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Lack of belief hinders private banks' progress

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The reluctance of distributors to invest in technology is amplified by the adoption of complex vehicles such as funds of funds, writes *Roxane McMeeken*

As private banks and other wealth managers find themselves jostling for increasingly savvy and choosy clients, you would think that anything that could put them above the competition would be grabbed with both hands. Technology offers one route to salvation. From the back office to computer systems used in the branch, technology has the potential to bring wealth managers long-term cost savings, greater efficiency and enhanced customer service. But not everyone is a believer.



“Wealth managers do not make use enough of the technology available in the marketplace,” says Nuyan Dunsford, global account manager at Odyssey, the front and middle office solutions provider. (See Chart 1). “They either don’t have it or they have it and don’t make full use of it.”

In the branch, technology-based tools can revolutionise the client relationship manager’s approach to building the customer’s investment portfolio. A massive 90 per cent of administrative work can be cut out if a machine, rather than a human being, carries out this process, according to Swissrisk, a Zurich-based provider of portfolio management technology to private and retail banks.

But according to Ms Dunsford, much portfolio management is done manually. Ideally, the investment process would be fully automated, from the construction of the model portfolio right through to sending the orders to funds in order to make the portfolio a reality. Few banks, if any, are at this stage, according to Ms Dunsford. The result is less efficient processes, higher administrative costs, a higher number of errors and a lower level of customer service.

Automatic portfolios

Some banks are starting to put their faith in technology, however. Dresdner Bank and Zurich Cantonal Bank, Switzerland’s third biggest bank, both recently sealed deals with Swissrisk, which mean they will now use technology to create personalised portfolios for customers automatically. The entire investment process can be handled by the Assetmanager PRO system, which sits on the client relationship manager’s computer desktop.

According to the technology boffins at Swissrisk, Assetmanager PRO

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can handle risk management, scenario analysis, rebalancing, hedging, portfolio analysis, hedging, portfolio optimisation and performance analysis. It can also incorporate unique client requirements and constraints, such as a request that the portfolio invests in no tobacco stocks. Further, it should make it easier for the adviser to identify a client portfolio in need of rebalancing.

Thomas Wolfsenberger, chief executive officer of Swissrisk, says: "Our system allows the creation of tailor-made portfolios, which enables private banks to offer personalised portfolios where before they did not have the resources."

Same service

This kind of technology is ideal for banks seeking to offer clients with smaller portfolios the same high level of service normally extended to the really big customers. It can also include any portfolios the client may hold with other institutions. "Our technology allows the relationship manager to demonstrate the benefits of amalgamating all the client's assets with one bank," says Mr Wolfsenberger.

"Clients don't need to see the machine," he adds, "neither will advisers become redundant, all the client will know is that you can build their model portfolio much more quickly."

Another key area of a private bank that the customer does not see is the back office. Most wealth managers and their outsourcing providers talk about employing technology in this part of their business, but scratch the surface and many turn out to be using faxes and phones. Pictet Private Bank is a classic example. Jean Jacques Vaucher, head of correspondent banking network at Pictet, believes automation in the back office saves costs and improves efficiency. But he admits to using faxes, phones and email far too often for his liking.

Some wealth managers even appear to be anti-technology, or at least opposed to the common practice of outsourcing to a company that has the technology. Among them is Charles de Boissezon, chief executive of Swiss private banking boutique Banque Pignatelli & Cie. "We definitely do not outsource, we are totally against it," he says. "We have talked about it and on the face of it, outsourcing sounds like a good idea. Yes, it's going to increase the bottom line, but we believe it would mean compromising our service to clients and we are not going to add to our bottom line at their expense. As a small private bank, our focus is not profits, our focus is the whole business."

But it has to be questioned how long this approach can keep a wealth manager in business in the increasingly competitive environment being created by more demanding customers and the need to link to external funds. The outsourcing providers and technology vendors make a compelling case for the benefits of their wares.

Bruce Raine, chief executive of technology provider International Private Banking Systems (IPBS), says the move to selling funds and especially external funds, is making life more complicated for wealth managers. While this makes the case for automation in the back

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office stronger than ever, it also means that back-office processing itself has become a formidable task for technology to cope with.

“Funds present complexities not handled by traditional securities processing platforms. An amount of money rather than an amount of shares is subscribed, then the money needs to be converted into shares in the fund. Often the administrator has to determine what the asset value is before they can allocate shares,” he says.

More complications

The problem is worse with funds of funds. “You have to wait for each sub-fund to tell you their price before you can work out the value of the overall fund and buy units of it. Some funds will pay interest on your money if it’s sitting uninvested, but that’s little compensation. It becomes very difficult to keep track of the money,” says Mr Raine.

With hedge funds things can become even more complicated: “You might just be investing money, rather than shares, and occasionally you get back details of what your investment is now worth. Most traditional systems still work on shares, so they cannot cope.”

IPBS has come up with technology aimed at sorting out this problem. It is currently live at Royal Bank of Canada. “With our system the client can go online and send a message to RBC in the form of an email order in a format that RBC can then import directly into its system, which is then sent to the trading platform.”

Technology came to RBC’s rescue, says Mr Raine. “They had limited physical space but their business was growing so they realised they had to either hire people or automate things.”

Cost – the final factor

Clearly the technology is out there, so now it is down to the wealth managers to start using it. What is holding them up? “They are too focused on short term savings”, says Naren Patel, director at technology vendor Trace financial. He admits that this understandable given the tough conditions of recent years.

He adds that better dialogue is needed between the wealth managers and technology providers. “The solution will be education and the fact that over time the technology will be seen to be tried and tested.”

More controversially, Mr Patel argues against outsourcing the entire back office in order to access the technology. “Outsourcing is a last resort. Can anyone point to a single outsourcing deal that has worked? They are all still works in progress. No two deals are the same, so the providers are not building systems of scale. And what happens when the client changes direction, will the provider be able to keep up? With the lift out model, you have to ask if the back office has really been outsourced. It’s the same staff and systems but with a different name over the door.”

But whatever route wealth managers choose to access technology, Mr Patel stresses that the point is to start using it: “There is a wealth of technology out there that they are leaving untapped.”



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