

### Top 50 global banks off-boarded USD 25 billion in tail client revenues from 2014-17, creating an opportunity for global tier-2 and regional players

*Quinlan & Associates sees 10-15% revenue uplift and 30% reduction in operating costs from implementing end-to-end digital change programmes, with tail accounts a key opportunity*

**Hong Kong, 27 June 2018** – Quinlan & Associates, a leading independent strategy consultancy specialising in the financial services industry, has released a report looking at digitalisation in the global banking industry.

The report, titled *Chasing The Tail: Capturing Tail Clients Through Digital Transformation*, looks at the aggressive client off-boarding drive by leading global banks in recent years in an effort to de-risk the business and optimise returns on coverage, responding to heightened regulatory scrutiny and rising compliance costs. It also examines how digitalisation can help banks access the tail in a profitable manner and reduce their overall operating costs.

‘In response to the new regulatory climate, global banks made a seemingly unanimous decision to off-board their “tail clients” – namely, clients with low existing revenues and / or high associated compliance risks. This was driven by the view that the profits generated by such clients did not justify the costs (and risks) of servicing them,’ said Benjamin Quinlan, CEO & Managing Partner and lead author of the report. ‘The scale of this coverage optimisation / de-risking exercise has been far from trivial; we estimate that over USD 13 billion in revenues has been off-boarded by the top 15 global banks since 2014 (and ~USD 25 billion by the top 50 global banks). These new revenue pools are creating opportunities for global tier-2 and regional players,’ he continued.

While the authors recognise the short-term rationale behind a renewed focus by banks on their largest accounts, especially in a cost-conscious and resource-constrained environment, they believe the strategy is both short-sighted and economically sub-optimal over the medium-to-long-term. ‘Banks have not only failed to create a compelling service proposition for their tail clients over the years, but the move by many firms to focus on their key accounts is weighing considerably on margins and wallet share. The future growth potential for a large number of these “key clients” also remains much more subdued than many tail accounts, where future unicorns reside,’ Mr. Quinlan said.

Despite attractive top-line revenue potential from capturing the tail, the report says that a fundamentally different approach is necessary for it to be profitable – namely, a truly digital end-to-end service proposition that is both scalable and cost-efficient. ‘The majority of processes across the client service value chain, especially in wholesale banking, are extremely manual in nature, resulting in higher costs, wasted resources, slower processing times, and heightened levels of client dissatisfaction,’ said Hugo Cheng, co-author of the report. ‘At its core, an effective tail strategy necessitates a low-cost, light-touch proposition across the entire client service value chain, together with robust (and largely automated) risk management protocols,’ continued Mr. Cheng.

The report notes that banks are in a prime position to leverage existing technological capabilities in the market through partnerships and/or acquisitions to supercharge their digitalisation efforts. ‘While the digitalisation process comes attached with inevitable upfront costs, it allows a bank to service a vast pool of tail accounts in a standardised fashion at a negligible marginal cost per client,’ said Mr. Quinlan. Beyond servicing tail accounts in a profitable manner, the report said an effective digital transformation strategy has the potential to decrease the cost-to-income ratios of leading global banks from ~85% to ~60% by 2023, with leading APAC banks being able to reduce their cost-to-income ratios from ~75% to ~50% over the same period.

With rapid technological disruption taking place, digitalisation has fast moved from a strategic priority to an operational necessity.

#### About Quinlan & Associates

Quinlan & Associates is a leading independent strategy consulting firm specialising in the financial services industry. The Company is the first firm to offer end-to-end strategy consulting services. From strategy formulation to execution, to ongoing reporting and communications, Quinlan & Associates translates cutting-edge advice into commercially executable solutions. With a team of top-tier financial services and strategy consulting professionals, and a global network of alliance partners, Quinlan & Associates provides its clients with the most up-to-date industry insights from around the world, positioning the Company as a leader in this field.

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