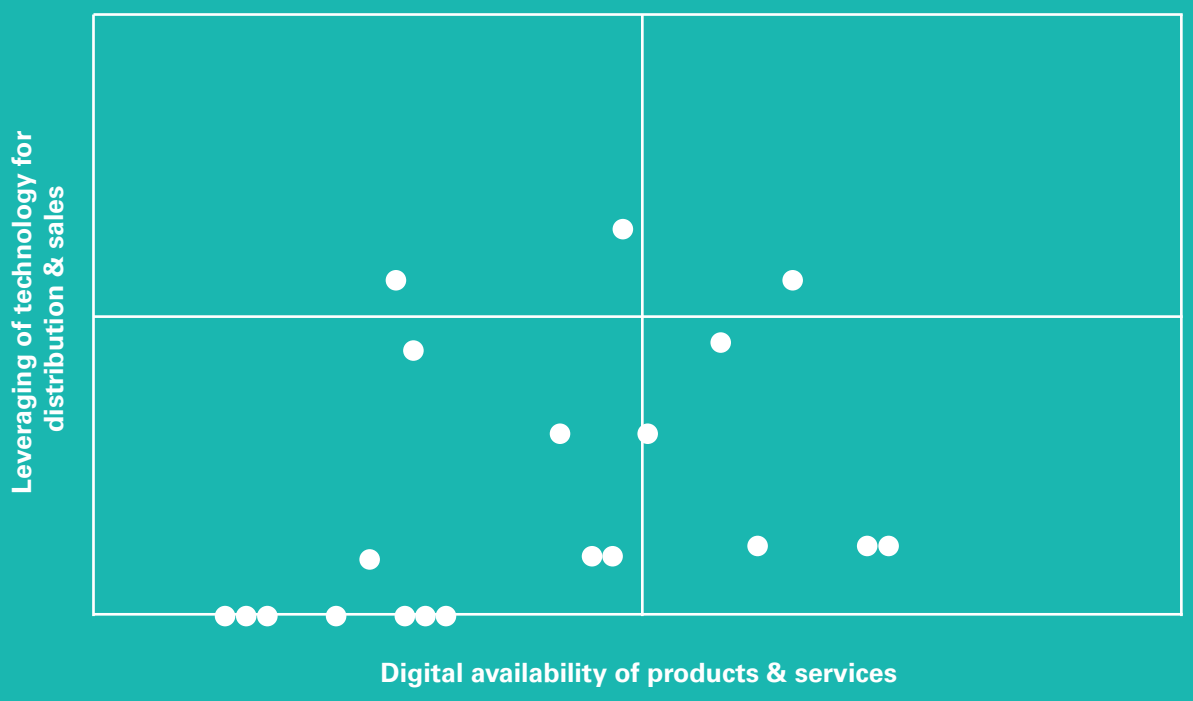
Distribution & sales


100
80
60
40
20
10
0
14%
17%
15%
18%
36%

Private banks in Luxembourg currently make rather limited use of technologies to improve their distribution and sales strategies. Those banks that have achieved a moderate level of digital availability for their products and services have done so through well-thought-out strategic positioning.

Efficient use of customer relationship management (CRM) tools, and exploitation of data to better target and approach clients with relevant offerings, are somewhat underdeveloped. In terms of the online offering of products and services, private banks have a very different strategic positioning to retail banks, the main difference lying in transactional functionalities.

Figure 27. Relative positioning of banks in distribution & sales — leverage of technology vs. digital availability



Champions in distribution and sales exhibit the following characteristics.

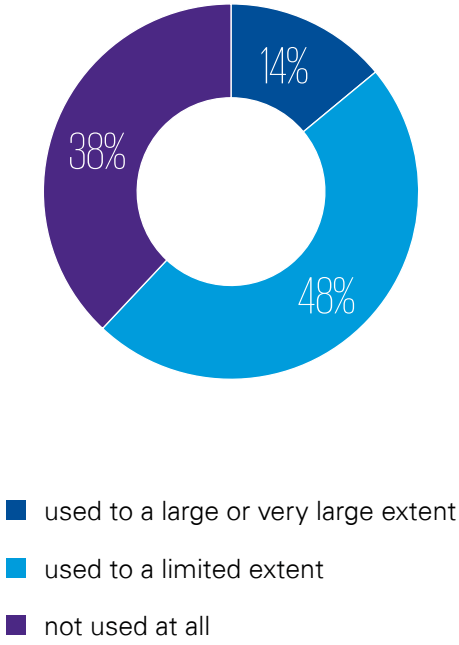
- Tools are developed to support relationship managers and portfolio managers.
- The potential use of advanced data analytics is explored in depth and relevant capabilities are being developed.
- Client data quality is improved and structured.
- Clients are incentivised to act more autonomously, via the digital offering of a wide range of products and services.

CRM tools and their digital extensions are not sufficiently developed to allow remote private banking

About a third of the banks interviewed felt that their CRM tools are not able to fully support relationship managers in their day-to-day operations. Some banks are in the process of replacing these tools, or have plans to do so, while others refer to the lack of good practice in feeding the tool with relevant client information.

Even though tablet computers are made available to relationship managers, very few of these devices are fully connected to the banks' platforms, thus hindering what would be a fully fledged utilisation in client meetings held outside the bank. Systems portability and security concerns remain a strong barrier to remote private banking.

Figure 28. Use of data and analytics technologies to identify or anticipate client needs

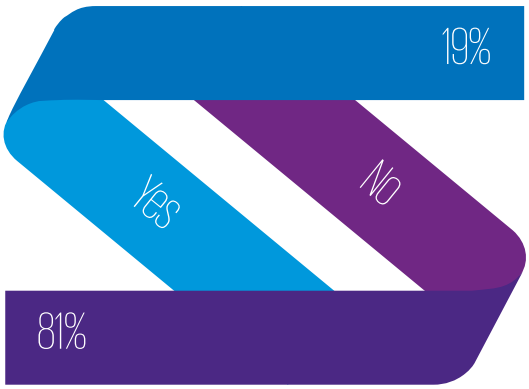


Customer intelligence is not sufficiently developed to effectively support distribution and sales

Fewer than 15% of banks are exploiting client data through the use of data and analytics, or artificial intelligence. Banks mainly focus on internal static and transactional data to analyse client behaviour and measure attrition, and not to build predictive and targeting models. Furthermore there does not appear to be any real interest in enriching client and KYC data with external data sources. GDPR is often cited as a limiting factor for such data enrichment.

A few banks are exploring the data and analytics option, but are often limited by the fact that they do not always have access to sufficient historical data to develop this capability. They usually strive to at least clean and organise the data they have, to "make some sense out of it". About half the banks are performing basic data mining through manual queries and analysis, but this remains limited. With regard to the digital behaviour of clients, analysis remains at a superficial level, with little being done beyond the analysis of internet banking or mobile app take-up rates, and of online operations.

Figure 29. Monitoring of sales orders through digital channels to adapt sales strategy



The overall digital availability of products and services remains limited, in part reflecting the strategic orientation of private banks

The basic digital functionalities that are developed by all players are in portfolio consultation and reporting. In general, banks put significant effort into more dynamic consultation functionality, including in their mobile applications. With regard to reporting, three quarters of the banks already offer online access to periodically-generated reports.

However, less than half are offering their clients dynamic investment reporting tools, even though the banks themselves perceive these to be of high added value for clients.

Figure 30. Use of digital tools for client investment reporting

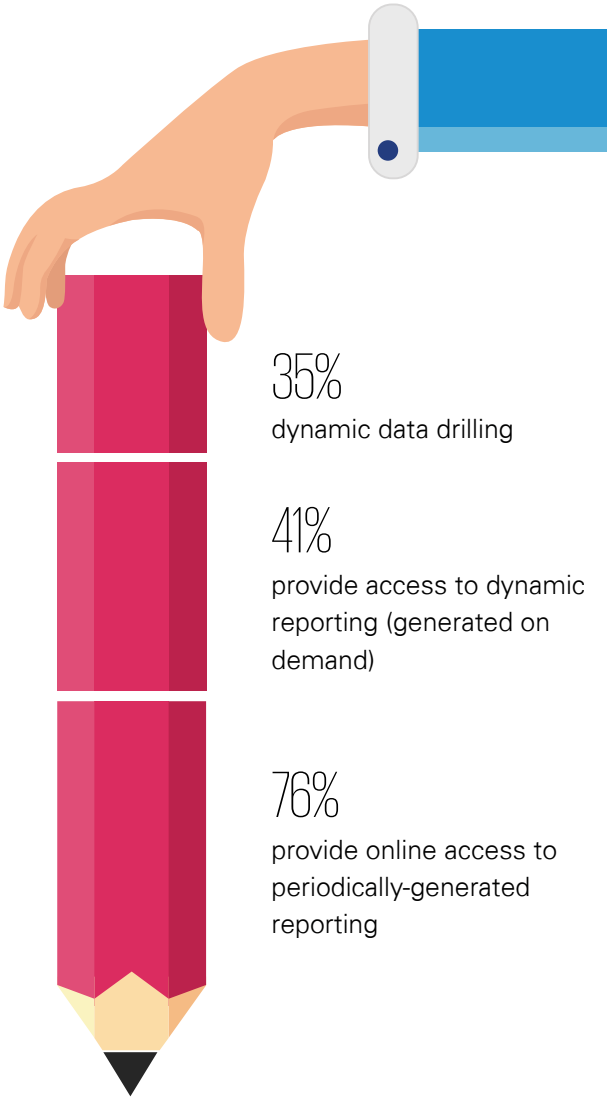
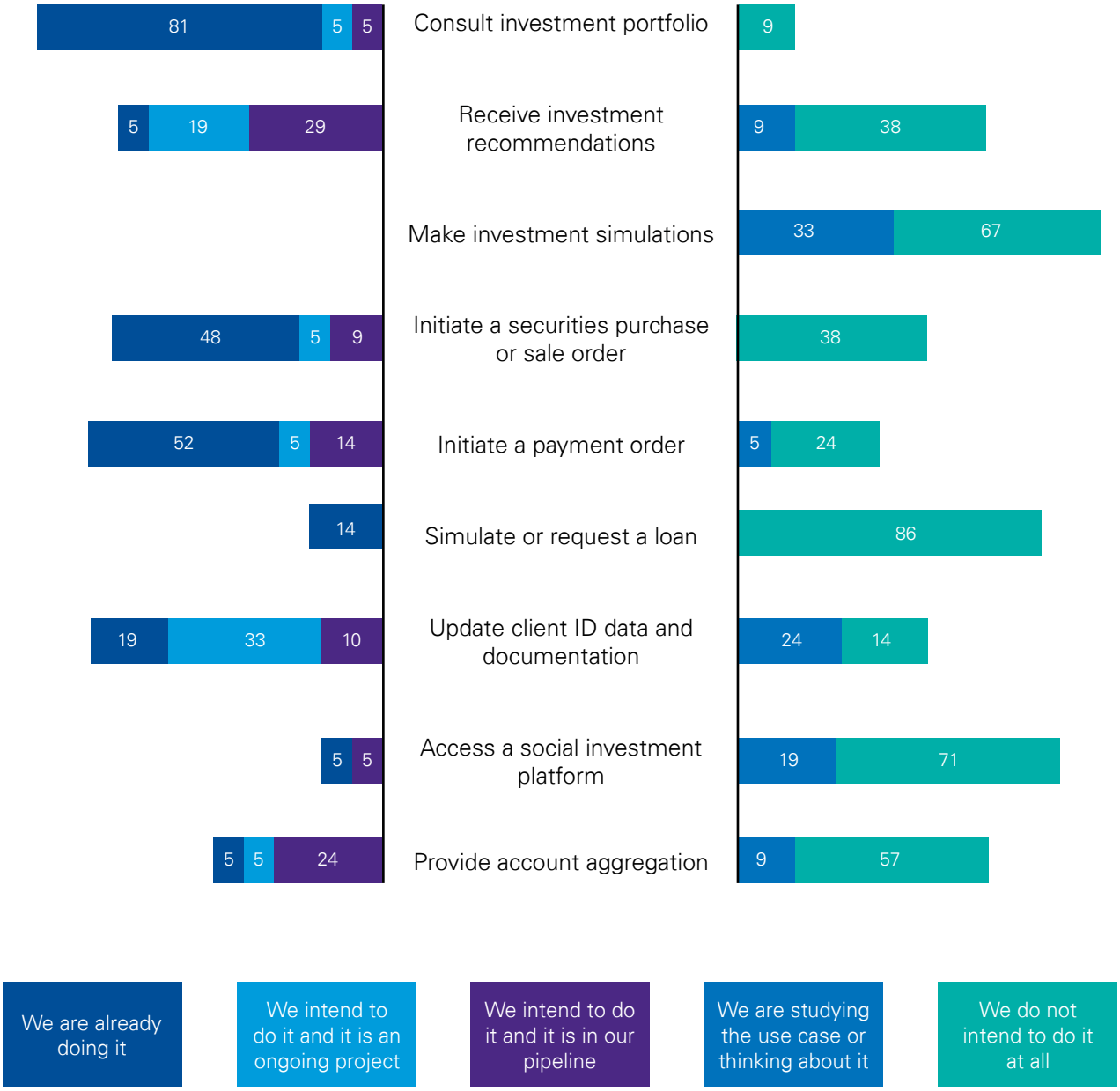


Figure 31. Digital functionality offerings



Transactional functionalities seem to be the most prominent digital theme, with 62% of private banks offering, or wanting to offer, clients the ability to initiate securities orders — while 38% reject this option altogether. For client-initiated payment orders, 71% of banks are in favour, while about a quarter have a clear negative position.

Conversely, the vast majority of banks are unwilling to even consider making loan simulations or requests available online. This is directly related to the nature of private banking loans, which tend to be complex and often require the calculation of collateral or the factoring in of other assets.

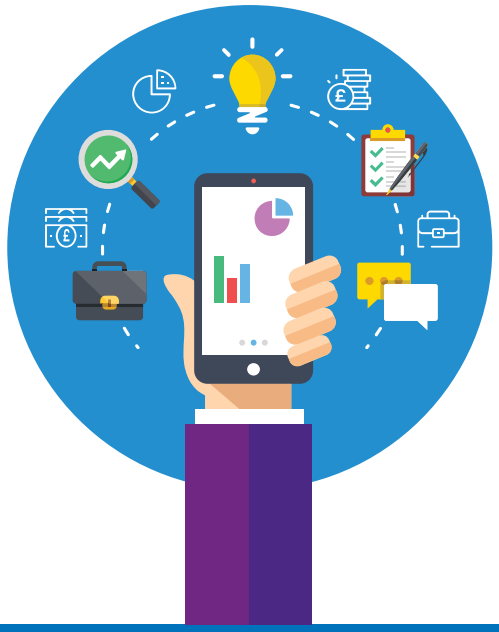
There is also a wide consensus in not wishing to offer investment simulation functionality, with about two thirds of banks not prepared to consider this option at all. Providing access to social investment platforms — which enable clients to follow and replicate other investors' portfolios — is likewise rejected by over two thirds of the banks.

Push notifications of investment recommendations — which the client can then accept or reject online, either via internet banking or a mobile application — are usually seen as a nice-to-have functionality, but not considered a top priority in the digital agenda.

Account aggregation as a high added value functionality?

About half of private banks consider that the recent coming into force of the Second Payment Services Directive (PSD2) will have limited impact on them, as they argue that they either do not offer payment services at all or do not provide online access to cash accounts.

For the 33% that see PSD2 as a business opportunity for the wealth management sector, the regulation is a clear first step to developing an account aggregation service — this would allow clients to have a holistic view of their assets, whether deposited with banks, insurance companies or other types of financial institution. These banks are therefore investing in building the right technologies and architecture in anticipation of a wider opportunity in the future.



> We do not want to push work and responsibilities to our clients. This is not what we do; this is not who we are.
>
> — **Research participant**

Figure 32. Banks' perception of forthcoming developments of "open banking" and PSD2

PSD2 – "open banking" is here

The revised Payment Services Directive introduces a number of key changes compared to its predecessor — the most prominent being mandatory access to (payment) accounts for third-party payment service providers, at client request. Unsurprisingly, banks have very different views on the directive and what it will mean for their industry: these range from viewing it solely as a compliance burden to foreseeing it as bringing strategic opportunities to develop new products and services.

Depending on the business model of the individual bank, both views are understandable. Traditional retail banks consider payments as part of their DNA — with the payment account at the heart of the client relationship — and their customers often have more than one banking relationship, so may not be unwilling to share information on their other accounts. Getting access to these accounts opens up opportunities to cross-sell products and provide other valued-adding services. Private banks, on the other hand, would not define themselves via a payment service but rather a portfolio management service — providing payment services is simply a means to offering the investment business. Their client base may well be more reluctant to share account information with third parties and hence, for those banks, the implementation of the new requirements will mainly come at a cost only.

Juergen Rieder
Partner
KPMG Luxembourg

Are "robo-advisors" a private banking solution?

Only 15% of banks are considering offering a B2C robo-advisor solution, and this would be for mass affluent clients exclusively. The vast majority of banks do not consider robo-advice a credible option, stressing the fact that their clients primarily seek a privileged interaction with their relationship managers.

Nevertheless, many banks see some potential for this type of tool, provided that it is implemented only in an internal setting — i.e. to support relationship and investment managers, and without any direct connection to the client. In fact, while many banks are satisfied with their current investment proposal engines, a robo-advisor could provide added value by using advanced artificial intelligence to enable appropriate targeting and flexibility in the assessment of client situations.

Figure 33. Uses foreseen for robo-advisor technology

B2C: offer it as a new service – effectively a "cheaper advisory solution"

B2B: use it as a tool for relationship managers, to boost efficiency in advisory services

B2B: use it as a tool for investment managers for discretionary portfolio management

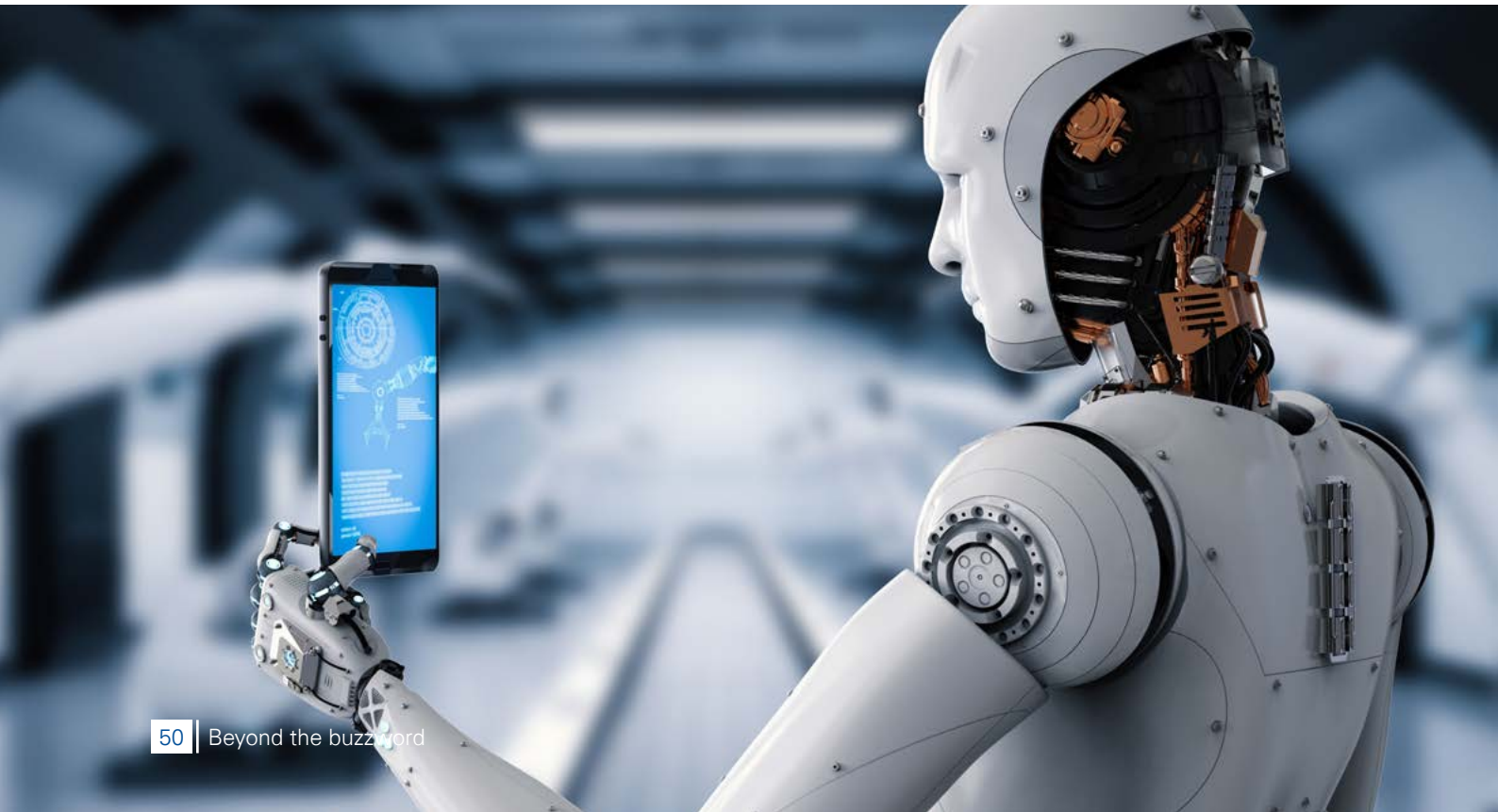
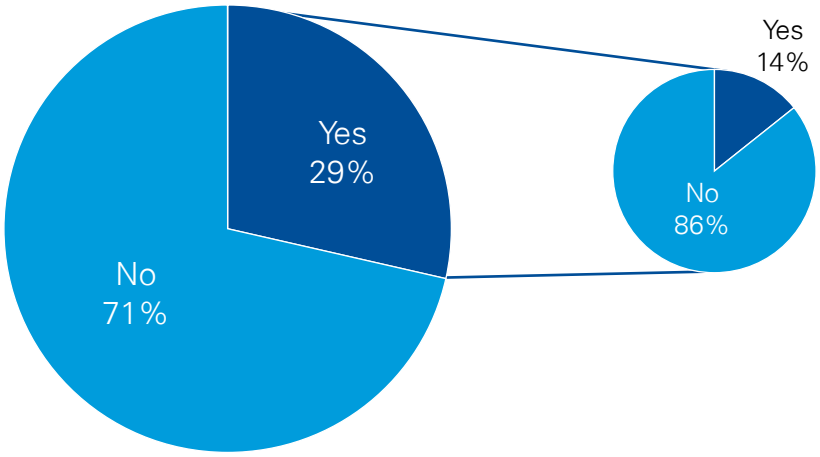


Figure 34. Is serving independent asset managers part of your strategy? If yes, does digitalisation help you attract them?



Third-party asset managers do not seem to be a significant driver for digitalisation

Although 29% of the research participants recognise that serving independent asset managers (IAMs) is part of their overall business strategy, they do not see IAMs as a driving force for digitalisation. In fact, some banks already offer them specific access in order to manage their accounts and portfolios, and this is felt to cover their needs. A few banks also observe that some IAMs in Luxembourg tend to remain rather conservative in the way they communicate with them, so conclude that digitalisation would not necessarily be seen by them as a differentiating factor.