

EVOLVING OPERATING MODELS IN WEALTH MANAGEMENT

Wealth managers and private banks are rapidly evolving their operating models in response to seismic shifts across a range of business-critical areas and, for many, alternative sourcing models are looking increasingly attractive.

When Commitment Meets Dedication

A man in a dark suit and tie is playing a double bass. He is looking down at the instrument with a focused expression. The background is a blurred jazz band with other musicians playing saxophones and trumpets. The entire image has a green color cast.

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FOREWORD

On the face of it, the evolution of operating models in the wealth management industry might not seem to be the most prepossessing of topics - not at a time when there may seem to be so many more exciting developments happening in the front-end. Wealth management is transforming itself from being a highly traditional industry that has sometimes appeared almost sceptical of the positive impact technology can make to one which is now taking great strides in digitalising the client experience.

Yet, all these enhancements must be embedded effectively into institutions' operational structures, and developed and maintained somehow, in practical terms. They must also be funded, likely by firms making significant efficiency savings elsewhere. As Shakespeare had it: "Nothing can come of nothing." The evolution of wealth managers' operating models, particularly as it pertains to technology, is in fact at the heart of many of the industry's most pressing issues.

Over the past five years *WealthBriefing* research has been tracing the technological transformation of the industry, both broadly - through our annual *Technology and Trends Report* - and by examining business-critical areas of operations like client onboarding, KYC and risk-profiling in great depth. The increasing compliance burden has doubtlessly dominated the industry agenda and costs have spiralled for many. But what has also been noticeable is firms' ambition for necessary spend related to regulation not to represent a "dead cost" by any means. Senior executives are vocal about seeking gains in operational efficiency and assets under management as well as mitigating regulatory risk when modernising their systems and processes.

But while compliance is the lens through which so many industry developments must be seen, it is "only" one of the biggest challenge facing wealth managers, amid many. In addition to the alphabet soup of new regulations, firms also have to contend with a far more demanding and discerning client base. In short, they are seeking to do more - to deliver more to clients - with less. Correspondingly, in recent years our research has documented an accompanying shift in wealth managers' approaches to putting together and running their operations, with an increased openness to alternative sourcing models being a particularly marked trend.

Another is the proliferation of outsourcing and technology providers, in all their forms, that specifically target their services at wealth managers.

Firms all over the world are having to work increasingly hard to underscore the value they add for clients amid heightened transparency on both fees and performance. The thesis of this research is that firms' need to focus resources (and corporate energy) on activities where they can *differentiate* will naturally increase their willingness to outsource those in which they cannot. Outsourcing in areas that clients do not - and moreover should not - notice is going to become an increasingly compelling prospect in these cost-conscious times.

The outsourcing offering for wealth managers may not have been absolutely perfected as yet, but the ecosystem of outsourcing and technology providers attuned to their specific needs in serving sophisticated, international private clients has progressed hugely in recent years. Furthermore, as this report will discuss, institutions of all kinds are known to be making impressive gains from alternative sourcing models - not only in terms of efficiency savings, but in the quality of their processes too.

WealthBriefing is proud to have partnered with Avaloq and Deloitte on this project and we are also delighted to have been able to gather insights from such a wide range of senior wealth management executives, compliance and technology experts, and consultants to illuminate our research. We are most grateful for their input, along with that of the wealth management professionals who took part in the survey that forms the basis of this report.

We welcome feedback on this or any other research, and would be pleased to discuss any ideas for development readers might have.

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CONTENTS

EXECUTIVE SUMMARY	6
RESEARCH ORIGINATORS & EDITORIAL PANEL	8
SECTION ONE Where Institutions are Outsourcing and How They Rate BPO Provision	12
SECTION TWO Barriers to BPO - Data Security Tops Wealth Managers' Worries	19
SECTION THREE Quality, Cost-Savings and Core Business the Top BPO Drivers	23
SECTION FOUR Re-Deploying Resources to Focus on Adding Value	26
CONCLUSION	30

EXECUTIVE SUMMARY

1. WEALTH MANAGERS HAVE A STRONG DESIRE TO STEP AWAY FROM STANDARDISED PROCESSES TO FOCUS MORE ON VALUE-ADDS

Some 56% of institutions regard reducing the effort they spend on standardised processes in order to focus on value-added ones as an important or critical priority. Fewer than a tenth of respondents said that this was not on the agenda at their firm.

2. FOCUSING ON CORE BUSINESS THE BIGGEST BPO DRIVER

Of all the potential drivers towards outsourcing, a desire to focus on core business ranked top, with some 85% of respondents rating this as an important or very important driver. (Correspondingly, only just over a tenth of institutions have offered or are considering offering BPO services to their peers.)

3. QUALITY AND EFFICIENCY CLOSE BEHIND

Institutions' second- and third-biggest drivers towards BPO are accessing best-in-class processes (82%) and improving efficiency through industrialisation (80%).

4. FIRMS ARE EYING EFFICIENCY GAINS OF AT LEAST 20%

In assessing the business case for BPO, over nine-in-ten (93%) institutions would seek efficiency gains of at least 20% to enter a contract, and 58% of respondents would want 30% or more.

5. RELATIONSHIPS, INVESTMENT ADVISORY AND CRM REMAIN CLOSELY HELD

Unsurprisingly, institutions are least keen to outsource in the areas they believe they deliver most value to clients or which constitute a touchpoint.

Almost nine-in-ten (89%) do not outsource relationship manager CRM and advisory workplace. The survey also showed high reluctance to outsource investment advisory processes and portfolio management. Respectively, 86% and 83% have chosen to keep these activities in-house.

Unsurprisingly, over half (52%) said that relationship and quality service is where their firm provides *most* value for clients, with this belief even stronger among the UK and Asian respondents, and those working at private banks.

6. CLIENT-FACING ELEMENTS MOST CUSTOMISED

Portfolio management is regarded as a customised/very customised activity by almost half (48%) of participants, closely followed by investment advisory processes (47%) and product management and services (46%).

7. PAYMENTS, CORPORATE ACTIONS AND SECURITIES-TRANSACTION PROCESSING RIPE FOR BPO

The most standardised processes at institutions are payments processing (deemed standardised/very standardised by 70%); corporate actions processing (68%); securities-transactions execution routing (66%) and bank accounting and regulatory reporting/tax reporting (63%).

Interestingly, the most standardised processes were also where BPO offerings are seen to be most mature, yet actual adoption levels appear lower than might be expected on this basis. Similarly, while client reporting is where the survey respondents really expect outsourcing providers to excel, as yet there is fairly muted take-up of outsourcing here.

8. COST-SAVINGS FROM ALTERNATIVE SOURCING EARMARKED FOR CLIENT-FACING TECHNOLOGY

The survey indicates that almost half (43%) of institutions would redeploy any cost-savings and capacity enhancements delivered by BPO on client-facing technology as a first priority, with 72% placing this in their top three. Meanwhile, enhanced technology for advisors was the top option for 29% of respondents and a slightly higher 74% put this as a top-ranking aim.

Related to this need for institutions to keep evolving their operating models in line with clients' (rapidly) changing preferences and needs, developing products and services was a strong third-choice for participants at 34% (71% had this as a top-three option).

Overall, we see that enhancing *both* client and advisor technology, along with developing new products and services are top-three priorities for 70-74% of participants collectively.

9. TAX SERVICES, STANDARDISED PROCESSES TOP THE OUTSOURCING RANKINGS

According to the survey, the activities most commonly outsourced wholly are: tax services (37%); client tax reporting (36%); reference data and market data management (31%); securities-transactions execution routing and settlement (32%); and digital channels for clients, such as ebanking or mobile solutions (29%).

10. TWO-THIRDS AT LEAST PARTIALLY OUTSOURCING IT; ROOM FOR IMPROVEMENT ON CLIENT-FACING DIGITAL CHANNELS

The picture including partial outsourcing is rather different, however. With two-thirds (65%) of respondents outsourcing at least in part, IT ranked top, with investment research also figuring highly (52%).

While the survey found relatively high levels of outsourcing in client-facing digital channels, these don't appear to be very well regarded. Strikingly, 61% of respondents who fully outsource digital channels rate the overall offering as either immature or very immature.

METHODOLOGY

For this study, 65 wealth management professionals were surveyed between January and February 2016.

Location:

UK	42%
Switzerland/Luxembourg	15%
Hong Kong/Singapore	23%
Other	20%

Firm type:

Asset manager	8%
External asset manager	9%
Full-service wealth manager	17%
Fund manager	1%
Private bank	35%
Retail bank	3%
Single/multi-family office	2%
Universal bank	6%
Other	11%

Assets under Management:

<\$100m	14%
\$101-500m	12%
\$501m-1bn	6%
\$1-10bn	18%
\$11-50bn	13%
\$51-100bn	9%
\$101-500bn	17%
>\$500bn	11%

RESEARCH ORIGINATORS



THIBAUT JACQUET-LAGREZE

*Head of Marketing
Avaloq*

Thibaut Jacquet-Lagreze joined Avaloq in 2014 to lead its Banking Suite solution’s marketing and took overall responsibility of marketing for the Avaloq group in 2015. He has been active in financial services technologies for more than 15 years. Prior to joining Avaloq, he held various management responsibilities in consulting services, product management and marketing.

Thibaut served as product strategy director at Temenos, product manager and marketing director at Odyssey Financial Technologies and as consultant at Accenture.



PATRIK SPILLER

*Partner and Head of Financial Services
Strategy Practice - Switzerland
Deloitte*

Patrik Spiller leads the Monitor Deloitte financial services strategy practice in Switzerland. He has 15 years of experience in banking industry consulting. He supported many of the leading international banking institutions in the development of major transformational strategies and programmes.

He focuses on operating model development and optimisation, linking business and operations strategies with technology strategy, helping banks reduce cost and increase agility to support the business effectively. Recently, Patrik also supported banks in the development of large scale operating model transformations in response to structural reform requirements.



WENDY SPIRES

*Head of Research
WealthBriefing*

Report Author

Wendy has been a wealth management journalist and research writer for eight years, covering a variety of international markets and sub-sectors over that time. She has written an array of in-depth reports on issues affecting private banks and wealth managers, including technology and operations trends, enhancing the client experience, branding and marketing strategy, and risk-profiling methodologies.

As well as speaking at conferences in both the UK and abroad, Wendy also regularly consults on strategic and communications issues related to the wealth and asset management market. She now increasingly carries out research projects among end HNW clients, for both internal and external purposes.

EDITORIAL PANEL



ERIC BARNETT
Chief Executive
Societe Generale
Private Banking Hambros

Eric became Societe Generale Private Banking Hambros' chief executive in September 2007. Since then he has focused on the development of the firm's onshore business in the UK and on key strategic international segments such as the French, Indian, Russian, Middle East and Greek markets. He also oversees the SGPB Hambros' offshore business.

Eric is responsible for developing the group's commercial and marketing strategies and private banking activities as well as managing the day-to-day running of the London office. Eric is also a member of the Societe Generale Private Banking Exco, with supervisory responsibility for the Asian business.

Before this, he was group head of private banking and managing director of the London office at SGPB Hambros.



MARKUS GRÖNINGER
Chief Executive
Avaloq Sourcing
(Switzerland & Liechtenstein) Ltd.

Before joining Avaloq Sourcing (Switzerland & Liechtenstein) Ltd. in October 2010, Markus Gröninger was vice president and country leader at Oracle Switzerland. From 2002 to 2007, he served as chief executive and delegate of the board of directors of CSC Switzerland, and from 2006 was head of market and business development for Germany, Switzerland, Austria and Eastern Europe at CSC.

Markus holds a degree in Electrical Engineering from the Swiss Federal Institute of Technology ETH Zurich and a postgraduate diploma in Industrial Management. He also completed an executive programme at INSEAD, Fontainebleau (France).

Avaloq Sourcing (Switzerland & Liechtenstein) Ltd. was formerly known as B-Source and was fully acquired by Avaloq in 2016.



SANDRA HAUSER
Head of BPO Centre Management
Avaloq

Sandra Hauser joined the Avaloq Group in November 2012 and is currently responsible for the global BPO centre management, overseeing the three BPO centres in Singapore, Germany and Switzerland.

Sandra graduated with MSc in Computer Science at the Swiss Federal Institute of Technology (ETH) Zurich and holds a degree as a Certified EFFAS Financial Analyst. Prior to Avaloq, she was the global chief information officer of Coutts & Co, the wealth management division of the Royal Bank of Scotland; at UBS, she held different IT management roles with international assignments in Monaco, the US and Russia.



JAMES HORNIMAN
Partner
James Hambro & Partners

James Horniman joined James Hambro & Partners in 2013. With over 20 years' experience in the UK wealth management sector, James started his career at Morgan Grenfell Asset Management in 1993 before joining HSBC Investment Management to work as a director and team leader in UK private clients.

In 2007 he joined UBS Wealth Management working as a team leader and portfolio manager, managing assets in excess of £500m.

In 2014, James was named in the *Spears* Top 50 private client wealth managers.

EDITORIAL PANEL CONTINUED...



JAMIE MACLEOD
Chief Executive
Bordier

Jamie has circa 28 years' experience in the investment management industry. He joined Scottish Widows Fund Management in 1990 and went on to become managing director at SWFM and head of global business and client services for Scottish Widows Investment Management.

In 1999 he joined Investec Asset Management as head of UK and European retail business, and was managing director of Investec Fund Managers and Investec Management. In June 2002 he joined Skandia Group and founded Skandia Investment Management as chief executive. In 2007 he went on to form Skandia Investment Group, the company's investment management organisation, which he led as CEO.

Jamie joined Bordier (UK) in September 2010 as CEO and became a member of the group executive team with Bordier & Cie.



JÜRGEN PULM
Head of Private Banking, CPB Services
Couotts Private Bank

Jürgen Pulm has been head of private banking for CPB Services at RBS since the end of 2014. In this role, he oversees IT, banking operations and change management for the RBS Group's private banking. He is also the chief executive of RBS Services (Switzerland). From 2013 to 2014 he was chief technology officer of the Royal Bank of Scotland's wealth management division and head of technology trends and mobile at the RBS Group.

Prior to that, he was chief operating officer of the Royal Bank of Scotland's wealth management division. During that time, he was responsible as part of the management team for IT, banking operations, digital channels, trust administration and change management.

Jürgen was previously deputy head of the management team at the Swiss branch. Before joining the RBS Group in 2006, Jürgen was a member of the extended group management of the Julius Bär Group as chief information officer.



GILES ROWE
Co-Founder and Chief Executive
Henderson Rowe

Giles Rowe is Henderson Rowe's co-founder and chief executive, setting up Henderson Rowe with Charles Aram in 2002 after 20 years in the investment business. Giles' background is in M&A and corporate finance as a capital markets analyst, advising companies ranging from start-ups to FTSE 100 members. One of the earliest adopters of ETFs in private client portfolios, Giles believes using individual stocks can avoid excessive diversification and create focused transparent portfolios.

After cutting his teeth in Henry Ansbacher's Media and Communications M&A team he spent 15 years at Cazenove corporate finance working on a massive range of deals, and set up a risk diversification fund for entrepreneurs at Beeson Gregory. Giles read PPP at Oxford and has an MBA from Cranfield.



TOM SLOCOCK
Head of Global Investment Group
Deutsche Bank Wealth
Management

Tom Slocock is the head of the Global Investment Group (GIG) within Deutsche Bank Wealth Management, having assumed the role in October 2015. GIG is responsible for sourcing, selecting and recommending investment opportunities for wealth management clients globally. He assumed the role of managing director and chief executive of Deutsche Bank's UK wealth management division on 1 March 2009 when he joined Deutsche Bank from Credit Suisse.

Tom has spent his entire career in the wealth management industry. His focus has been working with wealthy and sophisticated UK-based individuals and families, and helping to source bespoke solutions tailored to their specific needs.



MIKE TOOLE
Chief Operating Officer
Artorius Wealth

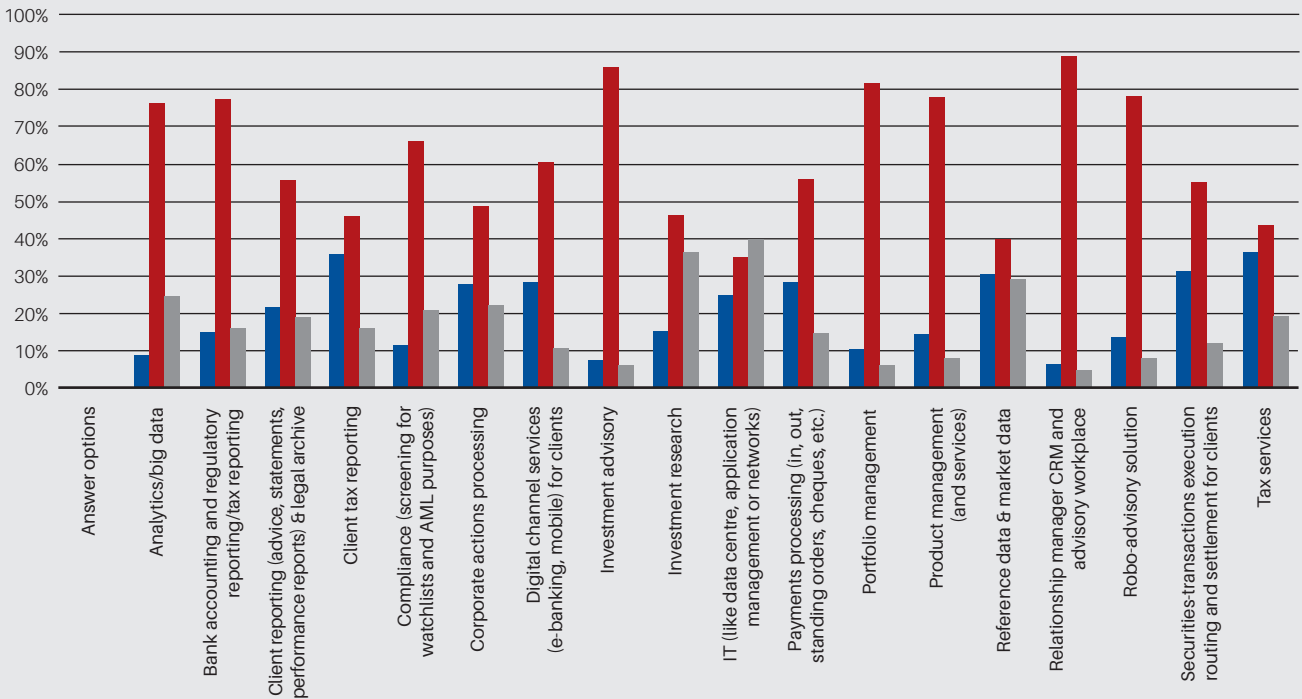
Mike Toole is group chief operating officer of Artorius Wealth, an ambitious multi-family office and wealth manager established in 2014 that is now growing quickly in the UK and Switzerland. He has been building a multi-jurisdictional client proposition and infrastructure, addressing the associated opportunities and issues that arise. Previously, he was a partner at accountancy firm Baker Tilly, where he was group operations director for the financial management and investment businesses.

Mike has 12 years' experience in financial services and banking, including with KPMG, Santander and UK mutual societies. He was also involved in founding a Saudi family office and managing a substantial private equity portfolio.

SECTION ONE

WHERE INSTITUTIONS ARE OUTSOURCING AND HOW THEY RATE BPO PROVISION

FIGURE 1
Where does your firm outsource, in whole or part?



DOES YOUR FIRM, IN WHOLE OR PART, CURRENTLY OUTSOURCE THE FOLLOWING?

TABLE 1

ACTIVITY	YES	NO	IN PART
Tax services	37%	44%	19%
Client tax reporting	36%	47%	17%
Securities-transactions execution routing & settlement for clients	32%	56%	13%
Reference data & market data management	31%	40%	29%
Digital channel services (ebanking/ mobile) for clients	29%	61%	11%
Corporate actions processing	28%	49%	23%
Payments processing	28%	58%	14%
IT (data centre, application management or networks)	25%	35%	40%
Client reporting (advice, statements, performance reports) & legal archive	23%	58%	20%
Bank accounting and regulatory reporting/tax reporting	15%	68%	17%
Investment research	15%	48%	37%
Product management (and services)	14%	78%	8%
Robo-advisory solution	13%	78%	9%
Compliance (screening for watch list and AML purposes)	12%	67%	21%
Portfolio management	11%	83%	6%
Analytics/big data	9%	67%	24%
Investment advisory	8%	86%	6%
Relationship manager CRM and advisory workplace	6%	89%	5%

TAX SERVICES TOP OUTSOURCING RANKINGS

As Figure 1 shows, the top four most wholly-outsourced activities are: tax services (37%); client tax reporting (36%); reference data and market data management (31%); securities-transactions (32%), and digital channel services such as ebanking and mobile solutions for clients (29%).

Addressing the top-ranked activity, Tom Slocock noted that tax services are an obvious candidate for outsourcing among wealth managers since although many don't have that as part of their offering, it is a very powerful value-add to be able to offer clients on a selective basis. "One of the key benefits of outsourcing is being able to offer things you couldn't offer yourself, another is to industrialise certain non-differentiating elements," he said.

Meanwhile, the second-place ranking of client tax reporting is testament to the very much more onerous requirements facing those conducting offshore business and serving international clients with tax obligations in other jurisdictions.

Automatic Exchange of Information will see jurisdictions obtain financial information from local institutions and automatically exchange it with other countries on an annual basis. Implementation of the Common Reporting Standard (the Standard for Automatic Exchange of Financial Account Information), which contains the reporting and due diligence rules of AEOI, began on 1 January 2016. This requires institutions to gather relevant KYC information and report to tax authorities across 58 early-adopter countries (the first exchange is set to take place in September 2017). A further 97 countries have also signalled their intention to adopt the OECD-developed legislation.

Also figuring highly in respondents' ranking of their most wholly-outsourced activities were – predictably – those also rated among the highest for standardisation and maturity of the

BPO offering: securities-transactions execution routing and settlement; corporate actions processing; and payments processing. As discussed below, these three were found to go hand in hand.

The fact that global annual expenditure on market data is thought to exceed \$50bn underscores the very brisk business carried out by the world's data vendors – as well as the vital role they play in collecting, cleaning, collating and distributing market data across a multiplicity of markets, asset classes and instruments (and in as close to real-time as possible). As one contributor remarked: "Without this technology, our business just wouldn't be possible".

TWO-THIRDS ARE PARTIALLY OUTSOURCING IT...

TABLE 2

Top five outsourced or partially outsourced activities

IT (like data centre, application management or networks)	65%
Reference data & market data management	60%
Tax services	56%
Client tax reporting	53%
Investment research	52%

The top five with partial outsourcing included looks rather different. Here, IT outsourcing (such as data centre, application management or networks) ranked highest, with 65% of institutions utilising third-parties. Investment research also joined the top-five rankings, with 52% of respondents at least partially outsourcing this. (As will be discussed, while institutions clearly want help here, they are naturally generally reluctant to completely outsource investment research.)

While IT doesn't tend to be outsourced wholly, two-thirds of respondents are outsourcing this element of their operations at least partially (65%). Here, the industry's increased use of cloud computing and hosted solutions must surely be in evidence.

In fact, it could be said that many of the start-ups of recent years owe their existence to the very much lower barriers to entry that have come about from the use of such technologies and alternative operating models maximising outsourcing. Smaller institutions will also owe their ongoing competitiveness to them in large part, as their need for technological bandwidth increases.

"Outsourcing gets you speed to market and it can give you a variable as opposed to a fixed cost, which may be very attractive when you're starting up," said Giles Rowe.

WealthBriefing's 2015 global technology barometer found that 77% of respondents foresaw an increase in their firm's use of cloud technology over the next three years, with 12% predicting a *significant* increase. Meanwhile, two-thirds saw their spend on external hosting/software climbing higher¹.

ROOM FOR IMPROVEMENT WITH DIGITAL CHANNELS FOR CLIENTS

Interestingly, while there is a relatively high level of outsourcing of digital channels for clients such as ebanking and mobile occurring (the survey indicates that 40% of participants are outsourcing this to some degree), it seems that generally institutions don't rate these as particularly mature: 34% gave an immature rating.

Strikingly, 61% of respondents who fully outsource digital channels rate the overall offering here as either immature or very immature, indicating that providers may have significant work to do in demonstrating their strengths, perhaps particularly in a private client context.

Outsourcing gets you speed to market and it can give you a variable as opposed to a fixed cost, which may be very attractive when you're starting up.

TABLE 3

Correlation between outsourcing of client-facing digital channels and maturity rating

Does your institution outsource digital channels for clients?	MATURITY RATING OF DIGITAL CHANNELS OUTSOURCING		
	VERY IMMATURE/ IMMATURE	AVERAGE	MATURE/ VERY MATURE
Yes	61%	6%	33%
No	44%	20%	36%
In part	57%	14%	29%

Although there are a number of factors at play, several of the experts pointed to the likelihood of an institution outsourcing its digital channel provision being inversely proportionate to its size, and thus its available technology resource and expertise. As discussed on p23, firms generally want to focus on core business now and smaller institutions will likely want to do so even more.

"The smaller players will accept that they don't have as much competitive advantage on those elements and will outsource and aim to position themselves more around client management and product offering," said Patrik Spiller. "Then there are the medium- to large-sized banks who can invest enough to develop market-leading and differentiating digital offerings."

However, he also highlighted that there are a few players that want to push ahead with digital suites, even if they are small. "Here in Switzerland we have for example a cantonal bank that positions itself as one of the most digitalised banks in the market and is obviously investing heavily," he said.

RELATIONSHIPS, INVESTMENT ADVISORY AND CRM REMAIN CLOSELY HELD

TABLE 4

Activities institutions are least likely to outsource

ACTIVITY	NOT OUT-SOURCING
Relationship manager CRM and advisory workplace	89%
Investment advisory	86%
Portfolio management	83%
Product management (and services)	78%
Robo-advisory solution	78%
Bank accounting and regulatory reporting/tax reporting	68%
Compliance (screening for watch list and AML purposes)	67%
Analytics/big data	67%

It is logical to predict that the least likely activities to be outsourced will be ones where institutions see their value: relationships, advice and investment expertise (see p26).

Correspondingly, the survey found that 89% of respondents do not outsource relationship manager CRM and advisory workplace, with only 6% doing this fully and 5% partially. This is as to be expected, the panel said, since firms naturally want to retain any activity that "touches the client". "For many firms the relationship manager and CRM piece is absolutely integral," said Slocock. "Bringing in third-party systems, yes, but

actually outsourcing the whole process and all that critical client data would be a tough one."

The survey respondents also showed high reluctance to outsource investment advisory processes and portfolio management. Respectively, 86% and 83% of respondents' institutions have chosen to keep these activities in-house. Just 8% of firms are outsourcing investment advisory processes (a further 6% partially); meanwhile, 11% are outsourcing portfolio management (6% partially).

However, according to Spiller, we can possibly expect outsourcing of portfolio management and investment advisory activities to rise among smaller institutions that may prefer to use specific types of portfolio management expertise rather than rely on solely their own skills and capacity.

As discussed on p20, investment houses can expect increasing pressure to deliver strong returns. Meanwhile, there is a movement towards providing holistic financial advice at all ends of the wealth spectrum, meaning that many smaller firms like external asset managers move to increase client-facing time via outsourcing elsewhere.

PRODUCT MANAGEMENT RIPE FOR RATIONALISATION?

Turning to product management and services, here the survey showed just 14% of respondents outsourcing this in its entirety and 8% partially. According to Spiller, this is evidence that "many banks - particularly smaller to mid-sized ones - generally do not yet have a very well established end-to-end product management approach".

"They're often not looking at the full product management lifecycle in a holistic way and not decommissioning old products, often keeping products with low volumes around for too long," he said. "That's definitely an area where process standardisation would allow them to become more efficient and have a more rationalised product portfolio."

A general lack of timely and useful management information may mean that visibility on product profitability is insufficient.

LOW ACTIVITY IN ROBO-ADVICE (AS YET)

Robo-advisory services also figured highly among the activities institutions would not seek to outsource (78% of respondents indicated that they were not outsourcing this; just 13% do wholly and 9% in part). This, of course, may be partially due to the relatively low levels of robo-advice activity among the private client-oriented institutions included in this study.

However, it would seem that institutions are still taking very much a "wait and see" attitude here rather than dismissing alternative models, including robo-advice, out of hand.

As Table 5 (p16) shows, outsourced robo-advisory offerings are seen as the most immature

by quite some margin - with over two-fifths of respondents considering them immature/very immature, and the very immature cohort making up 35% of the total. "Robo-advice is relatively immature," confirmed Spiller. "So while some already offer this, they tend to be the innovative online banks. Many traditional banks are only now starting to think about it."

Robo-advice solutions may not yet be seen as sophisticated enough to apply in a private client context, the experts observed. Yet services aimed at the HNW and even UHNW segment are becoming more sophisticated very rapidly indeed, with some now offering tax optimisation overlays, for example.

CAUTION OVER COMPLIANCE OUTSOURCING

The survey showed relatively low levels of compliance outsourcing. Just 15% of respondents reported wholly outsourcing bank accounting and regulatory reporting/tax reporting (17% do partially); meanwhile, only 12% of firms use the services of third-parties for client due diligence screening for Anti-Money Laundering and watch list purposes (21% have some element of outsourcing).

As Table 4 illustrates, compliance is just outside the top-five activities institutions are most reluctant to outsource. This must partially be down to the fact that regulatory responsibility can never be outsourced and so institutions need to have a very significant degree of comfort that their provider is up to the task of helping them fulfil their obligations effectively.

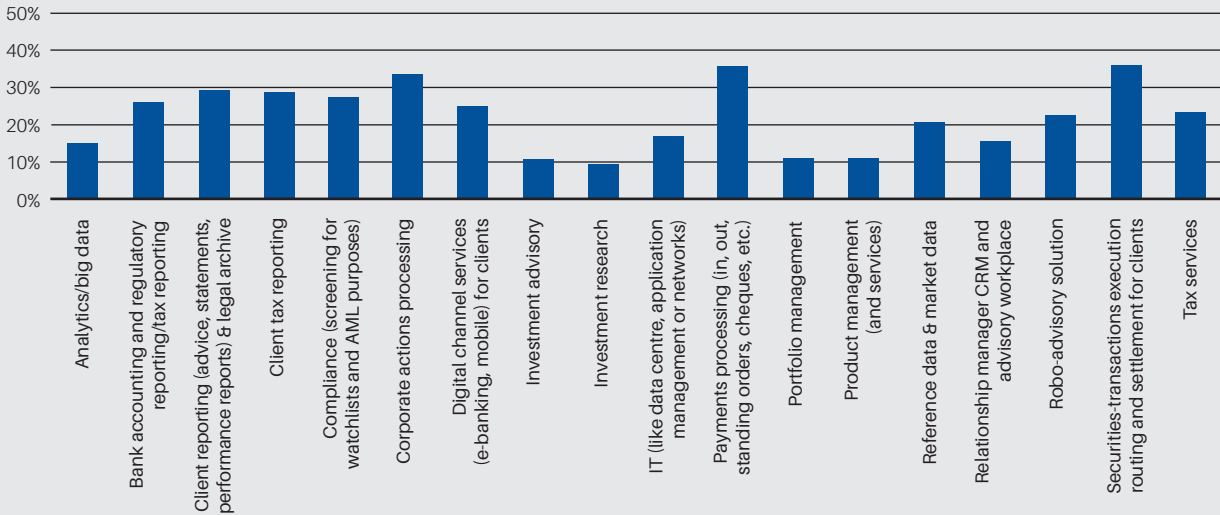
"Outsourcing accounting and regulatory reporting is certainly doable, but you need to really be comfortable that your provider has things under control, because you still own very significant obligations," said Mike Toole, for example. When it comes to compliance outsourcing, the panel highlighted the importance of engaging a provider with a deep understanding of the requirements of institutions serving clients with complex - very often cross-border - needs.

"For us, compliance is very difficult to outsource. We've tried various providers but finding someone that understands our sector and our clients is very difficult," one senior executive remarked. "It's purely that some of the business - like complex credit structures - is naturally more complicated than the normal regulated stuff."

As a result, attempting to deal with private client novices can result "in you spending a huge amount of time explaining to the provider what you're trying to get their advice on", it was said.

INDUSTRY STANDARDS EQUAL STANDARDISATION

FIGURE 2
Proportion of respondents reporting very standardised functions



Unsurprisingly, the survey found that the most standardised processes at institutions are payments processing (deemed standardised/very standardised by 70% of respondents); corporate actions processing (68%); securities-transactions execution routing (66%) and bank accounting and regulatory reporting/tax reporting (63%).

Sandra Hauser confirmed that the survey findings aligned with Avaloq's own research, which has found the most standardised processes are payments processing, corporate actions and securities, transactions and execution routing.

The high levels of standardisation identified in these processes was as to be expected, as a reflection of adherence to the rules in many cases, the panel noted. "Quite a few of your processes should be highly standardised by definition because the requirements are very precise for what you have to do," said Eric Barnett. "Regulatory reporting should be standardised, for example."

There is also the fact that institutions are overwhelmingly seeking to divert energy and resources from non-differentiating activities to be able to focus their energies on value-added

ones (see p28). Various pressures are encouraging firms to focus on their key strengths and so outsourcing as a means to concentrate on core business came through strongly in the panel discussions.

"If it's something concerning your main activity, then obviously perhaps you wouldn't consider letting that go," said James Horniman. "But if you're thinking about functional issues that are about standardisation and 'flow', then often other people can do a better job. You might become comfortable with outsourcing there very quickly."

STANDARDISATION AND MATURITY OF BPO GO HAND IN HAND

How institutions rate the maturity of BPO offerings

FIGURE 3
Proportion of participants who see the following BPO offerings for institutions as mature or very mature

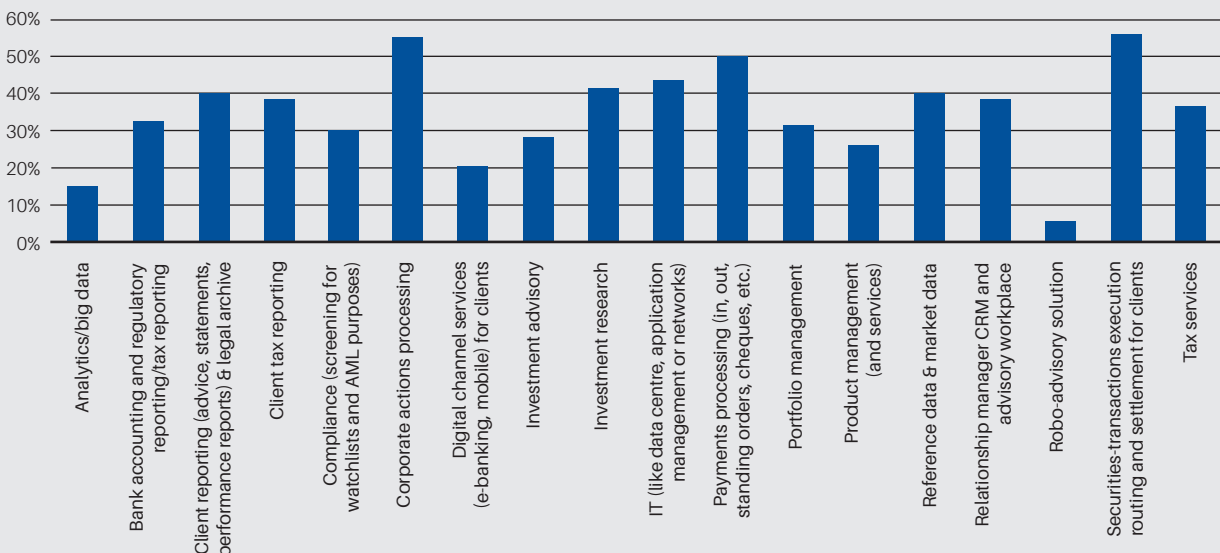


TABLE 5

How do you rate the maturity of the BPO offering for institutions generally?

AREAS FOR MATURITY	VERY IMMATURE/ IMMATURE	MATURE/ VERY MATURE	VERY IMMATURE	VERY MATURE
Securities-transactions execution routing & settlement for clients	10%	57%	0%	0%
Corporate actions processing	10%	55%	2%	28%
Payments processing (in, out, standing orders, cheques, etc.)	15%	50%	2%	23%
IT (like data centre, application management or networks)	17%	43%	0%	13%
Investment research	28%	42%	5%	8%
Client reporting (advice, statements, performance reports) & Legal Archive	18%	40%	3%	15%
Reference data & market data management	17%	40%	5%	7%
Client tax reporting	22%	38%	7%	5%
Relationship manager CRM and advisory workplace	30%	38%	3%	12%
Tax services	22%	37%	14%	12%
Bank accounting and regulatory reporting/tax reporting	20%	32%	7%	12%
Portfolio management	25%	32%	3%	15%
Compliance (screening for watch list and AML purposes)	22%	30%	3%	12%
Investment advisory	35%	28%	10%	5%
Product management (and services)	32%	27%	5%	8%
Digital channel services (e-banking, mobile) for clients	34%	20%	15%	5%
Analytics/big data	41%	15%	10%	2%
Robo-advisory solution	61%	5%	35%	4%

Big outsourcing potential in payments processing;

Interestingly, examining the association between how standardised payments processing is at respondents' firms and whether this is outsourced, we see that over half of those (57%) who say it is a standardised or very standardised process *aren't* outsourcing it – suggesting that there is significant untapped potential for outsourcing here.

As Table 11 (p18) shows, payments processing is seen as a highly standardised process and so, in line with this, 34% of participants expect BPO providers to be able to deliver best-in-class automated processes (STP or with highest automation possible) in this area.

Turning to Table 5, we see that payments processing is viewed as the third most well-evolved outsourcing option, with 50% of respondents rating this as mature or very mature.

The maturity of payments processing is rated relatively favourably by those currently outsourcing it too: here, 59% of respondents gave a mature or very mature rating.

TABLE 6

Association between standardisation of payments processing and outsourcing rates

Level of customisation	OUTSOURCING		
	YES	NO	IN PART
Very standard/standard	32%	57%	11%
Average	20%	70%	10%
Very customised/customised	22%	56%	22%

Does your institution outsource payments processing?	VERY IMMATURE	MATURITY			
		2	3	4	VERY MATURE
Yes	0%	6%	35%	41%	18%
No	3%	20%	37%	14%	36%
In part	0%	0%	14%	58%	28%

You might call Avaloq's approach 'customised industrialisation'. It's important for both sides that we are industrialising everything commoditised and not differentiating for a bank.

...corporate actions processing;

As Table 7 shows, the corresponding analysis for corporate actions processing revealed similarly high levels of standardisation, yet with slightly higher numbers of institutions fully or partially outsourcing this activity.

We also see from Table 11 (p18) that corporate actions processing is viewed as a highly-standardised process. Accordingly 39% of survey participants expect BPO providers to be able to deliver best-in-class automated processes here.

Furthermore, corporate actions processing was believed to be the second best-developed BPO offering available, with 55% of respondents rating this as mature or very mature (Table 5, p16).

Accordingly, 59% of institutions that do fully outsource corporate actions processing see it as mature or very mature - rating as favourably as the securities-transactions offering.

...and securities-transactions execution routing and settlement for clients

Likewise, a large proportion of respondents who deem securities-transactions execution routing and settlement for clients to be a standardised/very standardised process at their institution report that they still aren't outsourcing it - over half don't (59%).

This is despite the fact that 57% of respondents believe that generally the BPO offering for securities-transactions execution routing is mature or very mature.

Existing providers of securities-transactions execution received high approval ratings from those they already serve, with 80% of respondents who do outsource seeing it as mature or very mature as an offering; even two-fifths of those which don't outsource here see it as mature or very mature.

PREDICTABLY, THE MOST CUSTOMISED PROCESSES ARE CLIENT-FACING

The survey findings confirmed expectations that the more customised activities are those concerning client-facing operations and the real "business" of the respondents' institutions: preserving and growing wealth.

It was found that portfolio management is regarded as a customised or very customised activity by almost half (48%) of those surveyed. This was closely followed by investment advisory processes, with 47% seeing this as a tailored activity; and product management and services, where 46% said the same.

Here, Hauser noted that firms can opt to outsource a process in its entirety, but retain execution of it in-house and so get customisation exactly where they require it.

TABLE 7

Association between standardisation of corporate actions processing and outsourcing rates

Level of customisation	OUTSOURCING		
	YES	NO	IN PART
Very standardised/standardised	37%	44%	19%
Average	0%	64%	36%
Very customised/customised	22%	56%	22%

TABLE 8

Correlation between outsourcing corporate actions processing and its maturity rating

Does your institution outsource corporate actions processing?	MATURITY				
	VERY IMMATURE	2	3	4	VERY MATURE
Yes	6%	0%	35%	24%	35%
No	0%	16%	32%	26%	19%
In part	0%	0%	31%	31%	38%

TABLE 9

Association between standardisation of securities-transactions execution routing and settlement for clients and outsourcing rates

Level of customisation	OUTSOURCING		
	YES	NO	IN PART
Very standardised/standardised	34%	59%	7%
Average	25%	56%	19%
Very customised/customised	33%	33%	33%

TABLE 10

Correlation between securities-transactions execution routing and its maturity rating

Is your institution outsourcing securities-transactions execution routing?	MATURITY				
	VERY IMMATURE	2	3	4	VERY MATURE
Yes	5%	0%	15%	45%	35%
No	6%	7%	48%	13%	26%
In part	0%	25%	13%	25%	37%

TAILORING VS SCALE: A TRICKY BALANCING ACT

While cost pressures have caused many firms to rationalise their offerings, what might be termed the “outsourcing movement” in wealth management leaves institutions having to finely balance the need for tailored solutions against the need for scale.

Summing up the dilemma facing management teams, one senior executive said:

“On the one hand, to maximise operational efficiency, you should have standardised procedures, pricing structures, account types and so on. But on the other hand as a private bank you sell yourself on being tailored. There is an inherent tension.”

“What you provide for a client with a million is not what you’d provide for one with a billion and there are then all the shades of grey in between. But the point at which a private bank has no flexibility is the point at which it becomes a retail bank.”

Providers of BPO services must take the same clear-sighted approach to where customisation is merited since, as Markus Gröninger pointed out, many types of activity are binary and have no room for improvement, leaving price the only differential for consideration.

“If you record a dividend payment being made, it’s either correct or not correct and there’s nothing much beyond that, so then you might think more about whether achieving it is cheap or not cheap,” he said. “You might call Avaloq’s approach ‘customised industrialisation’. It’s important for both sides that we are industrialising everything commoditised and not differentiating for a bank.”

EXPECTATIONS OF EXCELLENCE AND AUTOMATION FROM THIRD-PARTIES

TABLE 11

In what areas would you expect a BPO provider to provide best-in-class automated processes (STP or with highest automation possible)?

	OVERALL %
Client reporting	63%
Securities processing	54%
Compliance rules application (e.g. client onboarding, investment advisory etc.)	45%
Processing of corporate actions	39%
Payments	34%
Regulatory reporting	32%
Tax reporting	23%
Credit	5%

REPORTING REQUIREMENTS SOMETIMES FEARED TOO COMPLEX TO OUTSOURCE SUCCESSFULLY?

As Table 11 illustrates, client reporting is where the survey respondents really expect outsourcing providers to excel. Yet despite institutions’ apparent willingness to concede that specialist providers may do a better job with client performance reporting, it seems as yet there is fairly muted take-up of outsourcing here.

Considering client performance reporting, the experts identified several tensions likely to be at play in management teams’ minds. On the one hand, there seems to be acceptance that there are many full-service BPO providers and reporting specialists which can carry out a far superior job than smaller institutions can do in-house.

However, as Hauser also noted, reporting is arguably not something that should be outsourced in isolation, which may also be a factor where firms do not wish to engage in a wide-reaching technology overhaul as yet (the world’s largest banks are already spending hundreds of millions). “For us at least at Avaloq client reporting is an integral part of the offering because it’s so tightly interlinked with all the transaction processing,” she explained.

Furthermore, performance reporting really represents the alpha communication between institution and client, and is a hugely important proof-point throughout the relationship - firms’ core business being the sustained preservation and growth of capital over time. It is therefore understandable that institutions may want to keep this in-house, it was said.

While performance reporting may be one activity that seems to be a natural candidate for outsourcing, the panel also observed that this is perhaps easier said than done due to the complexity of many firms’ requirements.

OUTSOURCING EASIER SAID THAN DONE FOR SOME?

As one executive said: “Client reporting and aggregation is something that a lot of firms are looking at outsourcing because it’s so hard to do yourself.” It is perhaps the case that performance reporting is something many institutions would like to outsource, but that some feel themselves to be very much more able to do this than others.

As several contributors pointed out, it can be more difficult for banks to outsource than for asset managers as the former can have a core banking platform which may present significant legacy issues. One contributor said: “Banks’ systems are constantly under development, but fundamentally they will have been in place a long time with everything else built on top, whereas with a pure asset management firm it’s probably far more straightforward to outsource.”

Likewise, external asset managers and SFO/MFO-type organisations that are working with a

(perhaps wide) variety of custodian banks have often told *WealthBriefing* that the vagaries of linking to their various systems – not to mention their differences in pricing assets – can make consolidated reporting a far bigger challenge than it may first appear.

“Outsourcing performance reporting sounds simple, but it’s actually really technical,” said Toole. “Every custodian bank is different and has its nuances, so it takes a lot of detailed work to get the transaction-level data into the system and categorised in the correct way.”

I don’t see why we would need to carry out performance reporting ourselves necessarily as long as we’ve agreed the report format...all the information is on the custodian’s system,” said one contributor.

Spiller confirmed that performance reporting is high on the agenda in Deloitte’s consultations, particularly with the larger banks, many of whom are known to be investing large amounts in this area. “Clients are becoming far more demanding,” he said. “They expect digital, automated dashboards, not grey lines on printed paper.”

Significantly, one survey participant described their firm’s reporting output as “a very antediluvian, rather boring piece of A4 paper with lines of numbers”.

While the survey showed institutions have high expectations of outsourced reporting provision, comments contributed for this report reveal that they often expect to incur additional costs to achieve the level of customisation required in the private client world.

“Ideally of course you’d want to give it [a performance report] to the client just as they want it, because it’s very good for marketing purposes, but often clients have to be refused very simple things like changing a metric on the front page or presentation in a different format,” a senior executive said. “But I concede that is a big cost to the provider because all the fields need to be populated and checked as you can make huge errors in these things.”

Reference

1. *Technology and Operations Trends in Wealth Management 2015*

Clients are becoming far more demanding. They expect digital, automated dashboards, not grey lines on printed paper.

SECTION TWO

BARRIERS TO BPO: DATA SECURITY TOPS WEALTH MANAGERS' WORRIES

TABLE 12

What do your institution view as the top-three risk factors associated with BPO?

BPO risk factors	1ST	2ND	3RD
Data security	49%	12%	9%
Business continuity	16%	21%	10%
Poor service	14%	12%	17%
Loss of control	9%	17%	12%
Loss of innovation flexibility/ solution becoming obsolete	9%	10%	16%
Capacity to still customise the solution	4%	9%	9%
Rising costs	4%	9%	16%
Implementation delays	2%	7%	5%

BPO risk factors	% CITING AS A TOP-THREE RISK FACTOR
Data security	69%
Business continuity	47%
Poor service	43%
Loss of control	38%
Loss of innovation flexibility/solution becoming obsolete	35%
Rising costs	28%
Capacity to still customise the solution	21%
Implementation delays	14%

DATA SECURITY DEEPLY WORRYING; THE TOP RISK FACTOR FOR ALMOST HALF OF RESPONDENTS

According to the survey, data security is regarded as the biggest risk factor associated with BPO by quite a margin. Data security was cited by almost half (49%) of respondents as their biggest worry around BPO, with 69% placing it in their top three.

This aligns with a growing body of research putting IT security at the top of the risk management agenda and suggesting that many organisations doubt their ability to even *quantify* the risks they face – let alone tackle them effectively.

Correspondingly, Patrik Spiller observed that a recent Deloitte study carried out in Switzerland found data confidentiality to be institutions' greatest concern about outsourcing, followed by the ability of the outsourcing partner to deliver expected cost savings. Providers clearly need to offer robust reassurance here.

As will be discussed, institutions rightly fear unsettling clients with disruption in any part of their service provision. Yet it is regulatory censure firms will fear first, particularly around data security issues.

"Under SYSC 8 [the Systems and Controls element of the UK's FCA Handbook], the regulator is very specific that how you manage your relationships with your providers of services is a very important part of the controls of a bank," said Eric Barnett. "If something goes wrong, you can't say it's the provider's fault - it's yours... it really does come down to the quality of the people that you choose to do the business with and how you manage that relationship."

As several members of the panel observed, wealth managers will naturally have heightened security concerns around outsourcing due to the nature of their business; while secrecy may be dead in a transparent world, privacy is still paramount. Yet, the pressures facing firms are often overriding these fears, particularly if they view an outsourcing provider as able to deploy

more robust safeguards (as many doubtless are). As one expert put it, "the industrialisation of banking logistics is the new normal".

RISING REGULATORY ACCEPTANCE OF ALTERNATIVE OPERATING MODELS

Acceptance of alternative operating models is rising among both institutions and regulators. Here, several panellists identified the Swiss regulator as particularly progressive in recognising that a robust outsourcing ecosystem is key to the financial centre retaining its competitive edge. However, many regulators globally are taking an encouraging stance on outsourcing (and technologies such as cloud computing), provided their standards on governance, security and disaster recovery are met.

The result seems to be an openness to BPO among institutions, but with strict caveats around data protection and - as will be discussed - several other barriers. "Security is massively important, but that doesn't necessarily mean you will or won't do any BPO work," said James Horniman. "It's more that security will become one of the ways you judge whether it's a good idea, and which provider you should choose."

Here, Hauser pointed out that Avaloq with its BPO centre in Switzerland is actually in a strong position on this front due to having started providing data services in Switzerland, a jurisdiction which (despite encouraging outsourcing) is notoriously strict on confidentiality and where individuals may be held *personally* liable for breaches.

"We have started our BPO operation in what is probably the most demanding market when it comes to confidentiality and data protection rules. We have also had multiple reviews by the FINMA [the Swiss regulator] to ensure we are upholding the highest standards and guaranteeing absolute client confidentiality between the different banks that we serve," she said. "If you can operate for more than ten years in a market with such strict rules, banks trust us that we have data security under control."

CONTINUITY, SERVICE AND CONTROL CONCERNS COMMON

In what is a natural reflection of institutions' need to provide consistently high-touch service, almost half (47%) of respondents said that business continuity was one of their top-three BPO concerns, with just over a fifth placing it at number two.

Firms clearly are looking carefully at longevity in the market to ensure continuity of service for both themselves and their clients. "One of the things which is really important to our clients is service quality and continuity. Client disruption is

never something you want in a wealth franchise and every time you change provider there's disruption," said Jürgen Pulm. "If you go with a smaller provider in a scale business like BPO, you need to really believe they are going to be in the market for a long period of time."

Closely related to respondents' business continuity concerns, and selected by 43% as a top-three barrier to BPO, are worries about poor service from the provider. Smaller institutions in particular seem to look for a BPO set-up where they are not struggling for attention from a provider that might typically serve larger banking groups. Illustrating this point, one participant recounted a poor experience with a very large cards provider, where the boutique firm found it had very little ability to exert influence because of comparatively tiny client numbers.

As Jamie MacLeod said: "Any outsourced provider will likely be catering to the needs of multiple organisations at a time, so there is likely to be a fear that vendors may lack complete focus on your organisation's tasks. Providers' Service Level Agreements are there to provide comfort."

The sense of security provided by tightly-defined SLAs will also mitigate what the survey revealed to be institutions' fourth biggest fear: loss of control, which was found to be a top-three concern for 38% of participants.

LOSING FLEXIBILITY AND OBSOLESCENCE ARE ALSO BIG FEARS

Related to institutions' apparent preference for BPO providers used to working on a smaller scale, is an apparent desire to work with third parties that understand the often highly esoteric requirements of private clients, and therefore the flexibility institutions need.

Predictably, the survey showed a very strong desire from participants to retain their ability to customise and innovate throughout. This is of course entirely unsurprising given that tailored solutions and access to a broad suite of products and services is one of the key selling points of the wealth management proposition.

There is of course a balance to be struck between standardisation and tailoring to implement a BPO solution which serves the purposes of both the provider and the client institution. Yet here it seems that institutions have a real fear of not being able to respond to what is undeniably a rapidly-changing marketplace on a number of fronts.

Loss of innovation flexibility or solution obsolescence was cited by 35% of respondents as a top-three concern about BPO. Correspondingly, Hauser confirmed that this is one of the first big worries voiced when banks enter conversations on BPO solution. Lower down, but still cited as a significant worry by 21% of those surveyed, was losing the capacity to customise the solution.

Given the highly specialised nature of each institution's product and service mix, it is understandable that they should fear being excessively constrained from innovation or customisation

as a result of entering a BPO agreement. On the flipside, a BPO provider would be self-defeating in offering what might be considered excessive customisation. In response, Hauser said that Avaloq is keen to get the message across that customisation is still available to institutions, but only where it counts. "There is little point to flexibility in how a payment is processed, for example, as it's not differentiating," she said. "On the other hand, when it comes to the client-facing processes banks get completely customised processes."

Institutions are going to need significant flexibility in their IT and operations set-ups to keep pace with the host of changes affecting the industry that are coming into view.

CREEPING COST INCREASES A NATURAL CONCERN

While rising costs was not a top-ranked BPO concern, it did make the top three for 28% of respondents. Given that achieving cost efficiencies is a key driver of BPO decisions and most firms would be seeking cost-efficiencies of at least 20% in order to go to the trouble of entering one, a concern that cost-savings will evaporate and thereby nullify the business case for a transition is valid (p19 and p24).

"People are sometimes worried an attractive pricing model might deteriorate by providers finding new ways to charge them for services," said Hauser. "In response, we try to give prospective partners a lot of predictability, explaining cost development fully and how additional requests impact charges."

As discussed on p24, wealth managers are particularly keen to demonstrate precisely the value they deliver and to resonate with a client base that is increasingly conscious of the drag on performance fees represent, thanks to extensive media coverage of the issue.

"The days of big returns and big charges are gone. High costs show up in net performance and clients are savvier about that now," said Mike Toole. "They know if you add in management expense to recover your cost inefficiency, it is they who essentially have to run faster and harder with their investments to reach their goal." This does not mean that wealth managers should cut corners to keep costs down however, he cautioned, but nor should firms offer "an open chequebook" to vendors.

"It's up to us to find the right price point that gives clients the performance that they want and then make sure the cost dynamic behind it is right," Toole concluded. "It's important that we negotiate everything for our clients; but whatever price they pay, they rightly expect quality."

As the survey found, business continuity and service being consistently good are indeed ranked significantly higher as concerns.

PICKING THE RIGHT PROVIDER AND THE BUY-IN PROCESS

One of the strongest messages to emerge from both the panel discussions and the survey was

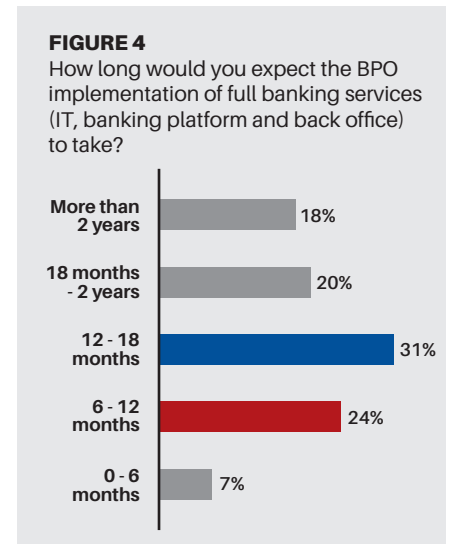
that picking the *right* BPO provider is regarded as absolutely key – and that wealth managers are well-justified in looking for specialists in the private client segment.

Looking to the wider barriers to BPO which might exist, it was also pointed out that this is always a big cultural change, particularly for a sector one panellist described as "incredibly conservative" and which is arguably used to keeping operations and IT exclusively in-house. Therefore, securing support from all stakeholders is crucial, as is ensuring that both sides entering a BPO partnership are aligned on what the end result will be.

"Internally, everyone has to really buy into it, understand and engage," said Tom Slocock, summarising the ingredients for a successful transition. "You need to have a common understanding and view, both internally and with your BPO partner, of what is going to be delivered, what it will look like and how it is going to work, as it's very easy to end up with mismatches along the way."

FEARS OF IMPLEMENTATION DELAYS LOW; RAPID ROLLOUT POTENTIAL UNDER-APPRECIATED?

How long would you expect the BPO implementation of full banking services (i.e. IT, banking platform and back-office) to take?



The days of big returns and big charges are gone. High costs show up in net performance and clients are savvier about that now.

As we have seen, implementation delays are right at the bottom of respondents' list of possible BPO concerns, with the huge risks around data security naturally taking precedence and continuity, service issues and costs figuring far higher. Just 2% of participants cited implementation delays as a top risk factor associated with BPO and only 14% placed it in their top three.

Although much depends on the specifics of an implementation, it would seem, however, that

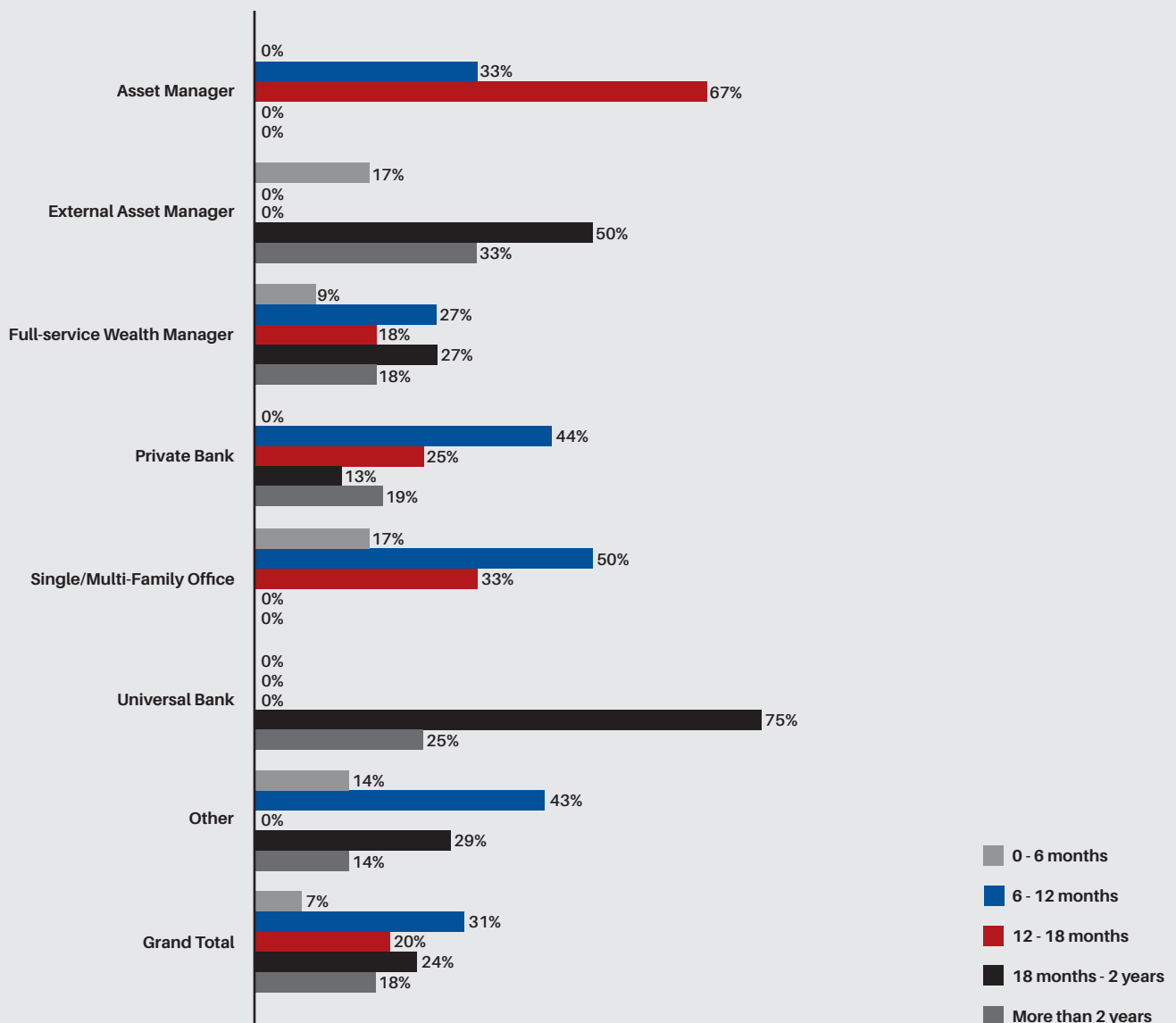
many are over-estimating the amount of time necessary for a full BPO banking project.

Figure 4 (p20) illustrates that there was a 69:31 split between those believing the implementation of full banking services (here defined as IT, banking platform and back-office processes) would take over a year and those believing this can be achieved in fewer than 12 months. Yet generally respondents were not representing the kind of global banking group where the biggest migra-

tion complexities can be expected; less than a third of respondents reported that their institution had over £100bn in assets under management.

Hauser highlighted that the level of customisation an institution requires is a key determinant in implementation timeframes, as are its size, structure and existing systems. Smaller - or younger - institutions can therefore achieve far more rapid rollouts, as could those with more homogenous client bases and offerings.

FIGURE 5
Implementation timeframe expectation against type of institution



“When thinking about implementation timeframes you have to take different segments into account,” Hauser said. “With start-up banks where there is no data migration or legacy you can get up and running in three to four months. We’ve achieved that in both the Bahamas and Switzerland.”

This corresponds to the survey findings, which indicate that single/multi-family offices and external asset managers are the most confident of being able to execute a full migration very rapidly. Almost a fifth (17%) of each cohort believed implementation in fewer than six months was achievable.

Moving up the scale, migrating a small private bank (with less than \$10bn in assets) from its existing platform might take nine months, Hauser explained, while a mid-sized to large bank 12 to 15 months.

Some respondents expecting timeframes of over two years was something of a surprise, she continued, as the very longest implementations have taken in her experience is 18 months. Notably, responses of over two years were largely from the retail, universal and private banking realms.

On a regional breakdown, we see that UK respondents are relatively optimistic, with almost two-fifths (39%) expecting implementation to take under a year.

Turning to Asia, meanwhile, participants from Hong Kong and Singapore expected implementation to take the longest: 50% believe that it will take 18 months or longer and only a third think it will take under a year.

With similarly long implementation timeframes in mind, 44% of Swiss/Luxembourg-based respondents believe that it will take more than 18 months to put IT, a banking platform and back-office services in place. No participants from this region foresaw an implementation taking under a year.

GOOD GOVERNANCE CRUCIAL IN IMPLEMENTATIONS

While Spiller agreed that a year or less is a reasonable implementation timeframe for smaller banks, he also highlighted the crucial role good governance - and a sensible outlook - plays in timely delivery.

“It depends on institutions choosing the right partner to help them and following the rules and guidance from them on not over-customising things,” he said. “With proper governance around it too, there are many good examples of what can be rapidly achieved.”

Instances where implementations have taken over two years have generally been due to several key breakpoints, Spiller concluded: “It may be down to poor governance and a lack of focus from leadership. Otherwise, it may be scope and customisation going overboard.”

As he and others noted, these kinds of implementations are truly a “once in a lifetime experience” for most firms, with a correspondingly high potential for plans to suffer from mission creep and misdirection if the right controls are not in place.

When thinking about implementation timeframes you have to take different segments into account. With start-up banks where there is no data migration or legacy you can get up and running in three to four months. We’ve achieved that in both the Bahamas and Switzerland.

ROLLOUT EXPECTATIONS VARY REGIONALLY; UK MOST OPTIMISTIC

TABLE 14

Implementation expectations against response region

LOCATION	0 - 6 MONTHS	6 - 12 MONTHS	12 - 18 MONTHS	18 MONTHS - 2 YEARS	MORE THAN 2 YEARS
UK	9%	30%	35%	17%	9%
Switzerland/Luxembourg	0%	0%	56%	33%	11%
Singapore/Hong Kong	0%	33%	17%	17%	33%

SECTION THREE

QUALITY, COST-SAVINGS AND CORE BUSINESS TOP BPO DRIVERS

TABLE 15

If your firm has outsourced, or is considering doing so, how important were/are the following drivers?

DRIVERS	NOT AT ALL/ NOT VERY IMPORTANT	VERY IMPORTANT/ IMPORTANT	NOT AT ALL IMPORTANT	VERY IMPORTANT
Provision of best-in-class processes	5%	82%	2%	46%
Improve efficiency through industrialisation (reduce cost to income ratio)	10%	80%	2%	49%
Focus on core business	8%	85%	2%	43%
Cost-effective regulatory compliance	10%	70%	5%	33%
Gain economies of scale by using a regional operational hub	15%	67%	10%	30%
Achieve short implementation times/rapid time to market	23%	42%	10%	17%
Facilitate expansion into new countries or jurisdictions	49%	28%	20%	15%
Continuous innovation and upgrades of the underlying software	16%	57%	7%	18%
Ability to differentiate in client-facing activities and service offering (fee schedule, branding, new products)	16%	62%	5%	25%

CORE BUSINESS, QUALITY AND COSTS THE KEY DRIVERS OF BPO

Institutions want to focus on core business...

Among all the possible drivers towards a decision to enter a BPO arrangement, a desire to focus on core business ranked top. Some 85% of respondents rated this as an important or very important driver, with provision of best-in-class processes (82%) and improving efficiency through industrialisation - and thereby reducing cost-to-income ratio (80%) - following close behind.

The experts were unsurprised that wanting to focus on core business ranked first so convincingly. As Markus Gröninger highlighted, the financial services segment is going through unprecedented turmoil and navigating an extremely tough investment environment at a time when clients' profiles and requirements are rapidly evolving too. This also chimes with the survey findings on how much of a priority it is for institutions to focus on higher-value services (see p26).

"Bankers tell us, 'We've never experienced this level of change all at the same time,'" he said. "We have low interest, tax issues, compliance issues, new regulations, changed client behaviour, globalisation and volatility in the market altogether and this creates a huge challenge." And, as he notes, things are changing even more dramatically in Switzerland because "tax issues have fundamentally changed the business model".

Faced with such a heady mix of multidisciplinary challenges, institutions also seem increasingly keen to outsource in certain non-differentiating areas where expertise or specialist capabilities, rather than cost savings, are front of mind. "It's not just about the money, it's about whether you've got the resources," said Eric Barnett. "Occasionally you would outsource something because the provider would be better at doing it than you are."

"Banks want to focus on growth," added Gröninger. "Chief executives say, 'I want to focus on my business; I want to talk about clients, new products, selling, marketing campaigns, getting market share - not FATCA and Basel III'."

"I believe outsourcing is an integral part of having this kind of business," said Giles Rowe. "Everyone has to do these basic functions but there's a perfectly clear pathway to having a custodian hold client money, for example, as we don't need to do it. Others are better placed to and it makes things far less onerous for us."

Getting best-in-class processes...

The survey respondents were closely matched in the strength of their desire to leverage outsourcing in order to access best-in-class processes (82%) and to improving efficiency through industrialisation (80%).

Here, several panellists drew attention to the fact that these two aims are in fact inextricably linked (as others are too). "Historically, banks

had deep pockets and could afford in-house solutions, but now with regulatory pressure and the constant innovation that you need to do, we see a lot of small to mid-sized banks really struggling," said Sandra Hauser. "It's just a given that everybody wants to save money today and the more the cost/income ratio is deteriorating, the more open the bank is to alternative sourcing models."

... while also slashing costs

Scalability might be a primary driver of outsourcing decisions due to the key role industrialisation can play in remedying the significant cost pressures many firms face. Moreover, turning to specialist third parties also can bring far broader benefits. "Outsourcing allows companies to tap in to and leverage other companies' skillsets and experience, and realise the benefits of re-engineering done elsewhere," said Jamie MacLeod.

Gröninger additionally highlighted the fact that effect may be magnified if institutions access these economies of scale through a third-party provider which is able to deploy efficiencies across - and gather learnings from - a wide group of partners. "We can offer both higher-quality processes and significant efficiencies, because we can combine volume from multiple banks," he said. "As a result, we can invest a lot more in improving the processes and also process efficiency, driving costs down far more compared to a situation where the institution was running things in-house."

However, costs are actually a far broader issue than profitability, with the fixed costs of running a business having risen so sharply. As the panellists highlighted, consultants now talk of the minimum size for critical mass in the UK rising from £5bn to £10bn and to even £15bn, for example. For those without it, outsourcing is a solution that has to be considered, it was said.

Putting this issue into stark relief, one contributor remarked: "If we had to run a custody operation with all the reporting requirements, our capital requirements would at least double. Outsourcing generally is great for us capital intensity-wise and we wouldn't be in business without it."

ACCESSING TECHNOLOGY AND COMPLIANCE EXPERTISE

The panel additionally suggested that many institutions might like to sweep away legacy systems and migrate to an entirely new platform, yet may feel they lack the internal expertise to handle a task of this magnitude effectively.

"At Avaloq's Swiss BPO Centre, we migrate a new bank onto our platform every quarter so we have masses of experience in how to do that," said Gröninger. "Banks traditionally do not really have the ongoing experience, people or skills to do that, because they only carry out a migration once every ten or fifteen years. Every time they do this it's an adventure."

GROWTH PLANS ON HOLD AS COMPLIANCE BURDEN BITES

As might be expected, compliance figured particularly highly in discussions on the theme of reducing costs. Regulatory costs have become a huge drag on profitability in particular, with smaller firms typically bearing a far greater share of the burden relative to their larger peers. According to compliance experts, the smallest firms might be dedicating 10% of annual turnover to compliance spend, while those in the middle 5% and the largest firms only 2-3% due to their economies of scale and ability to pool expertise.

"The need for cost-effective regulatory compliance is a particular driver of outsourcing for the smaller banks," confirmed Hauser. "They really struggle to keep up with the bombardment of new regulations they have to comply with."

Many firms are carrying out extensive remedial work on already-implemented changes as they simultaneously ready themselves to meet new regulatory requirements soon coming into

effect. There are several major overhauls currently in play: MiFID II and MLD IV in Europe; the Swiss Financial Services Act (FinSA/FinIG); and the reforms resulting from Singapore's Financial Advisory Industry Review are just a few affecting the survey sample.

But while leveraging local compliance expertise can be a powerful enabler of expansion into new jurisdictions, the survey found this to be by far the least cited driver of outsourcing. Almost half (49%) of respondents deemed this unimportant or not at all important, and just 15% gave it the highest importance rating. Correspondingly, expansion into new locations was only a top-three priority for 16% of participants when asked where they would redeploy any cost savings or capacity gains achieved through BPO (see p23). Again, however, this is as to be expected as a reflection of the current state of the banking industry, the panel observed.

"Growth strategy hasn't been high on the agenda of many banks in the past few years," said Patrik Spiller. "Rather, they've been concentrating on a reduction in markets covered, getting legal and compliance issues resolved and implementing new regulations."

As he and others noted, however, facilitating expansion into new markets may come to the fore once the big regulatory changes have been mastered. The similarly low ranking of achieving short implementation times as a driver is likely due to the same reasons and may also be expected to rise, it was said.

"We often see banks who are already customers at one of our BPO centres want to go into a new jurisdiction, where we already have the experience to serve customers and they don't," said Hauser. "The only thing they have to do is apply for a licence and hire advisors, and we can provide them with an entire platform that is compliant. It's a lot quicker going into a new market like that than trying to figure it out in-house."

DAMPENED PRODUCTS AND SERVICE EXPANSION TOO

Likewise, that institutions have been tightening their focus to cope with a barrage of regulatory change is reflected in the relatively low rating given to a desire to provide new products and services as a driver of BPO.

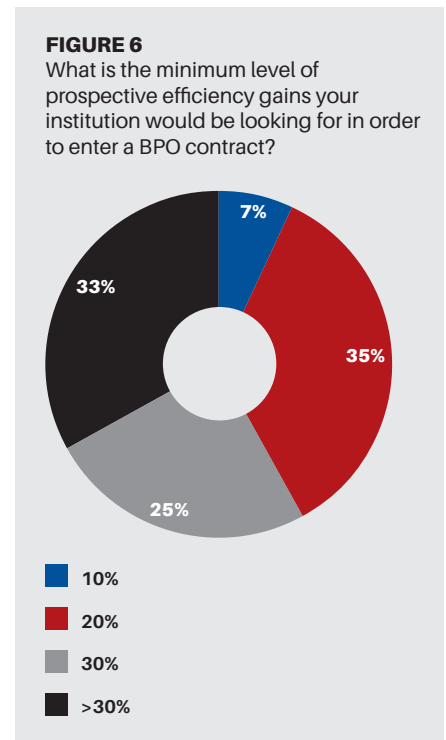
The notable exception were respondents in Hong Kong and Singapore - rapidly-expanding jurisdictions with clients generally held to be

far less loyal and far more demanding in both high-tech delivery and investment performance. "They are trading-orientated markets where the next product idea is key," said Spiller. "Asia isn't a wealth preservation market yet."

That being said, in their quest to demonstrate the value they deliver to clients, enhancing investment performance even further is becoming a key focus for wealth managers across all markets. Institutions' growing interest in improving both real-time risk management and investment performance through Investment Books of Record are a key part of this trend.

NINE-IN-TEN SEEK EFFICIENCY GAINS OF AT LEAST 20%

Prospective efficiency gains sought



Over nine out of ten (93%) wealth managers would seek efficiency gains of at least 20% in order to enter a BPO contract, while 58% of respondents would want 30% or more.

These findings were broadly in line with the predictions of the panel, who said that expected efficiency gains generally have to be a minimum

The need for cost-effective regulatory compliance is a particular driver of outsourcing for the smaller banks. They really struggle to keep up with the bombardment of new regulations they have to comply with.

of 20% in order to provide institutions with sufficient motivation to make the move to BPO given the real – or perceived – challenges of doing so. The question of what institutions can realistically achieve is however more complex than this simple baseline.

As Hauser noted, one of the primary reasons there is no uniform answer to this question is that all institutions have a different starting point on their BPO journey. "It comes down to questions like how efficient the bank is overall, how old the legacy system is, how many manual processes they have and how many interfaces they have between systems," she said.

"I kind of think one of the issues around outsourcing is how old the firm is. Going through this is a major exercise, so there's a lot of inertia to overcome if you've got existing processes and organisational structures," added Giles Rowe.

Due to these factors, it was observed that firms can sometimes go into a BPO transition hoping for efficiencies in the 25-30% range but actually achieve a more modest 15-20%. Yet on the flipside, it is eminently possible to push for far higher gains, Hauser observed: "In cases where we bring in a lot of capabilities, we can get institutions up to 40%."

According to Spiller, institutions can certainly look for efficiencies of this magnitude, but not necessarily across the board, nor equally for all institutions. "It can certainly happen with a very distinct, single process that's high-volume and scalable," he said.

In contrast, smaller private banks of the type that typically seek front-to-back BPO wouldn't necessarily see these very high gains, simply because the nature of these businesses and the size of their client base mean processing volumes are very much smaller in the first instance. However, such institutions are likely to be drawn towards BPO for far broader reasons than savings alone.

That is not to say that smaller to medium-sized private banks cannot aggressively pursue efficiencies, however, but more that these will have to be sought in different areas to those the global banking groups are looking at. "It won't be only from the very high-volume activities, but rather also driven by complex, lower vol-

ume, specialist services," Spiller continued. "Client and tax reporting are for example big areas where you can save a lot, particularly if the bank didn't have a highly-automated environment in that area previously."

As he pointed out, smaller banks by nature "aren't necessarily the strongest IT shops" and so the technology infrastructure that comes along with a move to BPO can bring very significant savings too.

HOW GREATER EFFICIENCIES ARE EARNED

Breaking down how savings are made further, Hauser explained that implementing a fully-integrated banking system covering payments, transactions, execution and so on is a powerful efficiency play in itself. "You don't have system breaks, you won't even need interfaces and you do not need to do reconciliation," she said. "It can really be an integrated single source of truth system which is optimised and we don't have to integrate and interface."

The second essential element is Straight-Through Processing - something which Avaloq is trying to push as close to 100% as possible by leveraging strengths such as owning the software deployed, she continued. "When we see that a process breaks and requires manual intervention we can further optimise our software to push STP rates up," she said. "And given that we have banks migrate to our standard platform whenever we invest in an efficiency, that optimisation obviously multiplies across them all."

REQUIREMENTS VERY MUCH DIFFER REGIONALLY; SWISS/LUX HAVE HIGHEST STANDARDS

Interestingly, the survey showed a significant contrast in the level of efficiency gains needed to prompt a migration to BPO across the regions under examination.

Respondents based in Switzerland and Luxembourg were found to be the most demanding, with 90% seeking gains of 30% or more compared to just 54% saying the same in the UK.

Institutions in Singapore and Hong Kong, meanwhile, sat in the middle of these extremes, with 58% seeking gains of 30% plus.

It comes down to questions like how efficient the bank is overall, how old the legacy system is, how many manual processes they have and how many interfaces they have between systems.

TABLE 16

Efficiency expectations by region

LOCATION	EXPECTED EFFICIENCY GAINS			
	10%	20%	30%	OVER 30%
UK	5%	41%	27%	27%
Switzerland/Luxembourg	0%	10%	40%	50%
Singapore/Hong Kong	17%	25%	16%	42%

SECTION FOUR

RE-DEPLOYING RESOURCES TO FOCUS ON ADDING VALUE

ADDING VALUE TOP PRIORITY

FIGURE 7

How much of a priority is reducing effort spent on standardised processes in order to focus on value-adds?

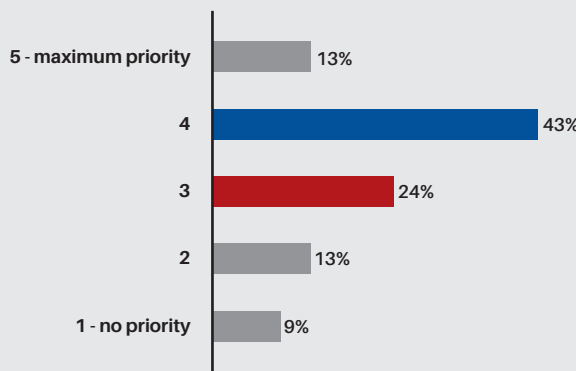
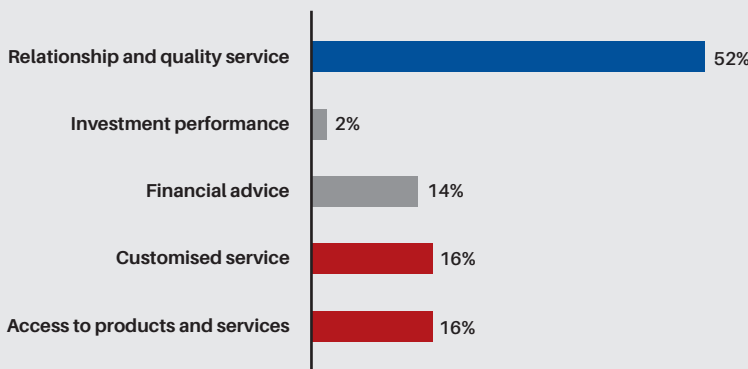


FIGURE 8

Where do you think your institution adds most value for clients?



As Figure 7 shows, 56% of institutions regard reducing the effort they spend on standardised processes in order to focus on higher-order ones that add greater value as an important or critical priority. Fewer than a tenth of respondents said that this was not on the agenda at their firm. Institutions' pronounced desire to redeploy their energies on higher-value activities also proved to be the top driver of their decision to enter a BPO arrangement. Approaching nine out of ten respondents rated this as an important or very important driver of BPO, with provision of best-in-class processes (82%) and improving efficiency through industrialisation and thereby reducing cost-to-income ratio (80%) close behind.

Although institutions' growing openness to outsourcing is certainly a function of their need for cost-efficiencies, there is evidently a far broader – almost philosophical – significance in how firms are rethinking their operating models, the experts observed. As Tom Slocock said, at the heart of the issue is the fact that “clearly demonstrating the creation of value for the client has become increasingly important within wealth management”.

As several panellists observed, the industry hasn't perhaps excelled at demonstrating this historically - and arguably perhaps didn't have to in better market conditions. Yet the global drive

towards greater transparency that has gathered momentum since the financial crisis has created an urgent imperative for firms operating at virtually all levels of the wealth spectrum.

Regulators globally are pushing for far more transparency in both pricing and performance. With the former, investors are becoming increasingly aware of precisely how much they pay for each part of their provision, and are therefore becoming far more able to weigh this cost against the value it represents to them (some firms are even breaking down costs for investment research). A lack of transparency may not have mattered so much in previous decades when strong returns were easier to come by; now that clients' historic return expectations perhaps aren't being met, it is only natural that they should take a closer look at costs. Increased competition from new entrants, particularly robo-advisors, has piled further pressure on traditional players.

The transition to a transparent world poses a fundamental question for wealth managers, Slocock continued: “What is it that we actually do for clients, and what is it that they *want* to pay us for?” And, within this, are further questions concerning what firms believe are their real strengths, why clients come to them and why they stay.

TABLE 17

Where do you think your institution adds most value for clients?

	OVERALL %
Relationship and quality service	52%
Access to products and services	16%
Customised service	16%
Financial advice	14%
Investment performance	2%

Having worked out what their true differentiators are from *clients'* point of view, firms are then in a better position to be clear-sighted about what they want (or need) to keep in-house and what might be usefully outsourced. “It's just not seen as a complete requirement that you own everything front to back anymore,” said Slocock. “Firms are starting to think, ‘We do want to be able to offer that service, but it's not a differentiator so we might look to outsource it.’”

As one panellist observed, outsourcing is no longer seen as an admission of defeat. Rather,

it is increasingly viewed as a real *opportunity* for institutions to free up resources and corporate energy to focus on their key strengths. This certainly chimes with the experience of Sandra Hauser, who said: "More and more banks are coming to us now saying, 'We want to focus on just our core business and therefore outsource or source what is not differentiating.'"

Here, the survey revealed a very strong desire among wealth managers to redeploy their energies from standardised processes, along with some very interesting findings on what firms believe their true value-adds are.

Reducing effort spent on standardised processes in order to focus on higher-value ones is a priority for over half of institutions overall, yet there are interesting regional variations.

With 70% rating reducing effort on standardised processes as a high or maximum priority, Swiss institutions are showing very much the greatest commitment to the better use of their resources. This, the panel suggested, may be largely attributable to the very well-developed outsourcing ecosystem which has grown up to serve the Alpine state's many smaller private or cantonal banks, and its population of several thousand external asset managers (many of which lack significant internal technology or compliance resourcing).

As ever, regulation is also likely to be a crucial factor in operational strategy, the panel observed. Swiss institutions are set to face a

hugely disruptive overhaul in the shape of FIDLEG/FINIG that will massively increase compliance and cost pressures, along with transparency for clients. With the encouraging stance the Swiss regulator has on outsourcing, it seems natural that institutions there would be keen to enhance their competitive position by focusing on value-added services if an industry shake-out seems likely. The ascendancy of Singapore and Hong Kong as global wealth hubs, and their advanced technological landscape, are also clearly factors.

UK firms are also showing a particularly strong desire to reduce their effort on commoditised activities, this being a high or maximum priority for 61% of respondents. The UK's Retail

Distribution Reforms (now in place for over three years) are likely to have had a significant influence because, as Slocock said, "in a transparent world, clients have to pay us transparently" – a fact that has led to both pricing pressure and industry consolidation, and so left institutions anxious to highlight their USPs (and that of the broader wealth management value proposition itself over low-cost disruptor models). In stark contrast, 42% of respondents in Hong Kong or Singapore said that reducing effort spent on standardised processes is a low priority or not something under consideration at all. It was suggested that perhaps younger markets with newer technologies have already been able to maximise automation and STP by virtue of their lack of legacy systems.

DESIRE TO FOCUS ON VALUE-ADDS STRONGEST IN SWITZERLAND AND THE UK

TABLE 18

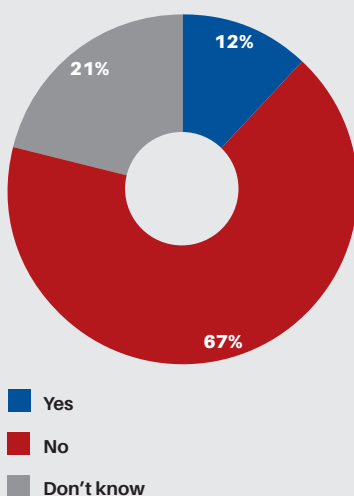
Focusing on value-adds as a priority against region

LOCATION	NO PRIORITY				MAXIMUM PRIORITY
UK	9%	8%	22%	48%	13%
Switzerland/Luxembourg	0%	0%	30%	50%	20%
Rest of Europe	25%	0%	0%	75%	0%
Singapore/Hong Kong	17%	24%	17%	42%	0%

FEW FIRMS KEEN TO OFFER BPO TO THEIR PEERS

FIGURE 9

Is your institution itself offering or considering offering BPO services to other institutions?



As Figure 9 shows, just over a tenth (12%) of respondents have either offered or are considering offering Business Process Outsourcing

services to other institutions. This corresponds to the fact that over half (56%) of institutions regard reducing the effort they spend on standardised processes in order to focus on higher-value ones as an important or critical priority. Such businesses are unlikely to want to launch as service providers in a non-core activity – and in a space where there are some very well-developed offerings already.

That being said, there do seem to be places where there is more openness to the concept. Of all the regions, Swiss institutions are keenest to outsource their services to other institutions. In terms of type of firm, it is the full-service wealth managers and single/multi-family offices that are most frequently engaging in this activity.

The panel confirmed that this kind of outsourcing is definitely a noticeable phenomenon. "It's definitely happening," said Eric Barnett. "You can see a number of cases where firms that have made the investment are trying to get some return on it by offering it to others."

OUTSOURCING TO COMPETITORS: A SYMPTOM OF CONSOLIDATION?

In fact, the panel observed that outsourcing to competitors (or near-competitors) may not actually be that much of a leap. "Actually, a lot of outsourcing has gone on in the industry, so culturally it's already accepted," said Slocock. "Many IFAs have historically outsourced

investment management and you also have the large banks providing products and custody solutions to external asset managers."

However, excelling at execution is perhaps harder than it may appear. As such, it was suggested that this kind of peer outsourcing will not gain momentum for another decade.

Further reinforcing this point about competition, Hauser observed that the Avaloq BPO centre has seen a continuous uptick of business since its controlling interest passed to Avaloq – which is not a bank, and therefore not a competitor of its customers.

One contributor remarked:

"I've heard a lot of bright fantasies over the past ten years about banks investing heavily in a platform and then spreading that across many customers, but I haven't seen any examples of that implemented really well.

"I've seen many examples where this has not worked out well. Quite simply, the back-offices of banks are not service organisations."

As Jürgen Pulm also noted, while institutions may look to recoup some of their investment from heavy proprietary spending, this "generates money on the one hand, but also complexity on the other" and is therefore not a challenge to be entered into lightly, particularly in the wealth management space.

A RELATIONSHIP BUSINESS WHERE CUSTOMISATION IS KEY

TABLE 19

Regional variation in institutions' biggest value-adds

LOCATION	ACCESS TO PRODUCTS AND SERVICES	CUSTOMISED SERVICE	FINANCIAL ADVICE	INVESTMENT PERFORMANCE	RELATIONSHIP AND QUALITY SERVICE
UK	17%	13%	9%	0%	61%
Switzerland/ Luxembourg	10%	20%	20%	10%	40%
Singapore/Hong Kong	17%	8%	8%	0%	67%

TABLE 20

Biggest value-adds by institution type

FIRM TYPE	ACCESS TO PRODUCTS AND SERVICES	CUSTOMISED SERVICE	FINANCIAL ADVICE	INVESTMENT PERFORMANCE	RELATIONSHIP AND QUALITY SERVICE
Asset Manager	33%	33%	33%	0%	0%
External Asset Manager	17%	33%	0%	0%	50%
Wealth Manager	9%	18%	18%	0%	55%
Fund Manager	0%	0%	100%	0%	0%
Private Bank	12%	6%	12%	0%	71%
Retail Bank	100%	0%	0%	0%	0%
Single/Multi-family Office	0%	17%	17%	17%	50%
Universal Bank	25%	0%	25%	0%	50%
Other	29%	29%	0%	0%	43%

Turning to core strengths, unsurprisingly, over half (52%) of respondents said that relationship and quality service is where their firm provides greatest value for clients, with this belief even stronger among the UK (61%) and Hong Kong/ Singapore cohorts (67%).

Despite this predication on relationships, quite significant numbers still selected other elements of their proposition as their biggest value-add. Only 40% of Swiss respondents believe that the relationship and quality service they provide is their Unique Selling Point, with 20% each opting for customised service and financial advice.

The relative maturity of each wealth management market, along with how far each respective regulator has come on the journey towards professionalism and transparency, will have a huge influence on how firms position themselves. However, arguably more important is the type of firm concerned and its client base.

Correspondingly, we see that relationship and service quality figure even higher for private banks (being top-ranked by 71%). Elsewhere, while only 2% overall see investment performance as where they add most value, 17% of single and multi-family offices view this as their strength. (This is predictable perhaps, given their ability to pursue an unconstrained invest-

ment style, likely with a large private equity focus, and the fact that they may be under pressure to perform from third-party oversight.)

There are, however, no easy answers amid the industry's increasingly sharp focus on what clients really want institutions to deliver, and therefore what they are willing to pay for, the panel observed.

As James Horniman pointed out: "There's subtlety in how you would define the phrase 'value-added' in our world, which could be either bespoke nature of a service, or its speed, or the client experience being high-touch."

There is also the need for operating models to reflect what a firm perceives and purports itself to be – or "seen to be doing what it says it does" as one panellist put it. "For an investment manager, outsourcing investment research would be a tough call," Horniman continued. "On the flipside, if you are a tech-driven online offering, then you'd want to keep the IT delivery and development in-house because that's what you do."

Decisions around evolving operating models will also naturally need to reflect changing client demands. Here Patrik Spiller predicted a far greater focus on performance (and digital delivery) going forward as wealth transfers to

the next generation, and newer entrepreneurial markets like Asia continue to grow. As he rightly points out, someone who has created great value from their own business – perhaps doubling their assets over a few years – is unlikely to be satisfied with comparatively meagre returns from a wealth manager.

In Spiller's view, "the pure relationship management piece will no longer suffice" for the upcoming generation of clients. As a result, institutions are going to have to find ways to free up resources to focus on performance and to provide alternative delivery channels, the latter being particularly lacking in many smaller institutions.

"Many if not all of the small- to medium-sized banks do not offer alternative delivery channels and they just don't have the capacity and means to deliver everything," he said. "They will have to take very tough sourcing decisions as to how they can manage that and fulfil the demands of clients going forward."

A growing body of research confirms that millennials expect fully-digitalised, omni-channel financial services relationships. A wide divide is emerging between those firms leading the way on client-facing innovations and those which – either by choice or necessity – have yet to invest meaningfully in their technology suites.

NEXT STEPS: WHERE WILL INSTITUTIONS REDEPLOY EFFICIENCY SAVINGS FROM BPO?

Financial institutions of all kinds are currently making significant technology investments – or have them on the horizon – for a host of reasons.

The compliance challenge is undoubtedly a huge driver of technology overhauls. *Wealth-Briefing* research has long focused on the risk management and efficiency improvements firms are trying to achieve through greater digitalisation and automation in operations – along with the simultaneous client experience enhancements that can be achieved.

As competition increases (and emerges from new quarters) institutions are rightly concerned about taxing clients' patience with new rules and then not particularly impressing in their investment performance, service or broader offering. As the survey showed, technology innovations for both clients and advisors are recognised as of paramount importance today.

The survey indicates that almost half (43%) of institutions would redeploy any cost-savings and capacity enhancements delivered by BPO on client-facing technology as a first priority, with 72% placing this in their top three. Meanwhile, enhanced technology for advisors was the top option for 29% of respondents and a slightly higher 74% put this as a top-ranking aim.

Related to this need for institutions to keep evolving their operating models in line with clients' (rapidly) changing preferences and needs, developing products and services was a strong third-choice for participants at 34% (71% had this as a top-three option).

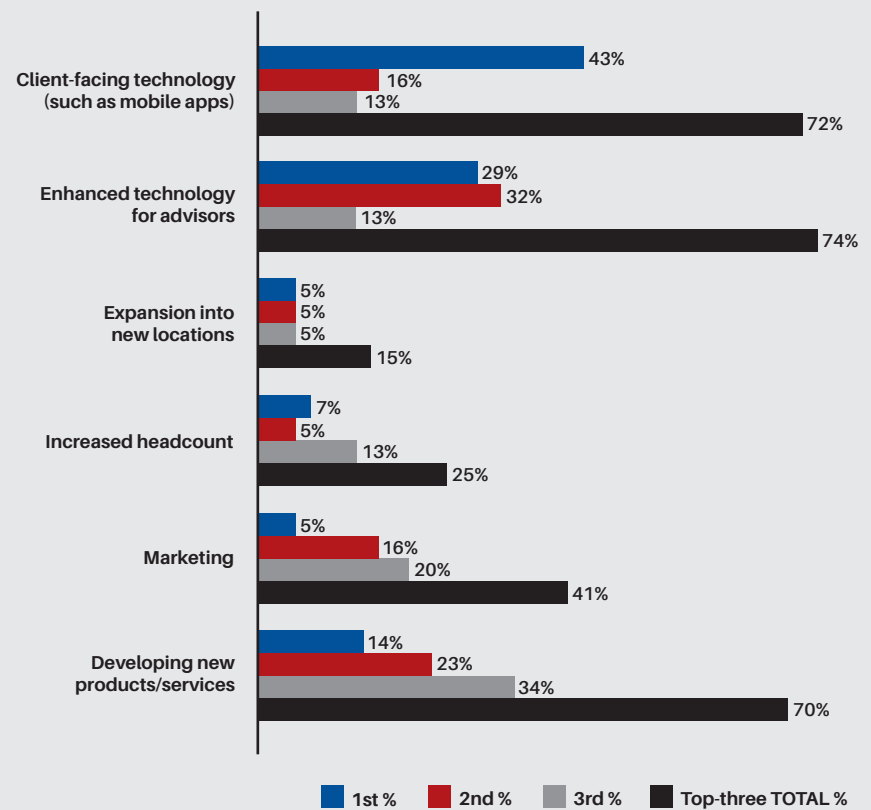
Overall, we see that enhancing client and advisor technology, along with developing new products and services are the top-three priorities for 70-74% of participants.

It is easy to see why no institution can afford to neglect any of these three vital areas of development in the current landscape and yet here again we see interesting differences emerging on regional lines. Almost two-fifths of respondents based in Hong Kong and Singapore would deploy savings on client-facing

THREE-QUARTERS TARGETING ENHANCED CLIENT AND ADVISOR TECHNOLOGY, ALONG WITH NEW PRODUCTS AND SERVICES

FIGURE 10

Where would firms redeploy savings and capacity gains achieved through BPO?



technology, with the UK following behind with exactly half. Contrastingly, Swiss/Luxembourg participants are more likely to look towards advisors apps first and foremost, perhaps due to the prevalence of smaller advisory institutions in these financial centres and the fact that an undeniably more traditional servicing style is prevalent there when compared to the technology hotbeds of Asia (or indeed the US).

As providers of BPO services will know, the complexity of wealth managers' requirements reflects their underlying clients' needs. Evolving and optimising operating models so that the right balance of innovation, customisation and standardisation can be reached – for all parties – is the challenge the industry is now really grappling with in its use of alternative sourcing approaches.

TABLE 21

How do top technology priorities vary regionally?

LOCATION	CLIENT-FACING TECHNOLOGY	ENHANCED TECHNOLOGY FOR ADVISORS	EXPANSION INTO NEW LOCATIONS	INCREASED HEADCOUNT	MARKETING	NEW PRODUCTS/SERVICES
UK	50%	18%	5%	9%	9%	9%
Switzerland/Luxembourg	22%	45%	11%	11%	0%	11%
Singapore/Hong Kong	59%	8%	0%	0%	0%	33%

CONCLUSION

We are very pleased to see that the survey results confirm largely the insight Avaloq gathered through its customer feedback. The financial industry is transforming and embraces on a larger scale the **outsourcing of non-differentiating services** to specialised BPO providers.

Wealth managers opting for **full banking platform outsourcing** have the highest impact on cost reduction. This is well aligned with our strategic positioning, where industrialisation and high STP rates is the aim for commodity services while **flexibility to customise and innovate on the client touchpoint** is offered to the customers. This flexibility is possible because Avaloq's BPO centres operate on the Avaloq Banking Suite so software changes that enable differentiation are provided from within the Avaloq group.

This survey also confirms our view that providing customisable outsourcing solutions for **digital channels** will become a big trend in the industry as small and mid-sized banks will not be able to keep up with the fast innovation of new devices and fintech solutions. While the survey states that the offered solutions are not yet mature, we see a rapid adoption of Avaloq digital channel outsourcing solutions which allows for mutualisation of the effort to keep up with the seismic change in this area.

Another important aspect accelerating BPO adoption by wealth managers is the uncompromising expectations regarding **data security and business continuity**. It has actually become an important reason to outsource. We have invested heavily in data protection solutions and monitoring services and we are now able to offer a higher level of security compared to an in-house solution in most cases.

The respondents to the survey do not see the implementation risk to migrate to a new platform as high, though we observed amongst our customers that this is nevertheless a very relevant driver for wealth managers opting for a BPO solution. In Avaloq's case, the migration to the Avaloq Banking Suite is part of the BPO solution. We have a number of customers that, prior to contacting Avaloq, have failed to upgrade their IT platform with their own IT team or with another software vendor. After such an experience, the management of the bank values Avaloq's extensive

experience in these types of implementation projects and our flawless track record of a 100% success rate in implementation projects.

We observe a similar trend when it comes to **guaranteeing and maintaining regulatory compliance** for wealth managers. While in the survey, this was the least-cited driver for outsourcing, many of our customers have stated that our commitment to provide regulatory compliance was an important aspect to choosing our BPO solution given the complexity but also the cost associated to maintaining a compliant solution in-house.

Avaloq uniquely positions itself as an **independent BPO provider** combining its own software with its services offered. As we do not offer BPO services on other platforms than the Avaloq Banking Suite, the synergies we gain by running our own software are tremendous. Our BPO services can reach operational excellence because we have industrialised back-office operations within our BPO centres. This has been achieved as we can configure the Avaloq Banking Suite to maximise standardisation and automation of processes, and implement continuous improvement of our BPO solution. The Avaloq Banking Standards developed through the experience of our BPO centres and the entire Avaloq community that manages more than \$3.9tn of assets proved its superiority in operational efficiency. Also, all the innovations done on our software developed across the entire Avaloq community are quickly made available to the users of our BPO services as we regularly upgrade them to the latest release of the Avaloq Banking Suite.

We therefore optimise the development of our software and its configuration both for the benefit of our BPO services and to the benefit of the entire community of Avaloq users. Our BPO solutions proved to be very appealing since more than 60% of our new customers directly opt for our BPO services. We now migrate one new customer onto our BPO platform every quarter. To address the growing demand for our BPO solutions, we plan to open new BPO centres in all major financial centres in the years to come.

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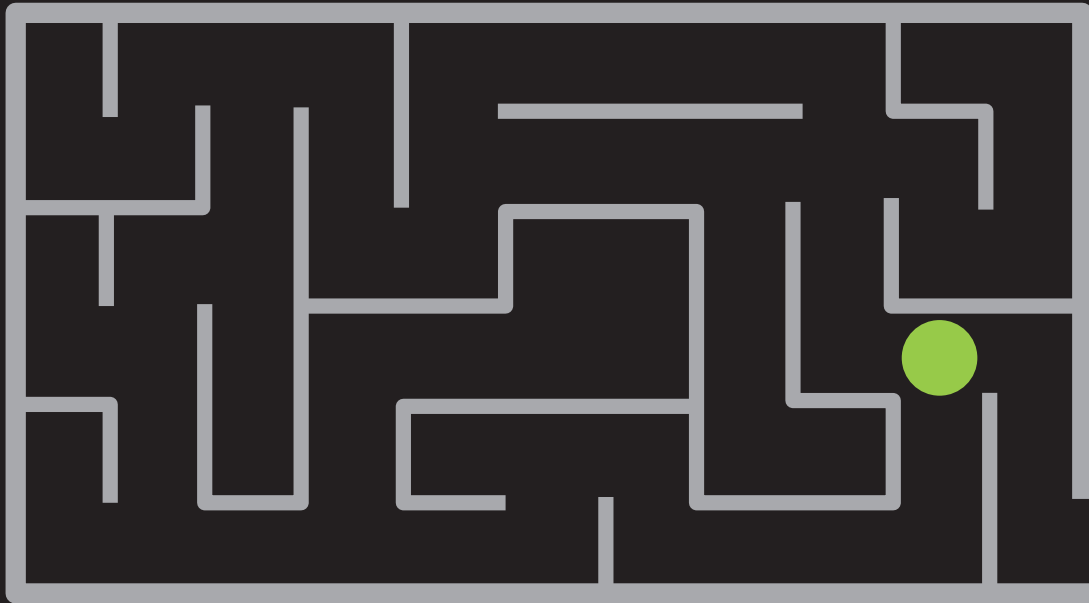
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