Wealth management requires a foundation in industrialisation

Kristof Trautwein and Pascal Gantenbein

The Bracken column is named after Brendan Bracken, the founding editor of The Banker in 1926 and chairman of the modern-day Financial Times from 1945 to 1958. This column reflects his enormous contribution to the open discussion and understanding of international finance and banking. It focuses on providing views and perspectives on how to improve the global financial system.

From mobile payment systems and digital on-boarding to robo-advisory, digital and omni-channel digital solutions, the wealth management market is currently traversing a major phase of transition that promises many new opportunities for banks and improved services for clients. Thus, banks are hoping to gain a competitive advantage by being first movers in introducing such innovative services.

Factors such as the higher cost awareness of clients, higher regulation and compliance costs for client advisory services and the low interest rate environment have decreased banks' margins significantly. Moreover, the wealth management business is characterised by complex processes, and clients request customised support for a large variety of different services that are often linked to investment banking or cross-border solutions.

The interconnection of business functions and this complexity of services have steadily increased over the years and both are expensive for banks to maintain. Old IT systems often cannot meet today's requirements and result in a heavy cost burden. As a consequence, the cost-to-income ratio of banks has been increasing rapidly for a number of years, and only a few globally active banks have been able to partially balance their low margins with their presence in growth areas, particularly Asia.

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The arrival of new solutions is therefore highly appreciated and many banks have started to plan digital initiatives or fintech solutions. However, many banks are now facing – once again – the same problem as in the past: over the years they have built new technologies, processes, systems and services on top of their old ones without revising the underlying operations. Thus, highly complex structures have evolved; structures that are often incompatible with new systems or too expensive to operate. New solutions alone will not solve the problem of the high cost-to-income ratio and thus of the banks' low profitability.

Leading organisations active in the market have shown, however, that not all banks suffer from these issues in equal measure, and some have already changed and restructured their operations and services successfully and thus gone on to benefit from less system and process legacy. The list of banks still struggling, however, is long.

A fitting answer to this fundamental problem is the so-called banking industrialisation approach, a broad catch-all term for breaking up banks' value chains in order to achieve higher efficiency and innovation, and reduced complexity. Industrialisation refers to a broad structural transformation and simplification of internal processes, such as the reduction of vertical integration. The mechanisms involved include automation, standardisation and the modularisation of processes, as well as concentrating on specific business models and services. The overall benefits of industrialisation are the reduction of complexity and costs, the creation of leaner structures, and an increase in process efficiency and service quality.

It is not a new approach, but most banks have been avoiding applying it for decades or have only partially revised their operations, mainly by standardising some processes in order to reduce costs. But, as has often been stated, industrialisation nowadays is more than short-term cost cutting alone. Rather, it is the foundation upon which services such as fintech and other state-of-the-art solutions can be implemented effectively and efficiently. Moreover, it enables banks to implement the efficient, lean front-to-back digitalisation transformation that is a prerequisite of present day and future banking and allows client advisers to offer automated but customised services to their clients.

Today, many banks implement at least some aspects of industrialisation. But such implementation is separated from their overall strategies, which often results in cost cutting alone. Yet a bank's industrialisation approach should be embedded in two main overall strategic requirements: a holistic approach to strategy and an ongoing transformation and improvement culture. With industrialisation as the foundation upon which to run operations with less complex structures and automated but agile processes, wealth managers can easily implement innovative, state-of-the-art services that add value to the bank and to the client and are more cost efficient for both parties. TB

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