Outsourcing

The Private Banking industry: facing the challenge of the new paradigm

The Private Banking industry is experiencing a period of significant change. Many regulatory factors and underlying trends related to the behavior of customers are changing the market structure.

These changes require organizations to review their service model and their strategic positioning in the private banking market. They require urgent transformation of their organization in three dimensions: market, business model and operating model.

The implications of these changes on the business architecture of organizations are diverse and involve different components of the business architecture.

First of these implications is the need for Private Banking actors to achieve a significant reduction in cost structure over the long term. The underlying challenge is thus to be able to manage the "squeeze" induced by the new paradigm: changing the cost structure while investing in a business model adapted to the new market structure and client expectations.

Transformation has to be made, taking into consideration the three components of the private banking business architecture: a new strategic position, a new service model, and a new operating model.

The challenge of the business model and the service model

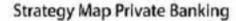
Changes in market structure force a reevaluation of the elements in the value chain on which Private Banking actors are positioned. The major changes in the European fiscal framework have accelerated the transformation of the business model based on offshoring. The question of providing value-added services is a priority issue within banking groups. The interaction and added value of Offshore entities with domestic private banks has to be redesigned. So does the ability of such entities to achieve synergies with other business lines. These points must be taken into account when defining a model including complementary private banking centers. Such value proposition should be the result of a diagnosis carefully driven by the top management of the bank.

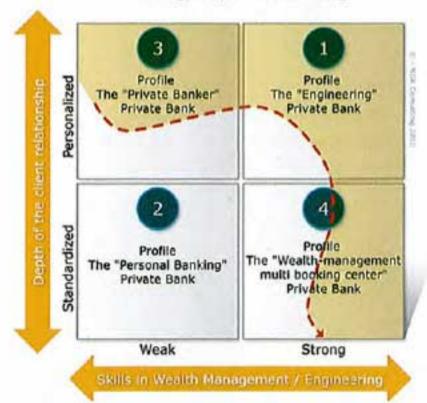
This diagnosis of comparative advantages and key success factors must be defined, so that the organization can control them and manage its position with respect to them. A survey by the research center of NGR Consulting "Trends and evolution of the Business Model for Private Banks - the impact of the crisis on the operational model", aimed at evaluating the preparedness of managers involved in private banking to transform their business model, shows an interesting typology.

This typology is summarized in the matrix below. The positions involve the mastery of different key success factors for the organizations. The service model and service coverage depend on the strategic choice of the market position. Whatever the key success factors identified in the 4 types, all rely on cost reductions to succeed.



What emerges is the need to develop a new type of operational model to achieve this goal. The survey estimated the potential value creation for private banks implementing an operating model based on a complete or partial outsourcing of back office operations: for securities and cash, as well as for the regulatory reporting process. For most organisations, the gain is significant. The survey also outlined that gains could be optimized by using white label support services with high added value (including, for example, customer reporting for multiple taxation, and financial engineering services).





The challenge of aligning the operating model with the new strategy

The challenge of the definition of an efficient operating model is therefore the key for the execution of the strategy. For a number of players, this is a condition of the survival of the existing business model. The New Operating Model must meet the challenges of:

- Increasing the flexibility to follow evolving private client demands and markets without the constraint of a banking platform which is "technologically old" and thus more and more difficult to manage;
- A strong focus on business development and client focus, meaning a shift from the "booking center concept" to schemes based on "high value added services";

- Investment in client facing activities and in support of client relationship and portfolio management - keys to acquiring competitive advantage;
- Cost reduction in non client facing activities, to maintain or increase profitability.

How the outsourcing model can create value: the "Multi private banking hub" model

The value added by Opexia, the BPO services platform, derives from a service model that helps industry players to achieve their objectives. This service delivery model specializes in providing outsourcing services for the Private Banking/Wealth Management segment.

The "Multi private banking hub" model provides an efficient standardization of standard processes for private banks, while leaving the opportunity to focus their investments on segments or processes which provide a clear competitive advantage and differentiation from competitors. This allows the organisation to concentrate

on key success factors required as part of its particular strategic direction.

Opexia provides BPO services (in partner-ship with Oddo Bank) and asset structuring for actors involved in the Private Banking industry. They also provide comprehensive coverage, customized and unique to their clients allowing these to focus on their own core business. Thanks to this, the individual Private Banks can focus on investment segments and activities which create differentiation factors for their services, can pool the resources and logistical support activities of the business of Private Banking Wealth Management, and use the tools for front office (CRM, PMS) and control activities within BPO services.

More than just a BPO player, the multi private banking service model allows the implementation of the defined strategic orientations with the imperative of reducing operating costs.

By Nordine Garrouche

