approach the right people. Financial technology startups, for example, are good candidates because they have the qualified individuals banks need,

including business analysts with strong domain expertise, software engineers, data scientists, user interface/web designers, and connectivity experts.

- Crowdfworkers have to be willing to communicate intensively with the bank and make a significant time commitment. The setup should still be as flexible as possible, allowing for different working arrangements and structures.

Define the scope

- Banks should clearly outline the scope of the expected solution. For example, should the solution embrace the entire front office and all channels, or should it focus on particular functions such as client relationship management or client self-services?
- Ideally, banks should also define the criteria for measuring the quality of the solution and the level of achievement.

Provide accurate and detailed specifications

- Banks are well advised to describe the requirements for the front office solution in as much detail as possible, including client and client advisor use-case scenarios for better comprehension.
- Banks must ensure that the crowdworkers understand the requirements, and respond to queries promptly to clarify any ambiguity.

Conclusion

Whom should private banks and wealth management companies entrust with the development of a consistent and compelling front office service for their clients? The choice largely depends on the banks' priorities, be they competitive advantage, cost, or change-the-bank and run-the-bank risks. It also depends on their ability to govern and steer such a project.

If the banks' priority is to gain a competitive advantage, both the small-but-effective Google-type, senior developer team and the crowdworkers qualify, with the latter offering an even greater diversity and breadth of ideas. If cost is a major concern, however, then the Google-type team is not an option, and neither is the offshore developer, although total cost may only be appreciated later in the process. Both offshore development and crowdsourcing are high-risk options, albeit for different reasons, and both depend on the ability of banks to specify exactly what they want, to stay in control of the project, and to enforce quality standards.