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THE CAPCO INSTITUTE
JOURNAL
OF FINANCIAL TRANSFORMATION

TECHNOLOGY

Front office efficiency:
Improving business development
and increasing sales

INGO RAUSER | TOBIAS WEHRLI

**WEALTH & ASSET
MANAGEMENT**

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DEAR READER,

Welcome to edition 51 of the Capco Institute Journal of Financial Transformation.

The global wealth and asset management industry faces clear challenges, and a growing call for innovation and transformation. Increased competition, generational shifts in client demographics, and growing geopolitical uncertainty, mean that the sector needs to focus on the new technologies and practices that will position for success, at speed.

There is no doubt that technology will be at the forefront of a responsive and effective wealth and asset management sector in 2020 and beyond. The shift to digitization, in particular, will see the speeding up of regulatory protocols, customer knowledge building, and the onboarding process, all of which will vastly improve the client experience.

This edition of the Journal will focus closely on such digital disruption and evolving technological innovation. You will also find papers that examine human capital practices and new ways of working, regulatory trends, and what sustainability and responsible investment can look like via environmental, social and corporate governance.

As ever, I hope you find the latest edition of the Capco Journal to be engaging and informative. We have contributions from a range of world-class experts across industry and academia, including renowned Nobel Laureate, Robert C. Merton. We continue to strive to include the very best expertise, independent thinking and strategic insight for a future-focused financial services sector.

Thank you to all our contributors and thank you for reading.

A handwritten signature in black ink, appearing to read 'Lance Levy', with a stylized, flowing script.

Lance Levy, **Capco CEO**

FRONT OFFICE EFFICIENCY: IMPROVING BUSINESS DEVELOPMENT AND INCREASING SALES

INGO RAUSER | Senior Partner, Capco Switzerland

TOBIAS WEHRLI | Senior Consultant, Capco Switzerland

ABSTRACT

This article looks at front office efficiency and analyzes how it represents a critical success factor for private banking organizations, especially for business development and sales. We address the levers for optimizing front office efficiency from an organizational point of view as well as different options for an efficient front office set-up. To this end, three specific cases from previous project work with leading international private banking institutions help illustrate the relevant aspects for optimizing front office efficiency. The conclusion provides the most important take-aways for actionable next steps.

1. INTRODUCTION

In recent years, private banking organizations based in Switzerland have faced stiff headwinds. Challenges originate from different directions, ranging from the low interest rate environment to high regulatory pressure, which has further exacerbated the operating costs of running a traditional private banking business. An integral component of a private banking organization represents the front office – operating at the intersection of client-facing roles and middle/back office functions – because it ultimately serves as a distribution channel of investment products and services that generate top-line revenues. However, as well as representing revenue-generating client services, the front office also contributes significantly to the increasing operating costs, unless properly managed.

Finding an efficient front office set-up to manage these competing objectives is even more critical today than it has ever been before. While the required technological upgrades (such as digital platforms) entail critical actions to strengthen the front office's backbone, this article will, instead, focus on different structural front office set-ups and how organizing

them efficiently can help improve business development and increase sales, respectively. After briefly reviewing the current environment, we are going to discuss the levers for optimizing front office efficiency before assessing different options of an efficient front office set-up, including the illustration of three specific cases from our previous project work with leading international private banking institutions. Finally, we wrap up with the most important take-aways for actionable next steps.

2. CURRENT ENVIRONMENT

The challenges facing private banks must not be underestimated, as they are multifaceted. Private banks face external pressures, such as the never-ending list of new market regulations and intense competition from both established and new players, as well as internal challenges, which include the difficulties relationship managers face when trying to use current front office support set-ups (despite often including some degree of standardized services performed by pooled and non-client-facing staff) to meet client requests. This situation is exacerbated by evolving client demands and expectations due to demographic changes and digital offerings geared towards next generation clients. As the

speed with which news flows across the globe increases, front office organizations are forced to extract and process relevant information for clients in near real-time. Despite these demands, and efforts, empirical data and findings show that – simply put – too much time and effort is spent on compliance tasks and administrative work and not enough is spent on value-adding activities, such as client acquisition, relationship management, and investment advisory. Stagnating, or even falling net new money figures result from this dichotomy. In numerous client engagements, our time-tracking analyses of front office staff have found that relationship managers spent a disproportionate amount of their time on administrative duties and internal compliance-related tasks, with only a negligible amount of time dedicated to prospecting activities, i.e., efforts to acquire new clients.

3. LEVERS FOR IMPROVING FRONT OFFICE EFFICIENCY

There is no generally accepted terminology for referring to, and describing, the elements of a front office. Each organization uses their own terms to label the individual functions, yet they represent similar roles and responsibilities. What is important, however, is not how organizations describe the functions that make up their front offices, but how one can determine the relevant levers of a front office operating model that impact the efficiency of those functions.

The relevant levers can be roughly grouped into five categories covering the following front office activities: (1) prospecting; (2) client relationship management (e.g., investment advice, meeting preparation, and related tasks); (3) account monitoring, order execution, and reporting; (4) administration and documentation (e.g., KYC, FATCA, formal paperwork); and (5) internal and other activities.

Certain front office functions can obviously be performed by support staff, i.e., professionals other than a relationship manager who should not get involved in replying to all client requests – think of executing market orders or providing account statements. Rather, a relationship manager's time must be shielded from purely administrative work that is marginal and focused on providing value-adding services that clients appreciate; this way the relationship strengthens and ultimately yields more revenues.

Single elements of the above categories may be executed by different middle/back office resources, resulting in more client-facing time for relationship managers. Having separate resources to handle administrative work generally leads to increased client satisfaction, since relationship managers have

more time to dedicate to clients. Our experience corroborates this belief since we find that top-performing relationship managers, those who achieve the greatest increases in assets under management, are those who have more active client engagements.

4. OPTIONS FOR AN EFFICIENT FRONT OFFICE SET-UP

While there is no cookie-cutter approach to setting up the front office optimally, there are, as mentioned above, a number of levers that need to be taken into consideration. Starting from the top, it is paramount for a private bank to formulate its own concrete vision. Once the vision has been selected, the bank needs to decide on an organizational model for determining an efficient front office set-up that can help achieve this vision. The bank needs to ensure that the different levers are optimized in unison, and not separately.

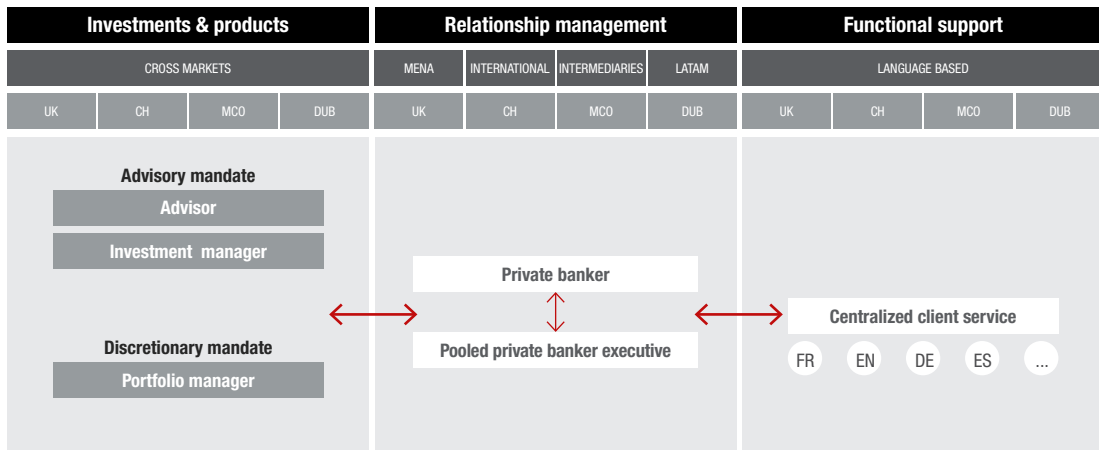
Specifically, the bank needs to decide how tasks, roles, and responsibilities are assigned and allocated. Furthermore, should they be physically centralized or decentralized; and what are the reporting lines for the respective set-ups? Our experience of working with front office organizations in financial institutions of different sizes allows us to help answer these tricky questions, mainly because they are closely related to performance-relevant topics, including the ownership of profit and loss/risk-taking, the incentivization of the workforce, and the corresponding sales targets/resourcing budgets. Relevant questions to be considered in this context include:

- What activities should the front office perform to achieve efficiency and scalability?
- What people/profiles are best suited to perform these activities?
- How should the front office adapt to the changing needs of diverse clients?
- How should the front office be organized to comply with evolving regulations?
- How should the front office deploy and leverage digital innovation to improve the client experience, while increasing return on assets and reducing operating costs?

Only after these questions are answered, should banks start considering designing and weighing different organizational options. It may entail streamlining non-client facing activities, launching front office rationalization initiatives, using digital services, tweaking client segmentation, and implementing coherent IT systems/tools fit for purpose.

Figure 1: International bank creates a centralized service team

FRONT OFFICE OPERATING MODEL



Because each organization is unique, there are numerous options to optimize the front office set-up. However, to provide a flavor of the options available to banks, we are going to discuss three specific cases of projects where we helped leading international private banking institutions optimize their front office set-ups. In each of these cases, we first describe the initial client situation and then discuss the approach we recommended for changing the front office operating model. We will examine the impact achieved through the chosen approach and highlight the challenges the banks would face to successfully implement their respective front office set-ups in the future.

Case one: International bank creates a centralized client service team

CLIENT SITUATION

- Following a front-office efficiency and six sigma study, the bank wanted to streamline (pain point) processes (e.g., account opening) and provide more consistent and efficient services to clients.
- Some roles executed by assistants included activities (e.g., client orders) for which not all were trained properly.
- The bank also wanted to reduce risk by creating a “client team” around the relationship manager servicing a client.

APPROACH

- **Introduction of a client service team – specialization tailored to client needs:** the bank created a centralized client service team, which became a separate department

reporting into a new global lead, by carving out client management functions from assistant and relationship manager functions. A client could call the client service team directly for client management activities (e.g., statement queries, basic order execution) and the client service team would call the client directly for margin calls, call backs, and other servicing questions (e.g., KYC). The model was rolled out globally.

- **Consistent service for clients – informed and efficient:** the roles and responsibilities were harmonized, skill needs identified, and a training curriculum created and executed.
- **Streamlined client servicing, including specialized topics (e.g., client documentation):** the bank also created a client-facing account control team to assist relationship managers with complex documentation by region.

IMPACT

- The client segmentation approach creates a differentiated, more tailored offering for UHNW clients and reduces the overall cost of investment advisory.
- Clients have their relationship manager as main point of contact for all services.
- Relationship managers can focus on client-facing and relationship management activities rather than client servicing.
- Harmonization of skills ensures that servicing of clients is done effectively and efficiently.

CHALLENGES AHEAD

- The challenge is when the roles are physically moved away from the relationship managers.
- Processes need to be more rigorous and clearer between the relationship manager, the client service team, the account control team, and operations.
- Profit/loss ownership shifts away from the relationship manager, but must be managed by region.
- The bank manages relationships more holistically rather than with a relationship manager-direct model.
- Shifting of lower-end clients into a similar model with higher account loading and more workflow-supported processes.

Case two: International bank introduces three functional support teams – online banking service, client service, and client due diligence advisory specialist

CLIENT SITUATION

- The bank experienced high regulatory pressure, conduct issues, and reputational risk (e.g., Libor scandal, pressure from DOJ and FCA).
- In addition, the bank faced a higher cost-income ratio than its competition, decreasing AUM, and low interest rate margins.
- The front office was focused on de-risking activities, taking time away from growing the business.

APPROACH

- **Reduced administrative and compliance burden on the relationship managers with the creation of the client due diligence advisory specialist team:** strengthened collaboration between operations and front office to support the bankers with KYC and AML client reviews, adverse media screening, and processing of documents.
- **Alternative client channel with the creation of the online banking service team and the client service team:** clients can make payments, execute orders via the digital platform, and interact with the online banking service team. A call back unit performs independent call backs, manages complaints, and contacts clients for special initiative.
- **Risk owners with skin in the game:** the chief operating office is part of the business organization and is responsible for business management and business risk, control, and governance. Business risk managers sit with the bankers and help them navigate through risk matters.
- **Building the organizational growth engine:** created sales management functions to support the CEO in business planning and strategy. Recently hired a new head for the private bank from the investment banking division with private equity background. KPIs with renewed focus on net new client metrics.

Figure 2: International bank introduces three functional support teams

FRONT OFFICE OPERATING MODEL

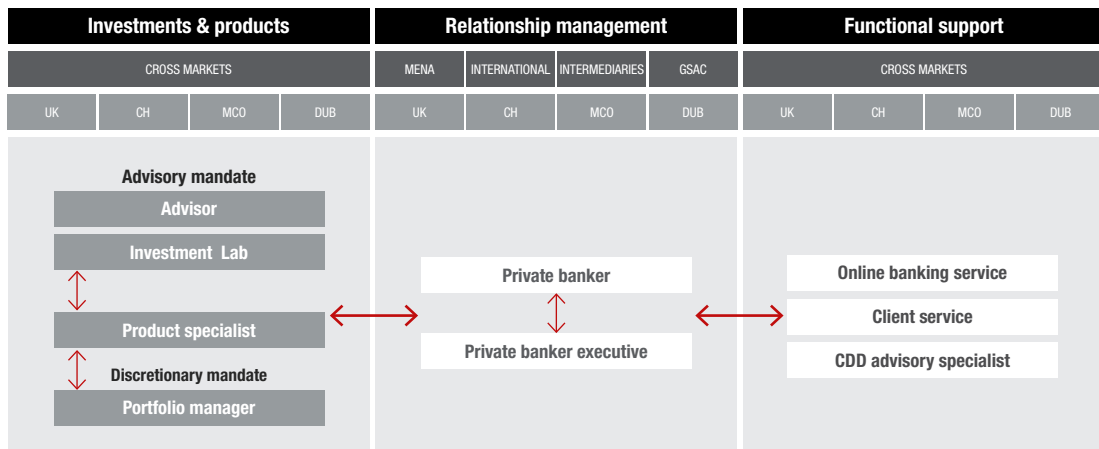
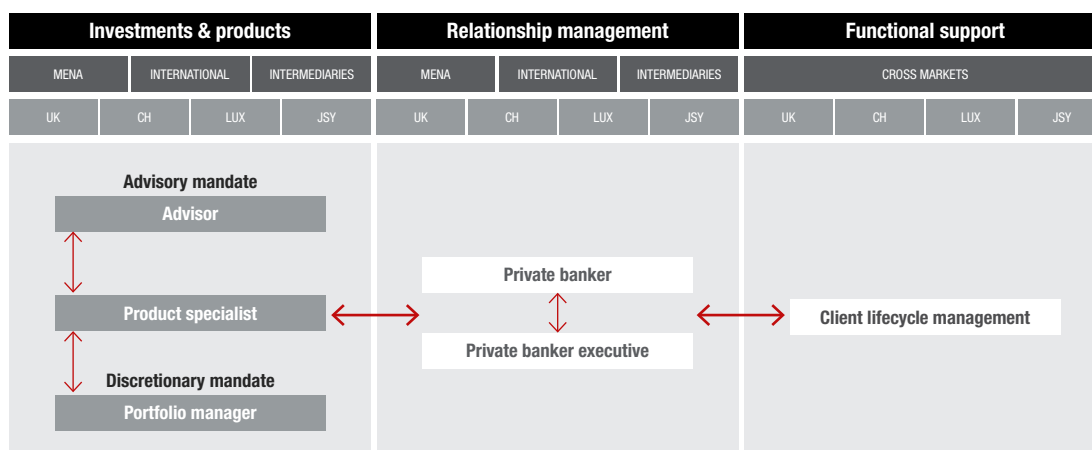


Figure 3: International bank introduces a client lifecycle management team

FRONT OFFICE OPERATING MODEL



IMPACT

- Cost effective organization with improved cost-income ratio through market segmentation (including divestiture).
- Reducing the risks of their client portfolio while still growing the business has raised the stakes for many private bankers.
- Support functions taking over administrative and compliance tasks, enabling the banker to focus on business development.

CHALLENGES AHEAD

- Ring-fencing of the bank between the home market and “International” generates client management and private banker ownership challenges.
- Limited opportunities for further cost reduction.
- Ability to generate growth while keeping a cost-effective organization.
- Cultural shift from the private banker to become a “hunter.”

Case three: International bank introduces a client lifecycle management team

CLIENT SITUATION

- The bank was dealing with increasing regulatory pressures, conduct issues, and reputational risk (e.g., data theft, Panama Papers).
- The front office focused on de-risking activities, taking time away from growing the business.

- A new client onboarding platform was implemented, redefining the approach to client lifecycle management.

APPROACH

- **Parallel implementation of new core banking and client onboarding platforms:** migration to “high industry standard” platforms required a thorough analysis of all business processes across the bank and offered the opportunity to redefine roles and responsibilities from front to back office and ensure appropriate risk control and governance.
- **Reduced administrative and compliance burden on the relationship managers with the creation of the client lifecycle management team:** an operations team dedicated to the front office to support the processing of client documentation, maintenance, due diligence, and client file reviews with improvement in the client data quality and management.
- **Rationalized geographic markets presence:** divested from select markets, allowing the front office to focus business development on refined geographic segments.

IMPACT

- Rationalization of the front office task is work in progress. Still ambiguous split of task ownership and accountability between the front office and the client lifecycle management team.
- Recent implementation of core platforms with synergies yet to be realized.

- De-risking exercise completed, portfolio re-positioned, and “back to growth” strategy relaunched, giving positive business perspective to the front office.

CHALLENGES AHEAD

- The “international” team is composed of several small sub-teams of relationship managers and client executives.
- Details of the teams’ work organization between relationship managers, client executives, and the client lifecycle management team is highly dependent on the team as well as on the seniority of the team members.
- Planned “regionalization” of the client lifecycle management team that will ultimately be in line with the high-level regions (four teams).
- Keeping control and ensuring that standards, procedures, and due diligence are executed in line with legal and internal regulations.
- Complying with new standards around client lifecycle management rather than relying on the excellence of individual professionals.

From the three specific cases discussed above it becomes clear that the organizational set-up of the front office is only the beginning of the transformation process. Obviously, it requires weighing the pros and cons of each organizational option. The questions that need to be answered include, therefore, how does any given option in practice impact the ownership of profit and loss, the incentivization of the workforce (including the details of the future incentives structure), and the related sales targets/resourcing budgets? When relationship managers have more time, how should they use it effectively to increase sales and net new money inflows? And what are the expected challenges ahead? These change aspects and success factors must be considered at an early stage and be diligently planned to ultimately succeed in setting up an efficient front office that yields tangible benefits.

5. CONCLUSION

Private banking organizations in Switzerland must deal with the current challenges, ranging from the low interest rate environment to increasing regulatory pressure, which, for better or worse, are not expected to disappear anytime soon. Against this backdrop, the front office represents the core of private banking and lends itself as a starting point to differentiate an institution’s offering by providing a unique client experience and thus setting the stage for improving business development and increasing sales.

A private banking organization should define top-down how it envisions serving clients, through what channels, and with what offerings. In addition, it needs to consider how the service coverage/catalogue is affected by a change in the front office and how client relationship management takes place going forward. After formulating its own concrete vision, a private bank needs to decide on an organizational model that works with the relevant levers available to optimize the front office. While the number of levers is limited, the options to optimize the front office set-up are still numerous. As a word of caution: critical questions must be answered before initiating the transformation process given that it will likely affect relationship managers and clients one way or another.

Finally, like in any change management endeavor – while certain variations may apply to different organizations – a comprehensive implementation plan must cover all dimensions and implications, ranging from communications through to logistics. Last but not least, senior management commitment represents a critical success factor for such a strategic transformation.

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Through our collaborative and efficient approach, we help our clients successfully innovate, increase revenue, manage risk and regulatory change, reduce costs, and enhance controls. We specialize primarily in banking, capital markets, wealth and asset management and insurance. We also have an energy consulting practice in the US. We serve our clients from offices in leading financial centers across the Americas, Europe, and Asia Pacific.

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