



Wealth Management – The State of the Union

A White Paper from New Access
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The fact of the matter is that the number and wealth of high net worth individuals (HNWIs) is continuing to grow and that they will continue to need private banking services.

Private banking

The private banking industry is currently undergoing a fundamental transformation. It has been impacted worldwide by a flood of regulation and reduced margins (due to both higher costs and lowered revenues) which have hit it quite hard. However, the fact of the matter is that the number and wealth of high net worth individuals (HNWIs) is continuing to grow and that they will continue to need private banking services. According to the Cap Gemini – RBC Wealth Management ‘World Wealth Report 2013’, HNWI population increased by 9.2% to reach 12.0 million at the end of 2012, while aggregate investable wealth increased 10% to US\$46.2 trillion worldwide.

Moreover, while private banks’ business model is changing, the fundamentals remain the same: what HNWIs are looking for first and foremost are high-quality tailor-made client services, stable, long-standing banking institutions they can trust and confidentiality. Switzerland remains the offshore jurisdiction of choice, with US\$2.2 trillion assets under management (AUM), significantly ahead of Singapore, Hong Kong and the United Kingdom, and looks set to remain in the lead for the foreseeable future. Indeed, while international tax agreements and the introduction of automated information exchange between governments are likely to hurt Switzerland, Singapore and Luxembourg to a degree, growth will be driven by increasing wealth in emerging and developing markets, with a number of investors looking for a politically safe haven for their assets. The traditional centers will also remain very attractive in terms of their banks’ sophistication levels, quality of service and confidentiality offering for non-tax purposes and should thus be in a good position to retain and grow HNW capital.



Source: Boston Consulting Group – Global Wealth Market-Sizing Database 2013¹

¹ Notes: Discrepancies in totals reflect rounding

Offshore wealth is defined as assets booked in a country where the investor has no legal residence or tax domicile

“Other” destination includes Dubai and Monaco

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However, to take a share of this new wealth and retain existing customers, private banks will have to ensure they remain at the cutting edge of service capabilities as well as investment expertise. From both the regulatory and competitive standpoints, functions such as KYC, client profiling and personalized products, services and communications will be paramount. In addition, for many private banking firms a key differentiator is the capacity to be a facilitator, giving clients access to different products and markets. Having the right technology solution can help them play this crucial role in a cost-efficient way and in compliance with local and international regulatory requirements by increasing operational efficiencies, reducing manual intervention and errors and automating controls.

Independent asset managers

Independent asset managers (IAMs) face many of the same issues as private banks with pressure on margins and the need for new business models, with the added difficulty that the regulatory burden has an even bigger impact on their bottom line. In Switzerland, new regulations will be introduced by FINMA, which will include strict guidelines for IAMs. Changes will mainly concern risk profiling and disclosure, the obligation to keep risk profiles updated, and a disclosure duty on retrocessions. Similar rules or guidelines on risk profiling, suitability of investments vs. a client's risk appetite, risk monitoring but also new rules on commissions have come into force around the world in recent years, from the UK (RDR) to Australia (FOFA) or the Middle East (AML).

A significant wave of consolidation is expected in the industry, with the number of IAMs in Switzerland, for example, forecast to go down from 3,500-4,000 to around 1,500 over the next few years. According to a recent Aite Group report²: "The IAM sector today is dominated by small businesses that are heavily exposed to a client base of Western Europeans, which is challenging due to the region's changing approach to taxation. In numbers, thousands of IAM firms are either too small (by AUM or staff), too independent, or too 'un-institutionalized' to ride out the market's challenges."

To survive – and even thrive – in this new environment, IAMs will need to invest in better tools to manage their clients. Current equipment levels are very low, with a majority of managers using Outlook and Excel to manage their client relationships and portfolios, which is not sustainable given the pressure to become more efficient and the growing regulatory and reporting demands. In this context, IAMs need to mutualize their costs, either through consolidation or through the use of technology platforms.

Options for IAMs

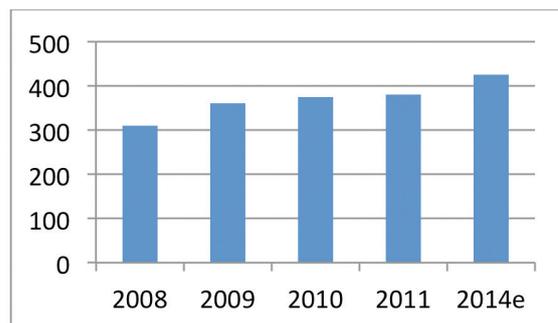
Source: Aite Group



² Aite Group: Switzerland's Independent Asset Management Sector: The Shape-Shifters

A number of such platforms are starting to emerge, offered either by larger financial institutions to their networks of IAMs or directly by suppliers. These offer secure remote access to the necessary tools for managing client relationships and assets, in compliance with local regulations. They can include risk profiling, KYC and AML tools, give the manager one consolidated picture of a client's holdings, enable rebalancing and archiving, and handle multiple custodians, tax and multiple jurisdictions. Sharing the cost of a platform also makes it an affordable solution for many IAMs.

Even in this difficult business context, AUM are continuing to grow, signaling real opportunities for those who can adapt their operations, business models and reporting capabilities to the new demands of clients and regulators. Using service platforms will enable firms to focus on their core business, clients and key skill sets, giving them a competitive edge to seize these opportunities to grow their customer base and revenues.



AUM for Swiss IAMs (CHF Bn)- Source: BCG report Global Wealth 2013

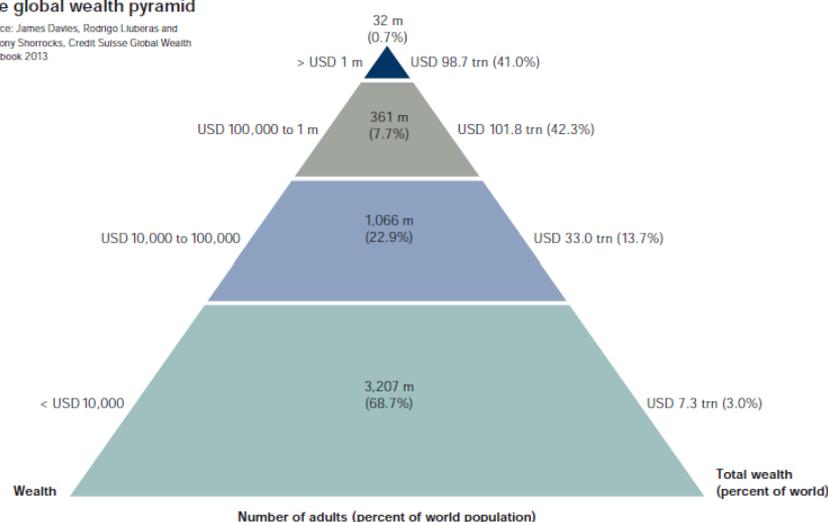
The mass affluent segment, which represents 42.3% of total private wealth, is a huge opportunity for banks.

Premium banking for the mass affluent market

Retail banks have realized that some of their clients have more money than most and need investment advice, without quite being private banking clients: the mass affluent. 'Mass affluent' means very different things in the US or Switzerland (where they are defined as clients with USD 500,000 to USD2 million in investable assets) than it does in Eastern Europe or Asia (where you can be considered mass affluent with as little as USD 30,000), but the most widespread definitions include clients with USD 100,000 to 1 million.

The global wealth pyramid

Source: James Davies, Rodrigo Luberans and Anthony Sherlocks, Credit Suisse Global Wealth Databook 2013



As a matter of fact, this segment is a very large one. Whilst 0.7% of the population worldwide has over USD 1 million in investable wealth, owning 41% of global private wealth – the HNWIs and UHNWIs – the mass affluent as defined above (USD 100,000 to USD 1 million) actually represent 7.7% of the population and 42.3% of total private wealth, slightly more than HNWs.

According to the EFMA Affluent Banking Survey 2013, 66% of banks state that these clients are more profitable than retail customers. They also generate up to 4 times more revenue on average than retail clients, representing a huge opportunity for banks. Mass affluent banking propositions are at varying degrees of maturity in different geographies, but this segment is clearly a strong focus of most tier 1 and tier 2 retail banks worldwide.

Another advantage of targeting the mass affluent is that retail banks can typically source these clients from their existing customer base within the retail business, making it a cost-efficient segment to find and nurture. Banks have of course spotted and seized this opportunity, and are working out how to best address these clients.

It would be too expensive to offer them private banking-style services, relationship managers typically having a portfolio of 250 clients in a profitable model, versus 30 to 50 in private banking and 1,000 in retail banking. Therefore, banks are approaching this segment with relatively standardized products and a varnish of personalization, completed by additional perks like platinum credit cards, loyalty programs and red carpet treatments. In the same way that these clients are halfway between retail and private banking clients, the offering is also somewhere in between. Premium banking is therefore simpler than private banking in terms of investment products, and its key elements are proper client segmentation and a good product fit: with mass affluent clients, banks are essentially aiming to sell the right products to the right client. Given the need for such precise segmentation, as well as the number of clients to each relationship manager, banks that maximize the automation of client profiling and CRM are best positioned to reap the benefits of targeting this segment.

Private Banking also automatically generates affluent accounts, from family members, secondary accounts, etc. but small and mid-size private banks typically do not have a defined strategy in this segment and often see these clients as a burden. They have to decide on a regular basis to either exit this segment by closing smaller accounts, effectively firing the client, or to offer an appropriate (and cheaper) service. Some institutions have started dedicated businesses, but are having a hard time structuring it effectively. Private banks that belong to a larger retail group have the option to refer these clients to premium banking departments, which makes them easier to deal with..

For the banks, small or large, that do want to build a premium banking offering, IT, and particularly a reliable CRM system, is an important step in the process, essentially to enable proper client segmentation, financial planning and product matching. Big data mining capabilities are another key to identifying potential affluent clients through a spending pattern analysis. Other crucial functionalities include a strong product catalogue including non-financial offerings like credit cards, a loyalty program or access to airport lounges, as well as a detailed fee calculation engine. Having the right tools in place will help banks take their share of the premium banking pie.