

EU Private Banking 2023 outlook

An acceleration of changes in the
sector

May 2023

The Private Banking market has entered into a new age

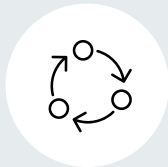
What is at stake ?



New generation of clients, redefining the rules



Growing pressure on margins but heavy technological investments required



Operation models are evolving



ESG, a must with an increase of investor demand and regulatory pressure



Key figures

-11%

Decline in **EU private banks' managed assets** in the first half of 2022 to €9.2 trillion¹

-3.8%

Contraction of the **global UHNWI population in 2022** after a record climb in 2021²

\$84 Tn

Experts forecast that by the end of 2045, **\$84 trillion in wealth will transition** from one generation to the next³

¹ The future of Private Banking in Europe (McKinsey - Jan 23)

² The Wealth Report - (The Intelligence Lab - March 2023)

³ The future of Private Banking in 2023 - (Private Banker International - Dec 2022)

Understanding the trends facing Private Banks is the key to define a strategy and operating model fit for the future

RANKING CONSOLIDATION

Large players seek to benefit from economies of scale by gaining market share while shrinking margins and rising regulatory costs drive out smaller players.



VALUE PROPOSITION

Search for ways to optimize added value by offering products/services on what matters to clients. Anticipating their life events and continuously extending services to attract UHNWI clients.



ESG AS A CHALLENGE?

Private Banks need for customization when integrating sustainability into their businesses. This requires implementation of environmental rating methodologies, as well as the ability to offer tailor-made sustainable investment solutions.



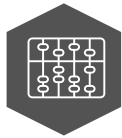
TALENT ATTRACTIVENESS

COVID-19 has radically impacted behaviours while there was already a lack of resources. The dynamism of Luxembourg is the key to improve the local Quality Way of Life and attract high-skilled professionals.



COST IMPROVEMENT

With revenue and profit margins under pressure (i.e. strong regulatory framework, competitive context), managing operating costs effectively is becoming an all-important challenge, in particular for Compliance, Ops and IT matters.



CLIENT CENTRICITY

To meet the expectations of large scope of investors (incl. modern clients), Wealth Managers must leverage on new tools to provide the optimal, tailored client experience enriching an all-in-one solution.



SEGMENTATION EVOLUTION

Historically, Private Banks relied on an asset-based segmentation to design tailored offering. However, this has gradually evolved leveraging on a data-driven segmentation with more attributes (i.e. behavioral).







OPERATING MODEL DESIGN

Many banks have recognized that they need a truly differentiated strategy and rethink the role, structure and processes of critical functions such as IT, risk and compliance.



Private banks must respond urgently to the accelerating shifts taking place in their market

<p>01 PRIVATE BANKS ARCHETYPES</p>	 <p>Integrated scale players</p>	 <p>Wealth pure players</p>	 <p>Integrated add-ons</p>	 <p>Local niche players</p>
<p>02 MAIN CHARACTERISTICS</p>	<p>Holistic offering with access to a broad range of assets in the public and private markets, typically provided through investment banking capabilities</p>	<p>International reach and significant scale including leveraging of global platforms and infrastructure</p>	<p>Larger banking groups with wealth management as an add-on, limited focus on private banking thwarts differentiation from competitors</p>	<p>Local private banks, with a competitive position eroding by increasing burden of regulations and heavy digital investments required</p>
<p>03 AREAS OF DEVELOPMENTS</p>	<ul style="list-style-type: none"> Actively pursue bolt-on opportunities to further strengthen or expand geographic footprint and product offering Leverage scale and Group capabilities to develop digital solutions and take bold steps in product and service innovation Continue to improve cost and capital efficiency 	<ul style="list-style-type: none"> Be open to larger transaction opportunities Identify technology partnerships to drive innovation and efficiency Invest in human capital and skills to keep pace with a fast-changing environment and enhance ability to deliver tailored solutions to clients Maintain critical scale in core markets 	<ul style="list-style-type: none"> Jointly explore M&A opportunities with larger businesses Capture technology opportunities to fill product/solution gaps (e.g. private equity) and improve customer service Drive cost efficiencies by leveraging group capabilities Focus budgets on customer-facing differentiators 	<ul style="list-style-type: none"> Actively pursue opportunities to gain scale Be open to radical approaches (new business models/players) Develop digitization priorities also with technology partners to control cost/risk Leverage fintech ecosystem to address operating costs Invest in human capital and skills to keep pace with fast-changing environment

Strategic and operational effects of digital transformation are gathering pace, leaving no area of wealth management untouched

Challenged by new players banking on 100% online services and held back by increasingly heavy regulatory requirements, private banks are stepping up their investment in digital development. This is an opportunity for them to modernise the image of private banking by improving services to clients through new offers and communication channels that are fully adapted to their needs.

01

Providing value-added services

- Increasingly qualitative and personalised services offered to customers thanks to data
- Reports and customer dashboards
- Targeted and personalised advice according to expectations
- Advisors freed from time-consuming administrative tasks
- Multi-channel offers (Internet, Extranet, tablets, mobiles)

02

Improve client knowledge (i.e. KYC, KYT)

- The need to establish a good asset diagnostic tool covering the household and/or the company, digital initiatives to attract younger clients
- The use of targeted tools to improve customer knowledge: CRM, data sinks, aggregators
- Innovative fintechs serving customer knowledge with increasingly advanced systems (cognitive scale, KYC3, etc.)

03

Facilitating the customer journey

- Remote contact points between the customer and his advisor anywhere and at any time
- Access to online services via online banking or mobile applications
- Simplified and efficient operations through the use of new technologies
- New technologies such as blockchain or mobile payments as real efficiency levers



Digital may be the answer for traditional private banks to the rise of the neo-banks: by offering a digital journey with value-added services at every stage, banks could respond to this new threat.

A snapshot of the 2023 regulatory agenda for EU Private Banks

Main regulatory impacts for the Private Banking industry

1
MiFID II & IDD
(incl. sustainability requirements)

2
ESG Risk and Compliance

3
EBA / ECB monitoring

4
EMIR Refit

5
Operational Resilience (DORA)

6
Basel III & Basel IV

Upcoming trends and regulatory developments beyond 2023



Harmonisation of EU AML/CFT regulations



Instant Payment



Purpose-driven Banking (ESG)



Crypto-Assets & DLT (incl. MiCA)

Aurexia's Global Private Banking expertise on:

Benchmarking and feasibility studies



- **Benchmarking** your current organisation and **identifying new ways** to grow your business (potential market, partnership identification, client/product developments, digital offer)
- Conducting **feasibility studies** in target markets and providing TOM and expert advice

Design and support you make your transformation a success



- **Design and support your transformation journey** on platform upgrades, digital transformation, process efficiency, operations
- **Address regulatory changes** and support you on compliance matters, regulatory remediation

Why work with Aurexia ?

- ✓ **Global presence** across 3 continents (8 offices)
- ✓ Expertise on the **Private Banking** market (business, operations, digital, regulatory, ..)
- ✓ A **tailored approach** from ideation to deployment
- ✓ A strong partner to deliver an end-to-end transformation project
- ✓ Consultants involved in market trend research and insight production





Yiorgos Braoudakis

*Director Wealth Management
Transformation*
yiorgos.braoudakis@aurexia.com
+ 352 621 398 660



Alain de Cidrac

Partner Luxembourg
alain.decidrac@aurexia.com
+ 352 691 121 832



David Villard

Senior Partner
david.villard@aurexia.com
+33 (0)6 75 53 19 47



Colombe N'Zoré

Partner France
colombe.nzore@aurexia.com
+33 (0) 6 28 27 71 76





Aurexia

Bringing value, together