



REDUCING OPERATIONAL COST IN ASIAN WEALTH MANAGEMENT

December 2015

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FOREWORD



There is no doubt 2015 has been a busy year in private banking and wealth management across the Asia Pacific, whether from a regulatory, investment, business or technology and operations perspective.

At the launch event for this White Paper – a roundtable discussion among senior management and leading technology practitioners – it was no surprise to hear that many of the banks in Singapore are facing the same challenges. However it is interesting to note that most of them are attempting to tackle these changes in different ways.

On the cost / income front, we continue to see ever-increasing compliance requirements, with the Common Reporting Standard (CRS) coming hot on the heels of FATCA, among other transparency-related measures on people's radar.

Meanwhile, as wealth levels across the region continue to rise, so too do client demands on usability and disruptors – whether in the form of robo-advisers or fintechs. These forces are causing banks to make significant investments at a time when margin pressure is making it hard to secure the required capital.

At Avaloq, we have been focused on several transformational projects this year, including the launch of our first Asian Business Process Outsourcing (BPO) centre for 'Managed Banking Services' and the on-boarding of our first client. More broadly, we continue to work with new and existing clients to help them find the best way to meet client expectations in a compliant manner, whilst simultaneously growing revenues. This may be in the form of greater levels of efficiency via the fully-integrated architecture of our core banking systems; or as a result of our ability to industrialise certain common functions via our BPO solution.

Whatever approach banks decide to take to resolve their challenges, several things seem apparent:

- Regulatory commitments will continue to burden operations and squeeze margins as operating costs increase
- New market entrants, able to start with a 'blank canvas', will likely present significant competition for client wallet share
- A higher share of assets will likely find their way to the organisations that not only offer the most cutting-edge technology solutions and delivery methods, but which are also able to do so by carefully monitoring operating costs in the most efficient manner

We look forward to meeting and working with you in the years to come as you strive to address these and other challenges.

Peter Scott

General Manager Asia Pacific & Member of Executive Board
Avaloq

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RESEARCH PROCESS

On an anonymous basis – we interviewed more than 30 senior technology and operations from leading international and regional banks in Singapore. We also spoke to executives within senior management and strategy roles.

The initial interviews and research were conducted either face-to-face or over the phone in mid-2015.

This included individuals in various senior positions, for example:

- COO
- Head of Technology
- Head of Operations
- Head of Sales / Strategy

The topics covered in these discussions focused on themes within these broad areas:

- How to combat rising cost-income ratios
- Finding the right approach to developing systems in Asia
- Suitability of systems to Asia
- Adaptability of existing systems

The trends, analysis and conclusions in this White Paper are therefore the result of drawing out key themes from the interviews.

Some of them were common across the majority of institutions involved in the interviews; others were suggestions made from a few individuals who have had more experience in developing and managing innovative systems suitable to the Asian market.

EXECUTIVE SUMMARY

A key objective for those people tasked with running technology, operations and strategy at private banks in Singapore has been to assess the extent to which they can reduce operational costs – while at the same time ensure that what they build is suitable for Asia in helping them deal with the various challenges this region poses across many banking platforms.

What is unsurprising about the results of the research is the fact that most banks say they face the same problems and hurdles to act as barriers on the pathway to the resolution of their issues.

Whether it is keeping up with ever-changing regulations, the increasingly high cost of meeting compliance obligations, the need to drive a new digital mind-set and culture, or ensuring information security and protection – finding solutions to manage and overcome these keeps many banking leaders awake at night.

But they are taking different paths to deal with these challenges.

The approaches they are trying range from integrating and streamlining different legacy components of the business, to coming up with new digital offerings through innovative apps, to building their technology in new ways with different delivery models, to outsourcing more of the middle and back office functions – especially in light of the regulatory burden and concerns over information security.

In general, the view on developing and managing technology, operations and systems-related projects is a longer term one. Banks have realised the short-sightedness – and, ultimately, more costly nature – of the “sticking plaster” solution as they go.

There is also more of a structured approach to the way some banks are planning and designing their projects – both on their own and with a closer involvement of vendors and consultants.

This stands to favour those banks which are taking more of a longer term approach to building a sustainable business.

“Banks have realised the short-sightedness – and, ultimately, more costly nature – of the “sticking plaster” solution as they go.”

KEY FINDINGS

“More than 90% of banks surveyed said that one of the biggest and most operationally painful challenges they continue to face today is how they should cope with increased complexity.”

The two biggest factors leading to higher cost-income ratios are compensation for people (not just RMs but increasingly compliance and other back-office staff) and dealing with the continued burden of meeting regulatory and compliance obligations.

The need to find the right technology solutions and systems to address these two big challenges seems to dominate conversations within banks.

While these solutions inevitably add to the costs in the short term – it is generally agreed by all banks that they need to address these issues in order to tackle the rising costs, especially in terms of operations.

The main systems and operation priorities are broadly in this order

- Ensuring regulatory compliance
- Increasing information protection
- Lowering IT costs
- Automation of processes

For example, more than 90% of banks surveyed said that one of the biggest and most operationally painful challenges they continue to face today is how they should cope with increased complexity due to additional and changing regulatory policies.

They say that this is being felt in particular at the client onboarding stage, given the masses of data and documentation that is now required.

The 3 priorities among the banks surveyed are:

- Higher efficiency
- A positive customer experience, especially during this first part of what is effectively a 'sales' phase
- Consistency

Greater automation is therefore the priority for the majority of banks surveyed.

In particular, so-called traditional banks seem to be feeling the changes taking place in the industry more than most. In response, their objectives are to capture and store more data during the onboarding process for future use.

All banks surveyed also realise that the value of the due diligence process needs on the individual client, but also to the suitability of the product offering they opt for.

One way to do this is via a rules engine that can cope with the requirements of the account data management.

Regulation also stifles RMs – by preventing them from being able to spend anywhere near as much time focusing on revenue-generating activities.

Given that many banks said that their RMs now only spend around 10% to 20% of their time dealing directly with clients – they say they wish to focus on outsourcing back-office functions, including onboarding, and removing redundant processing. This is intended to increase the value of time spent, in face-to-face interaction.

A priority for all banks surveyed is digital adoption – with the objectives divided into four main building blocks:

- Supporting client acquisition and advisory by RMs
- Integrating multiple channels including online, telephony and physical branches
- Providing data analytics
- Instant fulfilment via straight-through processing.

“A priority for all banks surveyed is digital adoption.”

New ways to tackle new challenges

To address these challenges – there are various strategies and approaches which banks are taking.

A new way to think about the operating model includes creating a roadmap for technology systems and solutions over multiple years, rather than one project at a time.

Linked to this is the focus on aligning projects and investments with business priorities – and based on the buy-in from senior management, product development and compliance. Banks are trying to make this relationship across the organisation closer and more nimble.

At the same time as focusing on the long-term, however, banks are moving towards a more flexible mind-set – in order to create models that release new products or upgrades quickly.

This also includes a greater willingness to embrace outsourcing models, including the BPO offering.

In particular, the Avaloq / Deutsche Bank project is on the minds of many financial institutions.

A few banks say they want to see others come on board first. They want to understand where the real costs savings might be, and what the issues are relating to data and regulatory oversight.

But more than 60% say they are waiting to see the outcome to drive their internal decision-making about the suitability of such an approach for them.

“A new way to think about the operating model includes creating a roadmap for technology systems and solutions over multiple years.”

Adapting delivery models

In looking at new ways to deliver the outcome – at least 50% of banks surveyed said they are looking at ways to take an approach which is more in line with that of technology companies.

The three priorities for these institutions are:

- Being more agile in the way they develop banking technology solutions
- Being more responsive to client demands
- Creating a more enticing client experience

An incremental approach can allow a bank's IT team to constantly test and improve the features and continually enhance the capabilities and functionalities going forward.

Credit Suisse did this during the development of its digital banking app which it launched in March 2015 in Singapore. The app was also another example of innovation being pioneered from within Asia first.

For Credit Suisse, this involved a process where it constantly re-prioritised and refined the product development process by listening to feedback from clients as well as colleagues internally, then launching new functionality releases in short cycles.

Making more of their resources in Asia is also becoming more important for international banks in finding solutions.

There are a couple of specific reasons why some banks are building up capabilities and driving technology projects out of Asia:

- Client demand
- Shared vision internally

The first of these is based on clients in terms of where the growth of the business is coming from and the fact that Asian clients have been more ready to adopt digital solutions.

A second reason is having an aligned internal vision for the direction of the business – which in turn requires an operating model to be defined in order to define the technology blueprint.

“An incremental approach can allow a bank's IT team to constantly test and improve the features and continually enhance the capabilities and functionalities.”

“Banks are more inclined to embark on more ambitious programmes over longer periods.”

They are therefore prioritising the region as a testing ground. Solutions are then ‘exported’ to other parts of the business elsewhere in the world.

This means solutions are developed with the needs, appetites and buying habits of the local customers in mind.

Getting more structured

Another option increasingly practised by banks in Asia is a stepped or phased approach in a more structured way than has been done in the past.

This has several key parts to it, in order:

1. Design, in line with organisation-wide, enterprise-wide design principles as well as key metrics
2. Identifying the steps and solutions to achieve the blueprint
3. A need to review existing applications and de-commission those which are now redundant, in order to streamline technologies
4. Ongoing governance and review required

While it would seem obvious that a bank would take a very structured route in developing their infrastructure, at the same time institutions are different by their very nature.

They have grown in different ways, and have acquired legacy in different ways at different stages of the lifecycle. As a result, it can be difficult for them to be prescriptive.

This ties in to the realisation that they need to take a longer-term view in terms of the timeline than they are planning to.

This shows a clear pattern of moving away from historical ways of thinking about short-term solutions for immediate problems, and instead towards taking an approach more in line with the intended direction of the strategy.

Banks are therefore more inclined to embark on more ambitious programmes over longer periods.

They have seen it is often trickier, and more costly over time, to try to plug gaps in services and infrastructure if it is highly fragmented and legacy in nature.

Partnering

“Some banks see fintechs as threatening in certain segments by being able to be more agile and nimble.”

At least 60% of banks tend to approach systems / solutions-related transformational projects by evaluating technology providers.

The top attributes for respondents when choosing a vendor (in order of importance) are:

1. Stability & reputation
2. Implementation track-record in Asia
3. Local support
4. Local development
5. Asian footprint

And the most important considerations with a new system / solution (in order of importance) is:

1. Ability to seamlessly integrate up / down
2. Functionality
3. Best-in-class offering
4. Price
5. Plug-and-play

In trying to reduce operational cost by making platforms and systems more efficient, all banks surveyed recognise that choosing the right vendor and developing a close relationship is essential to the success of any technology implementation.

In the past, banks acknowledge that they have left projects to vendors to carry through to their conclusion. This can end badly, with the vendor providing something different to what was originally intended.

Many institutions find themselves in the same spot in trying to balance regulatory compliance with a compelling client experience. The outcome is that they first have to spend on running the bank and being compliant, with the amount of money that's left over for changing the bank being less than they need and want.

Some banks see fintechs as threatening in certain segments by being able to be more agile and nimble.

The reality for most institutions, however, is that they see the fintechs as helping to stimulate innovation in traditional wealth businesses – certainly in terms of the user expectations of the services.

In this area, some banks are looking to use hackathons and other fintech start-up type initiatives to find ways to leapfrog traditional forms of creating new business lines.

A few banks are also likely to secure partnerships and even make acquisitions to accelerate some of their plans.

Meanwhile, more than 75% of the banks surveyed also agreed that their first step before doing anything is to create a well-established scope and checkpoints during the process.

One way they said this can work is by the vendor and the client occupying the same office space. This enables them to focus on ensuring that what is implemented meets the needs of end-users.

At least 8 of the banks surveyed said they regularly now conduct what many refer to as “live fire exercises”.

They say these can be useful as they give a clear idea of the customer and employee experience of the technology at its current stage of implementation. This can be fed back into the development process and allows for continuous evolution of the platform.

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Hidden costs

While systems implementation is a critical component, it is about not only embedding operations in the system but also facilitating the interactions with clients.

It is essential as part of this to embed the compliance component so as to enable the client to fill in the required documents and provide the necessary information as easily and accurately as possible.

This is all about reducing as far as possible inefficiencies at the relationship manager level.

Giving advisers a 360-degree view of a client means that they can then spend more time doing their job in terms of talking to the client about his or her needs, and then servicing them.

At the same time, the more that banks can automate the controls, the more they can automate the reporting they need to do.

These are all hidden cost savings that many banks say they are striving to achieve as part of becoming more efficient.

Where private banks also say they are looking for ways to manage and reduce operational costs is through the use of utilities.

There is an increasing need at the banks for vendors to develop different sorts of utilities – with the three most pressing being:

- To assist with the onslaught of tax reporting standards via FATCA and the Common Reporting Standards
- To facilitate on-boarding processes
- To find ways to help manage and maintain confidentiality of client data

Shared infrastructure, it seems, is a vision shared by a growing number of private banks, all of whom are currently facing similar challenges.

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“When it comes to social media projects – some of the leading banks in Asia are investing between USD5 million and USD30 million.”

Hurdles

In general when it comes to innovation, at least 35% of banks surveyed say they face challenges in building scalable, sustainable and profitable offerings from the emergence and agility of many start-ups or disruptors focused on various aspects of financial services, and especially wealth management.

They see newer players as differentiating on price, speed, convenience or on overall experience, and they usually have a ‘blank slate’ from which they can choose where to focus. By contrast, banks are conscious that they have to defend all turfs.

Robo-advisers are an example of this type of gap-filler, for mass affluent and also HNW customers, in terms of providing what-if scenarios within investment portfolios and doing it via digestible pieces of valued information.

When it comes to social media projects – some of the leading banks in Asia are investing between USD5 million and USD30 million.

This includes efforts to mine information from sites like Facebook, and expect these to contribute at least 10% of their revenue growth.

Universal banks are innovating in areas such as online credit card sales, branchless banking, savings and transaction.

At higher levels of wealth, there are innovations such as online investment clubs where UHNW individuals discuss their investments with their peers.

In high-touch yet still disruptive spaces like this, established institutions with large, long-held customer bases have an advantage over newcomers.

Technology is cutting into the fee base – one major bank said it is charging just 5 basis points for clients with portfolios of more than USD25 million.

Yet with the right culture and leadership, banks can embrace and adopt the spirit of innovation necessary to enable them to develop suitable systems which are agile enough to cater to Asian clients.

The recent UBS technology innovation lab in Singapore is an example of what some of the more proactive banks are doing to close the gap.

The lab, which is located in the UBS training centre – UBS Business University Asia Pacific – will also serve as a location from which UBS can interact with technology start-ups, academics and clients in a bid to source ideas for new services.

Another main concern banks share in the process of upgrading their systems is to retain ownership of the implementation agenda rather than hand it over to consultants.

Yet only about 20% of the banks surveyed think that their middle-office technology is up to standard to support their business needs.

Among the main concerns are data accuracy and granularity in relation to client information as well as performance metrics.

This is partly due to the competing pressures of adapting systems quickly, and often tactically, to handle client growth and the flood of new regulations.

This has meant that some banks have been less focused on larger transformational projects with longer-term initiatives in mind.

But at least 60% of banks surveyed said they want to evolve their service models for the future to attract and retain customers.

“Only about 20% of the banks surveyed think that their middle-office technology is up to standard to support their business needs.”

Cultural considerations

However, at least 65% of banks surveyed said that the decision around systems also depends on the culture and leadership.

They said that solutions cannot exist in isolation, either of each other or of the overall business vision.

When it comes to implementation, banks say they are focused on the process of continuously trying to engage all the stakeholders – senior management, staff across multiple IT, administrative and business departments, and the vendor – in the project to ensure they are working towards the same objective.

This, too, relies on having a firm-wide culture which is aligned.

Some of the approaches taken to overcome this include empowering different groups to lead specific projects.

In fact, for more than 65% of the banks surveyed, they believe that scalability of the platform is as likely to come from a change in mind-set to create more “commercial” IT teams as it is to come from new technologies and systems themselves.

“More than 65% of the banks surveyed believe that scalability of the platform is as likely to come from a change in mind-set to create more “commercial” IT teams.”

CASE STUDY – Credit Suisse digital app: a new approach to delivery

Credit Suisse's global digital private banking solution was developed in Singapore – and rolled out in the local market in March 2015.

An Innovation Hub was set up on one of the bank's premises, where a development team of around 200 employees and vendors worked closely to create and deliver the new platform.

Developing it in less than a year, the team responsible for the project embraced a completely new delivery model – inspired by successful technology companies – by adopting a much more agile approach to developing banking technology solutions.

This involved an effort to constantly prioritise and refine the product development process by listening to feedback from clients and colleagues, then launching new functionality releases in short cycles.

In many instances, the team delivered working software every two weeks. This incremental approach allowed the team to constantly test and improve the features and continually enhance the capabilities and functionalities going forward.

Outside in

One of the most important aspects of the development process for Credit Suisse was getting client feedback from an early stage.

Only by getting such insights from clients to define the value proposition, features and user experience, does the bank feel confident the platform can enhance the interaction with clients while also benefiting the bank's RMs. In-depth, one-on-one 'Voice of the Client' sessions were held with around 100 clients across the region.

This led to a different way of thinking about how to tailor the app to various types of clients. Instead of segmenting them by traditional approaches such as AUM or source of wealth, Credit Suisse analysed how its clients make decisions in relation to their finances.

This shed further light on the reality that the majority of the bank's private banking clients in Asia Pacific want to understand investment opportunities and trade-offs to validate with their advisers, who think in the mid to long term and appreciate support in understanding global markets and refining their views and ideas before taking a final investment decision.

In addition to listening to clients, the team at Credit Suisse also held 'Voice of the Business' sessions with more than 80 members from the RM teams.



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