International perspective
Overview of the private banking and wealth management market

The UK is one of the leading global wealth management centres. The country has a sizeable onshore wealth market estimated to comprise more than 700,000* HNW individuals, with total financial wealth of US$2–2.5 trillion. This includes about 8,500** UHNW individuals with US$0.8–1 trillion of financial wealth.

Together with the Channel Islands, the UK also serves US$1.25 trillion* of cross-border private client assets. Whilst Brexit has created uncertainty, the structural attractiveness of the UK — London in particular — continues to attract cross-border wealth.

The UK is a highly competitive private banking and wealth management market with a range of financial organisations serving the needs of domestic and cross-border HNW and UHNW clients. These include global private banks, the private banking arms of UK universal banks, independent wealth managers, HNW/UHNW-focused asset managers, and single and multi family offices. Over the last 3–5 years, a number of robo-advisors and online discretionary managers have also entered the market.

UK private clients: profile and digital expectations

UK domestic HNW clients have acquired wealth through a range of sources. Entrepreneurs are a key segment for much of the private banking industry. Discretionary mandates focused on wealth preservation and wealth planning propositions are popular with UK HNW clients.

Typically, UHNW clients seek cross-border solutions and have sophisticated needs requiring capital market-focused solutions and access to a broad range of asset classes. To accelerate revenue growth, private banks are focused on growing lending to HNW and UHNW clients, with investment-backed lending and high-value residential mortgages being key propositions.

Private clients are increasingly more digitally connected, using multiple devices — and their expectations of digital capabilities continue to be shaped by their experiences outside of financial services. Many organisations focused on HNW and UHNW individuals, including luxury brands, have delivered or are developing digitally-enabled client experiences that seamlessly blend digital and human interactions.
While the usage intensity of digital engagement mechanisms may differ between individuals, the majority of HNW clients demand and expect “always-on” digital capabilities from their financial advisers and wealth managers.

The scale of the opportunity associated with the expected intergenerational transfer of wealth is also a key catalyst for investment in digital capabilities by private banks and wealth managers. A recent study*** estimated that more than £200 billion of wealth will be transferred by HNW individuals (millionaires) over the next 10 years.

**Response to changing expectations and digital disruption**

Over the past 10 years, most UK private banks and wealth managers have focused on addressing regulatory changes and have benefited from a growth in assets and revenues on the back of a sustained bull market.

The industry has recognised that it is not measuring up to client expectations of experience in the digital age. We have seen the first wave of investments appear on the digital agenda. These have mainly been focused on delivering capabilities and features that help clients and prospects to: enhance their connectivity to the private bank (e.g. mobile apps, responsive websites, digital availability of knowledge and research); be better connected to their holdings (e.g. online client reporting); and access basic transactional and self-service functionality. These investments have delivered some improvements in the client experience. However, as most of the investments have been oriented toward foundational aspects of the client experience, they have had limited impact on financial performance for most players. Another characteristic of the industry’s approach to digital to date is that it has typically been pursued as a separate initiative or programme. There are differences in the maturity of industry participants in delivering these foundational capabilities — however, at a macro level, this variable digital maturity of private banks has not yet translated into material differences in operational performance or market share.

Going forward, we see an imperative for the digital agenda to be at the heart of reshaping the business and financial performance in the context of challenging markets, evolving client expectations and growing pressure on revenue margins (driven by transparency, sustained competitive intensity and acceleration of low-cost, digital-first propositions), against a backdrop of high levels of regulatory scrutiny.

More than ever before, the success of private banking businesses will be determined by how cohesively they reimagine their businesses for the digital age, rather than pursuing a separate digital agenda. Some private banks have recognised that the shift from “pursuing a digital strategy” to “operating in the digital age” is profoundly transformative, requiring businesses to build on their strengths while being prepared to fundamentally challenge — and, where appropriate, change — everything from how they attract and serve clients to how the organisations are configured — and, indeed, even how they deliver change. While enhancing the client experience will remain an enduring agenda, we see this refreshed approach to digital as having a broader scope and being more oriented toward delivering business outcomes rather than features. Some of these outcomes will be transformative in nature, such as: helping the industry increase in relevance for specific cohorts of clients (e.g. women, Next Generation); helping private banks capitalise on open banking, reducing the cost of compliance; and creating a more agile, engaged and diverse workforce.

**Robo-advice in the UK**

The UK has seen a proliferation of robo-advice and digital discretionary management propositions from both new entrants and established industry players. Most of these offerings have been targeted mainly at serving the simple investment needs of mass-market investors, with some organisations focused on “democratising investments”. However, these propositions are capable of serving the simpler investment needs of individuals across the wealth spectrum. Their take-up has so far been limited though — and one global private bank has even closed its robo-advice proposition. Some robo-advisors are evolving their offerings into more of a hybrid model that blends algorithms with human contact. At the same time, we continue to see sustained investment in robo-advice/digital discretionary propositions, along with some new entrants entering the market.

These developments are characteristic of the early stages of innovation in most industries. It is therefore premature to opine on the likely success or failure of robo-advice/digital discretionary businesses. While customer adoption of these models is still evolving, the increasing mainstreaming of robo-advice has catalysed focus on low-cost investing and a compelling user experience across the industry.

* Credit Suisse Wealth Databook, Global Wealth Report, Statista, ONS, KPMG analysis
** Wealth-X Ultra Wealth Report, Knight Frank Wealth Report, KPMG analysis
*** Global Data, KPMG analysis

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— Abhijit Rawal, Partner, KPMG UK
Overview of private banking market

Switzerland is the world’s largest offshore private wealth manager and continues to attract wealth from all over the world, even since the implementation of the automatic exchange of information.

Over the past eight years, there has been a strong wave of private bank consolidation, driven by the appetite for growth and modernisation of half a dozen consolidators, and by the exit of foreign banks’ wealth management arms. As a result, close to 60 private banks have disappeared, mostly smaller (<$5bn AuM) players weakened by the 2008 financial crisis, and struggling to adapt to the current regulatory and tax environment, and the IT spending needed (for more modern and digital core banking systems). With dozens of private banks remaining, there is still a rich and varied ecosystem that includes smaller players, some of them very successful in their niche.

The large change efforts made at many banks, together with support from the financial markets, have led to stabilising profit margins, and Swiss private banks are optimistic about the future.

Swiss private clients: profile and digital expectations

Swiss private banking clients are on average over 60 years of age, and the banks’ view is that only 2% of clients “want digital,” according to the latest KPMG Switzerland survey. Even for the “next generation” (i.e. 45–60 year-olds), this figure is put at only 15% by the banks.

But while clients still mainly expect human interaction with their relationship manager — i.e. not (yet) a robo-advisor — they are becoming more demanding: they want instant access to information, greater and customised investment advisory and portfolio analytics, the ability to interact in real-time with advisors and, increasingly, tax reports.
Response to changing expectations and digital disruption

We see a bifurcation in the market.

— The stronger banks make the needed investments into software, data cleansing, process standardisation and staff training which build the basis for the future.

— The weaker ones move more slowly and continue to stress the strength of their client relationships, older clients’ lack of clear digital demand and cybersecurity concerns.

92% of banks state that they want digitalisation to improve the client experience (just 27% intend to use it to reduce costs). They are most advanced in e-banking, mobile banking and communication tools, while starting to move on digital onboarding (18% have at least partially implemented this, and another 33% have planned it).

Digitalisation of advisory

In the wake of regulatory pressure from MiFID II and internal revenue increase goals, most banks have formally defined their advisory products in the last three years. The more advanced are now digitalising their delivery while still keeping the human interaction element central.

For example, in order to support relationship managers in effectively delivering promised services — and to minimise the risk of both non-compliance and wrong advice — some have built software that assesses client portfolios nightly against market moves, client wealth level/risk profiles and goals, the bank’s investment views etc. Based on this analysis, the system suggests investment ideas to the RM, who can then discuss these with their clients. Providing relevant discussion content like this makes the RM much more effective, and reduces the risk to the bank of giving advice that is not in line with the house view or the investor profile. Some banks go so far as to give clients online access to these suggestions or even to send suggestions directly to clients.

Digital client onboarding

FINMA, the Swiss financial regulator, has allowed video identification of clients since 2016. This, and the progress of service providers in client identification, allows banks to offer fully digitalised online client onboarding. Elements include: a questionnaire-assisted KYC process with partly automated checks; dynamic contracting based on information gathered; e-signature; a complete digital journey eliminating manual completeness checks, scanning and archiving; and automated client and account creation in the banking systems. As this allows fully automatic processing in the majority of cases, it can dramatically speed up the process and save costs. The new onboarding journey typically reduces the account opening time from sometimes 10–15 days to 1–2 days. However, so far only the large wealth managers are advanced in implementing this. Behind the digitalisation of the onboarding process a preceding IT infrastructure modernization is often needed to allow for straight-through processing.

Digitalisation of advisory makes the relationship manager much more effective.

— Martin Brändli, Partner, KPMG Switzerland

Figure 43. Banks’ views on clients’ interest in digital

![Figure 43. Banks’ views on clients’ interest in digital](image-url)

**Source:** KPMG Switzerland survey
Hong Kong

Overview of the private banking market

Hong Kong, as one of the global financial centres, is also home to a well-established private banking sector. Due to its proximity to China, Hong Kong is a key booking centre for Chinese offshore assets, catering to sophisticated private banking clients with global investment needs across a wide array of products, currencies and deal flows. An observable trend is the growing importance of non-investment related wealth services such as wealth and succession planning, family governance advisory and philanthropy services. This trend is underlined by the increasing number of family offices being set up in Hong Kong.

With a new billionaire being minted every three days, wealth creation in China is at a global peak, which certainly also impacts the growth of the Chinese offshore asset base. Of particular importance for Hong Kong is its immediate proximity to the Greater Bay Area, which is among the most dynamic and innovative growth regions in China.

Competitive pressure for Chinese offshore assets is increasing, mainly driven by new entrants from within China. These newcomers are established banks branching out into private banking, as well as pure-play Chinese wealth managers beginning to expand their offshore capabilities.

Hong Kong private clients: profile and digital expectations

From a client experience perspective, financial services clients in China are among the most demanding in the world regarding (mobile) technology. Whether it is payments, buying and selling of financial products or KYC and onboarding, technology is always centre stage, and the penetration of cutting-edge solutions among users is likely higher than anywhere else.

However, compared to their onshore peers, Chinese offshore clients tend to have more complex and more global product and services needs, which may not — at least not currently — be entirely automated or digitised. Consequently, in expectations with regard to offshore private banking services, the human element continues to play an important role, particularly in the context of complex financial products or high value-added wealth services. That said, digital client experience expectations regarding plain vanilla transactional products, payments, and client-banker interactions are certainly increasing.
Response to changing expectations and digital disruption

Private banks have recognised the opportunities, but also the threats of emerging technologies and new business models for their business. Reactions to these developments are not uniform and can range from partnerships with fintechs, or insourcing via white label technology solutions, to the setup of banks’ own innovation labs with the mandate to develop in-house solutions. However, the general perception of established banks in Hong Kong is that their digital offering is not meeting client expectations (KPMG – PWMA HK Private Wealth Management Report 2018).

Another strong indicator of banks’ recognition of the new reality is the great interest being shown in applications for virtual banking licences, authorised by the HK banking regulator HKMA in 2018.

Virtual banking licences

In 2018, the HK banking regulator, HKMA, called for the submission of virtual banking licence applications. This was received with great interest by the financial services community and resulted in the submission of 29 applications in the first batch which will be evaluated for approval by Q1 2019. This is a clear indicator of the recognition of the importance technology plays in core banking services by both the regulator and the financial sector, as well as of the importance of new business models in finance.

Client experience

Clients are clearly increasingly demanding mobile and digital access to core banking services such as payments and transfers, as well as for buying and selling plain vanilla financial products. Many of these demands can be covered by e-banking services — however, the latter tend to fall short regarding brokerage capabilities and portfolio analytics. Additionally, in order to enjoy e-banking and brokerage services, clients still need to go through onerous and lengthy KYC and onboarding procedures in order to open an account. This is another area where technology can clearly improve the client experience, by reducing onboarding time and easing the onboarding experience (e.g. by using remote KYC via facial recognition).

Cybersecurity

Embracing emerging technologies inherently increases the vulnerability for cyber attacks. Hence, the importance of cybersecurity, mitigation, threat response and forensics services has increased exponentially. Due to its increasing prominence, cybersecurity has moved into the C-suite and has become a topic of strategic importance, not only for financial institutions. Cybersecurity has also moved firmly onto the agenda of the HK regulator, increasing the requirements for protective measures, cybersecurity governance and breach disclosure measures.

Figure 44. Growth in private wealth AUM in Hong Kong (US$ billion)

Source: KPMG – PWMA HK Private Wealth Management Report 2018

Financial services clients in China are among, from a client experience perspective, the most demanding in the world regarding (mobile) technology.

— Ricardo Wenzel, Director, KPMG Hong Kong