

A photograph of a business meeting. In the foreground, a person's hand is holding a silver pen over a document with a bar chart. To the right, a white tablet is visible. In the background, other people in business attire are seated around a table, looking at documents. The scene is brightly lit, suggesting an office environment.

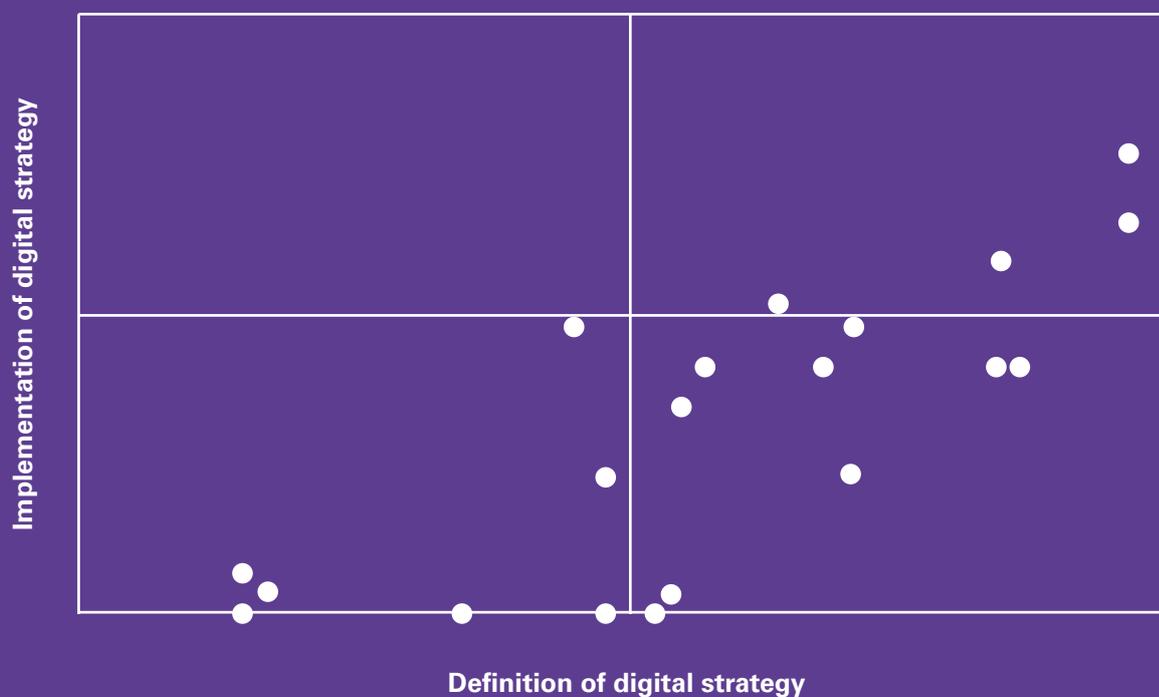
# Digital strategy



**Luxembourg is known as a country of subsidiaries. Consequently, when it comes down to the definition of strategy — be it business, operational or digital — the often very close connections with parent companies lead to integrated decisions. It was therefore no surprise that, for almost all the private banks interviewed, their digital strategy is defined at group level.**

In parallel, while the vast majority of private banks in Luxembourg consider digital to be key for the development of their sector, their degree of advancement in the definition — and, more importantly, the implementation — of their digital strategy shows large discrepancies.

**Figure 1. Relative positioning of banks in digital strategy — implementation vs. definition**



**Champions** in digital strategy exhibit the following characteristics.

- Digitalisation is perceived as a source of competitive advantage for their private banking activities.
- Digital strategy is fully integrated with the overall business strategy defined at group level, but takes local specificities into consideration.
- Market developments are actively tracked and acted upon.
- Digital strategy has been translated into an actionable roadmap and implementation is on track.

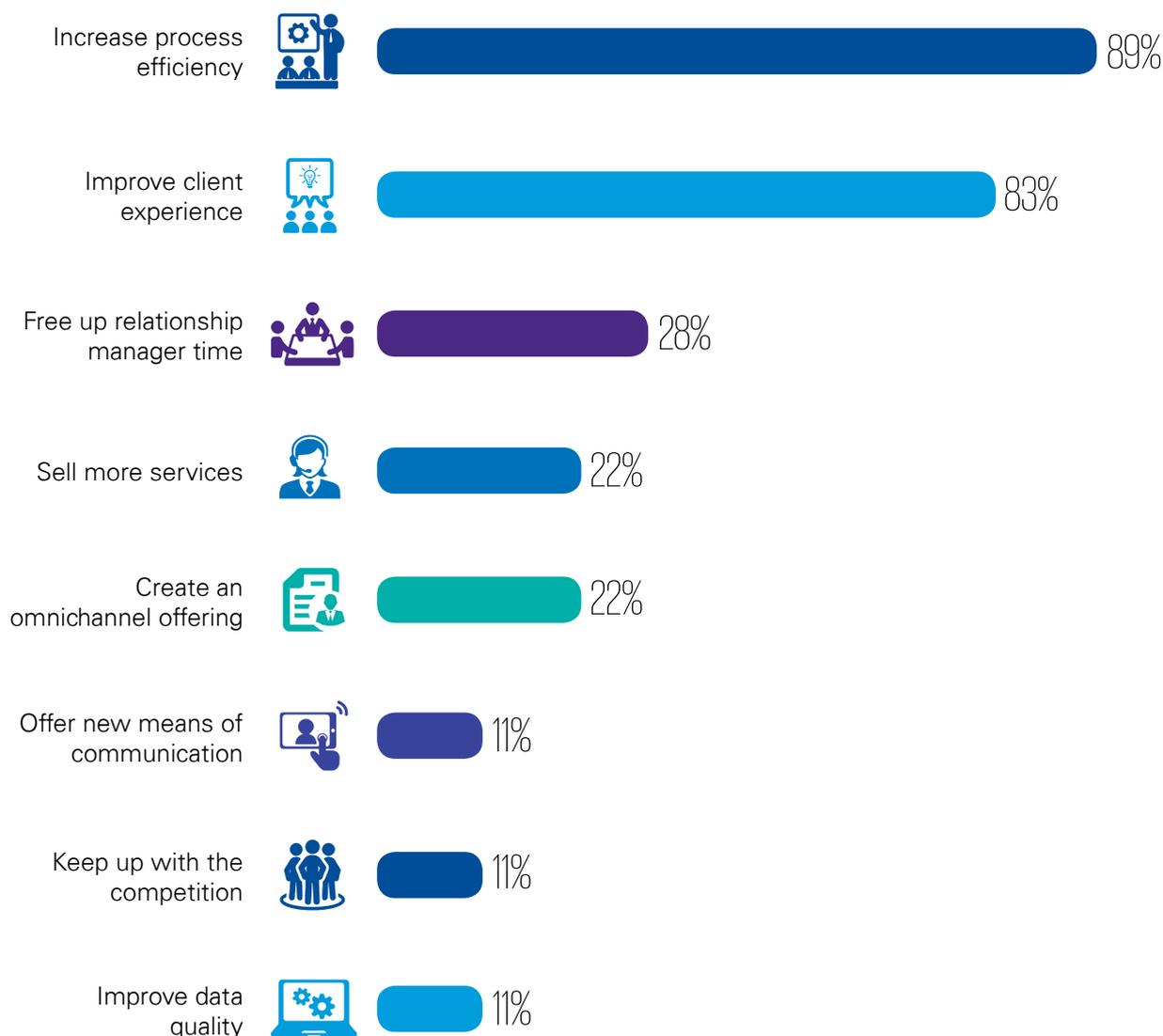
## Defining digital strategy is essential for business transformation

Almost all consider digital as key to the development of the private banking sector in Luxembourg, but also agree on the fact that digital cannot — and will not — replace human interaction in a world where the private banker remains pivotal to the bank’s relationship with the client.

Digital is instead seen as a push towards “augmenting” the private banker — that is, helping them increase and improve client

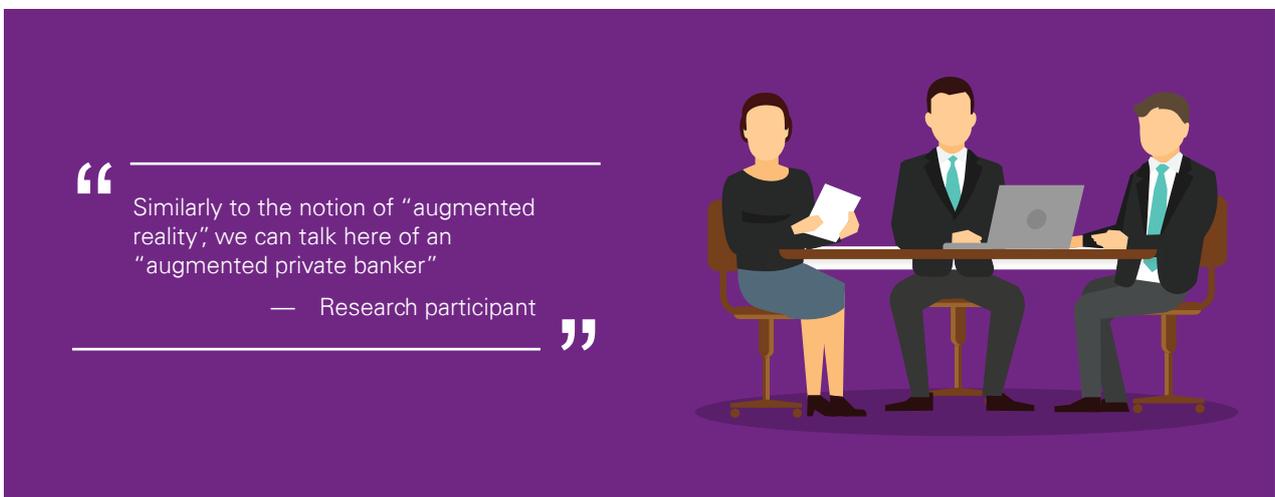
acquisition and retention through a better customer experience. This may take the form of, for example: less burdensome administrative tasks for both relationship manager and client; enhanced customised services through better client data management; more innovative banking products; or smoother and more flexible means of communication.

Figure 2. The main objectives of digitalisation

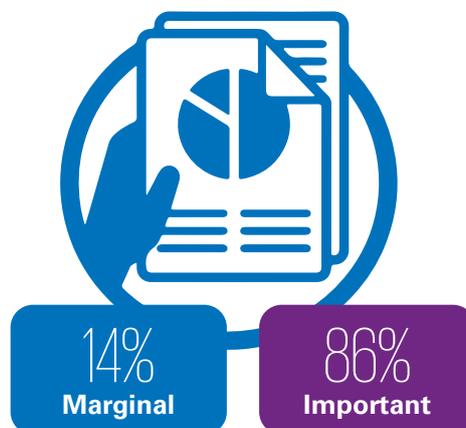


Digital is also considered a key lever to improve operational efficiency in the front office — as well as at middle and back office levels — thus allowing banks to reduce operational costs while freeing up more time for commercial and innovatory developments.

Of course, all these investments cost money and could impact the bank’s profitability in the short term. But the cost of not adopting digital may prove higher in the long run — particularly if not doing so results in, say, (i) losing tech-savvy clients who are looking for an enhanced customer experience, or (ii) decreased profitability if potential efficiencies, achievable through digital, are not exploited.



**Figure 3. Is digitalisation key to the development of the sector?**



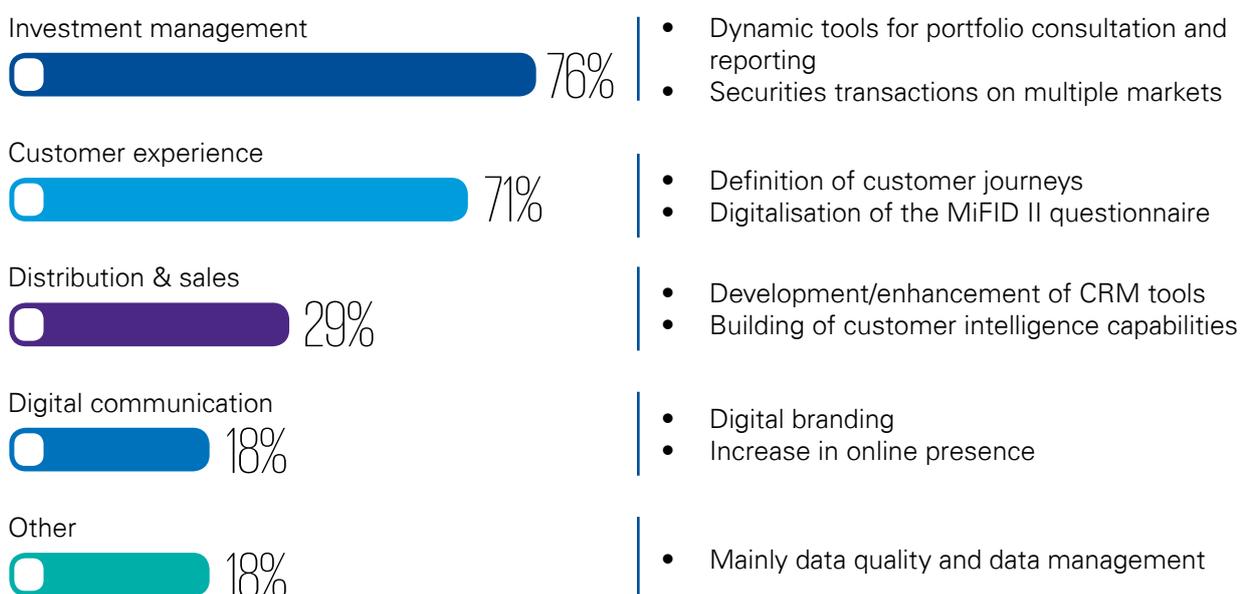
The vast majority of Luxembourg-based private banks adopt the digital strategy defined at the level of their parent companies. Indeed, banks strongly capitalise on group level actions in general — be it the improvement of customer experience, or the development of specific technologies — reflecting the appeal of an integrated digital strategy and the necessity of distributing the high costs of digital projects across group entities.

However, it is also worth highlighting that, for a handful of the banks interviewed, the Luxembourg entity does not seem to rank highly among group priorities, which consequently hinders the implementation of major digital projects in the short term.

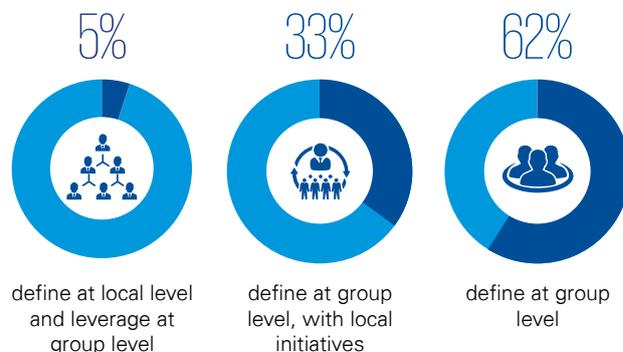
In terms of functional areas, unsurprisingly, attention is mainly focused on investment management and customer experience.

- For investment management, the main priorities are generally the enhancement of portfolio consultation and reporting functionalities, with the aim of offering dynamic reporting tools to clients. For execution-only clients, some banks also dedicate time and effort to the transactional side, allowing clients to trade securities on multiple markets.

**Figure 4. Strategic focus areas of digitalisation**



**Figure 5. Level of digital strategy definition**



- In terms of customer experience, private banks focus on trying to identify pain points in their customers' journeys and assessing where digitalisation could bring increased value to those journeys. The digitalisation of the MiFID II questionnaire — and, more widely, of the entire end-to-end onboarding process — is often cited as one of the main priorities in improving customer experience.
- Champions usually go a step further and also focus on data quality and data management in order to improve their customer knowledge, as well as their distribution and sales strategies.

**Figure 6. Keeping track of market developments and innovation**



“

We want to remain relevant in the digital field, but we do not want to be leading the charge.

— Research participant

”



## Implementation is under way ... or is it?

Most banks started to implement some elements of their digital ambitions around 2015. Some others started later but with greater support behind them, and were already making major achievements by 2018.

Almost half of private banks consider that they are lagging behind the competition with regard to their organisation's implementation of digital.

This is an intriguing result, as the digital ambitions of most private banks are very heterogeneous — hence there is no real baseline for them to compare themselves against. So, what may look like “lagging behind” may actually be a result of their own strategic positioning — for example, a strategic decision not to offer clients the ability to trade securities or make payments, as opposed to the late implementation of this functionality.

Another key element we observe in the digitalisation of the private banking sector is of course the emergence and growth of fintech businesses, as many of these focus on developing solutions for private banks. However, at this stage, although

fintech is a word that regularly pops up in our financial reading, the number of private banks that have genuinely identified, analysed, selected and implemented a fintech solution remains rather low.

Within the private banking world, activity with fintech companies seems to remain limited to market or competitor monitoring, events or conferences and a (very) large number of “one-day stand” demonstration sessions.

One of the possible explanations behind this is that fintechs often design solutions aimed at addressing a direct B2C issue, whether it be in the area of investment management or customer experience (e.g. robo-advisors dedicated to end clients), while private banks are still considering just how digital they really want to be in their client relationships. Private banks, it seems, may be more open to solutions that would improve their internal operating models, allowing them to better serve their clients, e.g. a robo-advisor that would push investment recommendations to the relationship managers, not to the clients.

**Figure 7. How advanced do you feel your digital achievements are compared to the competition?**

