

Defining excellence in private
client servicing

2003



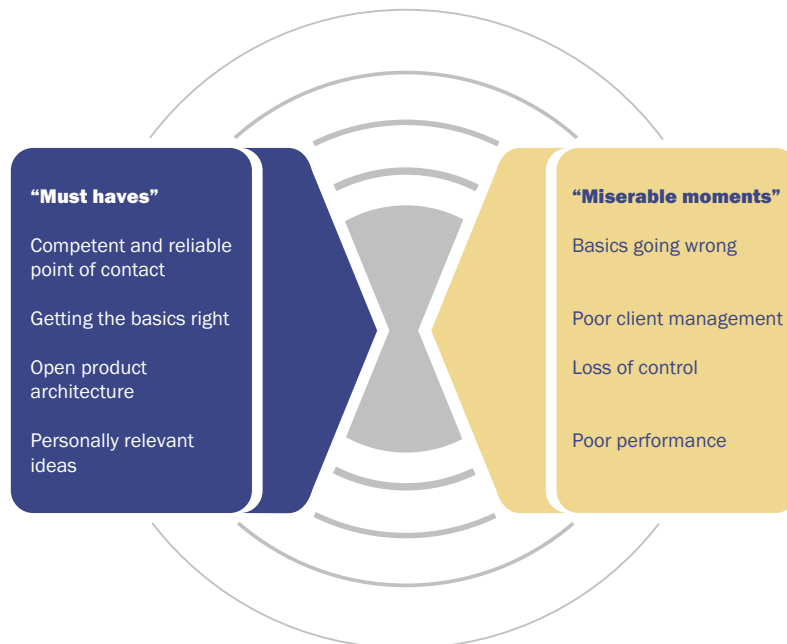


Fig 1. Must haves and miserable moments

In 2003, Reuters and Booz Allen Hamilton co-sponsored a study on the subject of service excellence in private banking. They conducted a series of in-depth discussions with 60 bankers from 27 institutions and 60 private clients. The scope was Germany, Switzerland and the United Kingdom.

Client findings:

Client’s findings are separated into three types: (a) “must haves,” (b) “miserable moments” and (c) the definition of “service excellence by customer segment”.

(a) Private clients have a clear set of expectations of what they would like from a private banking relationship: these “**must haves**” are universal to all clients. They include a need for a competent and reliable point of contact, the ability of the bank to get the basics right, an open product

architecture and the general sense of value added including a stream of personally relevant investment ideas.

(b) Despite these expectations many clients experience “**miserable moments**”, and whilst individually they may seem insignificant, they are critical in building or destroying trust in the institution. These issues include clients experiencing the basics going wrong, poor client management by the bank and banker, the client’s perception of losing control of their wealth and poor financial performance.

(c) **Service excellence by client segment:** Clients can be mapped on two distinct axes: the level of engagement in the management of their wealth; and the amount of investible assets they have.

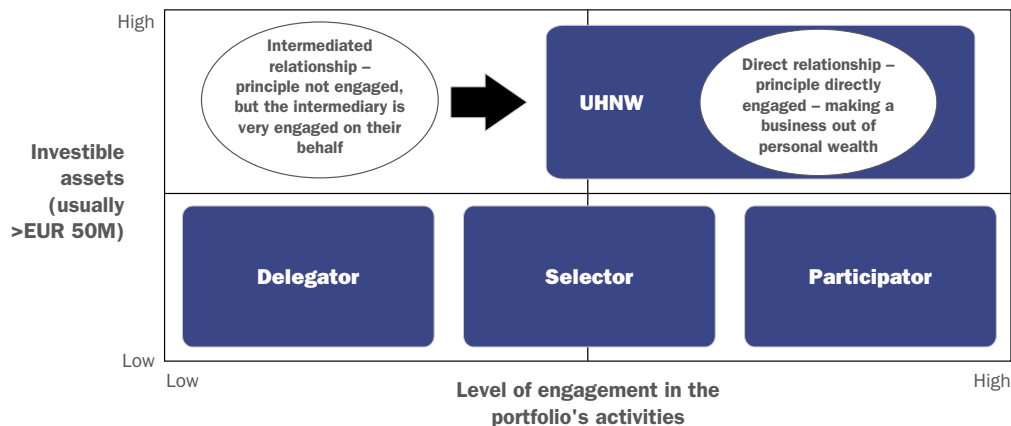


Fig 2. Customer segmentation

The research found four very distinct segments of private clients: Delegators, Selectors, Participators & Ultra High Net Worth (UHNW).

Delegators are seeking a low involvement solution for their wealth management, and hope to outsource all the activity to a private bank. The parameters of service excellence for them are:

- ▶ reliable, empathetic professional adviser
- ▶ effortless fulfilment of requests
- ▶ simple effective reassurance
- ▶ disciplined financial and investment management

Participators view investing as their hobby, and enjoy working with their banker to manage their portfolio. They expect service excellence to entail:

- ▶ fun value
- ▶ enablement of performance through a stream of relevant investment ideas
- ▶ time and attention
- ▶ financial expertise

Selectors are financially savvy investors, who pick-and-choose the products and services they want. Their expectations for service excellence are:

- ▶ product and investment innovation appropriate to them
- ▶ highest standards of service delivery
- ▶ long-term investment in the relationship
- ▶ excellent performance

UHNW: Above a given amount (c.EUR50m of investible assets), expectations change, clients purchase the services in an almost institutional manner, and have very demanding standards. Their expectation on service excellence is:

- ▶ superb professionalism
- ▶ management of complexity
- ▶ networking
- ▶ getting the simple things right

Client conclusions

- ▶ Clients are looking for the “must haves” of service excellence. These are:
 - a competent, honest, reliable and well-informed point of contact
 - a bank which gets the basics right
 - an open product architecture
 - a stream of personally relevant investment ideas and advice
 - ancillary advisory services
 - an overall sense of value added service
- ▶ However, many clients find that their expectations are not met:
 - private clients are dissatisfied with their private banking relationship - the loyalty and inertia that has kept clients with a bank is breaking down
 - clients often find that private banks get the basics wrong
 - banks are either not proactive enough in bringing investment ideas to their clients, or where they do so, it is often done in an impersonal ‘selling’ manner
 - clients have lost trust in private banks (following the poor investment return over the last 3 years)
- ▶ Nevertheless some clients experience excellent service from their private banks. This is typically characterised by all the “must haves” set out above, being effortlessly fulfilled.

Relationship managers have tiered levels of competence: from the basic entry level to ensure regulatory compliance, through oversight of the portfolios to active client management and the role of trusted adviser.

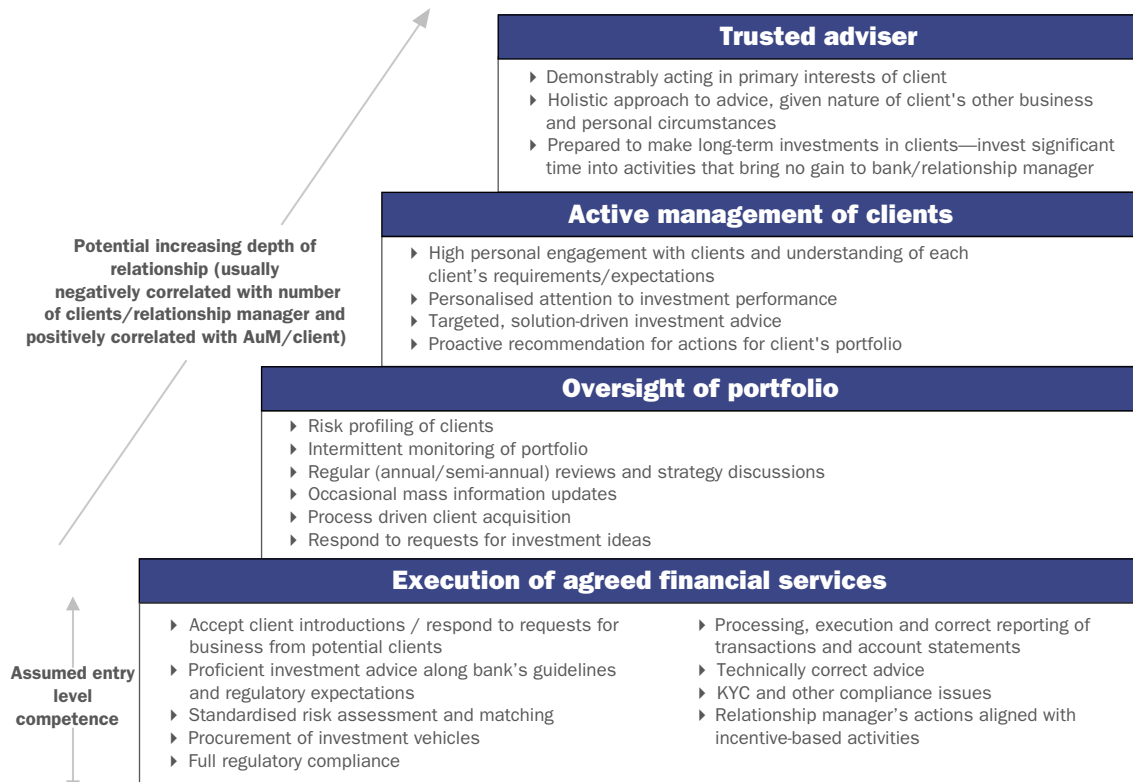


Fig 3. Steps to excellence

However, in many cases relationship managers are constrained by a number of key factors:

- ▶ poor information management and a resulting information overload
- ▶ process and systems issues requiring relationship managers to spend up to 60% of their time on internal administration
- ▶ difficulty of combining the role of client handler and investment manager in an increasingly complex investment universe

The study mapped relationship managers along two key dimensions depending on: (1) the level of engagement and proactivity they demonstrate and (2) the nature of their client relationship (product vs relationship). This puts relationship managers into four segments:

- Reactors:** Reactive banker who sells products on demand
- Salesmen:** Proactive, outward bound sales based banker
- Managers:** Banker who offers a relationship based service, but primarily reacts to client wishes
- Drivers:** Proactive banker who actively manages client relationships

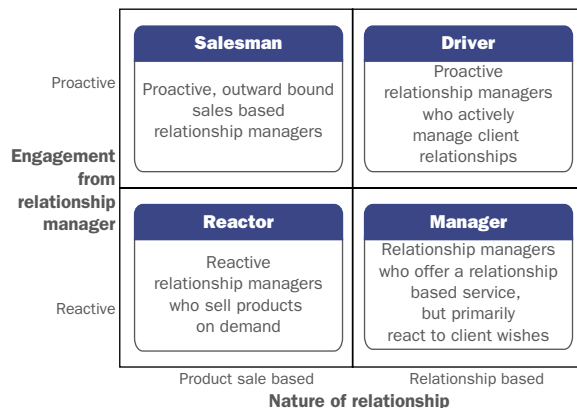


Fig 4. Relationship manager segmentation

The study identified that different types of relationship managers are better suited to serve specific client segments, but that each could still develop further:

- ▶ **Reactors** are not too well matched with any clients, and need to understand that Delegators require help in articulating their financial objectives and are interested in seeing concise overviews of their financial position
- ▶ **Salesmen** who are most suited to Selectors, need to ensure that they target their sales effort at clients for whom their products/services are especially relevant
- ▶ **Managers** who are well suited to serve Delegators need to remain proactively engaged with their clients, noting any changes in the client's circumstances and suggesting appropriate amendments to their investment profiles
- ▶ **Drivers** can look after both Participators and UHNW. They need to focus their efforts on clients who will ultimately reward the bank for their service excellence

Relationship manager / Client	Reactor Reactive relationship managers who sell products on demand	Salesman Proactive, outward bound sales based relationship managers	Manager Relationship managers who offer a relationship based service, but primarily react to client wishes	Driver Proactive relationship managers who actively manage client relationships
Delegator	●	○	●	●
Selector	●	●	○	●
Participator	○	●	●	●
UHNW	○	●	●	●

● High relevance ○ Low relevance ■ Best fit

Fig 5. Matching client and relationship manager segments

Relationship manager conclusions

- ▶ Most relationship managers spend 25% - 60% of their time on internal administration, and only have the balance available to meet their clients
- ▶ Their effectiveness is inhibited by poor infrastructure and systems, a lack of information management, and a paucity of investment products for a prolonged bear market
- ▶ Many relationship managers are still trying to perform the role of both client handler and investment manager (in their spare time), and this is becoming less and less tenable
- ▶ Most relationship managers are reactive rather than proactive and have a transactional relationship with their clients rather than that of a relationship based one
- ▶ Many bankers offer only an "oversight of the portfolio" level of service
- ▶ Different types of relationship managers are best suited to serve specific client segments

Implications for banks:

To perform to the service expectations of private clients private banks need to address four areas:

- ▶ Strengthen their private banking value proposition, through the development of advanced client risk profiling and tailoring of investment strategies, best of breed products, a pricing and incentive structure and ongoing flow of new ideas that ensure long-term performance.
- ▶ Focus the relationship managers on client management by modifying their role to split out their work with clients from other activities (such as investment management and administration). Freeing up time also involves limiting the amount of clients per relationship manager, supporting them with information management, filtering and prioritising systems and reducing the administrative burden of regulation and compliance.
- ▶ Enhanced relationship management will be delivered through migrating the relationship managers to the role of trusted adviser. Matching clients to specific bankers, using performance management and training to drive a proactive management approach and adapting behaviours should all lead to service excellence.
- ▶ Moving to an open systems architecture with best of breed modules, will enable the bank to pick and mix the best possible combination of front end and back office modules. Managing the integration of these will be crucial.



Fig 6. Implications for banks

Finally, private banks must manage the tangible signs of service quality: this involves designing quality assurances into their processes to ensure error-free processing and providing portfolio reports that are simple and easy to understand.

Private banks in Europe are at an important fork in the road. Private clients are not satisfied with the service they are receiving and are beginning to reconsider their options. Banks that are prepared to face up to the challenge of addressing the four issues set out above are likely to reap the rewards of enhanced client satisfaction, reduced client churn, and increased referrals. In an industry that is rapidly becoming a market share game rather than a market growth story, enhanced client satisfaction will be the key to success.

Implications for clients:

Clients should take a more disciplined approach to the acquisition and management of their banking relationship and should invest an amount of time which is commensurate with the importance of the issue.

It is vital for the client to remember that they can only expect the bank to perform according to their expectations if the client is also prepared to invest in the relationship. This means taking time to prepare for meetings so that the client can express their expectations, concerns and satisfaction.

As well as clients needing to spend time to articulate their own needs and expectations, this study indicates two checklists for clients to bear in mind. One is for the selection of a provider, and the second may be used to prepare for annual review sessions.

Selecting a provider check-list

1. Corporate history and **performance of the bank**
2. Areas of **expertise** (client profile, geography, products, services)
3. Clarity of **service contract**, what do you pay for (what activities are in scope, how are they performed and by whom, what additional services are available)
4. **Investment approach** (risk profiling, investment management, product selection, sharing responsibility)
5. **Investment performance** record
6. **Fees** and banker incentives
7. **Fit** with banker (background, existing client base, empathy, trust, vision for relationship)
8. **Performance measurement and reporting**
9. **Communications** (point of contact, regularity, content of communications and reporting)
10. **Systems and processes** (on-line capabilities, fit with other departments, portfolio analysis)

Annual review check-list

1. Current value and historic development of whole portfolio (cash in/out flows, major growth/loss drivers)
2. Fees and other costs over the period
3. Performance against benchmarks (causes of divergence from forecasts and benchmarks)
4. Composition of portfolio (sectors, risk classes, investment type, source)
5. Review of portfolio strategy (forecasts from bank, market development, risk adjusted forecasts)
6. Articulation of client expectations (forecast deposits or requirements)
7. Definition of forecasts for coming period (fixed performance expectations for given risk)
8. Identification of areas of risk and uncertainty (forecast of expected impacts)
9. Definition of strategy going forward and generation of actions with timing and responsibilities
10. Review of process (to dos from last period, reporting and communication)

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