

Client Reporting as a Differentiation Opportunity

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Differentiation Opportunities

Private banks and money managers face a steadily increasing competition: every week retail or foreign banks announce an extension of their private banking operations. As the basic banking services are more and more considered as a commodity and are in most cases available on the outsourcing market, new differentiation opportunities are required in order to attract new clients and retain the current client base.

There are vast possibilities for differentiation. However, as private banks consider client relationship management as one of their core activities, investments are made mainly in the interface between the bank and the client. The intended improvements range from a structured advisory process, high responsiveness, additional non-banking-products, exciting client events or extended internetbanking to the client reporting.

Client Reporting

Although client reporting is one of many differentiation opportunities for private banks, we think, that it is highly effective as it is needed on a regular basis. A high quality client reporting adds substantial value to the banks client relationship. We will discuss the various differentiation possibilities in client reporting along the following criteria:

Reporting Services

It is strategically important to decide what reporting service level the bank wants to provide. A client can receive a standardized, a customized or an individual report. These different strategic options will be discussed in more detail later in this article.

Report Content

The classical bank statement focuses on asset holdings and investment activities like cash and security transactions. These detailed statements are very important for the clients confidence in the bank's operations. As many of today's investors are well-educated, management information like performance- and risk-analysis is more and more requested.

Furthermore contents from different information sources have to be integrated into client reports. For example comments of the client's relationship manager and specific research relating to the client's portfolio are to be integrated.

For the future, we see an increased demand on contents with educational and advising character. This will finally lead to challenging reporting requirements in the area of presentation and automation.

Presentation

Usually there is a big difference in presentation quality between the classical bank statement and the bank's own annual report. More advanced reporting systems and reduced printing costs will lead to a further narrowing of this gap.

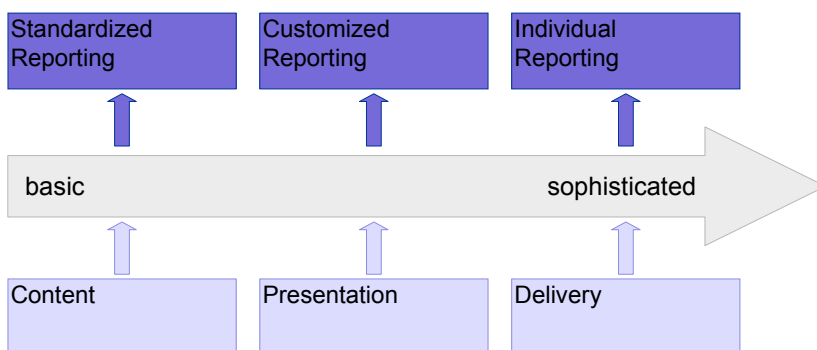
Delivery

Besides the postal delivery of paper-based reports, the PDF-distribution by internet-download is well established. Further differentiation opportunities in the delivery of the reports can be in better paper and binding quality as well as in increased reporting frequency.

All differentiation efforts have to be in accordance with the overall positioning of the bank in the market. The client reporting has to be coordinated with all other communication channels as well as adhere to the corporate identity. Consequently the contents have to be aligned to the market segments to be supplied. For instance, a conservative private bank could for example produce a concise report on high-quality paper while a bank focusing on complex wealth situations could report to each client individually using sophisticated analysis methods.

Strategies for Client Reporting Services

In our view, there are three strategies to distinguish:



Standardized Reporting

Standardization in reporting is a widespread cost-saving strategy. Non-private-banking clients receive today standardized reports. But also in the private banking area, standardized reports are still common.

Differentiation in report contents is difficult to achieve. By adding additional contents to keep up with the market or respond to client demand, recipients already satisfied with the original contents will not welcome the additional information. In a standardized reporting, differentiation can very well be done in the areas of presentation and delivery.

Customized Reporting

A customized reporting is offering the client a choice with respect to contents. Very often, the bank offers a set of standardized report-elements, from which clients can construct their own report. This set grows, as clients are demanding new features. However, experience shows that this extensions often do not match the overall customized reporting concept. As a consequence the reports have to be produced in countless variations and some elements are hardly used twice.

If implemented strictly that is without servicing client specific requests, this strategy potentially leads to success. Standardized reports can support a high quality advisory process where client relationship managers are able to comprehensively explain all report elements. On the other hand the client is satisfied, because in most cases he receives a report that suits his situation.

The differentiation in customized reporting is realized by the fact that the client can choose report contents as well as presentation and delivery possibilities.

Individual Reporting

Following this reporting strategy, the client is offered an optimized reporting package relating to his financial situation. This strategy is common when servicing clients like family offices or large pension funds. Very often, these reports require heavy manual work efforts and therefore produce high costs.

By making these individual reports a separate offering, costs are to some extent covered by the client.

Often the offered specialized reports imply that work efforts shift from the actual report production into data quality issues. A positive side effect is that quality problems in operative systems and business processes are detected faster and new reporting requirements are discovered earlier.

The main differentiation opportunity on an individual reporting strategy is that it enables the bank to offer an in-depth consulting service. An individual reporting meets the client requirements almost perfectly on the basis of the active advisory process.

Strategy Optimization

As many private banks deal with different customer segments, an analysis should assess the requirements of the individual customer segments as well as determine the bank's reporting strategy and differentiation methods for each segment.

	Standardized Reporting	Customized Reporting	Individual Reporting
Family Offices			★
Institutionals		★	★
HNWI		★	
Affluents	★		

An optimal reporting strategy could very well include standardized, customized and individual reporting services. To guarantee a high quality and consistency in all services and to generate synergy effects, centralized operations and systems should be aimed at.

IT-Strategies in Reporting

Powerful IT-capabilities are an essential prerequisite for a successful and efficient client reporting. While manual reporting using Excel is too cost-intensive and unstable, efficient mainframe output will not reach the needed publishing quality. A state-of-the-art reporting system should support the automation and cost-effective production of highest-quality documents.

We distinguish between the following architectural options for reporting systems:

Integrated Reporting- und Analysis-Systems

Obviously, every reporting team would prefer to use an integrated reporting and analysis system. All data have to be checked only once and all analyses are derived from a consistent database. Such a system is cost-efficient in maintenance as well as in daily operation.

In reality, this architecture is difficult to implement because of the following:

- The preparation and maintenance of additional data needed for more advanced analyses is very cost-intensive, so that external tools or providers are normally involved.
- Time-to-market to implement missing reports can be too long when having to wait for the installation of a new system release. At least to bridge the gap in the meantime these analyses have to be done manually using Excel or similar tools

An integrated solution can be reached by the use of a Portfolio Management System (PMS). This approach however leads potentially to the following problems:

- The PMS-based-solution can only be used for preferred client segments because data reconciliation costs between banking systems and the PMS tend to be very high.
- The PMS can rarely produce complete reports because it does not model all relevant data (like customer management data) and is not specialized for the integration of additional data sources or generic reporting.

Another approach could be by applying the integrated reporting capabilities of a modern banking system. This would usually comprise a centralized document management and profit from cost-effective operations. On the other hand, advanced analyses as well as specialized presentations will be problematic to implement.

With the integrated architecture approach a standardized reporting and to some extent a customized reporting can be realized. For individual reporting services, separate systems or manual productions are most likely needed.

Best-of-Breed-Analysis-Systems and Reporting-Tool

A complete different architecture is to use best-of-breed analysis systems and collect and present all results using a pure reporting tool. As an example, risk and performance attribution could be calculated on specialized system while holding and transaction data are reported directly from the core banking system. This common architecture leads to short time-to-market as well as to a high flexibility. Nevertheless the following problems can arise in operation:

- Data inconsistency between the best-of-breed analysis systems as well as base systems can require costly investigations.

- An integrated client report demands to set all analysis results into a meaningful relationship. In other words, additional business logic on an aggregated level is needed but the reporting tool is not necessarily designed for this task.
- In many cases, the level of detail of the output of best-of-breed systems can not be controlled flexibly enough and often not individually adjusted for each client. As an example, the asset allocation and performance attribution figures can not be reported on the same aggregation levels because they are calculated in separate tools using different master data.

This architectural approach is suited for a customized reporting as well as for an individual reporting. To support a mass reporting, the processes are normally not enough automated and stable and the data quality problems make this architecture too costly.

Reporting Platforms for all Servicing Strategies

A reporting platform servicing all client reporting strategies is supposed to deliver the following features:

- Complete data modeling and analysis methods for the core investment reporting.
- Powerful information-integration capabilities to integrate additional information from external data sources in a controlled and well monitored process.
- Flexibility to add additional analyses and report-elements to deal with time-critical client requests.
- Advanced layout possibilities which deliver at least a semi-professional presentation quality.

When using the information-integration features, we suggest the following:

- The reporting platform should be fed with raw data usable for further analysis. Preformatted output from other reporting tools are usually difficult to handle as a data source.
- Best-of-breed-systems are good information sources only if the results are available on a fine-granular level and in a format which is readable for further processing in the reporting platform.
- Information which does not stand in relation to other data or analyses can easily be integrated. Client relationship data like addresses or employee names are examples for this type of information.

A thorough evaluation of analysis-systems should prioritize integration issues rather than sophisticated functionalities and will pay out in the project and the operational phase. By reducing the number of analysis-systems and by focusing on a centralized and powerful reporting-platform even future differentiation strategies can be optimally supported.

Forward-looking Reporting Strategies

A well considered reporting strategy diminishes the risk of misinvestment, pays out in a cost-effective operations and supports new openings for differentiation. Based on the planned reporting services an adequate IT- and process-setup should be aimed at. In this evaluation, outsourcing should always be considered as an option. To build an optimal strategy, the following aspects have to be discussed:

- available know-how in the bank
- current and potential competition
- size of the organization
- considerations on costs an marginal utility

The suitable solution can be manifold: from an internal and fully integrated reporting platform to the complete outsourcing of all reporting services.