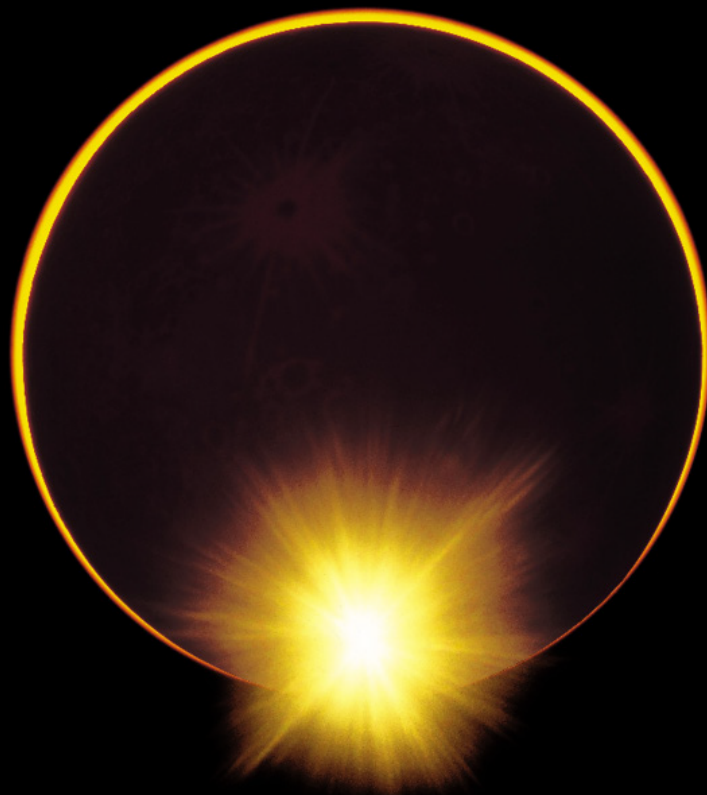


**Deloitte.**



**Innovation in Private Banking & Wealth Management**  
Embracing the Business Model Change



# Glossary

## **Wealth Management**

For reasons of simplification, Wealth Management in this document refers to European Private Banking & Wealth Management. Wealth Management is the holistic financial management of wealthy clients (typically with assets in excess of EUR 1 million) and is characterised by personal relationships built on mutual trust and individual advice at the highest level. Wealth Management covers the full process of planning, realising and controlling the wealth of clients, and can go beyond purely financial matters to include social and personal arrangements.

## **Wealth Managers**

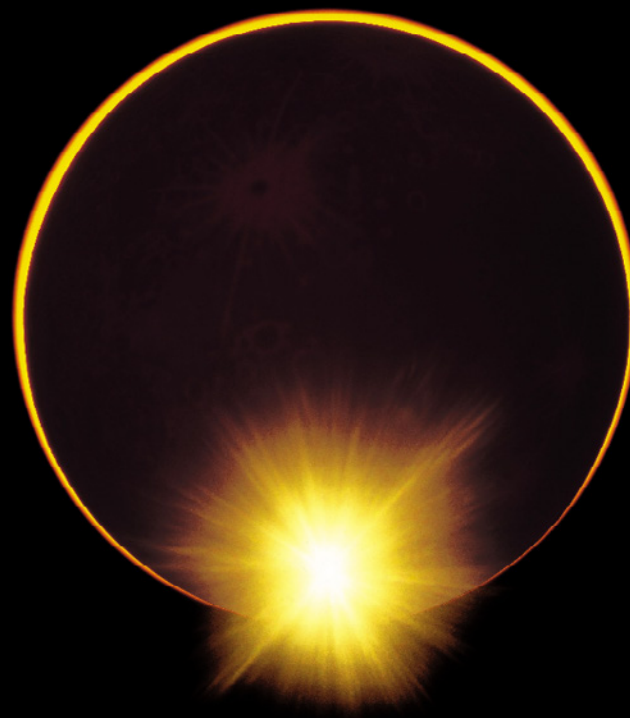
Wealth Managers are institutional Private Banking & Wealth Management service providers in Europe, with a focus on business with private clients. They include pure-play private banks as well as Private Banking & Wealth Management units of universal or regional banks.

## **FinTechs**

FinTechs are defined as companies that use financial technologies to support or enable financial services. Typically, they are internet companies that streamline financial systems and make financial services more efficient. Today, there are more than 500 FinTechs active in Europe focusing on business areas such as crowdfunding, crypto currencies, data analytics, insurance, investment and asset management, market information or payments. Given the focus of this document, references to FinTechs exclusively relate to European companies that provide Private Banking & Wealth Management services to private clients or that provide technological solutions to Wealth Managers as defined on the left hand side.



# Executive Summary



# Executive Summary



## It's about time for innovation in Wealth Management...

Wealth Management has now reached a point where a **mind shift** has become essential. The **profitability** of European Wealth Managers has been in constant decline in recent years, with profit margins **falling** by **40%** between **2000** and **2015**. During the same period, the **market size** for Private Banking measured by the bankable assets of European millionaire households has grown by more than **60%**. This **increasing gap** between profitability and market size shows that Wealth Managers are failing more and more to serve clients successfully with their **existing business models** of an **integrated value chain** (average industry integration level of above **80%**). This suggests that the industry is facing an **innovation gap**, since industrialisation and M&A – the other two main strategic growth levers – have already been employed for years.



## ...and the time is about right...

Typically, innovations result from a conscious, purposeful search for **innovation opportunities**, which are found only in **few situations**, such as **changes** in the **industry structure**, **demographics** or in the **perception** of an industry, **economic incongruities** or the **appearance of new knowledge**. All these can be found **today** in the Wealth Management industry. An increasing number of FinTechs active in Wealth Management (**+300%** in the past three years) is disrupting traditional industry structures; **millennials** will form **50%** of the global workforce by 2020, creating demographic change; and the global **regulatory agenda** has triggered the **reshoring** of assets, adversely affecting the **prospects** for **cross-border Wealth Management**.



## ...but ambition is lacking

**Innovation ambitions** for both **Wealth Managers** and **FinTechs** revolve around the existing **core Wealth Management business**. However, most innovations are a **response** to existing **business challenges**, and far fewer exploit **opportunities to create value** in a **new way**. Wealth Managers are mainly **digitising** their traditional business model to **reduce** their **cost base**; and **FinTechs** are either offering **digital solutions** to support Wealth Managers or are providing **digital offerings** to compete for digitally-aware private clients. The innovation efforts of **Wealth Managers** are therefore concerned mainly with **industrialisation efforts**, and those of **FinTechs** with **disruption**: neither are focusing on innovation to **embrace a change** of the **Wealth Management business model**.

# Executive Summary (continued)



## Enabling innovations that can change the business model...

While eliciting a **change of business model** typically requires to employ **multiple types of innovation** with a focus on shifts in the profit model and client engagement, efforts in Wealth Management concentrate mainly on digitising processes and structures in the **existing business model**. Instead, Wealth Managers could **exploit innovation opportunities** in a more **transformational** way by **re-designing** instead of reorganising their infrastructure (e.g., through Cloud Computing, Open APIs, Orchestrating), deepening their understanding of **client needs** (e.g., through Social Listening, Instant Client Feedback), identifying **new sources of revenue** (e.g., supplementary Client Care Services, Digital Security Services) and **refreshing** their **brand** (e.g., through Sub-branding, Ingredient Branding).



## ...requires a shift in the leadership's mental model...

Innovations come to a halt, or fail, for many different reasons, but most often it is because **superficial changes** to improve performance are not sufficient to affect a **fundamental transformation**. Innovation requires **change** at a **deeper level**, a change of the leadership's **key beliefs** as these typically **affect** attitudes and culture throughout the **organisation**. Wealth Management is built around **traditional assumptions**, behaviours and beliefs about how to **create value** that drive the **strategies** leaders deploy and guide their **decision-making**. These assumptions and key beliefs need to be **exposed** to the **new realities** of today's world and the future, by monitoring **trends** and their **implications**, and recognising the **urgency** and **importance of innovation**.



## ...and an effective innovation system

Once the leadership is on board, **innovation** needs to be **formally embedded** as a **management discipline** and the **corporate culture** needs to be opened up towards **divergent thinking**. This calls for a **systematic change** that, based on an analysis of successful leaders in innovation, requires four **building blocks** to be in place: **approach, organisation, resources** and **competencies**, and **metrics** and **incentives**. A **tailored approach** should be built around clear **definitions** and **methodologies** for the work to be done in **generating** innovations, and innovations should be managed as a **portfolio**. Accordingly, the appropriate **talent** and **capabilities** need to be acquired and nurtured. In this context, and as a **starting point**, Wealth Manager should clarify the **role of partnerships**.

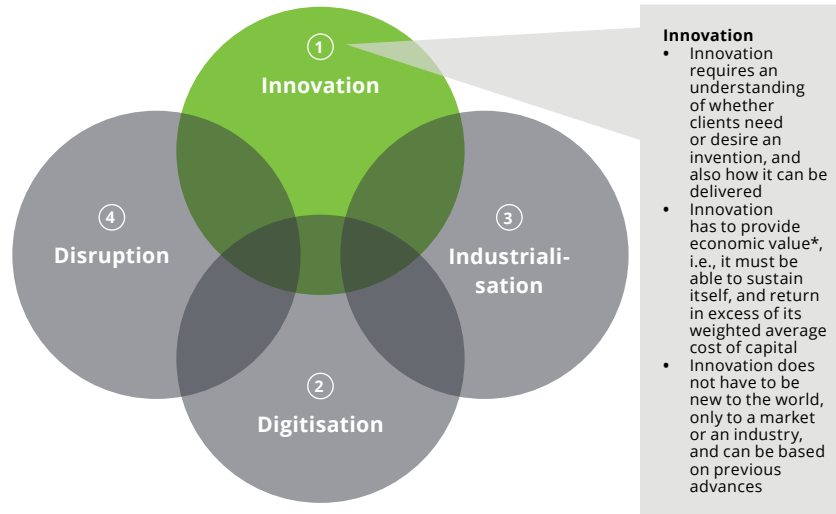
# The Case for Innovation in Private Banking & Wealth Management



# What we mean by innovation

Often equated with related disciplines such as digitisation, industrialisation and disruption, innovation is a much broader term depending on the creation of value

## Distinct features of innovation



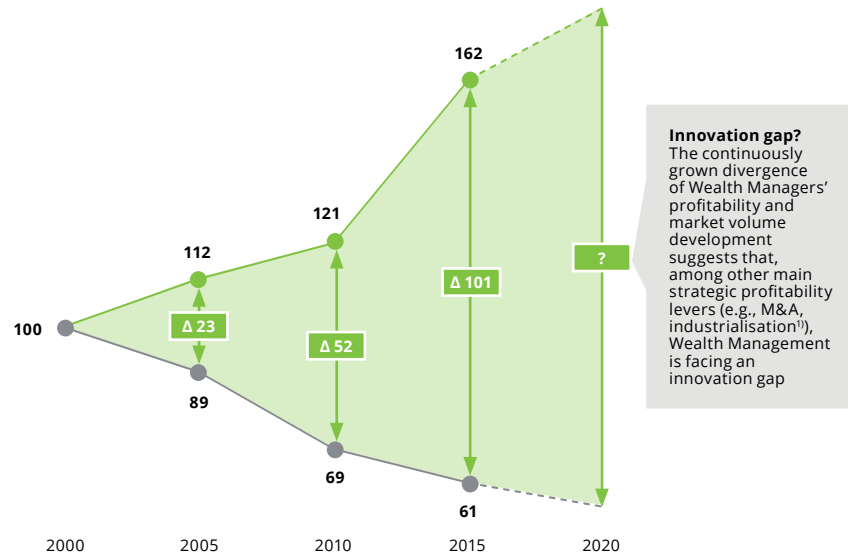
- In the context of a transforming banking ecosystem, **innovation** is often associated with other **concepts** and **disciplines** related to **change**, but their **definitions** clearly distinguish them:
  - 1) **Innovation** (as separate from invention) is the **creation** of a **new** (to the market or the world), **viable** (creating value for clients, stakeholders and the organisation itself) **business offering** (ideally going beyond products to platforms, business models and client experience)
  - 2) **Digitisation** is the **transformation** of **business activities** by the introduction and use of **information technology**
  - 3) **Industrialisation** is the concept of **reducing** the **cost base** and re-thinking the **value creation process** through the elimination of **redundancies**, smart sourcing, **automation** and **standardisation**
  - 4) **Disruption** is a process whereby a **smaller company** with fewer resources is able to successfully **challenge incumbent** businesses; disruption typically originates in **low-end** or **new-market** niches
- As opposed to **digitisation** and **disruption**, **innovation** is depending on the **creation of economic value\***; while **industrialisation** and **innovation** have this in **common**, innovation is much **broader** in its application
- **Disruption** can be considered contradictory to **industrialisation**: while **industrialisation** is a process for players with **mature business models** to defend their market shares, **disruption** is a process for players with **new business models** to gain shares of the market

\* Based on the Economic Value Estimation (EVE) model, the economic value of a potential innovation is assessed by (1) its reference value, i.e., the actual price of the next best alternative (e.g., the current state), and (2) the net differentiation value, i.e., the monetary value that a potential innovation creates, either in cost savings or increased income, minus any additional cost that incurs with it (e.g., switching costs)

# Wealth Management in decline: an innovation gap?

Despite profitability being on the downturn for years, the Wealth Management business model remained unchanged suggesting today a substantial innovation gap

Index: Profitability of Wealth Managers vs. market volume, 2000-2020



**Innovation gap?**  
The continuously grown divergence of Wealth Managers' profitability and market volume development suggests that, among other main strategic profitability levers (e.g., M&A, industrialisation<sup>1)</sup>), Wealth Management is facing an innovation gap

- Since 2000, the **profitability** of European Wealth Managers has **declined** by nearly **40%** (CAGR of -3.2%) despite market volume **growth** of more than **60%** (CAGR of +3.3%)
- While the **steep decline in profitability** between 2005 and 2010 – accelerated by the financial crisis, changing client behaviour and regulation – has **lessened** in the recent past, the **downtrend** is still **on-going** substantially irrespective of the **accelerated increase** in market volume since 2010 (CAGR of +6.0% between 2010 and 2015)
- In 2015, the indices for market volume and Wealth Managers' profitability have **diverged** by more than **100 percentage points** from their individual levels of 2000 indicating that a **low point** for Wealth Management had been reached
- The growing **gap** between profitability and market volume shows that Wealth Managers are **failing** more and more to serve clients **successfully** with their existing **business models** – either from a **revenue** or **cost** side, or, even worse, from **both**
- The forward-looking **trend line** (dotted line; based on CAGR 2000-2015) indicates that, should Wealth Managers not **adjust** their **current set-up**, questions whether Wealth Management will still be a **profitable business** in the future will arise

Key:

- Market volume index (2000 = 100) represented by wealth<sup>2)</sup> of European millionaire households, 2000-2020
- Average profit margin index (2000 = 100) of European Wealth Managers, 2000-2020

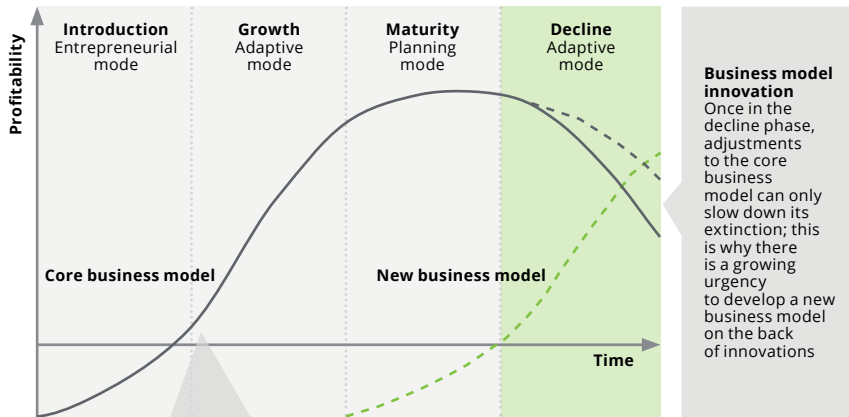
1) Industrialisation levers include: Process Excellence, Organisational Efficiency, Product Rationalisation, Value Chain Re-engineering, IT Simplification, Location Optimisation, Industry Utilities and Joint Ventures, Process Digitisation and Robotics, Economic Value Management  
2) Wealth is defined as financial assets including onshore and offshore currency and deposits, debt securities, equity, investment funds shares, life insurance and annuity entitlements, pension entitlements and entitlements to non-pension benefits



# Wealth Management in decline: the end of the core business model?

With the current core business model for Wealth Management approaching the end of its life cycle, there is an urgent and growing need to develop innovation

Illustration of a business model life cycle



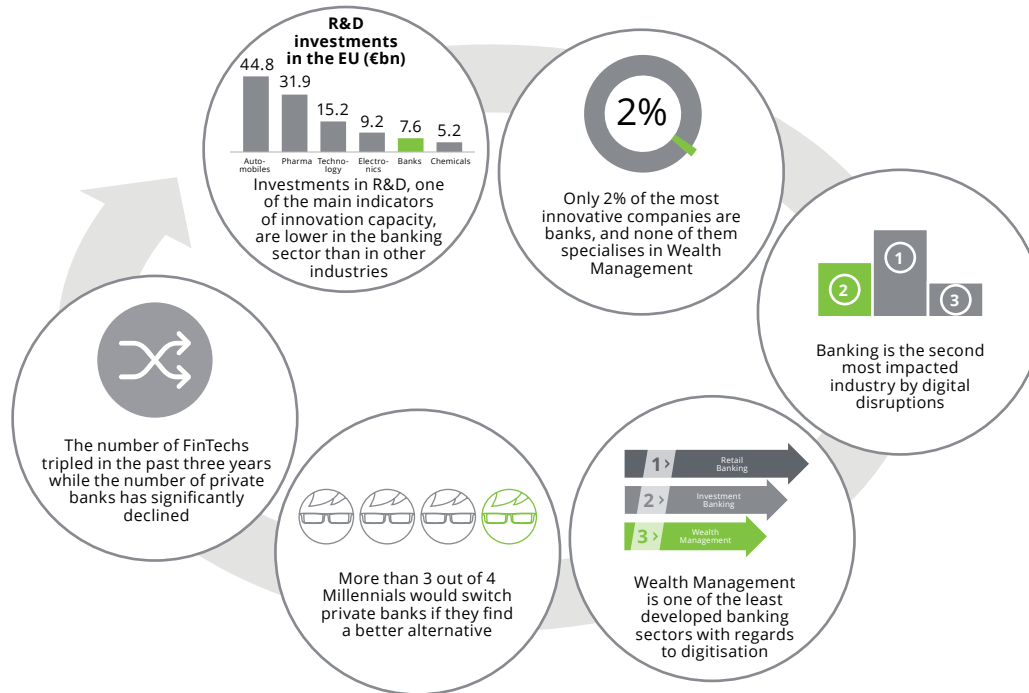
- Characteristics of the current core business model in Wealth Management**
- Focus on domestic on-/offshore business to affluent and high net worth clients with an international footprint
  - Offering of custody, advisory and brokerage services, as well as standardised and individual discretionary mandates
  - Relationship Manager-driven coverage and service model (as opposed to specialist or desk/team driven model)
  - Limited own-product manufacturing capabilities
  - Highly integrated value chain (average industry integration of above 80%) with complex IT infrastructures
  - Profit model based on client asset volumes

- Typically, **the life cycle** of a **business model** is characterised by an **introductory phase**, during which management is in an **entrepreneurial mode** and willing to take risks, and losses are incurred to grow the business before reaching breakeven
- Once growth is established, management is in an **adaptive mode**, making short-term decisions and being **reactive** by making adjustments to the business model with the objective of **increasing growth and profitability**
- In the maturity phase, management is changing to a **planning mode**, driving analysis to increase efficiencies and developing strategies to **maintain** levels of **profitability**. Ideally, management starts questioning whether the **core business model** can be successful in the future and develops ideas for a **new business model** (green dashed line)
- Once **decline** has started, only **transformational innovations** can enable new business models, and **adjustments** to the **core business model** will only **delay the end** of the **life cycle** (grey dashed line)
- As shown on the previous page, the **current core business model** in **Wealth Management** (see call-out box on the bottom left for characteristics) has been in **decline** since 2000. Accordingly, **adjustments** will only **slow down** the ongoing decline, while the **urgency** to develop **new business models** is increasing and forcing Wealth Managers to **intensify transformational innovation efforts**

# Insufficient strategic importance of innovation

The question for an innovation gap can be affirmed when comparing the strategic importance of innovation in Wealth Management with that of other industries...

## Relevance of innovation in Private Banking and Wealth Management



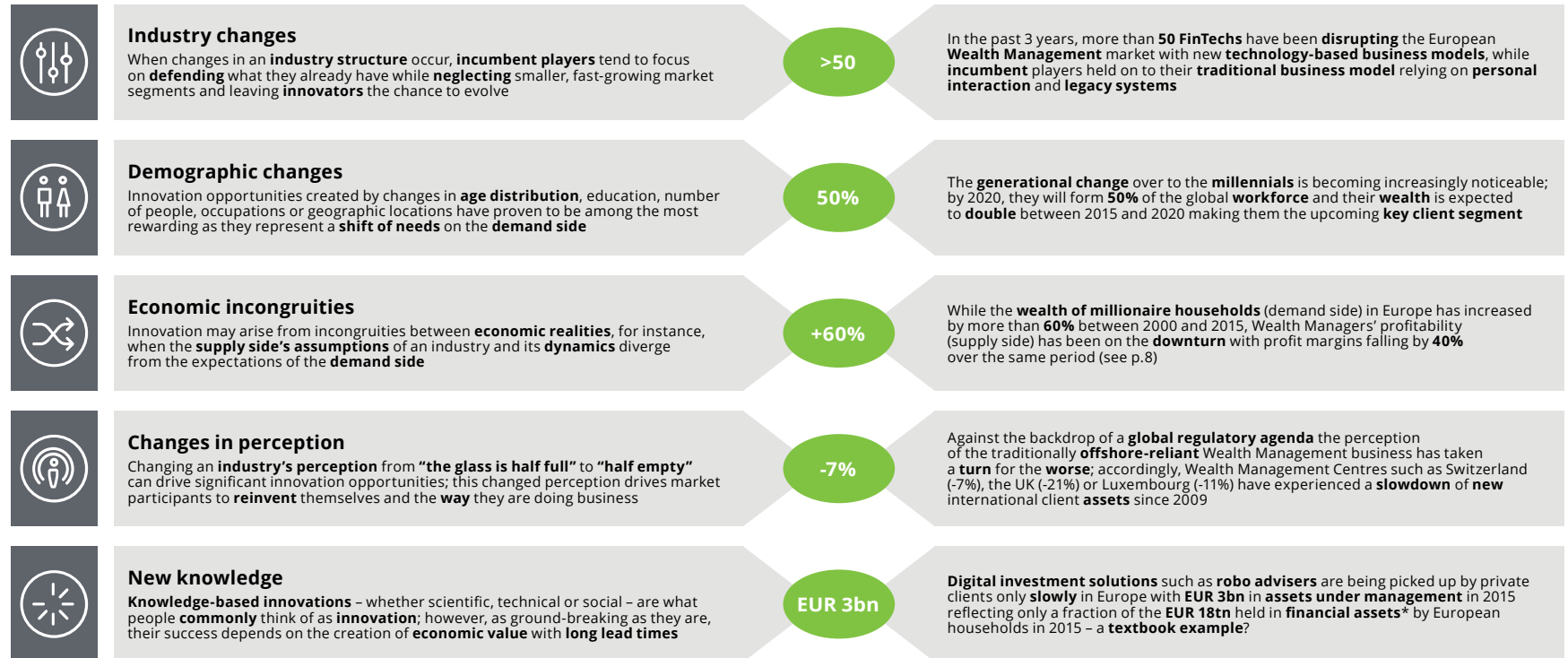
- In comparison to **other industries**, Banking in general is **lagging behind** when it comes to **innovation** as both the level of **R&D investments** and the **ranking** of banks among the most **innovative companies** indicate
- This is specifically **paradox** given the fact that **Banking** is the **second most impacted industry** by **digital disruptions** and thus banks should presumably attempt to **overcome** this challenge by investing in **digital innovations**
- For **Wealth Management**, a business that is traditionally based on **trust** and **personal relationships**, the backlog in terms of **digitisation** is even higher than for other banking sectors such as Retail or Investment Banking
- This is specifically **alarming** as **75% of Millennials** – a specifically **tech-savvy** and **growing** client segment – would **switch** their **private bank** if they found a better **alternative**
- Considering the fact that the **number of FinTechs** – firms that on the back of **technology-based business models** offer **digital** banking services – has **tripled** in Europe in the past three years while the number of **private banks** has steadily **declined**, which might hint that the creation of alternatives is already **underway**

# Situations favouring innovation opportunities

...and given the fact that most types of opportunity for innovation can be found in Wealth Management already for some time

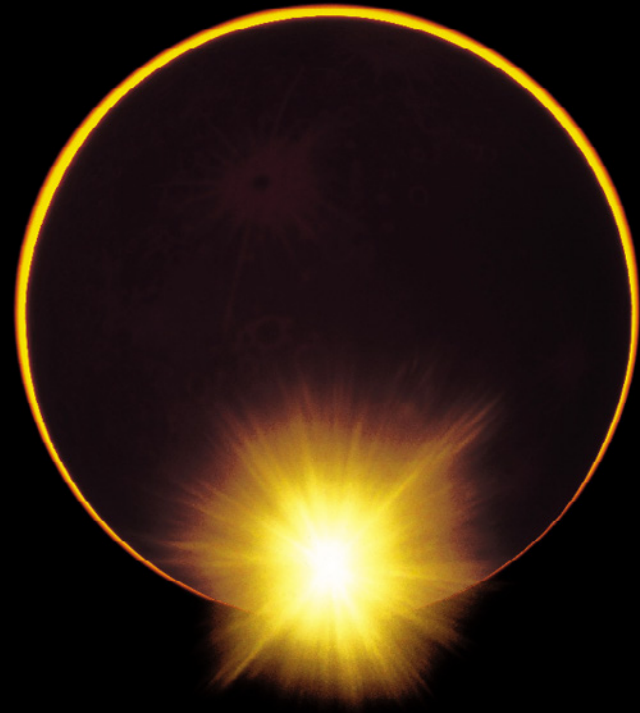
## Situations favouring innovation opportunities...

## ...and their relevance in Wealth Management



\* Financial assets include onshore and offshore currency and deposits, debt securities, equity, investment funds shares, life insurance and annuity entitlements, pension entitlements and entitlements to non-pension benefits

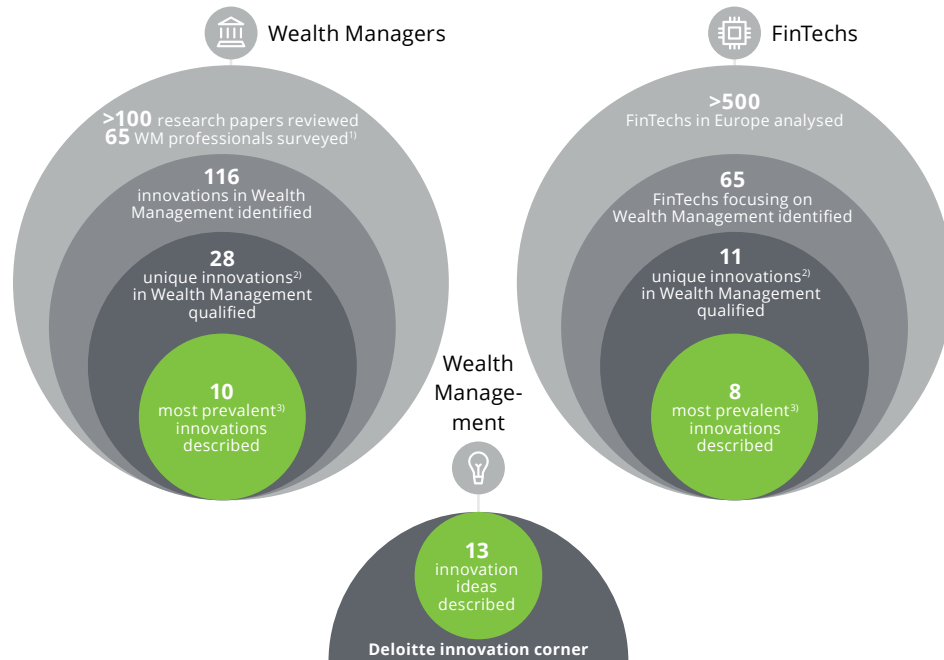
# Market Intelligence on Innovation in Private Banking & Wealth Management **Approach**



# Market intelligence approach

Based on a comprehensive view of the Wealth Management industry, we identified 28 unique innovations from Wealth Managers and 11 from FinTechs...

## Scope of and approach to market intelligence



- In order to gain a **comprehensive view of innovations** in the Private Wealth Management industry, we analysed current innovations and innovation trends for both **Wealth Managers** and **FinTech companies**
- For **Wealth Managers**, we reviewed more than **100** recent **reports** and **surveys** looking for implemented, planned or intended **innovations** in the Private Banking and Wealth Management industry; we found **116 innovations** in Wealth Management and of these, **28** were **unique innovations**; the 10 most prevalent were then described in detail
- For **FinTech**, we analysed more than **500** European **companies** and identified **65** companies that specialise in Wealth Management of which we could identify **11 unique innovations** already implemented
- Innovations of both groups were then **compared** with each other and commonalities, differences and **white spots** were interpreted
- Finally, based on our view of the market and innovations observed in other industries, **13 innovation ideas** in Wealth Management were described in an **innovation corner**

Chapter 3b  
p. 16 et seq

Chapter 3c  
p. 23 et seq

Chapter 3d  
p. 27 et seq

Chapter 3d  
p. 30 et seq

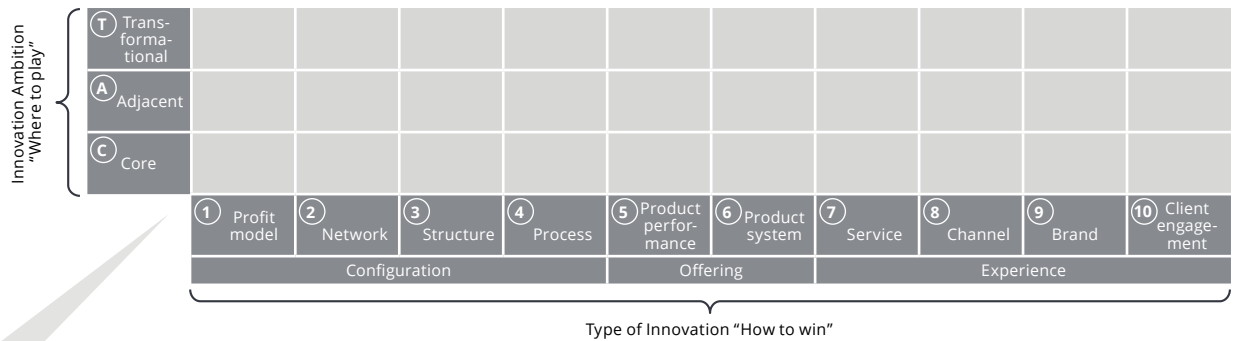
1) Wealth Management professionals have been surveyed as part of the study "Innovation in Wealth Management" conducted by Deloitte in collaboration with WealthBriefing  
 2) Identified innovations were clustered as unique innovations; for example, robo advisers were counted only once as a unique innovation for Wealth Managers and FinTechs despite plenty of research focusing on this topic and a number of organisations offering robo advisory services  
 3) Based on the unique innovations, the most prevalent innovations per innovation type (see p. 14) were assessed based on a frequency analysis following the number of mentions (Wealth Managers) and the number of companies (FinTechs) respectively

# Market intelligence approach

...and mapped them according to their Type of Innovation and Innovation Ambition to create a clear picture of where and how innovation takes place in Wealth Management

## Ten Types of Innovation and Innovation Ambition

- T Transformational:** Leveraging breakthrough capabilities, offerings, processes and technology new to the industry to enable innovation intended for brand new client segments addressing completely new client needs
- A Adjacent:** Leveraging emerging capabilities, offerings and processes different from those in use today, more advanced technology being used only in other sub-sectors of the industry to enable innovations that address clients in adjacent markets as well as current clients
- C Core:** Leveraging existing capabilities, offerings, processes and technology already being used in the industry to enable innovation with respect to existing clients as well as known and current client needs



**Innovation matrix**  
While the innovation ambition represents the overall potential to change the way business is done today ("where to play"), the type of innovation indicates the areas of the business it affects ("how to win")

- 1 **Profit model:** Finding fresh ways to convert offerings into revenues by understanding what clients actually cherish
- 2 **Network:** Identifying how to benefit from other firms' processes, channels, technologies, offerings or brands
- 3 **Structure:** Organising and aligning talent and assets to create value more productively and effectively
- 4 **Process:** Using unique, superior capabilities and methods to produce offerings more flexibly and efficiently
- 5 **Product performance:** Improving value, features, and quality of offerings incl. new products and product updates
- 6 **Product system:** Connecting and bundling individual offering to create complementary products and services
- 7 **Service:** Amplify the utility, performance and apparent value of offerings to create compelling client experiences
- 8 **Channel:** Rejuvenating how to connect with clients and deliver products and services to them
- 9 **Brand:** Distilling a brand promise that attracts clients and ensures they recognise, remember and prefer the offering
- 10 **Client engagement:** Creating meaningful connections with clients by understanding their deep-seated aspirations

# Market Intelligence on Innovation in Private Banking & Wealth Management

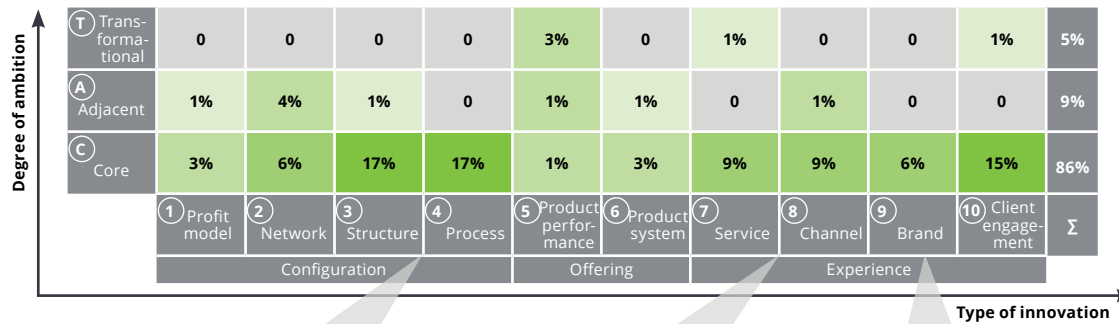
## **Wealth Manager Lens**



# Focus areas of innovation today: Wealth Managers

Innovations addressed today are mainly configuration and experience driven, and revolve around the core business with only outliers touching transformational ideas

Current relevance of innovation for European Wealth Managers



**Structure and Process**  
With cost reduction being one of the most important strategic priorities for Wealth Managers, innovations enabling efficiency gains are targeted on a large scale

**Services and Channel**  
Building digital capabilities is the most prevalent innovation in WM, although it can be rather considered as catching up with other areas of banking or industries

**Brand**  
Despite the fact that the financial crises have undermined clients' trust in banks, the need to refresh brand identity does not appear to be imminent

**Key:** Focus areas of innovation based on identified innovations (n=116):

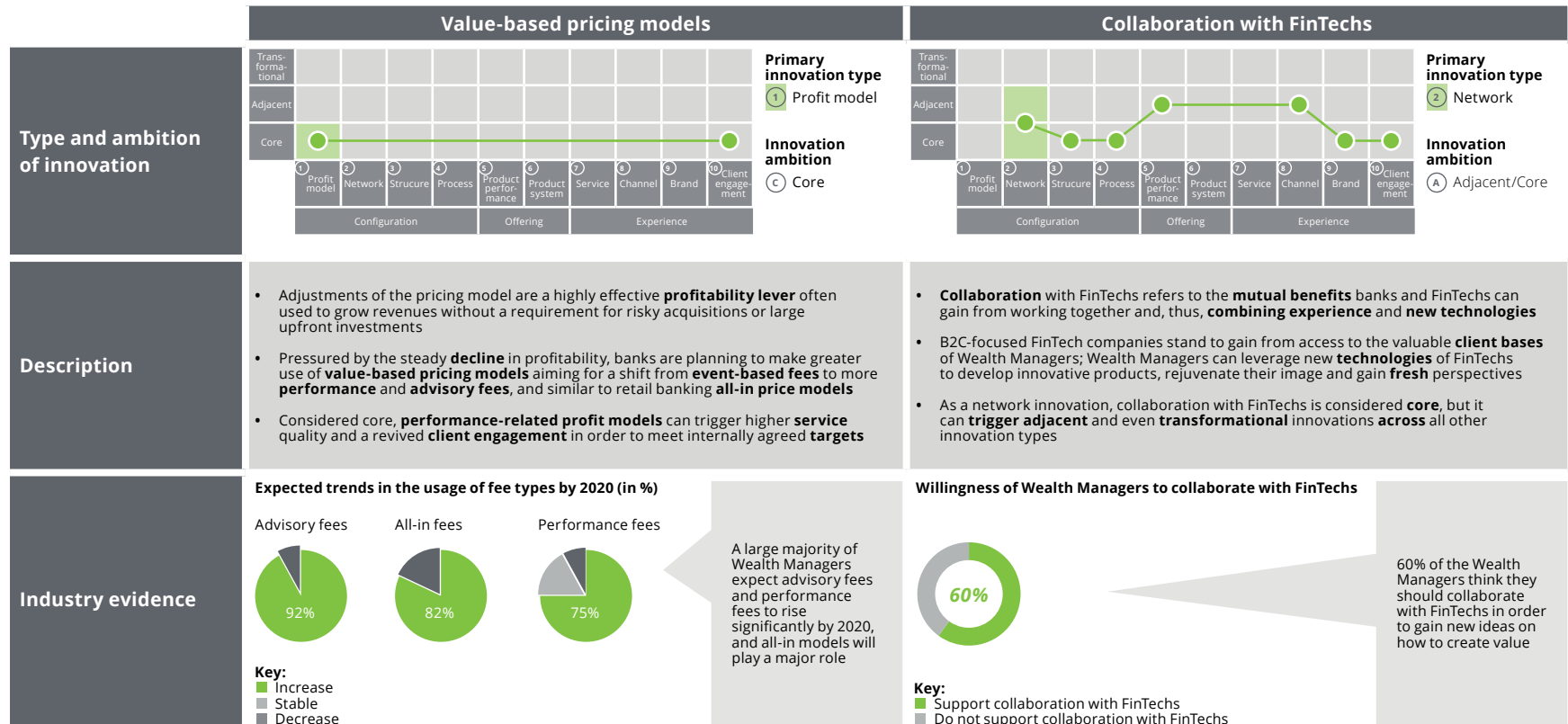
- >10%
- >5-10%
- >1-5%
- >0-1%
- 0

- Today, Wealth Management providers mainly focus their **intended innovations** around areas that are **core** (86%) and to a limited degree **adjacent** (9%) to the traditional business model suggesting the industry is still holding on to its **“past days of plenty”**
- However, this might be deceiving as Wealth Management is a **slow** and **intangible** business characterised by **personal interaction** and **trust**, which requires **time** to be receptive to **transformational innovations**
- While banks have understood that the **digital transformation** is inevitable, there is no uniformity with regards to the degree of digitisation of the business, i.e., the right **mix** of digital and personal interactions
- Accordingly, they have focused on more obvious **innovations** aiming to increase **efficiencies** (structure and process) and catching up with **digital backlog** in client communications (service and channel)
- Other areas, however, such as **brand** eminence or advancement of **profit models** have remained mainly untouched, while transformational innovations such as the **robo adviser** are perceived with scepticism
- **Detailed descriptions** of the most **prevalent** unique innovations from **Wealth Managers** are presented in the following



# Most prevalent unique innovations: Configuration

Driven by the continuous decline of profitability, Wealth Managers shift towards value-based pricing models and consider collaborations with FinTechs



# Most prevalent unique innovations: Configuration

Both Outsourcing and capability sharing and Relationship Manager workplace focus on the effective organisation of assets and optimise their use in internal processes

<h3>Type and ambition of innovation</h3>	<h4>Outsourcing and capability sharing</h4> <p><b>Primary innovation type</b> 3 Structure</p> <p><b>Innovation ambition</b> C Core</p>	<h4>Relationship Manager workplace</h4> <p><b>Primary innovation type</b> 4 Process</p> <p><b>Innovation ambition</b> C Core</p>																
<h3>Description</h3>	<ul style="list-style-type: none"> <li>Outsourcing and capability sharing is today mainly done for <b>standardised, non-client facing operations</b> such as tax reporting, transaction execution and client settlements</li> <li>However, the continuous <b>margin pressure</b> forces Wealth Managers to <b>expand</b> their outsourcing scope to further <b>non value-creating</b> activities; specifically for smaller banks, which so far preferred the <b>one-stop shop</b> model, this procedure is truly innovative</li> <li>Outsourcing and capability sharing primarily touches upon the <b>efficiency-oriented</b> innovation types such as structure, process and network</li> </ul>	<ul style="list-style-type: none"> <li>The RM workplace is a <b>digital platform</b> integrating all <b>capabilities</b> and <b>applications</b> required for an RM to serve clients while creating a complete, real-time <b>360° client view</b></li> <li>In doing so, the platform <b>simplifies</b> the RM's daily work by freeing up time from administrative tasks and collecting information from different systems enabling the RMs to serve clients more <b>efficiently</b> and <b>effectively</b></li> <li>Despite being classified as core, the RM workplace constitutes a <b>fundamental change</b> from 'business as usual', which ultimately impacts <b>all innovation types</b></li> </ul>																
<h3>Industry evidence</h3>	<p><b>Wealth Managers considering outsourcing of technology solutions (non-value creating)</b></p> <p><b>Key:</b>  <span style="color: green;">■</span> Considering outsourcing  <span style="color: grey;">■</span> Not considering outsourcing</p> <p><b>Advisory and relationship activities not to be outsourced</b></p> <table border="1"> <tr> <td>RM CRM and advisory workplace</td> <td>Investment advisory</td> <td>Portfolio management</td> <td>Product management</td> <td>Robo advisory solution</td> </tr> <tr> <td>89%</td> <td>86%</td> <td>83%</td> <td>78%</td> <td>78%</td> </tr> </table> <p>64% of Wealth Managers are considering the outsourcing of non-value creating technology solutions, while advice and relationship related activities are least likely to be outsourced</p>	RM CRM and advisory workplace	Investment advisory	Portfolio management	Product management	Robo advisory solution	89%	86%	83%	78%	78%	<p><b>Current level of satisfaction in RM workplace</b></p> <p><b>Key:</b>  <span style="color: green;">■</span> Unsatisfied  <span style="color: grey;">■</span> Satisfied</p> <p><b>Intended investments in adviser applications</b></p> <table border="1"> <tr> <td>Require further investments</td> <td>No further investments required</td> <td>No plans to invest</td> </tr> <tr> <td>65%</td> <td>20%</td> <td>15%</td> </tr> </table> <p>60% of Wealth Managers are unsatisfied with their RM technology in use, and even 65% think that further investments in adviser applications are required</p>	Require further investments	No further investments required	No plans to invest	65%	20%	15%
RM CRM and advisory workplace	Investment advisory	Portfolio management	Product management	Robo advisory solution														
89%	86%	83%	78%	78%														
Require further investments	No further investments required	No plans to invest																
65%	20%	15%																

# Most prevalent unique innovations: Offering Wealth Management innovations around product performance and product systems have the highest degree of ambition while impacting numerous other innovation types

Executive Summary

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FinTechs

Summary

Innovation Corner

Successful Innovations

Contacts and Sources

### Robo adviser

**Primary innovation type**  
5 Product performance

**Innovation ambition**  
T Transformational/Adjacent

### Holistic advisory approach

**Primary innovation type**  
6 Product system

**Innovation ambition**  
C Core/Adjacent

### Type and ambition of innovation

### Description

- Robo advisers are **algorithm-based** Wealth Management services that provide automated customised **investment advice** and **portfolio management** services
- They can enable Wealth Managers to efficiently offer Wealth Management services to clients with asset volumes **below** typical thresholds; for **traditional** clients, however, they are seen rather as **complementary** offering than a replacement for **human-based** advice
- Robo advisory is a truly **transformational** break-through innovation that could impact all innovation types by challenging the established **personal** private banking business model

### Industry evidence

**Robo advisers: Estimated European market potential (in USD billion)**

**Intend of private banks towards pursuing robo advisers**

- 20% Pursue robo advisers
- 30% Plan to pursue robo advisers as they become more sophisticated
- 50% No plans to pursue robo advisers

### Holistic advisory relationships with clients as key for performance

64%

**Key:**  
■ Consider holistic advisory as key for performance  
■ Do not consider holistic advisory as key for performance

### Description

- Holistic advisory looks at a client's **total balance sheet** beyond assets held with a Wealth Manager, i.e., clients are being served with respect to their entire **financial wellbeing**
- A shift from mainly providing investment advice to managing all the **financial affairs** of clients will open up **new sources** of revenue and strengthen **client relationships**; however, this will require banks to **build expertise** in new areas
- The holistic advisory approach requires banks to go **beyond the current core** and develop **adjacent** innovation types and create opportunities for new products and profit models

# Most prevalent unique innovations: Experience

Innovations around service and channel are mainly driven by meeting clients' desire for self direction and enhancing interactions and the connectivity with clients

<h3>Type and ambition of innovation</h3>	<h4>Digital research platform</h4> <p><b>Primary innovation type</b> 7 Service</p> <p><b>Innovation ambition</b> C Core</p>	<h4>Omni-channel communications</h4> <p><b>Primary innovation type</b> 8 Channel</p> <p><b>Innovation ambition</b> C Core</p>
<h3>Description</h3>	<ul style="list-style-type: none"> <li>Digital research platforms allow <b>self-directed clients</b> to directly access advanced financial information (e.g., market data, learning tools) and <b>build</b> their own <b>financial expertise</b></li> <li>In response to clients using <b>technologies</b> more and becoming more <b>self-directed</b>, and to keep up with digital communities and FinTech offerings, these platforms allow Wealth Managers to create a compelling <b>client experience</b> and grant access to professional data</li> <li>Originating from a <b>core service innovation</b>, digital research platforms cover innovation types related to client engagement and product performance</li> </ul>	<ul style="list-style-type: none"> <li>Omni-channel communication enables clients to interact with their advisers <b>anytime</b> and <b>anywhere</b> using the <b>full variety</b> of digital, physical and personal interaction channels</li> <li>Today, <b>digital channels</b> are primarily used to gather information while their potential related to <b>complex transactions</b> and remote <b>advisory</b> is not yet fully exploited; in particular with a focus on <b>cross-border banking</b> this is expected to increase continuously</li> <li>Omni-channel communication is a <b>core level channel innovation that can</b> increase value in the overall <b>service</b> quality and foster <b>client engagement</b></li> </ul>
<h3>Industry evidence</h3>	<h4>Growth rates of self-directed vs. non-self-directed investor segments</h4> <p>2011 2012 2013 2014 2015</p> <p><b>Key:</b>  <span style="color: green;">■</span> Self-directed investor market  <span style="color: grey;">■</span> Non-self-directed segment</p>	<h4>Client preferred interaction channels by complexity</h4> <p><b>Key:</b>  <span style="color: green;">■</span> Simple transactions  <span style="color: darkgreen;">●</span> Complex transactions</p>

Trends show that investors shift towards more active profiles with a significantly higher growth of the self-directed investors, compared to the non-self-directed segment

The majority of Wealth Management clients prefers digital channels for communications on simple transactions, but personal contact for complex transactions

# Most prevalent unique innovations: Experience

While Wealth Managers appear to be uncertain as to how they can enhance their brand, they are trying to create more meaningful personal interactions in branches

<p><b>Type and ambition of innovation</b></p>	<p><b>Brand innovation</b></p>	<p><b>Branch optimisation</b></p>												
<p><b>Description</b></p>	<ul style="list-style-type: none"> <li>The brand of a private bank <b>represents</b> its <b>offering</b> and everything associated with it – brand innovations can <b>attract</b> and <b>retain</b> clients, and ensure <b>recognition</b></li> <li>Despite its <b>undisputed</b> relevance as key <b>decision factor</b>, brand innovation appears to be of <b>subordinate</b> priority for Wealth Managers and is instilled only <b>indirectly</b> through social media activity (<b>channel</b>) or FinTech collaboration (<b>network</b>)</li> <li>Brand innovations in Wealth Management are likely <b>not transformational</b>, yet considering their <b>impact</b> outside of banking they are able to set new directions for whole <b>industries</b></li> </ul>	<ul style="list-style-type: none"> <li>Branch optimisation concepts aim to <b>bridge</b> the <b>physical</b> and <b>digital</b> delivery of services by extending the prevalent <b>human element</b> by <b>technology-enabled components</b></li> <li>Wealth Managers are moving away from today's branch model of serving <b>clients of all kinds equally</b>, optimising their branch concepts to create a more compelling and <b>personalised client experience</b> and increase <b>operational efficiencies</b></li> <li>As a <b>core</b> innovation, future state branch concepts exploit existing technologies to foster personalised <b>client engagement</b>, affecting structure, service and branding types</li> </ul>												
<p><b>Industry evidence</b></p>	<p><b>Expected top client decision criteria for selecting their Wealth Manager in 2020</b></p> <table border="1"> <thead> <tr> <th>Today</th> <th>2020</th> </tr> </thead> <tbody> <tr> <td>Quality of relationship</td> <td>Reputation/premium brand</td> </tr> <tr> <td>Reputation/premium brand</td> <td>Ease of dealing with bank</td> </tr> <tr> <td>Financial stability/Low risk</td> <td>Quality of relationship</td> </tr> <tr> <td>Investment performance</td> <td>Financial stability/Low risk</td> </tr> <tr> <td>Full WM proposition</td> <td>Investment performance</td> </tr> </tbody> </table>	Today	2020	Quality of relationship	Reputation/premium brand	Reputation/premium brand	Ease of dealing with bank	Financial stability/Low risk	Quality of relationship	Investment performance	Financial stability/Low risk	Full WM proposition	Investment performance	<p><b>Bank executive views on branch banking by 2020</b></p> <p>By 2020, having a premium brand is expected to become the most important decision criterion for their private bank</p> <p>While almost half of surveyed Wealth Manager executives expect branch concepts to change significantly by 2020, only 16% feel well prepared for this</p>
Today	2020													
Quality of relationship	Reputation/premium brand													
Reputation/premium brand	Ease of dealing with bank													
Financial stability/Low risk	Quality of relationship													
Investment performance	Financial stability/Low risk													
Full WM proposition	Investment performance													

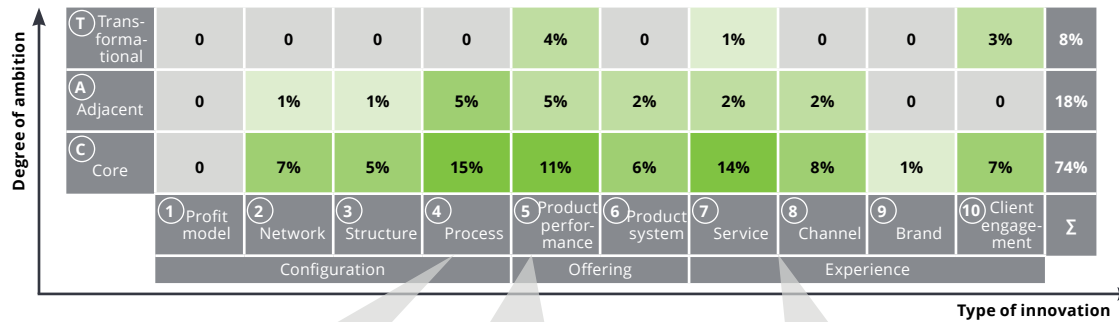
# Market Intelligence on Innovation in Private Banking & Wealth Management **FinTech Lens**



# Focus areas of innovation today: FinTechs

FinTechs accelerate the change of the traditional business model in Wealth Management although they are not as transformational as commonly presumed

Current relevance of innovation for European FinTechs



**Process**  
The highest concentration of innovations can be found here mainly due to their flexible solutions and tools offered to Wealth Managers

**Product performance**  
FinTechs' strong focus on this innovation type results mainly from the large number of companies that offer robo advisory services

**Service and Channel**  
Based on their technological nature, FinTech companies have changed the utility and delivery of offerings, and how to connect with clients

**Key:** Focus areas of innovation based on identified FinTechs focusing on Wealth Management (n=65):

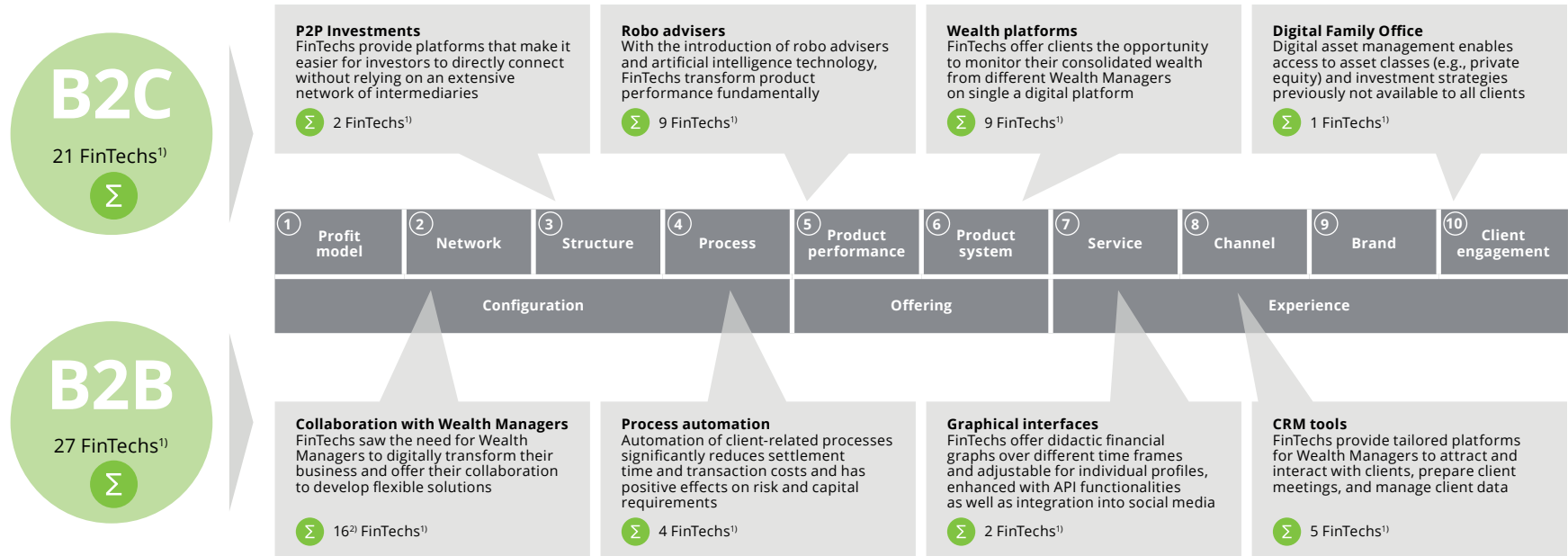
- >10%
- >5-10%
- >1-5%
- >0-1%
- 0

- Contrary to their **commonly-presumed transformational characteristics**, the innovation ambitions of FinTechs focus mainly on areas that are **core** (74%) to the existing Wealth Management business, yet with a **higher emphasis** on **adjacent** (18%) and **transformational** (8%) innovations
- FinTech's innovation activities mainly revolve around the innovation types **process** (20%) as well as **product performance** (20%) and **service** (17%), which reflects the fact that FinTech companies are split into **two camps**:
  - **B2B companies**, which specifically focus on the innovation types network, structure and process by offering **flexible** and **innovative software**, analytical **tools** and other **digital solutions**; they are **service providers** to Wealth Managers or **partner** with them
  - **B2C companies**, which specifically focus on the types product performance, product system and service by offering **robo advisers**, **peer-2-peer platforms** and **investment strategy solutions**; they **compete** with incumbent Wealth Managers for **private clients**
- Overall, it can be said that FinTechs **accelerate** the **change** of the traditional **business model** and the **digital transformation** in Wealth Management, but they have yet not fundamentally **transformed** the business

# Most prevalent unique innovations: FinTechs

Our analysis shows that FinTech innovations are either digitised Wealth Management services offered to private clients or digital solutions for incumbent Wealth Managers

## Mapping of FinTech's key types of innovations in Wealth Management



1) Based on the analysis described on p.13, 65 European FinTech companies focusing on Wealth Management have been analysed; the number of FinTechs in the mapping is smaller due to the fact that some of the companies have innovations in areas we have not identified as being "most prevalent"

2) Collaboration with Wealth Managers refers to FinTechs active in B2B across different types of innovation



# Digital Wealth Management

FinTechs focusing on business to private clients (B2C) most frequently offer robo advisory services and thus challenge the shift towards Digital Wealth Management

## Components of Digital Wealth Management

		Connect	Advise	Invest	
Digital Wealth Management	Portfolio Management 2.0	Social trading platform	✔	✔	✔
		Trading applications			✔
		Provider of information	✔		
		Crowdsourcing tools	✔		✔
		Mirroring provider	✔		✔
	Investment Management 2.0	Digital asset manager	✔		✔
		Robo adviser	✔	✔	✔
		Digital adviser		✔	
		Hybrid advisory*	✔	✔	✔

Key: ✔ Applies ○ Applies to a certain degree

**Connect:**  
Allow investors to link their accounts together, and connect with peers and the right advisers

**Advise:**  
Use digital interfaces and analytics to deliver tailored advice and enhanced experiences

**Invest:**  
Provide access to investment opportunities otherwise open only for high-net-worth individuals

- **FinTechs** focusing on business with **private clients** offer **portfolio** and **investment management** services on a **digital-only** basis, which – from a client perspective – has changed **three** core areas: **connecting, advising and investing**
  - **Connecting** has changed as FinTechs enable private clients to **access** investment information directly; client can also **exchange** ideas digitally or **mutually invest** funds with peers
  - **Advising** has changed as user-generated investment strategies (**social trading**) and **robo advisers** provide **automated advice** at a manageable cost and thus enable clients with **low asset volumes** to be served efficiently
  - **Investing** has changed as private clients are much **less dependent** on their advisers and can execute their investments much more **easily**, more **flexibly** and significantly **faster**
- While **Digital Wealth Management** is growing, **face-to-face advice** is not expected **to become obsolete**: for example, skilled **financial advisers** can create **value** for their clients and offer them tailored recommendations particularly where decisions are more **complex** or involve **higher value transactions**
- In this regard, **hybrid advisory models** appear to be the most promising **compromise**, as they **combine personal** and **digital components** to reduce advisers’ administrative tasks, and thus allow them to **concentrate** on their advisory role and increase **client proximity**

\* Combination of Robo advisers with personal advice

# Market Intelligence on Innovation in Private Banking & Wealth Management

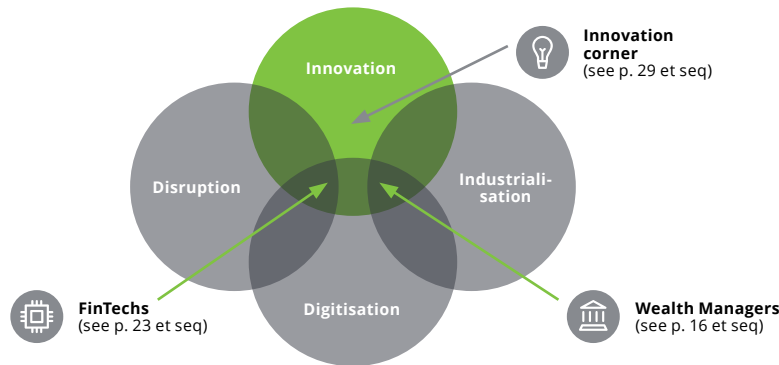
## **Summary Results**



# Summary: Focus areas of innovation

Innovation activities from Wealth Managers and FinTechs can be mainly categorised as industrialisation and disruption driven primarily by means of digitisation

## Categorisation of innovations in Wealth Management



- The **innovation ambitions** in Wealth Management combined from **Wealth Managers** and **FinTechs** revolve mainly around the existing **core business** (82%) with only **limited adjacent** (12%) and **transformational** (6%) innovation efforts; the main **innovation types** addressed today are clustered around **process** (18%), **structure** (14%) and **client engagement** (15%)
- The focus on **process** and **structure** can be attributed to the Wealth Managers' industry-wide strategic priority of **reducing costs** through **standardisation** and **digitisation** triggered by increasing economic pressure and technological advancement
- Innovations in the area of **client engagement** are mainly driven by **FinTechs** and concentrate on enhancing the existing, still mainly on **personal interaction** dependent **client experience**; having realised that **Wealth Managers** might be a more attractive **client segment** than private clients, which is in great need of **digital solutions**, FinTechs increasingly specialise in offering flexible, innovative **B2B solutions** to Wealth Managers to help them close their **digital transformation gap** and thus have a strong focus on the innovation type **process**
- In conclusion, it seems that **innovation** in Wealth Management still plays a **subordinate role** with most innovations being **responses** to existing **business challenges** rather than innovations based on the identification of opportunities to **create value** in a new way
- Instead, it can be said that the innovation efforts of Wealth Managers are much closer related to **industrialisation** and those of Fintechs to **disruption** – both by means of **digitisation**

Current relevance of innovation in European Wealth Management\*

① Transformational	0	0	0	0	4%	0	0	0	0	2%	6%
Ⓐ Adjacent	0	4%	1%	2%	2%	1%	0	2%	0	0	12%
Ⓒ Core	2%	6%	13%	16%	3%	4%	11%	9%	5%	13%	82%
	① Profit model	② Network	③ Structure	④ Process	⑤ Product performance	⑥ Product system	⑦ Service	⑧ Channel	⑨ Brand	⑩ Client engagement	Σ
	Configuration			Offering			Experience				

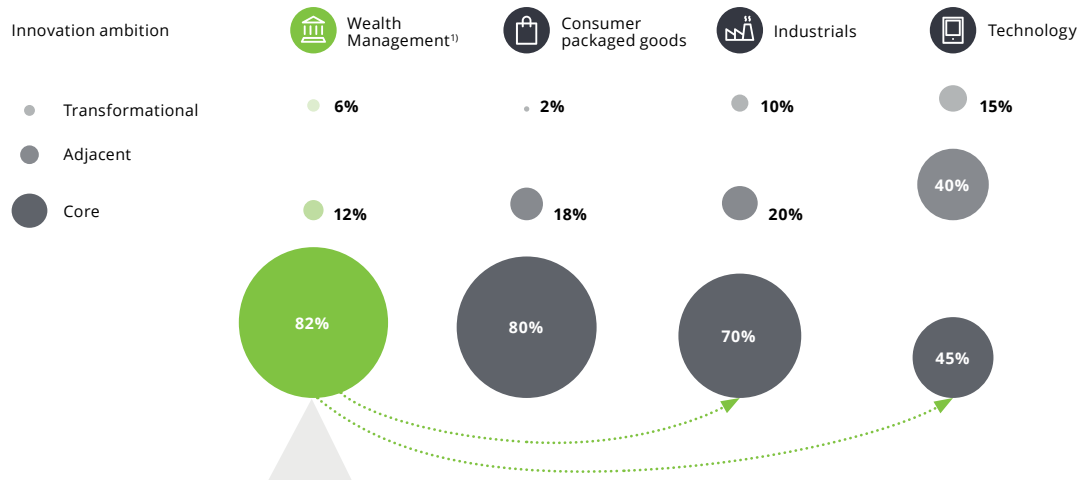
Key: Focus areas of innovation based on of identified innovations (n=181):  
 >10%  
 >5-10%  
 >1-5%  
 >0-1%  
 0

\* The Current relevance of innovation in European Wealth Management has been derived by the weighted average of the innovations in Wealth Management from Wealth Managers and FinTech companies

# Summary: Innovation ambition

Relative to other industries, innovation ambitions in Wealth Management are significantly lower with a strong focus on the core business

## Innovation portfolio of Wealth Management and selected other industries



### Innovation portfolio: An ideal allocation?

While there is no golden ratio for an innovation portfolio, analysis<sup>3)</sup> reveals that a 70:20:10 (C:A:T) allocation of resources outperforms peers; Wealth Management's significantly lower ambition of transformational (82%) and adjacent (12%) innovations in combination with their descending business model suggests that players should adopt how other industries adjusted their business models to a more fast paced environment and more frequently changing client needs

- The main **innovation ambition** in Wealth Management can be identified around the **core business** (82%) with only little ambition in the areas **adjacent** (12%) and **transformational** (6%) to the existing business model
- Generally, the **innovation ambition** of an industry varies according to a number of factors with the most important ones being its **rate of change<sup>2)</sup>** and **level of maturity<sup>2)</sup>**
- For example, the **technology industry** is characterised by a strong demand for continual **new releases** (i.e., a high rate of change) and accordingly exhibits a high ambition for **transformational innovations** (15%)
- When comparing **Wealth Management** to industries of similar maturity and rate of change (e.g., industrials, consumer packaged goods), the **innovation ambition** seems to be **much weaker** and is focused excessively on the **core**
- While this underlines the **subordinate role** of innovation as a **management discipline** in **Wealth Management**, it also shows that innovation cannot be forced or applied according to desire – it takes a **systematic approach** to **foster innovation**

1) The innovation portfolio has been derived by the weighted average of the unique types of innovations in Wealth Management from Wealth Managers and FinTech companies

2) The level of maturity indicates the stage of an industry within its life cycle; the rate of change is fostered by the threat to the industry's core activities that attract its stakeholders, and the threat to its core assets which shape its efficiency

3) Monitor Deloitte's innovation unit Doblin examined more than 5,000 innovations — successful and not — over the past 15 years

# Market Intelligence on Innovation in Private Banking & Wealth Management

## **Innovation Corner**



# Innovation corner

Innovations to gain a clear understanding of client needs that allow Wealth Managers to enhance the customisation of offerings and the client experience

				
	Social Media Listening	Intelligent Personal Assistants	Gamification	Instant Client Feedback
What?	Social Media Listening refers to the process of <b>monitoring digital conversations on social media</b> and other websites (e.g., blogs, forums) to gain insights into a <b>brand</b> or industry, to identify <b>trends</b> and <b>client pain points</b> , and to provide <b>responses</b> to complaints or questions	Intelligent Personal Assistants (e.g., <b>chat bots</b> ) refer to <b>computer programmes</b> that were designed to <b>simulate an intelligent conversation</b> with users via auditory or textual channels and that can <b>initiate</b> and <b>perform tasks</b> or services for an individual	Gamification refers to the concept of bringing together the elements of <b>design</b> and the <b>principles of a game</b> into non-gaming applications in order to generate a better client experience and increase customer utilization rates	Instant Client Feedback refers to <b>event triggered</b> online or mobile requests for clients to review their <b>experience</b> sent at <b>specific points</b> (e.g., immediately after an interaction) when clients are likely to give <b>feedback</b>
Why?	Wealth Managers can use <b>Social Media Listening</b> to help align their <b>offering</b> more closely with client needs, improve their way of initiating <b>contact</b> with current as well as potential <b>clients</b> , differentiate their <b>brand message</b> or even enhance their <b>product scope</b>	Wealth Managers can use <b>Intelligent Personal Assistants</b> for answering <b>individual non-standardised client requests</b> , for <b>obtaining</b> information or, when combined with <b>safe identification procedures</b> , for <b>placing</b> investment orders	Wealth Managers can use gamification to enhance <b>client experience</b> , <b>test new products</b> or provide <b>financial education</b> ; they can leverage gamification in order to increase the <b>'stickiness'</b> of their offerings, and can also be used to <b>generate insights</b> for the provider based on an analysis of the client behaviour and feedback	Wealth Managers can leverage <b>Instant Client Feedback</b> technology to use an automated and measurable <b>method</b> of obtaining <b>client feedback</b> and tracking <b>client satisfaction</b> , and to address <b>client issues</b> directly as they arise; they can take control of their <b>reputation</b> , capitalise on <b>opportunities</b> and deepen <b>client relationships</b>
How?	Taking into account the prominent <b>role of social media</b> in everyone's life and the increasing number of <b>millennials</b> joining the work force, Wealth Managers cannot afford to ignore the social media as a source of information for better understanding their clients	While Intelligent Personal Assistants are today not much more than <b>toys</b> and their application in Wealth Management may only be a <b>vision</b> , it is inevitable that their <b>functionalities</b> will <b>grow</b> ; in a world where clients expect service at <b>any place</b> and <b>any time</b> , Wealth Managers should keep an eye on the development of these programmes	The increasing number of millennials becoming clients of Wealth Managers creates a need to provide offerings that are <b>engaging</b> and more <b>attractive to younger generations</b> ; while gamification offers a relatively simple approach Wealth Managers need to make sure that their overall product line-up can <b>permanently bind</b> their clients	Wealth Management traditionally is a <b>personal business</b> where clients tend to <b>avoid</b> providing direct <b>feedback</b> , depriving Wealth Managers of <b>opportunities to enhance their service quality</b> ; Instant Client Feedback through <b>digital channels</b> can resolve this problem
Category	<b>Innovation types*</b>  <b>Innovation ambition</b>  Transformational/ Adjacent	<b>Innovation types*</b>  <b>Innovation ambition</b>  Transformational/ Adjacent	<b>Innovation types*</b>  <b>Innovation ambition</b>  Adjacent	<b>Innovation types*</b>  <b>Innovation ambition</b>  Core/ Adjacent

\* Innovation types: (1) Profit model (2) Network (3) Structure (4) Process (5) Product performance (6) Product system (7) Service (8) Channel (9) Brand (10) Client engagement

# Innovation corner

Innovations to improve the brand message and address new client segments as well as to identify new sources of revenue and profit models

				
	Digital Security Services	Client Care Concept 2.0	Sub-branding	Ingredient Branding
What?	Digital Security Services refer to the <b>protection of information and data from unauthorised access</b> , use, disclosure, destruction, modification, or disruption to ensure <b>confidentiality, integrity and availability</b> (e.g., by using <b>biometrics</b> and other means of <b>cyber security</b> )	Client Care 2.0 is the <b>extensive servicing of clients</b> based on a <b>core competence</b> and <b>additional services</b> along the <b>client life cycle</b> ; it involves a <b>client-centred</b> organisation that is fully <b>devoted</b> to meeting <b>client needs</b> and it represents a shift from client relationship to <b>client experience management</b>	A Sub-brand is a <b>separately marketed</b> brand with its own <b>target audience, brand identity</b> and <b>market campaign</b> which strengthen and echo the <b>values</b> and <b>message</b> of the original <b>parent brand</b> ; it is used to <b>reach a market</b> that the <b>parent brand</b> cannot reach by <b>itself</b>	<b>Ingredient Branding</b> is the selection of a specific component, ability, product or brand originating from a <b>specific organisation</b> , which will be included in another offering; this offering is then separately branded and advertised with the <b>“ingredient”</b> projecting the positive brand associations and properties on the offering
Why?	Building a <b>specialisation in securing</b> clients’ <b>digital assets</b> and <b>information</b> can allow Wealth Managers to build client satisfaction in an area that faces a lot of <b>scepticism</b> and <b>uncertainty</b> and will in the long run not only increase client confidence but can create <b>new sources of revenue</b>	Wealth Managers can apply <b>Client Care 2.0</b> to achieve higher levels of <b>client satisfaction, excitement</b> and <b>loyalty</b> , and thus establish long-term <b>relationships</b> and create a <b>competitive advantage</b> ; moreover, additional <b>“care”</b> services can unfold <b>new sources of revenue</b> and <b>profit models</b>	Wealth Managers can <b>build a Sub-brand</b> to enter the <b>digital investment market</b> and thus reach <b>potential clients</b> they would not reach with their own brand while being able to provide existing clients an <b>additional offering</b>	As opposed to <b>Sub-Branding</b> , <b>Ingredient Branding</b> allows Wealth Managers to <b>lend their brand</b> and <b>services</b> (e.g., Portfolio Management) to other organisations instead of creating their own sub-divisions; also, they could <b>“borrow”</b> other brands and services for a specific offering to <b>address</b> specific client segments
How?	As the importance of <b>digital assets</b> is increasing, the <b>safeguarding</b> of sensitive information and data could be a <b>future source of revenue</b> ; specifically for <b>Wealth Managers</b> , which have traditionally secured physical <b>client valuables</b> and have a corresponding <b>reputation</b> , this could be a future <b>business opportunity</b>	With <b>client loyalty</b> and <b>profitability</b> in Wealth Management being in constant <b>decline</b> and <b>differentiation criteria</b> being limited, <b>supplementary services</b> to enhance the <b>client satisfaction</b> have great potential for <b>new business opportunities</b> and could be sources of novel <b>profit models</b>	As Wealth Managers struggle to merge both the expectations of their <b>traditional clientele</b> preferring the security and prestige that come with an <b>established brand</b> and those of <b>younger generations</b> demanding a fresh <b>brand promise</b> that is related to <b>technology</b> , building a <b>Sub-brand</b> can solve this <b>challenge</b>	<b>Ingredient Branding</b> can be of particular advantage both for FinTechs and Wealth Managers to improve the <b>trustworthiness</b> and <b>reliability</b> of their own brands (FinTechs) or to <b>rejuvenate</b> their brand and address <b>next generation clients</b> (Wealth Managers)
Category	<b>Innovation types*</b>  <b>Innovation ambition</b>  Transformational/ Adjacent	<b>Innovation types*</b>  <b>Innovation ambition</b>  Core/ Adjacent	<b>Innovation types*</b>  <b>Innovation ambition</b>  Core/ Adjacent	<b>Innovation types*</b>  <b>Innovation ambition</b>  Core/ Adjacent

\* Innovation types: (1) Profit model (2) Network (3) Structure (4) Process (5) Product performance (6) Product system (7) Service (8) Channel (9) Brand (10) Client engagement

# Innovation corner

Innovations to accelerate the transfer of traditional Wealth Management into the digital world while enabling the evolution of a new business model

								
	Orchestrating	Open APIs	Digital Identity	Cloud Service Models				
What?	Orchestrating refers to the focus of a company on its <b>core business</b> by separating it from other <b>value chain segments</b> ; in Wealth Management, it could mean the <b>separation of transaction, product, and client-related</b> functions into <b>independent units</b>	<b>APIs</b> (application programming interface) are <b>interfaces</b> on a source code level between <b>software applications</b> , both within and between organisations; they enable the <b>communication</b> between applications where one application calls upon the <b>functionality</b> of another	A <b>Digital Identity</b> is the digital representation of a unique combination of characteristics of an individual; Digital Identities can be accessed in an <b>automated way</b> , facilitate <b>computer-enabled services</b> , and make it possible for computers to mediate relationships	The cloud is a <b>paradigm shift</b> in computing, by which <b>infinite computing capabilities</b> and resources are delivered as a <b>service</b> to clients using <b>internet technologies</b> ; service models include Business Process-as-a-Service (BPaaS), Software-as-a-Service (SaaS), Platform-as-a-Service (PaaS), Infrastructure-as-a-Service (IaaS)				
Why?	Wealth Managers can achieve higher levels of <b>specialisation, collaboration</b> and <b>client focus</b> in each <b>unit</b> by separating their functions, and creating individual <b>cultures</b> per unit; it allows them to <b>benchmark</b> the costs and service levels of each unit against <b>external providers</b> , and provides <b>flexibility</b> for future challenges to the <b>business model</b>	Wealth Managers can open their <b>APIs</b> to enable third parties to build new applications <b>on top</b> of their own <b>platform</b> , for <b>social sharing</b> for marketing purposes, or to <b>syndicate products</b> and services across different platforms (e.g., co-create an offering with a FinTech company)	The lack of Digital Identity inhibits the development and delivery of <b>efficient, secure, digital-based</b> Wealth Management offerings; Digital Identity allows to perform <b>critical activities</b> with <b>increased accuracy</b> over its physical counterpart, and to streamline or <b>automate</b> many <b>processes</b>	<b>Cloud computing</b> has the capacity to change the Wealth Management landscape; while already <b>standard</b> in <b>other industries</b> , <b>cloud-based core banking systems</b> can significantly <b>reduce operating costs</b> , improve the <b>flexibility</b> of <b>collaboration</b> and bypass the difficulty of <b>forecasting</b> necessary <b>server capacities</b>				
How?	While the separation of functions in Wealth Management is not revolutionary, the <b>disintegration</b> into separate entities will help with the preparation of their organisation for the expected <b>disaggregation of the value chain</b> in the digital era	Open APIs in Banking are still in their <b>infancy</b> stage, but <b>rapid</b> development should be expected; they can possibly affect all existing <b>processes</b> and will require Wealth Managers to make <b>strategic choices</b> and explore new <b>business models</b>	Digital Identity allows Wealth Managers to reduce efforts around the <b>compliance</b> with increasingly strict <b>regulations</b> on client identification by the enabling of legally-binding, <b>digital contracts</b> , while delivering <b>better client experiences</b> through reduced client administration efforts	Transferring to a <b>cloud-based system</b> allows Wealth Managers to move to a more <b>flexible business model</b> ; they can operate in a significantly more <b>independent</b> manner and <b>reduce burdens</b> from the traditional IT business model				
Category	<b>Innovation types*</b>     	<b>Innovation ambition</b>  Adjacent/ Transformational	<b>Innovation types*</b>       	<b>Innovation ambition</b>  Transformational/ Adjacent	<b>Innovation types*</b>    	<b>Innovation ambition</b>  Adjacent	<b>Innovation types*</b>     	<b>Innovation ambition</b>  Adjacent

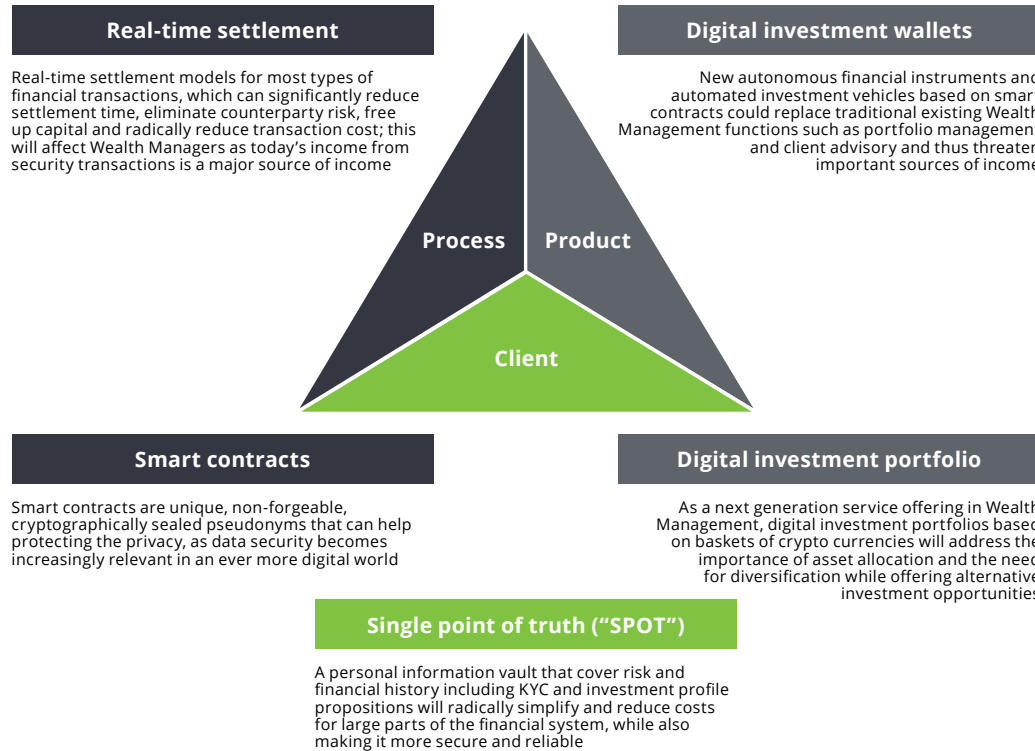
\* Innovation types: (1) Profit model (2) Network (3) Structure (4) Process (5) Product performance (6) Product system (7) Service (8) Channel (9) Brand (10) Client engagement



# Innovation corner

And what about Blockchain? Blockchain is the most discussed topic when it comes to innovation in banking – but does it have relevance for Wealth Management, too?

## Proposition and implications of Blockchain to Wealth Management



- Unlike the development of existing technologies like the internet, the **development of Blockchain** takes place at a much **faster pace** and will shape the financial services infrastructure once becoming mainstream
- **Syndicates of big universal banks** are heavily driving the development because the Blockchain technology **offers enormous opportunities** to their business model with **relevance for Wealth Management**
- **Real-time settlement models** will transform the execution of financial transactions with positive impacts on the transactions costs, counterparty risk and capital availability, however will also **threaten transaction fees** as one of the main sources of income in Wealth Management
- The **protection of privacy** including risk and financial history will become less costly and much simpler with **smart contracts** and **single point of truth** ("SPOT") and allow for more reliable client interactions
- Therefore, it is **crucial** also for Wealth Management **to understand the benefits and impacts** of Blockchain to their business models and decision makers should start looking at **use cases** and carefully follow the development over the next years

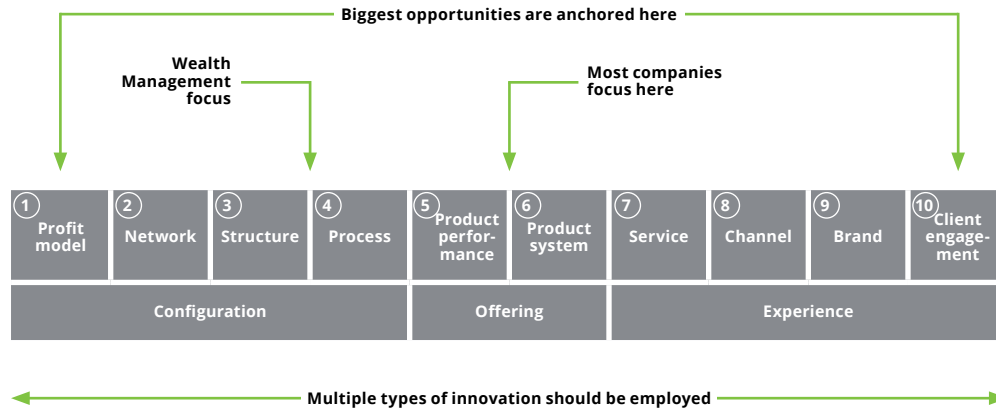
# Characteristics of Successful Innovations



# Characteristics of successful innovations

Innovation often fails but it does not need to – insights from an analysis of over 5'000 innovations can help overcome the most common innovation pitfalls

## Innovation success factors along the Ten Types of Innovation\*



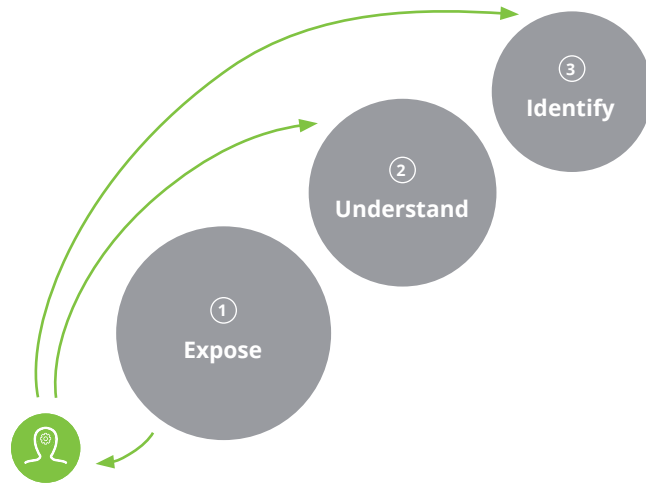
- Typically, the most **successful** innovations share **two traits**:
  - They focus on **shifts** in the **profit model** and means of **client engagement** as these are the strongest drivers when it comes to **value creation**; these innovations are “**anchored at the ends**” of the Ten Types of Innovation spectrum and thus have the potential to affect other types of innovation as well
  - They employ **multiple** (at least **four**) types of innovation which makes them genuinely **new** and can lead to a **change** of the **business model** (ideally when **six** or more types of innovations are addressed)
- Most **unsuccessful** innovations, in turn, have been centred around **product performance** and **product system**, as new product ideas are easy to **devise** but in reality are often quickly shut down being too vulnerable to **competition**
- The innovation focus in **European Wealth Management** mainly revolves around **structure** and **process** (see p. 27), reflecting the need to **reduce** the **cost base** of the existing **business model**; this, however, might be short-sighted as the call for a **new business model** is becoming increasingly **louder** with the progressing **decline in profitability** and the **transformation** of the banking ecosystem

\* Monitor Deloitte's innovation unit Dublin examined more than 5,000 innovations — successful and not — over the past 15 years and identified specific success factors related to the Ten Types of Innovation

# Mind-shift

As a first step to instil innovation, the prevalent key beliefs of leaders need to be exposed to new realities and an environment for divergent thinking needs to be created

## Achieving an effective mind-shift among the leadership



If they are to drive innovation effectively, leaders should have a **mind-set** that favours **collaboration** and is not functionally-focused; this mind-set rarely occurs without encouragement: **innovation leaders** need to be developed alongside **innovation capabilities** starting with a **structured** approach to effect a **mind-shift**:

### 1) Expose

- Uncover prevalent **key beliefs** and **guiding principles** regarding the **traditional business model** and established **client behaviours** – in Wealth Management, these are **deep seated** due to the industry's **maturity**, which is associated with a strong **resistance** to change
- **Challenge** prevalent key beliefs and **expose** the leadership to facts and new insights into how **others** in the **industry** operate under adopted key beliefs; **consider** what implications this could have for **strategy**, and **generate interest** in innovation

### 2) Understand

- Provide a **future-oriented perspective** and develop **scenarios** supported by extensive **research** to create an **understanding** of **trends**
- **Engage** leadership around the **urgency** and importance of **transformational innovation** in Wealth Management given the industry-wide **decline in profitability** and the stage of the industry's **life cycle** (see p. 8/9), and create an **environment** for **divergent thinking**

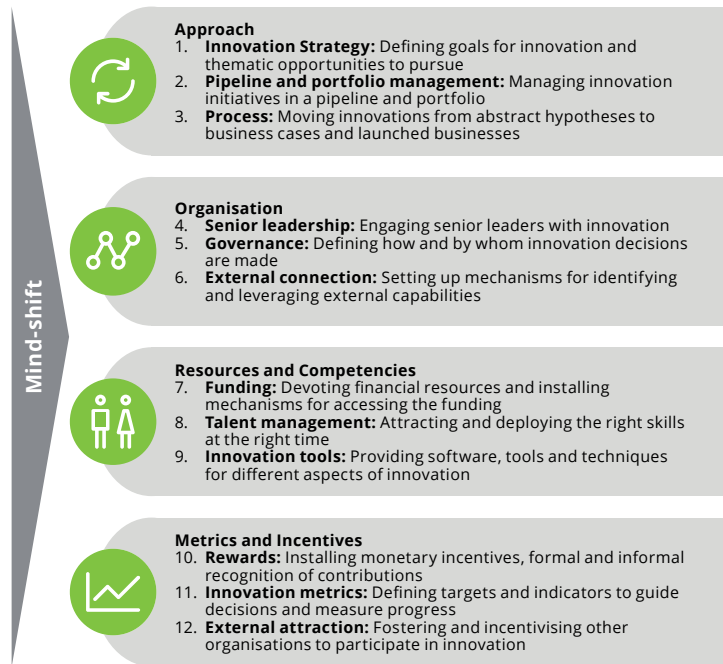
### 3) Identify

- Identify **opportunities** and **disruptive threats**, and how **trends** could change the existing business model, ideally looking at the innovation types **profit model** and **client engagement**
- Ensure **pragmatic focus** on developing conclusions, and discuss how **innovations** could be **supported** given the **circumstances** of the **organisation** and the **characteristics** of the industry

# Innovation building blocks

Leading innovators have in common that they use four specific innovation building blocks with twelve critical capability levers

## Innovation building blocks and critical capability levers\*



- Leading** innovative companies use their **building blocks** and **capability levers** in distinctive ways:
  - They employ a tailored **approach** built around clear **definitions** and **methodologies** for the work to be done in **generating innovations**; moreover, they manage their innovation efforts as a **portfolio** across core, adjacent, and transformational innovations following clear **processes** and **business cases**
  - They structure the **organisation** to **house** the innovation **competency** (i.e., teams, divisions, and leadership) and establish **interfaces** for connecting it to the broader enterprise and the world
  - They **acquire** and **nurture** the appropriate **resources** and **competencies**, i.e., the **people** who perform the work of innovation; they develop and provide the **skills, tools** and **training** needed and ensure the necessary **funding**
  - They develop the right **metrics** and **incentives** to **guide performance**, i.e., **measures** to evaluate progress and **incentives** (monetary and non-monetary) to drive the supporting behaviours
- For Wealth Management, this means that innovation should be formally **embedded** into the organisation; innovation needs to be considered as a **management discipline** and opportunities need to be systematically **screened** and regularly discussed across the leadership
- While today more than **40%** of **Wealth Managers** believe that the **responsibility** for **innovation** should be with the **COO**, it generally does not matter whether innovation is a **dedicated function**, a **person** or a **team** – what is **not acceptable** is having nobody at all **driving innovation**

\* Monitor Deloitte's innovation unit Dublin examined more than 5,000 innovations — successful and not— over the past 15 years and identified that 92% of innovation leaders that outperform peers in share price have innovation systems with all four building blocks

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