In Conversation: Société Générale Private Banking's Bruno Lèbre

1. The nature of the Wealth Management industry has evolved dramatically in recent years. Can you share your perspective on this evolution?

I think that there are two major evolutions. The first is regulatory: all of the measures that have led to a much more constrained legal environment, not only on the tax side but also — and perhaps more significantly in private banking — regarding transparency. Our model is based on a high level of transparency, because we try as a business to deliver a full disclosure in order to select the best products for our clients. In private banking the practitioner is traditionally compensated based on financial products. But the trend from global regulators is to change this revenue structure: to have private banking practitioners directly compensated by their clients for the services provided, and no longer indirectly by product providers on the basis of the products subscribed.

Beside wealth planning, the main service that private banking delivers to its clients is portfolio management. In portfolio management, asset allocation is clearly where the bank has to differentiate. Selection of products becomes secondary to portfolio allocation. The second major evolution is that as a result of the financial crisis, our clients are much more demanding in terms of expected information, much more averse to risk, and much more averse to volatility. I think that these trends are the most impactful on the new context in which all private banks will have to compete.

2. In particular, how are you seeing the industry's approach to client relationships evolve?

Clearly, there is an evolution in the industry and as result how we deal with clients is evolving. This leads us to approach our clients with an orientation far less focused on the qualities of individual products, but much more based on their individual portfolios. The goal becomes to open a discussion with the client, based on a diagnosis of their existing portfolio, and not to push any particular product as the right investment opportunity. The focus is on asset allocation, asset classes within the portfolio, and the market context that will impact that portfolio.

3. Balancing the delicate relationship between risk & return has long been considered an art as much as a science. How are advancements in technology helping wealth managers strike this balance more precisely?

There is a very strong push from the regulators to bring the investment services providers to be much clearer about the level of risk that a client should take on depending on their expectations of return. Most of the time when I meet with a client or a prospect, they have certain expectations of return, and then we of course need to discuss the level of risk that they are willing to accept. This has led us at Société Générale Private Banking to look for a tool that would support the client assessment process - to provide a visual representation of clients' return expectations and potential loss of profits in the future (i.e. associated risks). To have this kind of view provides us with increased clarity as we seek to deliver trusted guidance to our clients. This is where we are looking for technology to help us, and this is where we are starting to cooperate with IBM Risk Analytics. It is important for the technology to not only serve as a risk calculation tool, but to also support our dialogues with clients, in order to better approach their return expectations.

4. By extension, can you outline the advantages of having the capabilities to quantitatively profile clients, versus qualitative profiling which has a longer history and is still the prevailing practice for many service providers?

First I should say that we do not profile clients. We create risk profiles for clients, and in some geographies that is a mandatory approach, but most of the time we do consider each of our clients to be very unique, and we try to avoid applying a generic profile to them from day one. We try to profile portfolios, and profile risk/return expectations from our clients. So, the idea is to have an open discussion based on something rational—with figures, modeling, etc. and add the qualitative approach on top of this. The advantage of the quantitative approach is to have a more rigorous foundation. It is a way for us to evaluate a portfolio, to determine if it matches the client's expectation, and to incorporate this insight as much as possible into the equations, and as a result give us the range of possibilities

5. In addition to increased regulation, the wealth management market is increasingly complex due to factors such as structured products, the impact of the financial crisis on portfolio asset allocation, for example. Can you share how these have impacted business models?

We are quite a new private bank. Our history as a business line within Société Générale, is about 10 years, which is quite new, relatively speaking. We can combine some traditions from our network where there are some entities, like Hambros in the UK or our subsidiary in Switzerland, which have a much longer history, with a newer business approach. Of course, we rely on our strength, and we are pleased to have been awarded "Best Private Bank in Europe for its Structured Products" by Euromoney for the last nine years, which is a real achievement. This is to say that indeed we are very comfortable with complexity. Undoubtedly the industry is more complex today than it has ever been. And yet, we have committed for some years now to providing a very simple approach to our clients. Quality of service is, we believe, much more oriented to providing tailor-made tools for individual clients. For me, the complexity comes from the range of constraints which come from both the market environment, and the new impact of regulation. Within this context, our approach is to focus on transparency and customized service for individual clients, and to develop our expertise so that we may find the right answers for them. And the right answer is rarely the most complex one.

6. What are you hearing about most from clients today?

After four or five years of financial crisis, our clients within the private bank are very, very demanding. On the one hand, they have a fundamental requirement not to lose money, which is the preservation of their wealth for themselves and for the next generation. So, they are requesting two kinds of services: portfolio management and wealth planning. What is really making the difference is the quality of service you can deliver, and the performance you can deliver. Today, our clients are requesting a much more granular level of advisory services in private banking—in asset allocation and with respect to what might provide added value for each investment. Clients are also increasingly younger than in the past: Société Générale Private Banking in particular is a private bank for entrepreneurs. These people have made their money working hard and often want to take an active part in their wealth management, they are very demanding about the level of service provided, and they are very concerned about how individual investment products will impact their portfolio. It is important that each time I meet with these clients, I am able to clearly demonstrate the added value of individual investments in terms of risk diversification and in terms of performance. So, we look to our risk tools to equip us well for those kinds of conversations.

7. How does a practitioner differentiate itself in the Wealth Management space in this increasingly complex marketplace?

What makes the main difference is first the right sizing, and second the level of expertise. Private banking is a very sophisticated business with a lot of constraints and demanding processes. This is to say that in order to deliver a good level of service, you need the right size organization. I think the future might be quite difficult for smaller providers, especially if they don't have the support of a strong banking group. Société Générale Private Banking is the right size to have an approach that is. We have 20 locations across the world, and we are able to serve our clients worldwide, not only in Europe. And we have the capabilities to make strong investments and to develop strong expertise to better serve our clients. Our choice from the beginning was to provide flexible service: not only to provide investment product options from within the Société Générale Group, but to expand to investments across the global market. While Société Générale is one of the top providers, for example in the structured products area, or regarding funds (hedge funds or ETFs) with LYXOR AM, there are some areas where there are also very good products offered by other providers, and we consider all options when evaluating the best products for our clients. This flexibility provides strong differentiation versus some competitors.

8. How has the evolution of risk technology enabled Société Générale Private Banking to, on the one end, institutionalize the financial planning process, while on the other end, enabling wealth managers to apply expertise to customize portfolios at an individual level?

Our approach is to have a tool that enables us to deliver insights across a very broad range, to aggregate client portfolios and to run simulations against them. The technology enables us to manage a lot of data, and to have high quality results. With Algorithmics, we are able to manipulate 500 markets indices within 9 asset classes, 2000 market scenarios and 50 time steps This broad range of scenarios gives us the ability to simulate the full range of possibilities for a portfolio. The idea is not to say to the client, this is the way it has been in the past, and this is the way it will be in the future. Rather, it is to say, this is the portfolio and based on its different components, if you evaluate what has happened in the past for each of these components, and what did not happen but could happen given diversification, this is what could happen in the future. So, we do not try to predict the future, but we define the universe of possibility. It is a very powerful approach, because it is a way to identify, within the portfolio, the level of risk but also the level of return we can expect, with a given level of volatility. And from this approach, we are able to advise our clients on what could be changed in order to improve the return expectation of the portfolio without significantly increasing its associated risk. This is one way that we have taken what began as solely a risk tool, and applied it as a larger barometer for return. What is important is that this tool is used in the front office, by the people who meet with clients and explain the impact of portfolio management decisions directly.

9. How does leveraging a simulation approach enable real investment opportunities over time?

Using these simulations, our clients can see easily where there is a lack of diversification, where there is a correlation between asset classes that would make the portfolio behave as if it included only one asset class in some circumstances, and as a result give some idea as to what would enhance the health of the portfolio through asset allocation changes. There is a real dialogue, based on this insight, between the client and the investment advisor to define asset allocations for the next month given the return expectation and starting from the current portfolio structure. This must be revised on a regular basis because of course the market changes constantly. Each time we have this kind of discussion with clients; there are usually some new ideas for new investments. What is very interesting is that some of our clients also have assets outside Société Générale Private Banking, and most of the time they ask us to do the exercise again but taking into account information with their investments from other banks. For us, it is a good way to ensure openness with our clients. We collect all of this information to provide a more comprehensive representation of their wealth. For us, in the short term it is about portfolio and asset allocation, but in the medium term it allows us to provide better knowledge for our clients, and build much stronger trust in the relationship between the bank and its clients.

10. What outcomes have you seen from a firm-wide perspective, and from a client relationship perspective, as a result of investing in technology for front office support?

We have significantly improved the knowledge we can deliver to our clients and we are able to help our relationship managers better understand our clients and their financial needs. The technology helps us to improve our commercial time allocation. By that I mean that with access to trustworthy and comprehensive diagnostic data, the banker is able to focus more on the relationship with the client.

11. Looking ahead, how do you envision the use of technology in the Wealth Management space evolving further? (opportunity to discuss the use of optimization, managed data services, and expanding individualized portfolio services beyond high net worth clients to a broader client base)

Private banking will surely continue to see increasing demands from our clients for sophisticated technology. There is a huge potential in this area, and while we have made good progress, there are many things to be done. As a service industry in the 21st century, all clients are used to technology in every part of their lives — with iPads, smartphones, etc. and they expect to have a high level of technology service in their banking as well. Traditionally, private banking was a very close relationship in which the advisor would meet face-to-face in an office with the client, but as I look ahead I think the trend will be that these settings are complimented by e-access and mobile access, for example. We need to rely on very high level of sophistication in the technology we use, to be able to exploit risk data efficiently, and that is a very demanding challenge because we have to be as efficient as other parts of the bank, despite the added challenges of being focused on private investors Private clients are often not professional, so you need to be able to explain and provide guidance clearly, and you are responsible for the advice that you provide.

12. How does Société Générale use Risk Analytics to differentiate itself and create a strategic point of differentiation?

Société Générale as a Group uses this tool for risk monitoring in many areas, mainly in market risk. In Société Générale Private Banking, we use this product not only for risk calculation but for the risk/return as a way to differentiate ourselves against the competition, in the way that we approach our clients. We need to have a proactive approach for our clients, keeping in mind that asset allocation is our core expertise. Product selection is very important, but monitoring the portfolio is just as important in order to sustain the client relationship. Asset allocation is context-based, based on the client, and this is where a consultative approach is needed. This is where our cooperation with Algorithmics and subsequently IBM should be very fruitful — enabling us to develop a custom solution for asset allocation that supports open dialogue with our clients.

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