Is sharing the new having – what about Private Banking?

How Private Banks can deal with the opportunities coming from the «sharing economy»

By Dr. Marc Strauss, MBA – March 2019

Setting the scene

The «Sharing Economy» is not a completely new phenomenon. It is more the return to the already known marketplace in former times – only now on digital grounds. A general definition of the phenomenon does not yet exist, rather there are several partly interchangeable and overlapping terms such as Digital Economy, Platform Economy, or Sharing Economy. Going forward, Sharing Economy shall generally and broadly be described as the framework of digitally interchanging services and goods on platforms or marketplaces in a P2P (peer-to-peer) respective C2C (Consumer-to-Consumer) as well as a B2B (Business-to-Business) and B2C (Business-to-Consumer) environment.

General reasons and prerequisites for successful sharing

Sharing can be advantageous as it helps **creating economic value** for the parties involved. On the one hand it fosters **cost effectiveness** through the reduction of transaction costs (for users) by cutting out formerly needed middlemen. On the other hand sharing supports generating **revenue potential** (for the offering side respective the marketplace / platform operator) by creating new or increasing current revenue streams based on a (potential) higher willingness to pay. **Additional advantages** for involved parties are:

- Higher variety / choice (through enlarged offering)
- Access to better quality (through enhanced offering)
- Unique client experiences (through access to special offering)
- Temporary access to specific assets (that were formerly out of reach)
- Maximization of use of idle assets

Even though sharing and collaborating in the production and consumption of products and services transfers a positive symbolic meaning as well as offers economic advantages, there are still several **general prerequisites** – especially from a user's perspective – that need to be fulfilled:

- Need (e.g. a solution to a problem) & willingness to pay
- Ease of handling (platform, payments) & ease of use (interchanging / contracting)
- Low transaction cost
- Trust (mutual) & transparency (due to ratings & reviews)

Key activities involved in sharing and characteristics of shareable objects

The variety of objects to be commonly used in a meaningful way is vast. Key activities that have emerged over the past mainly deal with increased utilization of durable assets (esp. cars, homes, tools; also boats), the exchange of services (e.g. baby-sitting, craftsmen services), and the sharing of productive assets (e.g. electric drills). Summarizing, the following **characteristics** should apply to products and services to foster efficient sharing (with the last two being that relevant that they are listed again…):

- Interchangeable / no need to reconfigure
- Use for short period of time
- Sequential (generation of steady revenue stream)
- Low / reasonable transaction costs
- Ease of use (contracting / interchanging)

How does the sharing economy affect Financial Services and – in particular – Private Banking?

Sharing makes its way into the financial services environment on various levels, be it the involved **market participants** like banks, FinTechs, or BigTechs, the shared **objects** (goods, products, services, or resources), the **relationship** of offering/producing and consuming/receiving partners (B2B, B2C, P2P etc.), the **profit model** (for profit, not for profit), or the **platform** (internal, external, in / not in possession of objects offered).

In financial services, currently especially business lines such as lending, financing (crowdfunding), payments, money transfer (all P2P, i.e. without a central agent) are in focus, and banks have already established or acquired platforms in order to participate. **Current sharing cases** are for example:

> **Lending:** P2P-lending platforms facilitate matchmaking of lenders and borrowers so that they can agree on various types of credit (from consumer to mortgage to small business lending and financing). Investors share a part of their assets in return for interest income. It gives them the opportunity to tap into new investment categories and thus diversify their personal wealth structure and revenue streams, whereas lenders benefit from lower rates or easier application processes. Representatives of these business models are e.g. Funding Circle (UK/US) or CreditGate24 (CH).
>
> **Social trading:** The business model behind one of its very prominent representatives «Wikifolio" (DE) can be described as bringing together people with investment ideas and investors on a single platform and facilitating subsequent activities. Once an investment idea or portfolio strategy has been proven beneficial and embraced by a minimum number of investors within a given timeframe, a structured product (with an ISIN) is launched that can be officially invested in and traded. The underlying fee model has investors pay a fee that is forwarded partly to the investment specialist and the custody bank with the rest remaining with the platform provider, creating financial benefit for all involved parties.

Assuming that **Private Banks** are equally economically driven companies compared to the firms already actively taking part in the sharing economy, and that their clients – however potentially wealthier and more complex in terms of financial and personal requirements – act like members of the general sharing crowd, benefits, reasons and prerequisites can be assumed as applying similarly. However, the Private Banking relationship-model based on long-term liaisons established on mutual trust, the complexity of clients' financial and personal situations, as well as their needs might have a significant impact on a potential sharing approach to be successful. This will be examined in detail later on.

The sharing arena in Private Banking – as in other service-centered industries – comprises two fields of **shareable objects**: **Products and services** as well as underlying **resources**. Products might be Discretionary or Advisory Mandates whereas services encompass Wealth Planning or Family Office Services. Resources can be described as an economic or productive factor required to accomplish activities to subsequently create an offering.

Based on the general criteria laid out before determining the shareability of objects, the key products and services of Private Banks have been analyzed focusing on a B2C perspective, i.e. a client's view. It shall be reiterated that products and services are not to be sold in a classical way, but rather shared: For illustrative purposes this would mean to actually have to place a (distributing) mutual fund on an digital platform where it and all respective revenue streams can be taken or used by a client for a relative short amount of time before given back.

Figure 1 displays a variety of key parts of a Private Banking **offering** as well as their respective **assessment of general shareability** from a client or bank perspective (depending on applicability).

Characteristics of objects to be shared (general perspective)	**Products**								**Services**	
	Funds Products	Investment Advisory (Standard)	Discretio-nary mandates (Standard)	Investment Advisory (Individual.)	Discretio-nary mandates (Individual.)	Structured Products	Private Equity / Hedge Funds	Credit / Mortgage	Wealth Planning Services	Family Office Services
Interchangeable/no need to reconfigure	(✓)	(✓)	(✓)	×	×	(✓)	(✓)	(✓)	×	×
Used for short period of time	(×)	×	×	×	×	(×)	×	(×)	(✓)	×
Sequential (genera-tion of steady revenue stream)	(×)	×	×	×	×	(×)	×	(×)	(✓)	×
Low/reasonable transaction costs	(✓)	(×)	(×)	(×)	(×)	(✓)	(×)	(×)	(✓)	(×)
Ease of use (contrac-ting/interchanging)	(×)	×	×	×	×	(×)	×	(✓) already in use	(✓)	(×)

Legend: × = not possible/applicable/given (×) = rarely possible/applicable/given (requires further analysis) (✓) = potentially or partly possible/applicable/given (requires further analysis) ✓ = possible/applicable/given

Figure 1: Characteristics of Private Banking products & services and high-level assessment of shareability

In general, there **do exist potential options for Private Banking products and services to be shared**, especially more standardized ones. Difficulties begin to unravel when it comes to other character-ristics of typically shared goods such as short time frame, the resulting revenue generation for user / lender or platform provider, and especially the ease of sharing and related transaction costs.

A common **Private Banking framework** of a rather long history of relationships and product ownership as well as **high individualization and personalization acts as a key obstacle and prevents objects from being shared efficiently and effectively**. Additionally, contractual agreements, regulatory requirements, and the high degree of mandatory information gathering and flows from clients to banks and back currently hinders efficient sharing.

The second area of potential sharing activities is centered around a bank's resources, forming the backbone of delivering its value proposition. The **key resource types** (non-)physical, intellectual, financial, human, and technical can also be assessed based on the same logic applied to products and services (see figure 2).

Characteristics of objects to be shared (general perspective)	**Resources**				
	(Non-)physical (brand, trust, offices)	**Intellectual** (Portf.-Mgmt. / Rel.-Mgmt. capabilities)	**Financial** (capital, liquidity)	**Human** (Portfolio- / Relationship Mgr.)	**Technical** (IT systems, platforms)
Interchangeable/no need to reconfigure	(×)	(×)	(✓)	(✓)	(✓)
Used for short period of time	(✓)	(✓)	(✓)	(✓)	(✓)
Sequential (generation of steady revenue stream)	(✓)	(✓)	(✓)	(✓)	(✓)
Low/reasonable transaction costs	(✓)	(✓)	(✓)	(✓)	(✓)
Ease of use (contrac-ting/interchanging)	(×)	(✓)	(✓)	(✓)	(✓)

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Figure 2: Characteristics of resources of Private Banks and high-level assessment of shareability

At first sight, the **possibilities of sharing resources are given**. This holds especially for financial, human, and technical resources, which at least theoretically are interchangeable as well as could be shared with other members of the economic environment based on their very nature. Additionally, sharing resources – rather than products & services – is applicable to both the B2C environment (i.e. in this case private banking clients) as well as the B2B environment (i.e. in this case other banks or financial institutions with respective needs and requirements). However, the devil of implementing a sharing case is in the details which – in conjunction with intangible, human or technological resource – boils down especially to the matter of contracting. Even if a resource is technically shareable, the legal framework to facilitate such activities needs to be on place. See detailed example for further elaboration.

Prior to discussing possible sharing cases in Private Banking, an **overview** shall be presented to **outline the key products and services in the industry**, including some already established sharing cases (see figure 3). All of them currently center around the retail client sector, but the legitimate question might come up to what extent and with what kind of impact the Private Banking environment will be affected in the future.

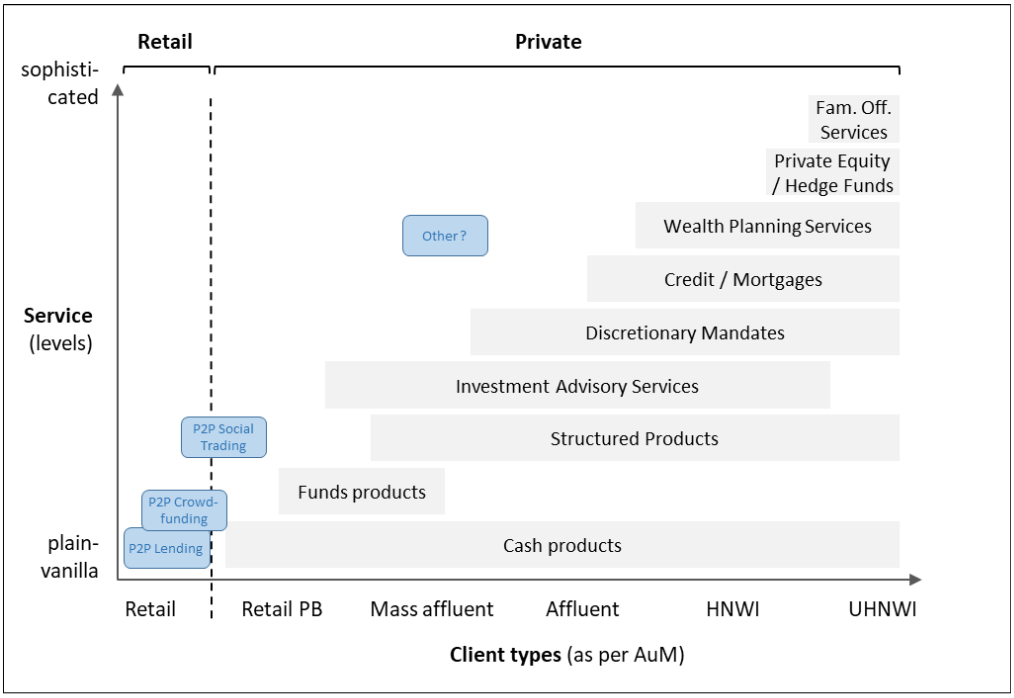

Figure 3: Private Banking key products & services based on service levels and typical client size

Possibilities for Private Banks to deal with the sharing economy

Depending on the object and the focus / target group, several sharing approaches are possible – summarized in the matrix below (see figure 4).

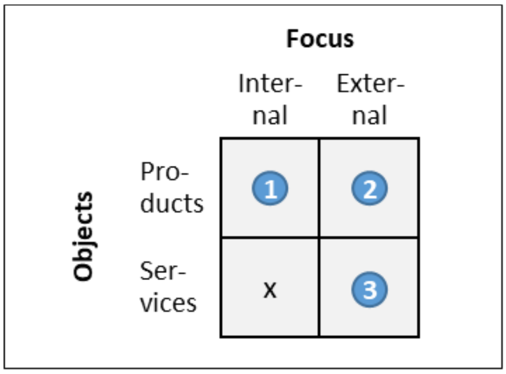

Figure 4: Generic sharing dimensions in Private Banking

Based on these generic dimensions two main sharing models are presented and examined in terms of their actual sharing suitability. Figure 5 summarizes the approach.

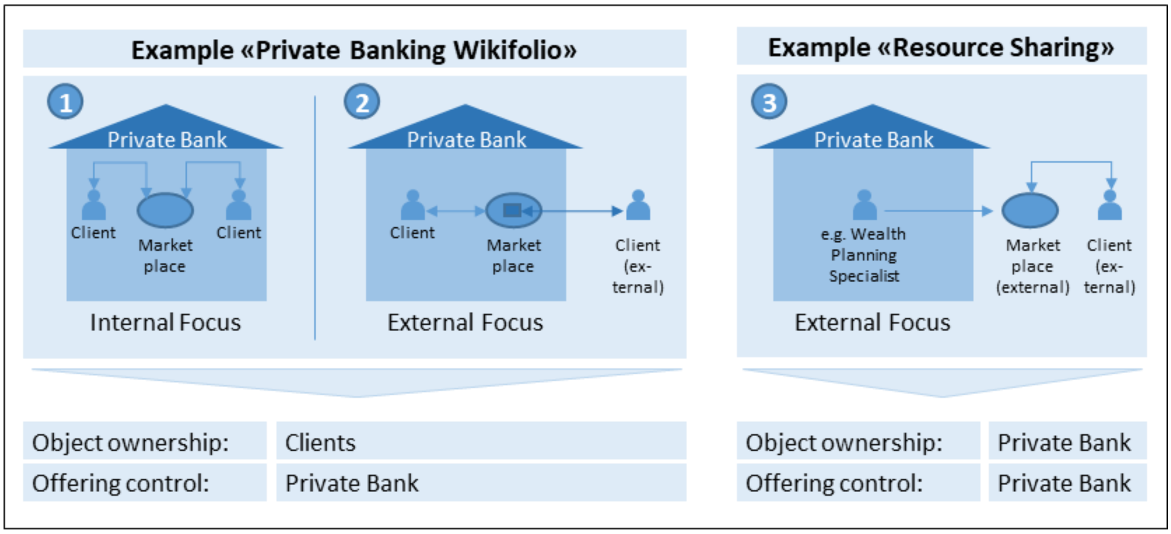

Figure 5: Examples of potential sharing models in Private Banking

<u>Example 1: Example «Private Banking Wikifolio» (internal)</u>

This model aims to shift the public «Wikifolio» business model into a bank's organization. Instead of random traders and investors acting, those roles would be taken over by clients of a specific bank. The institute could create a respective platform (marketplace) to facilitate supply and demand: Once a portfolio is deemed successful according to internally defined – and potentially stricter criteria than in the public version to cater risk-related interests of private banking clients – it then can be transferred into a tradeable Structured Product (SP) being issued by the bank itself. Clients subsequently could invest in the product, which would be booked into clients' portfolios to be kept in custody and serviced by the bank on an ongoing basis.

The respective revenue model benefiting both bank and internal clients would look as follows: The institute issues the SP on a given current infrastructure and thus is able to distribute the fix costs on a larger client and asset base. The internal client could be charged – as kind of an incentive and supporting the fact that new business is created – a lower costs as with regular SPs (normally issuing fees come in the form of a markup on the notional value). The client who came up with the investment idea would receive a fraction of the issuing fee depending on the product's performance. Custody fees are paid by the clients to the bank according to established terms but can be lower due to the additional SP-generated assets (incentive effect).

Example 2: Example «Private Banking Wikifolio» (external)

The «external» version focuses on investors / non-client outside the bank. Based also on internally generated portfolios these issued Structured Products – as they come with an ISIN number to be officially exchange-traded – can be marketed to the public. This might be done at a significant lower and thus attractive issuing price to fuel demand from formerly untapped clients and market segments to increase respective revenue. From a revenue perspective, the bank again receives the issuing fee – lowered compared to regular subscriptions but still in positive territory – paid from the new clients and directs a fraction of that to the «client-turned-investment-specialist». The clients additionally need to pay potential custody fees as set by their custodian bank.

Example 3: «Resource Sharing»

Based on the findings that specific resources qualify for sharing purposes, an actionable proposal is outlined: Actually, the model of current service marketplaces that provide the fulfillment of specific tasks by one customer to another (e.g. Task Rabbit for support in assembling or constructing objects) can be transferred to the banking world, e.g. in the form of sharing Wealth Planning (WP) Services for wealthy clients. A Wealth Planner is a highly educated and skilled expert in the field of financial planning, wealth structuring, retirement planning, relocation, or succession. Those kinds of services require a considerable amount of investable assets as well as a financial and personal complexity to be really needed. As a result, they are not offered to the vast majority of banking or non-Private banking clients (retail banks offer either no or very limited support).

Here the beauty of a sharing approach and its two-way usefulness comes into play:

- **Create new revenue streams**: Private Banks could use their already existing assets to tap new market and client segments beyond existing ones
- **Use of idle assets**: Private Banks could also leverage potential «underused» productive assets – i.e. if the internal workload and thus the degree of capacity utilization is temporarily lower due to seasonal influences or other reasons.

In order to do so, the Private Bank might offer the WP services on an appropriate external marketplace, e.g. an existing one targeting at high-level human services. Another, potentially even more compelling option, could be an external platform created in collaboration with other (Private) Banks. Not only could an external venue support the notion of higher offering credibility and independency but could also be beneficial in terms of costs and scaling.

On such an external marketplace WP services could be offered to non-clients in need based on an established pricing scheme (hourly fee) – but on a lower level compared to regular in-house service for own clients. Even at a reduced price, the revenue potential has a considerably high probability of being actually positive, as the proceedings would have not been generated at all without such an offering.

To get this set-up successful up and running, two aspects need to be sorted out: The creation and hosting of the platform needs to be cost-efficient and highly user-friendly. Secondly, it needs to be guaranteed that the regular contract of employed specialists permits sub-contracting in the form that non-clients can enter in a temporarily relationship based on a service contract.

Sharing models → Benefits (types) ↓	"Private Banking Wikifolio" ① (internal platform)	"Private Banking Wikifolio" ② (external platform)	PB Resource Sharing ③ (external platform)
Economic benefit (revenue / costs)	PB: Fee income from Str. Prod. Client: reduced fees compared to regular offering	PB: Fee income from Str. Prod. Client: lower fees compared to other offerings	PB: Service fee (hourly basis) Client: Service fee (lower compared to in-house fees)
Higher variety / choice	Client: yes – new / different portfolios in terms of strategy	Client: yes – new / different portfolios in terms of strategy	-
Access to better quality	Client: yes – potentially good performing portfolios	Client: yes – potentially good performing portfolios	Client: yes –access to Wealth Planning expertise at all
Unique client experience	Client: generally yes – chance to invest in unique portfolios	Client: generally yes – chance to invest in unique portfolios	Client: generally yes – depends on WP performance
Gaining access to assets (formerly out of reach)	Client: generally yes (if "out of reach" equals "not existing")	Client: generally yes (if "out of reach" equals "not existing")	Client: generally yes – as potentially no access to top notch WP services before
Client loyalty	Yes - through "novelty" factor and potentially higher performance	-	-
Maximization of use of idle assets	-	-	Bank: yes – given that Wealth Planning resources might be underused (demand swings)

Figure 6: Benefits of presented sharing models in Private Banking

Conclusion & Outlook

Classical Private Banking products and services not yet prone to sharing due to their often complex nature and structure as well as their embedment in mostly long-time client relationships. However, this in a way prevents them from facing the disruptive forces of the sharing economy seen in other sectors or industries. The complexities interrelated with private banking products and services might display strategies in ring fencing current offerings from potential disruptive changes: e.g. by further upgrading, personalizing, or individualizing products and services in order to create client stickiness.

Sharing of resources such as knowledge and capabilities in various parts of the value chain (Portfolio Management / Management, Wealth Planning), (excess) capital, or technology and systems deems actually more applicable but needs potential technical, regulatory and contractual boundaries to be overcome to create a suitable offering.

Shifting from the supply to the demand side the key question to be asked is whether Private Banking clients would take part in the sharing economy at all? Are they motivated? Do they have similar forms of access as other market participants? Do they need to or want to benefit from classical sharing benefits such as additional revenue as they are already wealthy? Is there even a legitimate market for PB services? Questions like these leave a lot of room for further investigations…

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