

SIMON ♦ KUCHER & PARTNERS

Strategy & Marketing Consultants

Pricing in a digital world

The impact on pricing in Private Banking

30 years

London, 4th April 2017

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The Private Banking business is subject to scrutiny

Demographic, technological and competitive developments challenge the private banking business model.

Challenges like...



Demographic development

- Digital natives will soon represent biggest share of AuM
- Preference for passive investments and cheaper ETFs
- Increased price sensitivity



Technological development

- Increased use of big data enables market players to predict clients' product preferences
- Use of artificial intelligence to support portfolio monitoring
- Mobile developing into preferred channel across all wealth bands



Entry of new market players

- Market entry of low cost, algorithm-based plat-forms specialised on certain value chain steps
- Extremely cheap offers from online brokers and robo advisors
- Tendency for price wars



Increased regulatory requirements

- Revenue losses due to elimination of inducements
- Increasing costs due to regulatory pressures
- Enhanced transparency on costs, charges and inducements

put pressure on...



...business model!

...profitability!

...market share!

Digitalisation heavily impacts the PB value chain

Digitalisation impacts all steps of the value chain in Private Banking.



Operational excellence in mid- and back-office

Automation of formerly time-intensive manual processes:

- Advanced systems for digital document management
- Automated client relationship management (CRM) tools
- Automated monitoring, alerting and rebalancing in portfolio management

Increased productivity of front-office

Shift from time-consuming administrative tasks to client-facing tasks:

- Web portals to provide platform for 24/7 anytime/anywhere account management and reporting
- Online chats and video conferencing as replacement for face2face meetings

Enhanced client relationships

Enriched client interactions through support of digital solutions:

- Mobile as preferred channel for clients across all wealth bands
- A consistent multi-channel access allows for best-possible interaction
- Complete information about a customer's relationship history with the bank allows to offer more tailored recommendations

New insights from smart analytics

Big data and advanced analytics create value-adding insights about client behaviour:

- Smart analytics allow for precise customer targeting through descriptive and predictive analysis
- This can be used to identify product / offering needs or price sensitivities



New entrants cater to clients' digital needs

New entrants capture market share from traditional Private Banks by delivering services that cater to the needs of investors requesting anytime/anywhere solutions.



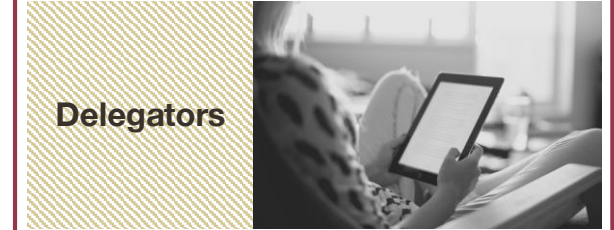
Self-directors

“ I make all investment decisions by myself and don't need any advice ”



Validators

“ I make my investment decisions myself but want to have a client advisor to discuss and validate selected investment opportunities ”



Delegators

“ I delegate the management of my assets to a team of investment experts ”



Execution Only Solutions

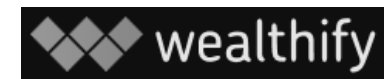
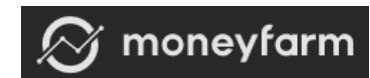


Investment Advisory Services

Digital attackers on their way



Discretionary Portfolio Management





Margins are under pressure by digital attackers (DPM)

Margins of traditional Private Banks are under pressure due to the entrance of automated digital attackers that rely on cost-efficient ETF portfolios.



Invested Assets	Traditional Private Bank		Fully managed		Fix. allocation				
	< 10k	1.00%	0.75%	0.75%	0.45%	0.70%	0.00%	n/a	
< 15k	0.60%					0.60%			
< 50k							0.50%	0.40%	0.65%
< 100k	0.35%			0.25%	0.50%				
< 250k					0.35%	0.25%			0.35%
< 500k									0.35%
> 500k	0.35%								
Minimum investment	£250,000	£1,000	£500	£500	£1	£1	£50,000		
Additional fund charges	1.43%	0.18%	0.19%	0.19%	0.17%	0.25%	0.25%		

Do traditional private banking offerings really face the challenge of competing on price?

Do digital competitors offer the same relationship strength, service quality, brand reputation or investment performance track record?



Re-structuring the offering & pricing can help to close the pricing gap

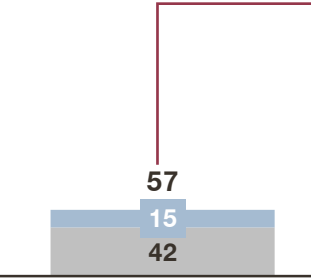
Project case

Banks need to fill the pricing gap between execution only accounts and investment advisory or discretionary mandates in order to better support up-selling initiatives.

Standard fees paid by clients in bps ¹⁾

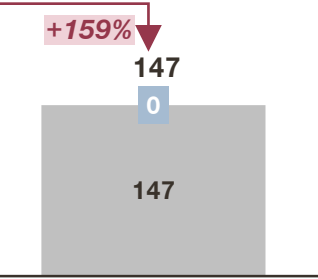
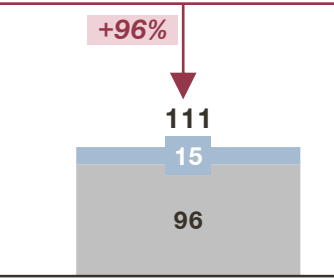


Sample client A
Low AuM & trading activity

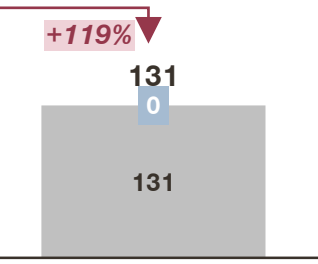
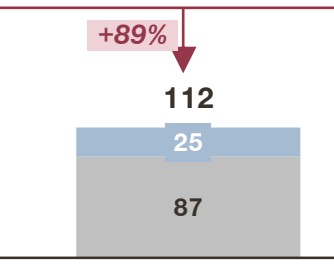
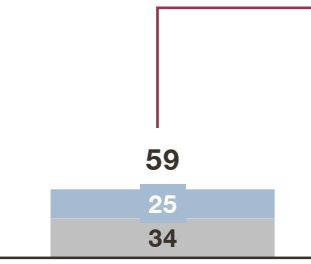


The offering and pricing gap ...

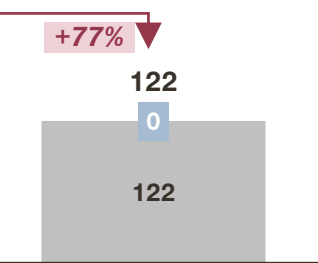
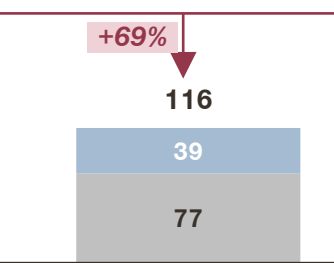
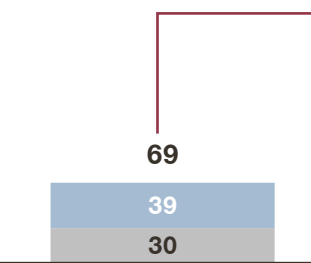
- ...describes the lack of considerable offering and pricing alternatives for clients that look for more sophisticated (and more expensive) alternatives to self-directed solutions
- ...should be closed to support up-selling initiatives and strengthen the top-line (revenue)
- ...puts a special focus on recurring fees since they are more visible than transaction fees



Sample client B
Medium AuM & trading activity



Sample client C
High AuM & trading activity



1) Calculation based on different sample clients and official fee schedules of a leading global Private Bank Source: Simon-Kucher & Partners

Key:

- Recurring fees in bps
- Transaction fees in bps



Private banks need to enhance their unique selling proposition with the support of digital solutions

UBS uses a powerful diagnostic software to analyse portfolios. Alerts are then sent via e-mail or SMS. Remedial investment proposals follow online.

Portfolio details
0206 AA500537 0001
UBS Advice - Growth

Net assets as of 28.04.2014
CHF 2'452'060

Net performance
Year-to-date 2.83%

Portfolio health as of 28.04.2014
☆☆☆☆☆

UBS Portfolio Health Check®

We have run the UBS Portfolio Health Check® and found some issues in your portfolio.

Risk / return Risk too high, yield too low.

Our understanding of your investment strategy: Growth
You strive for appreciation of your assets in long term while accepting an average volatility of your assets.

Targeted annual return in %

Targeted annual return:	Approx. 5.0%
Expected annual volatility:	Approx. 9.0%
Minimum period for a reasonable investment:	At least 4 years
Loss tolerance:	Approx. 30%

Your portfolio

Annual return:	2.5%
Annual volatility:	10.5%

Illustrative remediation ideas

The following illustrative remediation ideas will address all health check issues in your portfolio. Alternatively, you can switch to the detailed view and select for each health check issue whether you want to remediate it and which instruments you prefer for the remediation. After submitting your request your CA will contact you to agree the details and receive your final approval for the execution.

Proposed solution Detailed view

Proposals to improve overall portfolio health

Action	Investment	Current	Target
Sell	Apple Inc., Valor: 279212	25.0%	9.5%
Sell	Grand Resort Bad Ragaz, Valor: 279212	6.0%	0.0%
Buy	GAM Star Cat Bond CHF, Valor: 1704395	--	--

Expected improvement

Targeted annual return in %

Expected annual volatility in %

Legend:
● Strategy "Growth"
● Your portfolio
● Your portfolio after improvement

Buttons: Show remediation ideas, Ignore health check issues, Contact client advisor, Request remediation proposal from your advisor, Ignore health check issues, Contact client advisor, Cancel

UBS Advice as semi-digital solution drawing on big data:

- UBS uses a diagnostic software tool which analyses 650k portfolios every night, monitoring 6 different risk criteria drawing on big data and UBS research (e.g. compliance with strategic asset allocation, cluster risks, securities with sell recommendation, securities outside of UBS Research universe, etc.)
- Clients are informed of health check issues via e-mail or SMS („We found a new health check issue in your portfolio. Please log into your UBS e-Banking to see further details“)
- At the same time, clients will also be sent specific investment proposals based on the breaches of the „rules“ identified



Differentiation of the offering and pricing is key

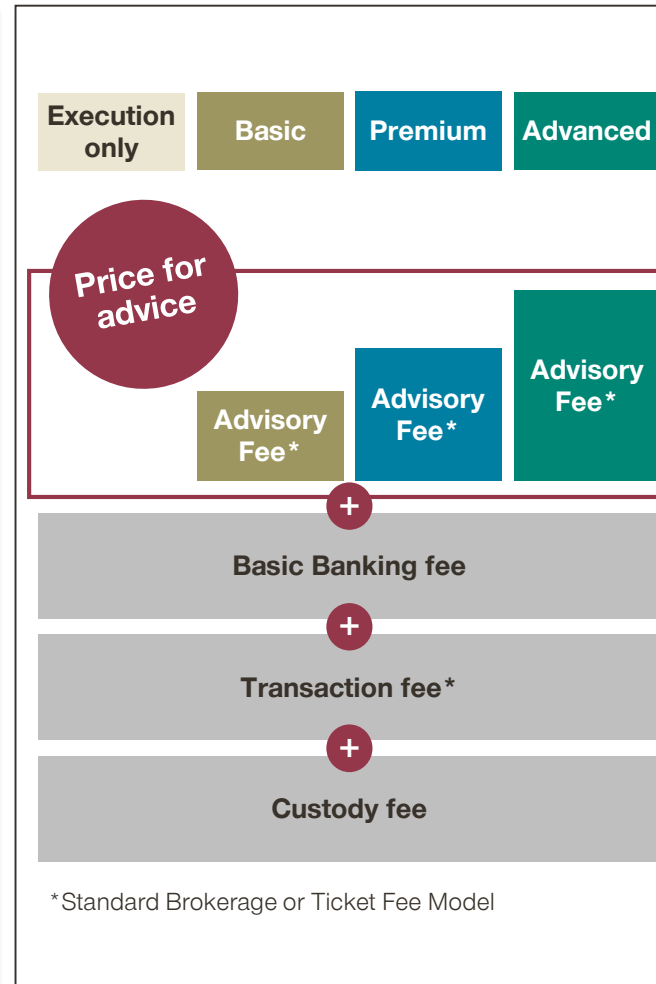
Private banks need to differentiate both their offering and their pricing in order to cater to the needs of different client segments.

Three advisory service levels from entry-level to advanced mandates

Julius Bär

	BASIC	PREMIUM	ADVANCED
Communication			
Via relationship manager	●	●	●
Via dedicated investment advisor			●
Investment strategy			
Julius Baer investment strategies (Fixed Income, Income, Balanced, Growth, Capital Gain)		●	●
Tailor-made investment strategy			●
Investment ideas			
Strategic and tactical investment advice		●	●
Tailor-made investment recommendations			●
Chief Investment Officer communication	●	●	●
Research and thought-leadership publications	●	●	●
Current market information (e.g. Flavour of the Day, Investment Guide, Top Picks)	●	●	●
Portfolio monitoring & reporting			
Daily portfolio monitoring		●	●
Tailor-made portfolio monitoring			●
Delivery of portfolio alerts and corresponding advice		●	●
Portfolio analysis and proposal report		1x per year	on demand

Simple and transparent pricing to support the positioning



Project case

A differentiated offering and pricing with digital solutions that support client advisors in their daily work:

- Three different advisory service levels offer solutions to younger and affluent clients as well as for HNWIs and highly sophisticated professionals
- A differentiated advisory fee supports the positioning of the three service levels
- Digital portfolio monitoring and alerting solutions support the client advisors in their daily business

Source: Julius Baer official price list

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Thank you!

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