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Private banking operations: Winning back trust through transformational change

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Regaining the trust of private banking clients that was lost during the financial crisis would hardly seem to be the responsibility of the Chief Operating Officer (COO). And yet, on closer consideration, it becomes clear that operations have an essential role to play.

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One of the core themes revealed by our 2009 Global Private Banking and Wealth Management survey, published last July, was the need for private banks to reassure their clients. After 18 months in which they have suffered substantial financial losses, witnessed risk management weaknesses and seen massive frauds, private clients' faith in their advisers is understandably shaken.

Even as financial markets appear to emerge from the turmoil of the crisis, private banks have a long way to go before they can once again claim to possess their clients' trust. Our survey showed improved operational efficiency and effectiveness to be key prerequisites if private banks are to deliver the first-class client service needed to win back their lost status.

In the previous benign market, private banks' operational efficiency had lagged behind that of the rest of the financial services sector. Private banks had been able to earn reasonable revenues and margins without investing in first-class operating systems and processes. In today's demanding environment, however, there is an urgent need for improvement.

As they consider their current challenges, the COOs participating in our survey told us they had four strategic priorities: supporting and enabling business growth; reducing cost through enhanced efficiency; becoming more client oriented and managing risk more effectively.

All of these priorities, in their own way, are related to the drive to recover client trust.

Supporting and enabling business growth

We have recently started to see an improvement in economic conditions and there is hope across the industry that private banks may soon need to be able to process an expanding volume of assets and transactions. COOs clearly see the need to invest in systems so that they can cope with the organic growth that they expect will emerge at some point in the future. Having systems that are robust, fit-for-purpose and scalable will allow private banks to absorb future organic growth in a way that makes a tangible difference for end clients, reducing the scope for reporting errors and ensuring that clients receive detailed and meaningful information as swiftly as possible.

For some private banks, future growth will come through acquisition – our survey showed that many in the industry expect further market consolidation. COOs know that time and effort spent improving operational environments now will pay dividends in any future post-merger integration scenarios.

Whether future growth is organic or through acquisition, private banking COOs recognise that historic under-investment in their operating environments could pose a real threat to their organisations' strategic aspirations. These same COOs are seeking ways to be part of the solution to future growth, not an impediment to it. Improved operational efficiency is seen as a key contributor to these aspirations.

Reducing cost through enhanced efficiency

When focusing on efficiency, our survey uncovered a seemingly counter-intuitive finding. The respondents with the lowest cost/income ratios were also those planning to cut costs most aggressively over the next two years. In other words, today's most efficient providers are those who are most likely to become even more cost efficient in the future – suggesting that the gap between the best and the middle of the pack will grow over the medium term.

Merely shrinking the existing cost base can only take a private bank so far in the drive to improve cost efficiency. In order to make significant progress, private banks will have to transform their operating models and processes in fundamental ways. Many have started to look seriously at efficiency improvement techniques – for example, Lean Manufacturing, Six Sigma and Operational Agility – that have been successfully deployed in various manufacturing industries.

The larger organisations are also showing signs of moving towards shared services models for their operations, migrating duplicated operational activities towards national, regional or global processing hubs. Our survey's respondents confirmed that this is a trend that is likely to accelerate over the medium term. Respondents also identified a relatively small move towards third-party out-sourcing, but given the confidentiality restrictions inherent in private banking we would expect this type of activity to be restricted to highly commoditised, low-value services.

Becoming more client oriented

An evident difficulty for private banks is the relatively small amount of time their client relationship managers (CRMs) spend with existing clients or prospecting for new clients. According to our survey, CRMs spend an average of only 40% of their time contacting and servicing existing clients. They spend about 16% of their time on administration and error resolution – about the same amount of time they devote to prospecting and marketing. CRMs want to spend more time building new relationships and growing their books, but operational inefficiencies prevent them from doing so.

By helping to free up CRMs to spend more time with clients, COOs can make a major contribution to improving client service and helping to fuel growth. In order to achieve this, they will often need to redesign processes and re-assign tasks to more junior back and middle-office staff. New front-office technology – such as CRM software, portfolio management tools, client reporting and financial planning tools – is seen as giving CRMs the ability to get on with building client relationships and spend less time fixing operational problems.

Managing risk more effectively

In a post-Madoff world, transparency has become the new imperative for private banks and their clients. And it is the COO's job to ensure that the systems and processes are in place to provide the necessary risk-exposure information, bringing unprecedented levels of product holding, investment performance and counterparty transparency.

Clients are demanding more real-time reporting, as well as evidence of robust due diligence into third-party products and service providers. Up until the past two years, clients had been happy to leave operational risk management to the private bank. Now they seek assurance on custodial risks, including who is holding the physical asset, exposure to feeder funds and collateral pools. Clients are placing more stringent demands on their private banks when it comes to understanding the operational risks to which their wealth is being exposed.

And to make things even more difficult for COOs, regulators too are becoming more demanding, asking for similar types of disclosures, so that they can be sure that private banks have operating risks under control.

Time to transform operations

For private banks, the need to win back client trust is raising the bar in all areas. Becoming a 'trusted adviser' once more will mean more than just achieving improved investment performance. Private banks will need to demonstrate incremental operational improvements in a range of areas. This puts COOs firmly in the spotlight as they consider the transformational change required to contribute to winning back client trust and confidence.

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